



The Audit Findings for Southwark Council

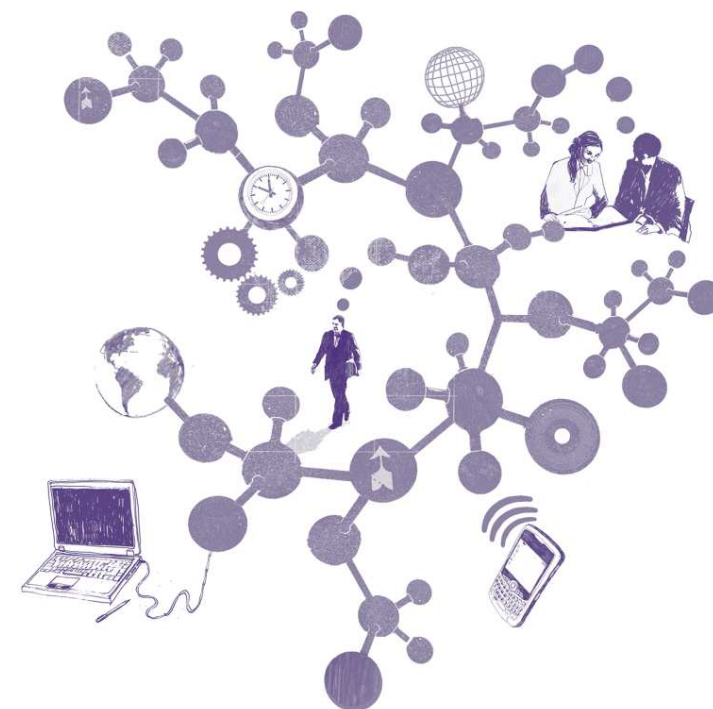
Year ended 31 March 2016

2 September 2016

Paul Dossett
Engagement Lead
T 020 7728 3180
E paul.dossett@uk.gt.com

Nick Taylor
Senior Manager
T 01223 225 514
E nick.taylor@uk.gt.com

Stacy Lang
Audit In-charge
T 020 7728 3293
E stacy.c.lang@uk.gt.com



Southwark Council
Audit, Governance and Standards Committee
160 Tooley Street
London
SE1 2QH

2 September 2016

Dear Members of the Audit, Governance and Standards Committee

Audit Findings for Southwark Council for the year ending 31 March 2016

This Audit Findings report highlights the key findings arising from the audit for the benefit of those charged with governance (in the case of Southwark Council, the Audit, Governance and Standards Committee), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with management.

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

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

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

Yours sincerely

Paul Dossett

Engagement Lead

Grant Thornton UK LLP
Grant Thornton House
Melton Street
Euston Square
London
NW1 2EP

T +44 (0) 207 383 5100
www.grant-thornton.co.uk

Chartered Accountants

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: Grant Thornton House, Melton Street, Euston Square, London NW1 2EP. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority.
Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions. Please see grant-thornton.co.uk for further details.

Contents

Section	Page
1. Executive summary	5
2. Audit findings	9
3. Value for Money	24
4. Fees, non-audit services and independence	36
5. Communication of audit matters	38

Appendices

- A Action plan
- B Audit opinion

Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Purpose of this report

This report highlights the key issues affecting the results of Southwark Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2016. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. .

We are also required to consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);

- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act)

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated February 2016.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- receipt of final sample items and completion of testing for journals, operating expenditure, grant income and equity
- completion of the revaluations testing for plant, property and equipment
- receipt of Goldman Sachs investment confirmation
- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Accounts

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

Key audit and financial reporting issues

Financial statements opinion

We have not identified any adjustments affecting the Council's reported financial position, with the financial statements for the year ended 31 March 2016 recording net expenditure of £319,568k.

The key messages arising from our audit of the Council's financial statements are:

- The valuation of Council dwellings at 31 March 2016 did not fully reflect the uplift in values during the period. This was as a result of a number of properties not having the uplift applied. The revaluation has been reviewed in full to ensure that all dwellings are included and this has resulted in an increase in valuation of £45,429k. The adjustment will have no impact on general fund balances, but the exact changes required are still being finalised by the Council. The Audit, Governance & Standards Committee will be updated at the meeting on 14 September.
- The draft financial statements were of a high quality and the only adjustments required were minor misclassification and disclosure amendments. We also recommended some enhancement to the narrative in the notes to improve the presentation of the financial statements. All amendments have been processed by management.
- Working papers submitted to us were of a high standard and the Council responded well to requests for audit evidence. The only exception to this was around the contracts of employment (see control comments opposite), where the information took a number of months to provide.

Further details are set out in section two of this report.

We anticipate providing an unqualified audit opinion in respect of the financial statements (see Appendix B).

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes:

- if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit.

No errors or issues have been identified within the Annual Governance Statement which are inconsistent or misleading from the information we are aware of.

Controls

Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Findings

We draw your attention in particular to control issues identified in relation to:

- Contracts of employment. As part of the audit testing we picked a sample of employees which we attempted to trace back to contracts to evidence their employment at the Council. Of the sample of 40 contracts, we were unable to obtain 15, requiring alternative confirmation to be sought. In these cases, the Council was unable to access copies of the contract that had been scanned and saved by Capita. We have raised a recommendation that the Council should ensure that a system is in place to enable access to scanned copies of all employment contracts.

Further details are provided within section two of this report.

Value for Money

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Further detail of our work on Value for Money is set out in section three of this report.

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Grant certification

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2016. We will report the outcome of this certification work through a separate report to the Audit, Governance and Standards Committee.

The way forward

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Strategic Director of Finance and Governance.

We have made a small number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Strategic Director of Finance Governance and the finance team.

Acknowledgement

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

Grant Thornton UK LLP
August 2016

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £24,075k (being 2% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £1,204k. This remains the same as reported in our audit plan.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

Balance/transaction/disclosure	Explanation	Materiality level
Cash and cash equivalents	Although the balance of cash and cash equivalents could be immaterial, all transactions made by the Council affect the balance and it is therefore considered to be material by nature.	£500k
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made. We will ensure that the reported figures in relation to senior manager salaries and allowances are consistent with underlying information and calculations.	£1k or rounding differences (to underlying information)
Disclosure of auditors' remuneration in notes to the statements	This is a statutory requirement and a requirement of ethical and auditing standards.	£1k or rounding differences

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Southwark Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Southwark Council, mean that all forms of fraud are seen as unacceptable. 	<p>We determined that the risk of fraud arising from revenue recognition could be rebutted.</p> <p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>Work completed to address this risk includes:</p> <ul style="list-style-type: none"> • review of entity level controls • testing of journal entries • review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Operating expenses</p>	<p>Creditors understated or not recorded in the correct period (Operating expenses understated)</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls were in line with our documented understanding • performed unrecorded liabilities testing <p>In addition, we have:</p> <ul style="list-style-type: none"> • undertaken testing on a sample of expenditure invoices throughout the year to gain assurance that expenditure has occurred and has been correctly classified • reviewed and tested a sample of items included within the year end creditors and accruals balance 	<p>Our audit work to date has not identified any significant issues in relation to the risk identified.</p>
<p>Employee remuneration</p>	<p>Employee remuneration and benefit obligations and expenses understated (Remuneration expenses not correct)</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls were in line with our documented understanding • reviewed the reconciliation of the payroll subsidiary system to the general ledger • completed a trend analysis over monthly payroll payments <p>In addition, we have:</p> <ul style="list-style-type: none"> • undertaken testing on a sample of employees throughout the year, including the agreement of pay run data to individual pay slips and contracts of employment • reviewed senior management remuneration and disclosures • agreed the pensions liability to third party confirmation 	<p>Our audit work to date has not identified any significant issues in relation to the risk identified.</p> <p>A control issue has been highlighted on page 18 in relation to contracts of employment.</p>

Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Welfare benefit expenditure	Welfare benefit expenditure improperly computed	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls were in line with our documented understanding • reconciled the subsidiary system interfaces and general ledger control accounts • substantively sample tested welfare benefit cases by re-performing to ensure accuracy of computation 	Our audit work to date has not identified any significant issues in relation to the risk identified.
Property, plant and equipment	Property, plant and equipment activity not valid	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls were in line with our documented understanding • substantively tested the entries in the PPE note • Reviewed the capital programme against the additions recorded in the asset register in the financial year, including testing on a sample basis 	Our audit work to date has not identified any significant issues in relation to the risk identified.

Audit findings against other risks (continued)




Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Property, plant and equipment	Revaluation measurements not correct	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls were in line with our documented understanding • reconciled the valuation report to the asset register and the accounts • reviewed the competence, expertise and objectivity of any management experts used • reviewed the work carried out by the valuer, including ensuring that valuations have been undertaken in accordance with the requirements of the appropriate accounting and professional standards • reviewed and challenged the information used by the valuer to ensure that it is complete, robust and consistent with our understanding At the time of writing, we are still to complete: <ul style="list-style-type: none"> • Testing of a sample of assets to ensure that the revaluation entries and the accounting treatment are correct • Testing of a sample of dwellings to ensure that the uplifts have been correctly applied. 	The valuation of Council dwellings at 31 March 2016 did not fully reflect the uplift in values during the period. This was as a result of a number of properties not having the uplift applied. The revaluation has been reviewed in full to ensure that all dwellings are included and this has resulted in an increase in valuation of £45,429k. The Council is still finalising the impact of this adjustment on the financial statements and the Audit, Governance & Standards Committee will be updated at the meeting on 14 September.
Housing Revenue Account rental revenues	Revenue transactions not recorded	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls were in line with our documented understanding • reviewed the year end reconciliation between the housing rents account and the general ledger • undertaken substantive testing of housing rents income • undertaken substantive testing of service charges, other rates and major works 	Our audit work to date has not identified any significant issues in relation to the risk identified.

Significant matters discussed with management

	Significant matter	Commentary
1.	Business conditions affecting the Council and business plans and strategies that may affect the risks of material misstatement	We have discussed this as part of our VFM conclusion which is detailed later in this report. The Council faces significant financial challenges as identified within its Medium Term Financial Strategy. The Council has robust overall arrangements in place to support their management of these challenges
2.	Discussions or correspondence with management regarding accounting practices, the application of auditing standards, or fees for audit or other services.	<p>During the course of the Audit we have discussed the accounting policies applied by the Council and identified only minor clarification and disclosure improvements within the financial statements.</p> <p>No issues have been identified in our work or via our discussions with management around application of auditing standards.</p>

Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> We have reviewed the accounting policies in place with regard to revenue recognition Clear accounting policies are in place for: <ul style="list-style-type: none"> Revenue from the sales of goods Revenue from the provision of services Revenue from housing rents Revenue relating to council tax and business rates 	<ul style="list-style-type: none"> The revenue recognition policies are considered to be in line with the requirements of the Code and accounting standards Testing performed on revenue balances has confirmed that, for the sample selected, the Council has accounted for income in line with the policy 	 (green)
Going concern	<p>The Strategic Director of Finance and Governance has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.</p>	<p>We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements.</p>	 (green)
Other accounting policies	<p>We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</p>	<p>Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.</p>	 (green)


Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates and judgements (continued)

Accounting area	Summary of policy	Comments	Assessment
<p>Judgements and estimates</p>	<ul style="list-style-type: none"> • Key estimates and judgements include: <ul style="list-style-type: none"> – Useful lives of plant, property and equipment – Asset revaluations – Accruals – Valuation of pension fund net liability – Provisions – PFI disclosures 	<p>Following our consideration of these judgements and estimates we are satisfied they are in line with the Code of Practice, and with the approach taken by the Council in the previous year.</p> <ul style="list-style-type: none"> • We did not identify any issues with the calculation of depreciation and the asset lives applied • The valuation of Council dwellings at 31 March 2016 did not fully reflect the uplift in values during the period. This was as a result of a number of properties not having the uplift applied. The revaluation has been reviewed in full to ensure that all dwellings are included and this has resulted in an increase in valuation of £45,429k. The Council is still finalising the impact of this adjustment on the financial statements and the Audit, Governance & Standards Committee will be updated at the meeting on 14 September. This error was not due to any weaknesses in the process by which the Council goes about making judgments and estimating values, rather it was a failure to execute its judgments and estimates correctly, hence we have retained an overall green rating. • We did not identify any issues from the work performed on creditors and accruals • We confirmed that the pension fund valuations were consistent with the actuarial reports. As part of our review of pensions, we used the work of an expert (PwC), commissioned by the Audit Commission, to assess the work of the Council's actuary (Hymans Robertson). No issues were noted from the work performed • We did not identify any issues from the work performed on provisions • We reviewed the PFI disclosures and ensured that information presented in the financial statements was in line with the operating model. No issues were noted from the work performed 	<p style="text-align: center;">  (green) </p>

Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.


	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit, Governance and Standards Committee and have been made aware of the findings from Internal Audit counter fraud work during the year, none of which impact on our opinion. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit.
2.	Matters in relation to related parties	<ul style="list-style-type: none"> From the work we carried out, we have not identified any related party transactions which have not been disclosed
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We have requested direct confirmations for bank account, investment and loans. At the time of writing, we are awaiting the investment confirmation from Goldman Sachs. We requested management to send letters to those solicitors who worked with the Council during the year. No issues have been identified from the responses provided.
6.	Disclosures	<ul style="list-style-type: none"> We requested that a disclosure note for provisions be included in the financial statements as the balance for 2015/16 was in excess of materiality. No other omissions in the financial statements have been noted.
7.	Matters on which we report by exception	<ul style="list-style-type: none"> We are required to report on a number of matters by exception in a number of areas: We have not identified any issues we would be required to report by exception in the following areas If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Council acquired in the course of performing our audit, or otherwise misleading.
8.	Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the specified group reporting threshold, we are required to examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. This work will be completed in line with the national deadline for submission.</p>

Internal controls



The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Employee Remuneration, Operating Expenses, Welfare Expenditure, Property, Plant & Equipment and the Housing Revenue Account as set out on pages 11 to 13 above.

The matter that we identified during the course of our audit is set out in the table below. This recommendation, together with the management response, is included in the action plan attached at Appendix A. Our review of IT controls also identified a small number of minor control issues which have been raised with management.

	Assessment	Issue and risk	Recommendations
1.	 (deficiency)	<p>Contracts of employment.</p> <ul style="list-style-type: none"> As part of the audit testing we picked a sample of employees which we attempted to trace back to contracts to evidence their employment at the Council. Of the sample of 40 contracts, we were unable to obtain 15, requiring alternative confirmation to be sought. In each of these cases, the Council was unable to access copies of the contract that had been scanned and saved by Capita. 	<ul style="list-style-type: none"> The Council should ensure that a system is in place to enable access to scanned copies of all employment contracts.

Assessment

-  Significant deficiency – risk of significant misstatement
-  Deficiency – risk of inconsequential misstatement

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	Partially complete	<p>Reconciliation of asset register to the report from the valuer</p> <ul style="list-style-type: none"> Errors were identified in the valuation of the council dwellings and land as a result of the information from the valuer being incorrectly input into the asset register. There is a risk that the balance sheet is misstated if this check is not performed. <p>Recommendation raised in 2014/15:</p> <ul style="list-style-type: none"> The Council should perform a reconciliation of the asset register to the valuation report before producing the accounts. 	<ul style="list-style-type: none"> The Council has provided reconciliations for both dwellings and high value assets, but not for investment properties.

Adjusted misstatements

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

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

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £000
<p>1 The valuation of Council dwellings at 31 March 2016 did not fully reflect the uplift in values during the period. This was as a result of a number of properties not having the uplift applied. The revaluation has been reviewed in full to ensure that all dwellings are included and this has resulted in an increase in valuation of £45,429k.</p> <p>The Council is still finalising the impact of this adjustment on the financial statements and the Audit, Governance & Standards Committee will be updated at the meeting on 14 September.</p>	TBC (no impact expected on General Fund)	TBC (excepted increase in dwellings valuation of £45,429k)	TBC

Unadjusted misstatements

At the time of writing, our audit work has not identified any adjustments which we requested be processed, but which have not been made within the financial statements.

Misclassifications and disclosure changes

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

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Disclosure	-	Provisions	An additional disclosure note has been included within the financial statements as the provisions balance is material in the current year.
2	Disclosure	-	Assets held for sale (note 15)	Additional disclosure has been included to explain the balance of £73.5m included with assets held for sale, relating to the Potters Field development.
3	Disclosure	-	Debtors (note 13) / Creditors (note 16)	Additional disclosure has been included within the notes to explain the contents of the 'other entities and individuals' balance.
4	Disclosure	-	Private Finance Initiatives (note 31)	Amendments have been made to the note to ensure that the disclosure ties through to the PFI accounting model.
5	Disclosure	-	Financial Statements	There were a number of minor presentational issues that were identified during the course of our audit. These are to be amended in the final set of financial statements

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non-audit services and independence

06. Communication of audit matters

Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in February 2016 and identified the following significant risks, which we communicated to you in our Audit Plan dated February 2016:

- Arrangements around the Council's regeneration programme
- Arrangements around the Council's workforce restructuring
- Arrangements around the Council's contract monitoring

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Significant qualitative aspects

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- The Council has a significant regeneration programme underway designed to reshape the Borough and improve community outcomes. We considered the Council's arrangements in place to monitor and report the outcomes resulting from these regeneration programmes
- As a result of the significant financial pressures facing local government, the Council has undertaken large scale restructuring and reduction of its workforce to meet these challenges to 2020 and beyond. We considered the Council's arrangements for reshaping its workforce to meet the financial, demographic, digital and cultural changes of enabling and providing public services to its diverse and ever changing communities.
- The Council has significant contracts in place with private sector providers to deliver a range of services taking up a growing proportion of the revenue budget. We reviewed the arrangements for monitoring these contracts and ensuring they continue to provide value for money in the context of the funding challenges facing local government.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work later in this section.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources. The text of our report, which confirms this can be found at Appendix B.

We have discussed findings arising from our work with management.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment.

Significant risk	Work to address	Findings and conclusions
<p>The Council has a significant regeneration programme underway designed to reshape the Borough and improve community outcomes. We considered the Council's arrangements in place to monitor and report the outcomes resulting from these regeneration programmes</p>	<p>In order to understand the processes in place at the Council, we completed a high level review of two major projects:</p> <ul style="list-style-type: none"> • Canada Water (£4bn project) • Elephant & Castle (£3bn project) <p>As part of this process we attempted to understand the following:</p> <ul style="list-style-type: none"> • the background to the project • how progress is monitored • who is responsible for the monitoring • the risk management of the project 	<p>Summary findings</p> <ul style="list-style-type: none"> • No significant issues have been noted from the review of governance in place around the sampled regeneration projects. • The Elephant & Castle project has a clearly structured monitoring process in place, primarily through the monthly operational meetings and the quarterly strategic board. Both of these are attended by senior Council officers. No issues have been noted from a high level review of the items discussed at these meetings. • The Canada Water project is at a much earlier stage, but the plans in place clearly set out what the Council is trying to achieve with the project, alongside how this will be monitored. There is a clear identification of the importance of following the progress of the plan in order to ensure that the set objectives are being met and a monitoring framework has been established. <p>Elephant & Castle:</p> <ul style="list-style-type: none"> • The project is a significant regeneration programme designed to reshape the Borough and improve community outcomes. At the outset a regeneration agreement was put in place. As well as the technical parts of the agreement this covered items such as the Management Board, disputes, approvals and authorisations and meetings and consultations. • Lend Lease (the Councils regeneration partner) and the Council hold monthly operational meetings. These meetings are an opportunity for Lend Lease to give a report on progress and performance against the KPIs. The meetings work to a set and agreed agenda and include representatives from both sides, headed up by the Head of Regeneration for the Council and the Development Director of Lend Lease. Where a significant issue arises, the meeting will also be attended by the Director of Regeneration. The meeting notes are circulated to senior officers, including the Chief Executive of the Council. • Sitting above the operational meetings, there is a Strategic Board. This Board meets quarterly to discuss strategic issues around the project. This meeting is attended by a number of senior officers, including the Chief Executives from both organisations, along with the Director of Regeneration and the Head of Regeneration from Southwark. • Example minutes and meeting packs from these meetings have been reviewed. These covered areas including key issues, project updates, cash flow, health and safety and overall market conditions. The high level attendance at these meetings ensures that the progress with the project continues to be monitored at a high level. • Lend Lease prepare an annual business plan, including a financial plan, which sets out the work for the 12 months ahead. From an operational point of view, the dates per the plan may vary due to practical and commercial reasons. The annual business plan is approved by the Strategic Board again evidencing the high level awareness of what is happening with the regeneration project. • A monthly briefing is provided to the Cabinet member for regeneration concentrating on the 'softer' elements of the project including the community effects of the regeneration. Members are also able to consider progress through the regular reporting on the capital programme which identifies the Elephant & Castle project. • The Council use Deloitte as advisors in relation to the project. They review rates and perform bench marking exercises to assist the council in taking an informed decision, for example in approving major contracts. This advice helps the Council ensure that it is achieving value for money with regard to the work performed by Lend Lease.

Key findings (continued)

Significant risk	Work to address	Findings and conclusions
		<p>Canada Water:</p> <ul style="list-style-type: none"> • The Council is currently in negotiations with British Land regarding a £4bn project proposing to transform Canada Water over the next 15 years. These negotiations are on-going and include discussion of the business plans, monitoring and rights & obligations. At the outset of the project, a set of negotiating priorities were agreed by Cabinet. In particular, these highlight: <ul style="list-style-type: none"> • Long term income stream for the Council • 35% affordable housing • a new public leisure centre • an education hub • additional school places • support for new jobs, training and business start up opportunities • training and development opportunities • A report on the project was taken to Cabinet in November 2015. This acts as an update against the negotiating priorities agreed by the Council and shows a clear follow up to ensure that these remain included within the project. • Cabinet has also approved the Head of Terms document, setting out how the Council intends to achieve its aims. It covers the requirements set out in the negotiating priorities and sets out the key issues to be agreed between the Council and British Land. • The Council has also prepared an Area Action Plan, which very clearly sets out what the Council is trying to achieve with the project. In addition, it also identified the importance of following the progress of the plan in order to ensure that the set objectives are being met. The AAP includes an appendix setting out the monitoring framework that is in place. This breaks down the individual objectives of the project and then links these to the policies, targets and indicators in place to monitor and achieve these objectives. • The AAP states that this established framework will be used to monitor progress and this will be reported annually within an Authority Monitoring Report. Per discussions with senior officers at the Council, the overall governance of the project will be set up as per the Elephant & Castle project. With this process in place, the Council will clearly be able to monitor and report on the outcomes from the major regeneration programme.

Key findings (continued)

Significant risk	Work to address	Findings and conclusions
<p>As a result of the significant financial pressures facing local government, the Council has undertaken large scale restructuring and reduction of its workforce to meet these challenges to 2020 and beyond. We considered the Council's arrangements for reshaping its workforce to meet the financial, demographic, digital and cultural changes of enabling and providing public services to its diverse and ever changing communities.</p>	<p>Through discussions with senior officers, we completed a review of the processes in place at the Council in order to understand the arrangements in place for reshaping the Council's workforce and arrangements that are in place to support and monitor this.</p>	<p>Summary findings</p> <ul style="list-style-type: none"> • No significant issues have been identified from consideration of the restructuring process in place at the Council. • The current process in place appear to be fundamentally sound, with strong HR processes in place around recruitment and retention. • Going forward, the Council is looking to take a more strategic focus over how it restructures in order to ensure that it is going to be fit for the 21st century. <ul style="list-style-type: none"> • The current restructuring process is run through the individual Council departments. Each department will have a savings requirement that they need to fill. As part of this, they may undertake some restructuring within the team. • Following the decision to restructure, there is a set process that is to be followed. Included as part of this, the department is required to set out the expected savings, the current team structure and the proposed team structure. This plan is then required to be signed off by the responsible strategic director. In addition to this, an HR sign off is required to confirm that the potential impact has been assessed and a further finance sign off is required to confirm that the savings are achievable. • This is a regulated process and there are templates in place that are required to be used. A flow chart highlighting the reorganisation process is maintained by HR and this is supported by a detailed Gantt chart. • As soon as this is signed off, the Council is able to begin consultation with the staff and unions. A change management communication planner template is in place and required to be followed. This covers items including consultation, job matching, further consultation, assessment and selection and redeployment and redundancy. • Once the plan is finalised, the Council is able to work through the restructuring process. This starts with an in-house evaluation of jobs, followed by a matching exercise to check the impact on the workforce. Job matching guidance is provided by HR. • An issues log is established to record any significant items. The Council is then able to consider the comments raised • A review process is required to be undertaken six months after the process has been completed. This should cover what success looks like and how it is measured. The Council officer who led on the restructuring is required to prepare this report and it should show what the impacts have been and whether the savings identified have been achieved. • In terms of reporting this around the organisation, this will depend on the scale of the project. Detailed monitoring is also completed through the on-going budget monitoring. Where restructurings have not succeeded, this would be highlighted through financial performance issues. All departments also have performance KPIs in place, so major issues would be highlighted through this. • The biggest driver in relation to restructuring has been the financial pressures and this has led to significant voluntary redundancy schemes. A further requirement of these schemes should be to ensure that the organisation is able to reshape and reorganise from an efficiency point of view.

Key findings (continued)

Significant risk	Work to address	Findings and conclusions
		<ul style="list-style-type: none"> • Per the discussions with senior officers, the process in place is considered to be fundamentally sound, with strong HR processes in place around recruitment and retention. Going forward however, there needs to be a more strategic focus taken over the Council to ensure that changes are not happening in individual silos and there is a clear oversight of the changes being made and their potential wider implications. This needs to be supported by a strategic overview around how changes to the component parts are impacting on the Council's overall ability to deliver a service. • The intention is for a new priority to be included within the Corporate Plan - 'Fit for the Future'. Part of this will be a workforce strategy, a workplace strategy and an IT strategy. This strategy will ensure a focus on the broader picture as well as meeting individual KPIs. This new strategy will look to focus on how Southwark is going to be fit for the 21st century. Given the rapid rate of change across society and technology, there is a need to consider the changes the Council requires in order to keep pace and provide a robust and efficient service. It is partly the recognition of this that has led to the introduction of the Director of Modernise role. • The approach should be to look at what is right for the provision of the service and then shape the workforce around this. The Council is looking to do this by reviewing what is required for a modern approach to service delivery. • There appears to be a commitment within the organisation to ensure that things are shaped differently going forward and that there is a wider strategic delivery review in place over restructuring. With the rapid pace of change, there must be resilience within the services for future delivery.

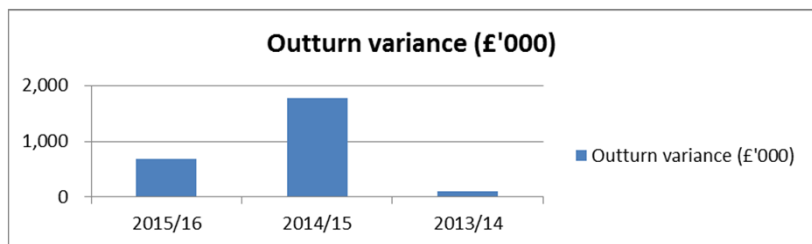
Key findings (continued)

Significant risk	Work to address	Findings and conclusions
<p>The Council has significant contracts in place with private sector providers to deliver a range of services taking up a growing proportion of the revenue budget. We reviewed the arrangements for monitoring these contracts and ensuring they continue to provide value for money in the context of the funding challenges facing local government.</p>	<p>In order to understand the processes in place at the Council, we completed a high level review of two major contracts:</p> <ul style="list-style-type: none"> • Capita IT contract • Keep Moat Homes contract 	<p>Summary findings</p> <ul style="list-style-type: none"> • At the time of writing, our review of a sample of significant contracts is on-going. We have not identified any issues that would impact on our Value for Money conclusion and we will report separately to the Audit, Governance and Standards Committee on completion of the review.

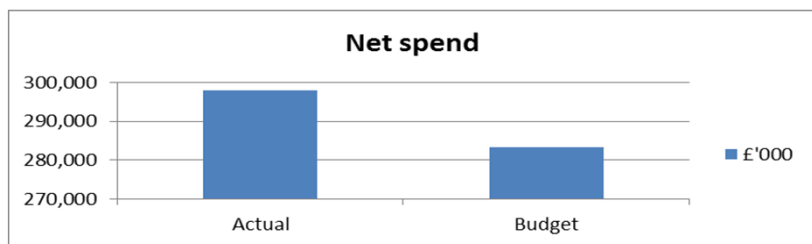
Financial performance

In addition, although not considered to be a significant risk, we have completed a review of the Council's financial performance. This review has been summarised below.

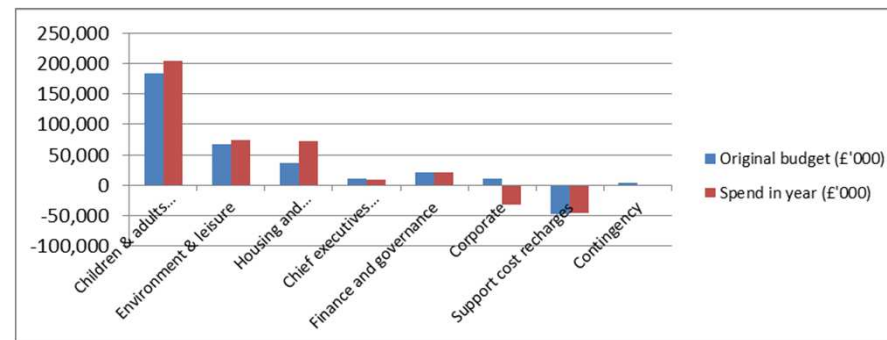
The Council has continued to maintain strong financial performance, including the delivery of £156m in savings over the last five years. For 2015/16 the year end position reports a favourable general fund outturn position of £679k. This has been compared to previous years below, showing a track record for the Council in delivering favourably against budget.



There have, however, been significant spend pressures across the organisation, with a net spend in year of £297,889k compared to a budget of £283,225k:



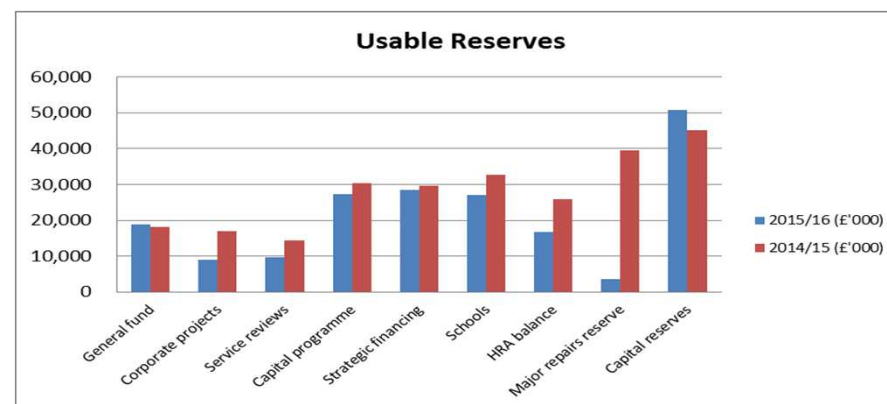
This spend vs budget is broken down by service area below:



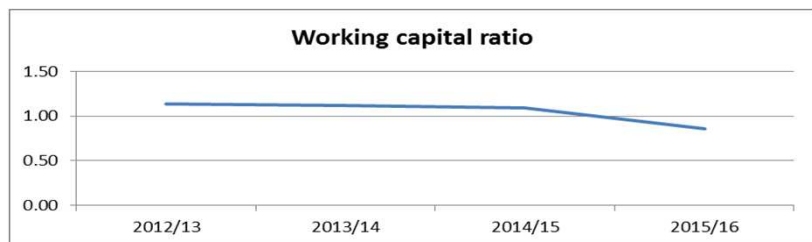
In order to achieve the year end position, the Council has been forced to use the contingency built into to budget alongside significant reserve movements. These are broken down at a high level into:

- use of £4,000k contingency
- utilisation of £6,163k reserve movement
- use of £15,443k departmental and corporate reserves

This has contributed to a significant reduction in usable reserves year on year, with the total balance dropping from £252,783 to £191,294. The split of usable reserves is shown year on year below:

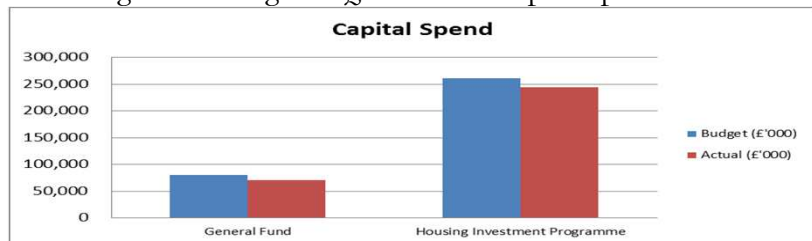


The working capital ratio indicates whether an authority has enough current assets, or resources, to cover its immediate liabilities - i.e those over the next twelve month period. The calculation has been performed below using the balances stated within the annual Statement of Accounts.

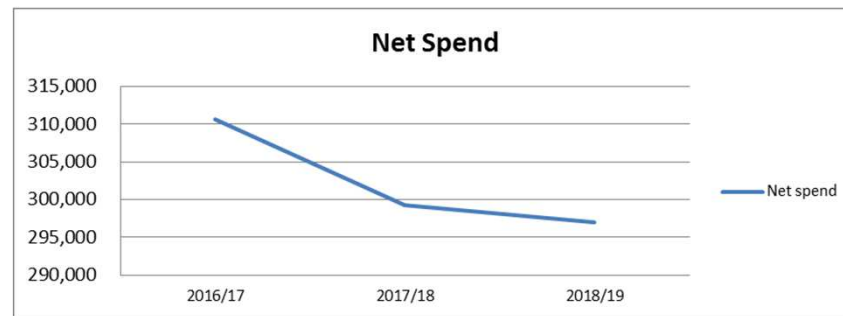


This shows a fairly stable working capital ratio up until the current year where it has dropped below 1.00, meaning that current liabilities exceed current assets. This will have been impacted by the Thames Water repayments which are included within year end liabilities.

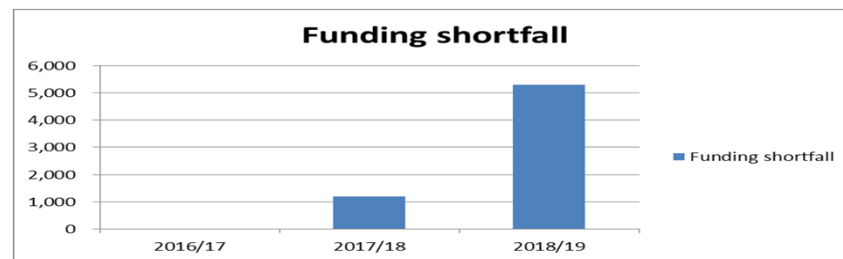
Turning to the capital programme, the Council has invested £314m in 15/16. This was against a budget of £341m. The capital spend is shown below:



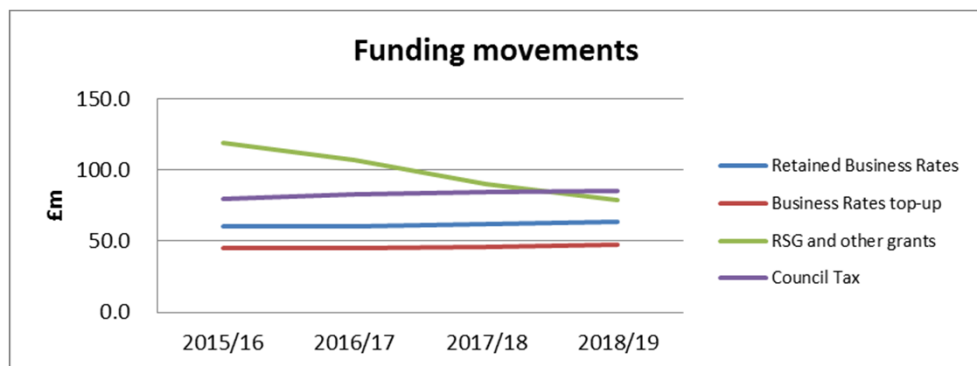
The Council approved the revenue budget for 2016/17 at its February meeting. This shows a total net spend of £310.7m which would be supported by £6.2m from reserves. The planned net spend over the next three years is shown below:



In order to balance the budget across the three year period there are the following funding shortfalls:



The movements in the main sources of funding over the period are shown below:



This highlights the continued sharp fall in the RSG and other grant funding and how difficult it is to replace this funding through increases in other funding streams.

The Council clearly recognises the pressures it is facing, particularly around areas such as Children's and Adults' Service and No Recourse to Public Funds. These pressures, alongside the declining funding highlighted above can mean an increased need of support from reserves. The Council has noted the relatively low levels of balances and reserves when compared to similar councils in London and this has been reported to cabinet. This position has been planned to help sustain services in the short term and transform the council through the austerity period, but cannot be seen as a permanent source of funding.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Section 4: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

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

Fees

	Proposed fee £	Final fee £
Council audit	237,296	237,296
Grant certification (i)	17,717	TBC
Total audit fees (excluding VAT)	255,013	TBC

(i) certification of the Housing Benefits claim is not due until later in the year so this remains a work in progress at the date of this report. Confirmation of the final fee will be included within the separate Certification Report later in the year.

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

Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Fees for other services

Service	Fees £
Audit related services:	
• Teachers Pensions (15/16 claim)	TBC
• Pooling of Housing Capital Receipts (15/16 claim)	TBC
Non-audit services:	
• Investors in People accreditation	28,660
• Analysis of accounts of comparable authorities to provide benchmark data	10,000
• CFO Insights	10,000
• Financial Resilience – Capacity Building Programme	8,750

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.a.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1.	The Council should ensure that a system is in place to enable access to scanned copies of all employment contracts.	Medium		

Appendix B: Audit opinion

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTHWARK COUNCIL

We have audited the financial statements of Southwark Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

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

Respective responsibilities of the Strategic Director of Finance and Governance and auditor

As explained more fully in the Statement of the Strategic Director of Finance and Governance Responsibilities, the Strategic Director of Finance and Governance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Strategic Director of Finance and Governance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- present a true and fair view of the financial position of the Authority as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 24 of the Act; or
- we make a written recommendation to the Authority under section 24 of the Act; or
- we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

Respective responsibilities of the Authority and auditor

The Authority 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.

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

Delay in certification of completion of the audit

We are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2016. As the Authority has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Act and the Code.

Also, we cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Act and the Code until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2016. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing value for money through economic, efficient and effective use of its resources.

Paul Dossett
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton House
Melton Street
Euston Square
London
NW1 2EP

Date:



© 2016 Grant Thornton UK LLP. All rights served.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International LTD (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL, and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

grant-thornton.co.uk