



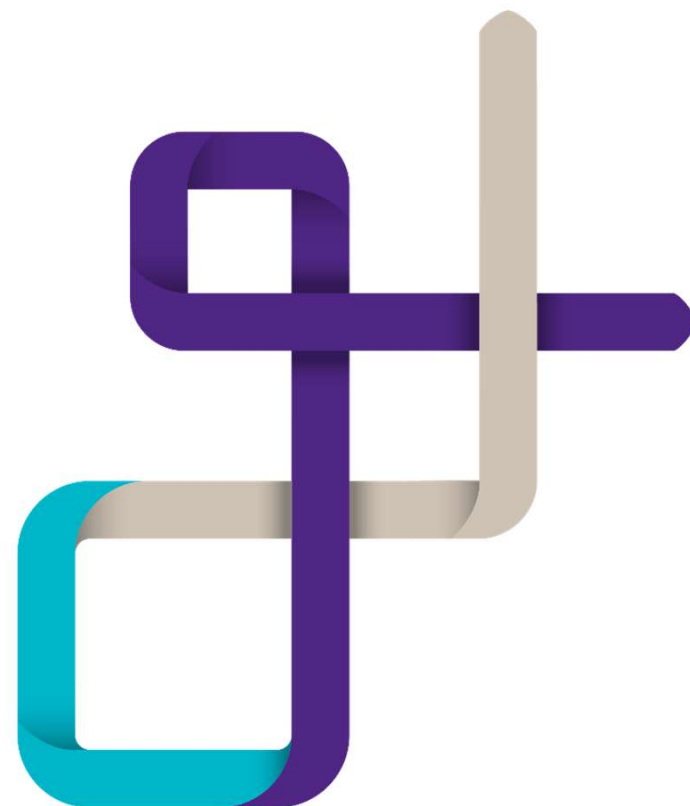
# Audit Findings Report

*Year ending 31 March 2018*

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**Southwark Council**

18 July 2018



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Headlines

This table summarises the key issues arising from the statutory audit of Southwark Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2018 for those charged with governance.

<b>Financial Statements</b>	<p>Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"> <li>the Council's financial statements give a true and fair view of the Council's financial position and of the group and Council's expenditure and income for the year, and</li> <li>have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.</li> </ul> <p>We are also required to report whether other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work was completed on site during June and July. Our findings are summarised on pages 4 to 11. To date we have not identified any amendments to the overall financial position reported within the Statement of Comprehensive Income and Expenditure, although some presentation changes have been to this Statement. A number of other audit adjustments have been identified and are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit, Governance and Standards Committee meeting on 18 July 2018, as detailed in Appendix E. These outstanding items include:</p> <ul style="list-style-type: none"> <li>completion of our testing in a few areas (refer to the following page for more detail)</li> <li>completion of our internal quality review process;</li> <li>receipt of management representation letter;</li> <li>review of the final set of financial statements;</li> <li>completion of our work on the Whole Government Accounts (WGA) Exercise.</li> </ul> <p>We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent our knowledge of your organisation and with the financial statements we have audited.</p>
<b>Value for Money arrangements</b>	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"> <li>the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion')</li> </ul>	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Southwark Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 12 to 18.</p>
<b>Statutory duties</b>	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> <li>report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and</li> <li>certify the closure of the audit</li> </ul>	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.</p>

## Acknowledgements

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.

# Summary

## Overview of the scope of our audit

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

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

## Audit approach

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

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

## Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit, Governance and Standards Committee meeting on 19 July 2018, as detailed in Appendix E. These outstanding items include:

- completion of our testing in the following areas: Property, Plant and Equipment Additions and Revaluations, Investment Property Additions, Journals, Welfare Benefit Analytical Review and review of the Cash Flow
- completion of our internal quality review process;
- receipt of management representation letter;
- review of the final set of financial statements;
- completion of our work on the Whole Government Accounts (WGA) Exercise.

# Our approach to Materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Our assessment of materiality and related measures has been adjusted to reflect the change in Gross Expenditure in 2017/18, when compared to the spend incurred in the previous year. We detail in the table below our assessment of materiality for Southwark Council.

	Council Amount (£) – Planning Stage	Council Amount (£) – Final Accounts	Qualitative factors considered
Materiality for the financial statements	£25.146m	£25.000m	As mentioned above, the value of our overall Materiality threshold decreased from the planning stage to the final Accounts stage due to the decrease in expenditure incurred during the course of the year.
Performance materiality	£18.860m	£18.750m	Performance Materiality is based on a percentage of the overall materiality, hence an decrease in this value has decreased Performance Materiality in line with this.
Trivial matters	£1.257m	£1.250m	As above, Triviality is based on a percentage of the overall materiality, hence an decrease in this value has decreased Triviality in line with this.
Materiality for specific transactions, balances or disclosures	n/a	n/a	As at the Planning Stage, no specific materialities have been set for the purposes of our work in 2017-18.

# Significant audit risks

Risks identified in our Audit Plan	Commentary
<p><b>1 Improper revenue recognition</b></p> <p>Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p><b>Auditor commentary</b></p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• The culture and ethical frameworks of local authorities, including Southwark Council, mean that all forms of fraud are seen as unacceptable</li> </ul> <p>Therefore we do not consider this to be a significant risk for Southwark Council.</p> <p>To support this assessment, we have completed the following work in respect of this risk:</p> <ul style="list-style-type: none"> <li>• reviewed and tested the Council's revenue recognition policies</li> <li>• performed testing on material revenue streams</li> </ul> <p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p><b>2 Management override of controls</b></p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<p><b>Auditor commentary</b></p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• gain an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness</li> <li>• obtain a full listing of journal entries, identify and test unusual journal entries for appropriateness</li> <li>• evaluate the rationale for any changes in accounting policies or significant unusual transactions.</li> </ul> <p>Our audit work to date has not identified any significant issues in relation to the risk identified.</p>

# Significant audit risks

Risks identified in our Audit Plan	Commentary
<p><b>3 Valuation of property, plant and equipment</b> The Council revalues its land and buildings on an quinquennial basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p><b>Auditor commentary</b></p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;</li> <li>• considered the competence, expertise and objectivity of any management experts used;</li> <li>• discussed with the valuer the basis on which the valuation is carried out and challenge the key assumptions;</li> <li>• reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding;</li> <li>• tested revaluations made during the year to ensure they are input correctly into the Council's asset register; and</li> <li>• evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.</li> </ul> <p>The work completed to date has not identified any issues in respect of this area. Should any issues be identified from our outstanding work, then we will provide an update to Management and the Committee.</p>
<p><b>4 Valuation of pension fund net liability</b> The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p><b>Auditor commentary</b></p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We have also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement;</li> <li>• evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation;</li> <li>• gained an understanding of the basis on which the valuation is carried out;</li> <li>• undertaken procedures to confirm the reasonableness of the actuarial assumptions made; and</li> <li>• checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul> <p>The work completed to date has not identified any issues in respect of this area. Should any issues be identified from our outstanding work, then we will provide an update to Management and the Committee.</p>

# Reasonably possible audit risks

## Risks identified in our Audit Plan

## Commentary

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### Employee remuneration

Payroll expenditure represents a significant percentage (13%) of the Council's operating expenses.

As the payroll expenditure comes from a number of individual transactions and an interface with a sub-system there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention.

### Auditor commentary

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

- evaluated the Council's accounting policy for recognition of payroll expenditure for appropriateness;
- gained an understanding of the Council's system for accounting for payroll expenditure and evaluated the design of the associated controls;
- agreed that payroll costs are complete within the financial statements via review of the reconciliations between the payroll system and the General Ledger; and
- We have obtained assurances via a trend analysis and detailed analytics to ensure that pay included within the accounts is materially complete. Given we were able to obtain this assurance, we did not need to undertake detailed testing in this area.

Our audit work has not identified any significant issues in relation to the risk identified.

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### Operating expenses

Non-pay expenses on other goods and services also represents a significant percentage (70%) of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.

We identified completeness of non-pay expenses as a risk requiring particular audit attention:

### Auditor commentary




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

- evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness;
- gained an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls;
- perform detailed substantive testing on operating expenditure recorded for the financial year, including a separate sample of schools expenditure; and
- tested operating expenditure to ensure cut-off has been correctly applied.




Our audit work has not identified any significant issues in relation to the risk identified.



# Accounting policies

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	The Council's revenue recognition policy is disclosed within Note 1(ii) of the Accounts, within Accounting Policies, and covers each of the main areas of revenue received by the Council, including revenue received from the sale of goods, the provision of services along with how revenue is recognised for the non-exchange transactions such as Council Tax and Business Rates.	<p>Following the work performed we are satisfied that the Council's revenue recognition policies are in line with the requirements of the CIPFA Code. We have made some recommendations for improved disclosure around the revenue policies which have been added within the revised Accounts.</p> <p>Our testing of your various revenue sources did not identify any instances of inappropriate revenue recognition.</p>	 <b>Amber</b>
<b>Judgements and estimates</b>	<ul style="list-style-type: none"> <li>Key estimates and judgements include: <ul style="list-style-type: none"> <li>Useful life of Property, plant and equipment</li> <li>Revaluations</li> <li>Impairments</li> <li>Accruals</li> <li>Valuation of pension fund net liability</li> <li>Provision for Business Rate appeals</li> <li>Other provisions</li> </ul> </li> </ul>	<p>Following our consideration of these judgements 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"> <li>We did not identify any issues with the items relating to property, plant and equipment, such as the calculation of depreciation, the asset lives applied, or the revaluations applied by the Council during the course of the year.</li> <li>We confirmed the pension fund valuations were consistent with the reports received from the Fund's Actuary, Hymans Robertson. Our use of an expert, PwC, to assess the work performed by the Actuary did not identify any issues either.</li> <li>Our work on the Business Rate Provision identified a considerable decrease in provision from the previous year, which was due changes in a number of the inputs to the calculation prepared by the Council. We reviewed the Council's approach and assumptions around this area and are comfortable with the revised provision included in this year's Accounts.</li> </ul>	 <b>Green</b>
<b>Other critical policies</b>		We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. We have identified some enhancements to these policies to ensure that they cover all of the material balances included within the Accounts, all of which have been processed by the Council.	 <b>Amber</b>

## Assessment

-  - **Red** - Marginal accounting policy which could potentially be open to challenge by regulators
-  - **Amber** - Accounting policy appropriate but scope for improved disclosure
-  - **Green** - 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	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Audit, Governance and Standards Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.</li> </ul>
②	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related parties or related party transactions which have not been disclosed.</li> </ul>
③	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.</li> </ul>
④	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Council, which is included within the papers for this meeting of the Audit, Governance and Standards Committee.</li> </ul>
⑤	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We requested from management permission to send confirmation requests to all of the Council's counter parties. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.</li> <li>We requested management to send letters to those solicitors who worked with the Council during the year. All responses have been received and no issues have been identified.</li> </ul>
⑥	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review identified a number of disclosures which required amendment or expansion, and management agreed to amend all of the items identified. Further detail is provided within the Misclassifications and disclosure changes page, which is included later in the Report.</li> </ul>

# Other responsibilities under the Code

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

Issue	Commentary
① <b>Other information</b>	<ul style="list-style-type: none"> <li>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</li> </ul> <p>Inconsistencies and omissions have been identified from the work performed on the Annual Governance Statement but have been adequately rectified by management. We plan to issue an unqualified opinion in this respect – refer to Appendix E</p>
② <b>Matters on which we report by exception</b>	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> <li>If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit</li> <li>If we have applied any of our statutory powers or duties</li> </ul> <p>We have nothing to report on these matters.</p>
③ <b>Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the specified group reporting threshold of [£tbc] we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <p>At the date of issuing this Report our work in this area had yet to be started, but we are aiming to complete in advance of us issuing our Audit Opinion at the end of July 2018.</p>
④ <b>Certification of the closure of the audit</b>	<p>We intend to certify the closure of the 2017/18 audit of Southwark Council in the audit opinion, as detailed in Appendix E.</p>

# Value for Money

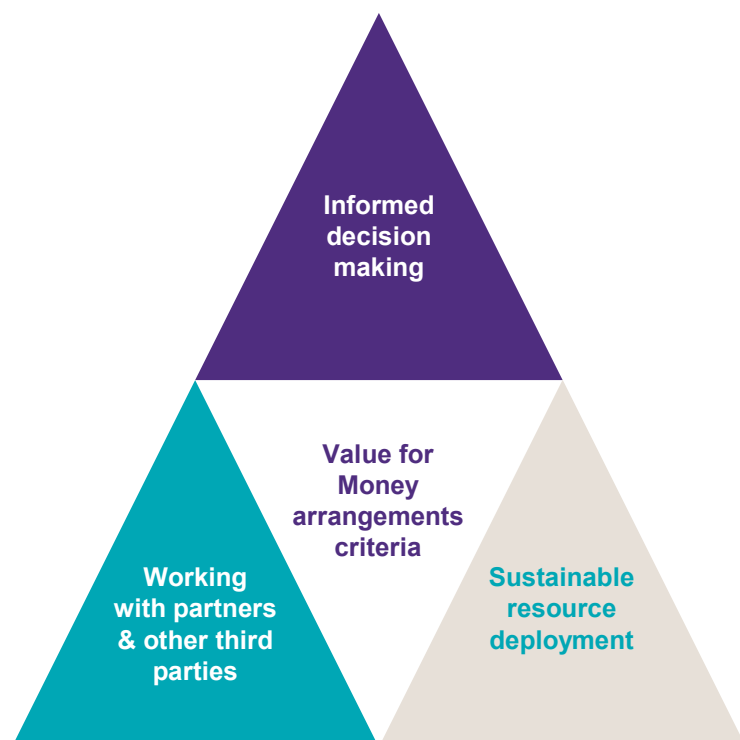
## Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

*"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."*

This is supported by three sub-criteria, as set out below:



## Risk assessment

We carried out an initial risk assessment in February 2018 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated this risk to you in our Audit Plan dated 19 February 2018, which was as follows:



### Ongoing Financial Performance

#### Risk

The Council is continuing to face pressure on its Social Care Budgets, and other factors such as the demand for temporary accommodation and the impact of nil resource to public funds are putting the Council's finances under considerable strain. Therefore the Council needs to manage its resources carefully to ensure a sustainable future for the Borough ahead of the 2020 Funding Settlement.

#### Planned Response

To gain assurance over this risk we are planning to undertake work in the following areas:

- review the 2017-18 Outturn, including details of performance against both the Revenue and Capital Budgets;
- review progress against the 2018-19 financial plan up to the completion of our audit; and
- obtain an update on the Council's Medium Term Financial Strategy, including progress on identifying the savings required in coming years including discussions with Management on progress to date.

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 risk we identified from our initial and ongoing risk assessment. Where our consideration of the significant risk 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.

# Value for Money

## Our work

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

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

- The Council have managed to deliver a balanced budget in 2017-18, including the movement of **£10.799m** to General Fund Reserves to help strengthen the overall financial position of the Council. This helps to offset some of the **£27.4m** draw on reserves that took place in 2016-17, which was largely due to the challenges on Social Care.
- Significant improvements have been made in respect of Social Care, with the total overspend in this area arriving at **£2.4m**, with **£2.042m** relating to Children's. This is clearly an area which the Council is going to need to continue to work on during 2018-19 and beyond, with a plan already in place to recoup the 2017-18 overspend in 2018-19.
- A balanced budget has been set for 2018-19, which includes the delivery of **£18.209m** of further efficiencies and income to offset the shortfall in the budget. Plans are in place for the delivery of this sum, which will need close monitoring during the course of the year.
- The Council is continuing to adopt a one-year planning timeframe due to the level of uncertainty post-2020, which is something that will need to be tackled soon to ensure the Council is in a position to face the challenges

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

## Overall conclusion

Based on the work we performed to address the significant risk, 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 E.

## Recommendations for improvement

We discussed findings arising from our work with management and have agreed two recommendations for improvement as follows:

- The Council needs to start looking ahead to 2020 onwards and ensure that both Officer and Members are on board with the challenges that the Council may potentially face from this period onwards.
- The Council encountered considerable challenges on spending normally covered via the Dedicated Schools Grant, due to challenges around those children with High Needs and Special Needs. These overspends are not sustainable over the Medium Term if spending in these areas cannot be brought back under control.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A

## Significant difficulties in undertaking our work

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

## Significant matters discussed with management

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

## Key findings

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

	Significant risk	Findings
1	<p><b>Ongoing financial performance</b></p> <p>The Council is continuing to face pressure on its Social Care Budgets, and other factors such as the demand for temporary accommodation and the impact of nil resource to public funds are putting the Council's finances under considerable strain. Therefore the Council needs to manage its resources carefully to ensure a sustainable future for the Borough ahead of the 2020 Funding Settlement.</p> <p>To gain assurance over this risk we have undertaken the following:</p> <ul style="list-style-type: none"><li>• reviewed the 2017-18 Outturn, and progress against the 2018-19 financial plan up to the completion of our audit; and</li><li>• obtained an update on the Council's Medium Term Financial Strategy, including progress on identifying the savings required in coming years including discussions with Management on progress to date.</li></ul>	<p><b>Revenue Outturn for 2017/18</b></p> <p>The Council has managed to deliver a balanced budget for 2017-18, following the movements to and from reserves which have been processed at year end. Unlike in the prior year, the Council has been able to contribute a considerable balance to reserves during the course of the year</p> <p>In terms of providing further detail on the delivery of the balanced budget for 2017/18, as mentioned above, this allowed the Council to move <b>£10.799m</b> of funding to General Fund Reserves, which will help provide support for the challenges that are potentially ahead for the Council on the back of the outcome of the Local Government Spending Review, which is due to be released in December 2019. This contribution to Reserves also helps to offset some of the <b>£27.4m</b> which had to be utilised by the Council in the previous financial year to deliver the balanced budget agreed at the start of the year, much of which was to cover overspends on Social Care. However there was still the need for the use of some Reserves to help support the Schools Position, where an additional <b>£5.361m</b> was used to offset the overspend incurred in relation to High Needs and Special Needs requirements, which the Schools Forum has been tasked with getting back under control in 2018-19 to ensure this does not have a significant impact on the wider sustainability of the Council.</p> <p>Despite this improved position, challenges still remain for the Council in several areas. One of these is Social Care, where whilst Adults was able to be contained within its revised budget, Children's delivered a <b>£2.042m</b> adverse variance to its budget, which was however a significant improvement on the <b>£7.193m</b> adverse variance recorded in 2016-17. As reported in previous years, the Council has been proactive in managing the pressures in this area, and the Budget Recovery Board remains in place for 2018-19 to continue to provide support in this area to ensure it is able to finally obtain a secure financial footing, and some additional resource is being provided to this area in 2018-19 as well. The overspend in 2017-18 is planning to be covered as part of the 2018-19 Budget for this area, and overall reflects a significant improvement in this area compared to the challenges that were encountered in 2016-17.</p> <p>The other main area which put the Council's budget under pressure was Housing and Modernisation, which ended up overspent by <b>£3.845m</b>. The two specific challenges in this area are common themes across a range of London Boroughs, which were Nil Recourse to Public Funds and Temporary Accommodation. Despite the Council increasing the Budget for Nil Recourse for Public Funds, they still incurred an overspend of <b>£1.3m</b>. This is an area where the Council is reliant on the Home Office on clearing the case load, and thus the Council only has a degree of control and will thus will need to be monitored more closely to ensure this doesn't impact the wider financial sustainability as well. Temporary Accommodation has been a particular challenge for several years and led to a <b>£2.6m</b> overspend during the course of the year. There have been a number of causes for this overspend, one of which was moving residents out of the Ledbury to undertake the repairs required from the learning of Grenfell. The other main element to this was the introduction of Universal Credit, which to date has only been rolled out across a handful of Boroughs across the Country, of which Southwark is part of the pilot. The introduction of Universal Credit had led to a greater level of bad debt being incurred from the tenancies where these claimants were being housed, which were almost all Council Tenancies.</p> <p>Therefore compared to the performance in 2016-17, it is clear that the Council has had a positive 12 months, and being able to return nearly £11m to the General Fund is a very strong financial performance given the challenges facing the sector as whole. However given the challenges which are just over the horizon, then there is a need for the Council to continue to exercise robust financial management over the coming years, which is covered in more detail on later pages.</p>

**Significant risk****Findings****1****Ongoing financial performance**

Continuation of risk noted on page 14.

**Taxation collection rates**

As part of our review of the Medium term Financial Strategy (MTFS), we have reviewed your performance in your collection of Council Tax and Business Rates income. It should be highlighted that in some cases, collection of taxation revenues takes place across an number of years and not just in the year of billing. Overall, your collection rates are lower than the average for Inner London and for England, due to the higher levels of deprivation in your Borough compared to other parts of London and nationally. This in part explains the variances that are outline below and overall we note that your performance remains strong and has improved during 2017/18.

**Collection of Council Tax**

Over the last four years, your rates of Council Tax collection have been an average of 95.4%, which is below the average for Inner London Boroughs of 95.8% and the national average for England of 97.1%

You have taken actions in recent years to improve your Council Tax collection rate through improving the capacity of your collections team. You achieved an overall collection rate of 95.5% in 2017/18, which represents a slight worsening of the collection rate of 95.9% achieved for 2016/17. We recognise that this performance needs to be viewed against an increase in your Council Tax base of 4.7% for 2017/18, as a result of continued housing development, and also a 4% increase in Council Tax rates, inclusive of the 3% adult social care precept and the GLA precept. This comes on top of successive expansion of your Council Tax base in recent years. This shows that your collection rates have been maintained at a largely consistent level despite increases in the volumes and amounts of Council Tax bills levied, as well as the potential impact of Universal Credit being rolled out to selected tenants within the Borough as part of the Government's national roll out of Universal Credit over the coming years.

**Council Tax collection rates**



1

Significant risk

Ongoing financial performance

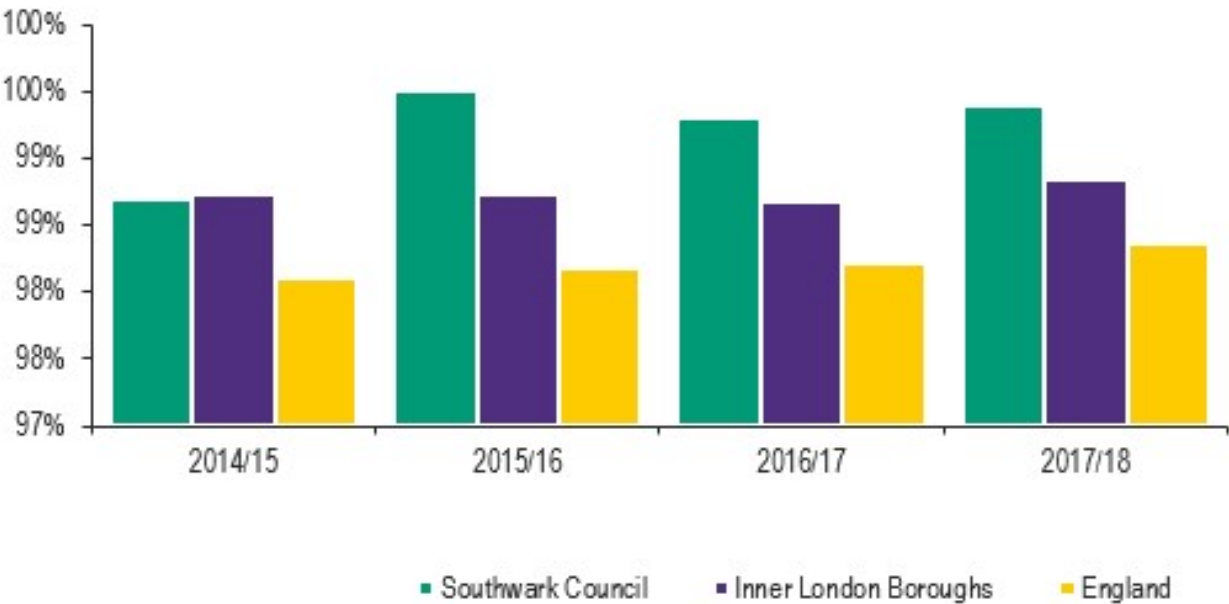
Continuation of risk noted on page 14.

Findings

Collection of Business Rates

In contrast to the trend for your Council Tax income, your business rates collection rates are above the average for Inner London and for England. Your average business rates collection rate over the last four year was 99.2%, compared to 98.7% for boroughs in Inner London 98.2% for authorities across England. Over the course of the past four years, the Council's collection rates were above your neighbouring authorities and the average across England. For 2017/18, you reported a collection rate of 99.4%, which represents a 0.1% increase on the previous year. We consider this a strong level of performance given the additional pressure faced by your business rates collection team due to the national revaluation of rateable values by the Valuation Office Agency, and is an achievement which the Council should be proud of. Clearly this level of collection will aid the Council further under the planned move to 100% Business Rate Retention in 2018-19.

Business Rates collection rates



Conclusion

Your collection rates for Council Tax and Business Rates income have improved during 2017/18 and remain at a strong level. This indicates that your arrangements for the collection of taxation income are working well. Based on your recent track record, we have no overall concerns around the reasonableness of the collection rate assumptions reflected within the MTFS.



1

**Significant risk****Findings****Ongoing financial performance**

Continuation of risk noted on page 14.

**2018/19 budget and Medium Term Financial Strategy**

In February 2018, the Council approved its Budget for 2018/19, which continues to remain the Council's overall financial planning timeframe, due to the level of uncertainty around the Local Authority Spending Review, which is due for publication in December 2019, and will take effect from the 2020-21 financial year. Whilst we can understand this approach, it does mean that the Authority is potentially missing a chance to start scenario planning as to what life post-2020 may look like, which will limit the time available for this exercise once the final outcomes are identified. Other authorities are considering this timeframe already so there maybe the opportunity to share learning, which would benefit from both Officer and Member involvement.

In terms of the plans for 2018-19, the Council is looking to build on the relatively strong performance delivered in 2017-18, which as mentioned previously allowed the Council to move nearly **£11m** to General Fund Reserves. In the plan approved in February 2018, the Council is going to be required to deliver **£18.209m** of efficiencies and additional income during the course of the year to enable it to deliver a balanced budget. This demand is split with **£10.9m** being obtained from efficiencies and effective use of existing resources, and the remaining **£7.3m** being generated from additional income generated from fees and charges. This remains a positive way of dealing with the shortfall in funding as clearly savings on their own are no longer able to cover budget gaps given this continued period of austerity in local authority finance, which shows no signs on abating either. At the date of approving the budget all of the efficiencies and additional sources of income had been identified, which is also a positive position to be in at this stage of proceedings.

As in previous years, the Council has been very prudent in terms of the assumptions underlying the budget, with allowances included for inflation, pay increases, and a range of other growth factors which are likely to occur over the course of year. The demand on services across the whole country continues to increase despite the fall in the revenue available to support them, and is requiring all local authorities to be innovative when it comes to identifying solutions to these challenges. This is something that the Council will not be immune to, and this will require involvement from both Officers and Members to ensure the Council does not drift off course and face some really difficult financial decisions in later years.

Some of the key elements of the budget include a further **5.99%** increase in Council Tax, including a further 3% in respect of funding Adult Social Care Funding, which will generate a potential further **£5.9m** of revenue for the Council. 2018-19 is also the first year of a two-year Business Rates Pilot across London whereby authorities are able to keep hold of a greater proportion of this revenue as part of the move towards self-sufficiency, which is clearly something that all local authorities are going to be moving towards over the coming years. 2018-19 is the first year that the Council's budget does not include any central Government funding, and this is likely to remain the case over the coming year, even once the revised funding position for 2020 onwards is known.

Whilst the plans in place seem robust, there will clearly be challenges for the Council to manage during the course of the year, in particular around Children's Social Care, which has been a challenge for the last couple of years, albeit close management has reduced the level of overspend in 2017-18. A number of the proposed efficiencies are aimed in this area, so if things start to slip again in this area then it will place considerable pressure on the remaining of the Council's services to fill the gap.

**Conclusion**

Therefore overall it is clear that whilst a robust plan has been prepared for 2018-19, the Council is struggling to look further ahead which is understandable given the lack of certainty in this area. Therefore both Officers and Members need to make sure that effective financial management is at the heart of all decisions to ensure that the Council is best placed to deal with the challenges ahead.

1

**Significant risk****Ongoing financial performance**

Continuation of risk noted on page 14.

**Findings****Reserves and financial position**

While your reserves have reduced in recent years as a result of the financial pressures that you have faced and your investments in supporting the borough, you continue to maintain a reserves position that is largely average when compared to other London Boroughs. As at 31 March 2018, you had total general fund reserves and earmarked reserves excluding schools reserves of £89.5m, compared to £73.3m as at 31 March 2017 and £91.8m as at 31 March 2016.

The following table sets out a summary of your reserves position and key financial ratios as at 31 March 2018 relative to other London Boroughs as per their draft published financial statements for 2017/18:

**London Borough of Southwark - financial position: key performance measures**

Measure	London Borough of Southwark	Average for London Boroughs	Ranking relative to other
			London Boroughs
Total general fund and non-schools earmarked general fund reserves as at 31 March 2018 (£m)	89,455	102,647	16 / 32
Total general fund and earmarked general fund reserves as at 31 March 2018 (£m)	99,312	112,924	16 / 32
Total usable revenue and capital reserves as at 31 March 2018 (£m)	210,041	253,592	18 / 32
General fund and earmarked general fund reserves as a percentage of gross service revenue expenditure	7.9%	13.5%	28 / 32
Useable capital and revenue reserves as a percentage of gross service revenue expenditure	16.7%	28.9%	25 / 32

This analysis highlights that as at 31 March 2018 your reserves level placed you in the middle of all of the London Boroughs on several metrics, although it is concerning that the Council is ranked so lowly when the level of reserves are compared to the Council's Gross Revenue Spend on an annual basis, where you are ranked in the bottom five London Boroughs on this metric. This is linked with the demands on reserves which have been incurred by the Council in recent years as well to offset in-year revenue overspends.

Thus it is clear that there is not a huge level of reserves in place to weather the on-going financial challenges that you face over the medium term due to reductions in central government funding and forecast increases in demand for your core services. Clearly you only have finite reserves available and it is important that you continue to maintain appropriate budgetary controls. This is evidenced by the demand on reserves that was incurred during 2016-17 due to the overspends on Adult's and Children's Social Care, and similar demands going forward would place the Council in a challenging position. Linked to this, the financial outlook for local government is at its most uncertain for a generation. It is vital members recognise that the current level of reserves provides a buffer for the uncertainties ahead and do not represent an easy way to resolve immediate budget pressures. This needs to be considered as part of the decision-making process to ensure the Council is able to face the upcoming challenges from a relative position of strength.

**Conclusion**

**On the basis of the work completed we have concluded that the risk that we identified in respect of your financial sustainability has been sufficiently mitigated and that you have proper arrangements. However it is clear that the Council needs to do more moving forward to make sure it is able to deal with the upcoming challenges in local government financing.**

# Independence and ethics

## Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

## Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified:



Service	£	Threats	Safeguards
<b>Audit related</b>			
Certification of Housing Capital Receipts Grant	5,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the total fee for the audit of £237,296 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Teachers Pensions Return	5,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the total fee for the audit of £237,296 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
<b>Non-audit related</b>			
CFO Insights Subscription	10,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this subscription is £10,000 in comparison to the total fee for the audit of £237,296 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit, Governance and Standards Committee. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.




None of the services provided are subject to contingent fees.

# Action plan

We have identified two recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
<b>1</b>  <b>Amber</b>	<b>Value for Money – future financial sustainability</b> The Council needs to start looking ahead to 2020 onwards and ensure that both Officer and Members are on board with the challenges that the Council may potentially face from this period onwards	The Council needs to start undertaking work to consider the environment post-2020 so it will be able to deal with the challenges that may be faced from this date. <b>Management response</b> To be provided
<b>2</b>  <b>Amber</b>	<b>Value for Money – Dedicated Schools Grant</b> The Council encountered considerable challenges on spending normally covered via the Dedicated Schools Grant, due to challenges around those children with High Needs and Special Needs. These overspends are not sustainable over the Medium Term if spending in these areas cannot be brought back under control.	The Council needs to continue with the work in this area to ensure that budgets are closely managed and overspends challenged and dealt with to ensure this doesn't continue to have an adverse impact on the Council's overall financial position. <b>Management response</b> To be provided

## Controls

-  - Red - High – Significant effect on control system
-  - Amber - Medium – Effect on control system
-  - Green - Low – Best practice

# Follow up of prior year recommendations

We identified the following issues in the audit of Southwark Council's 2016/17 financial statements, which resulted in two recommendations being reported in our 2016/17 Audit Findings Report. We have followed up on the implementation of our recommendations and note that as it stands one of these still needs to be carried forward to 2018-19, with the other recommendation subject to confirmation at the date of issuing the Report.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	<b>TBC</b>	<b>HR – Casual Workers</b> In the previous year, we identified an issue that the Council needed to ensure sufficient documentation is in place to confirm the employment status of casual workers employed during the course of the year.	The Council have provided us with the following response in this area: ‘The Council has taken active steps to ensure that casual workers are engaged in a manner that is appropriate to the setting in which they will be operating. Therefore where such workers will be working in settings where appropriate disclosure and barring checks are required, these checks are undertaken before the casual worker undertakes any work for the Council. We are continuing to review the status of those appearing on the Councils payroll as casual workers to assure ourselves about their employment status in terms of worker/employee especially where the relationship with the individual persists for a significant time.’ We are currently selecting a small sample of these workers to confirm whether this issue has been cleared and will provide an update to the Committee once this work is completed.
2	<b>Partially</b>	<b>Value for Money – Social Care</b> From our Value for Money work, we identified that the Council needs to continue to work to understand the issues causing the overspends in Social Care to ensure the Council is in a sustainable financial position ahead of the revised Local Government Funding Settlement being announced in 2020.	Based on our Value for Money work in 2017-18 it is clear that the Council has managed to deal with the challenges in respect of Adult Social Care, but that some of these challenges still remain in respect of Children's. As a result the Council is planning to continue with the Budget Recovery Board in 2018-19, with the focus now solely on Children's, which will need to be managed closely given the continued pressure on Local Government Finances.

## Assessment

- ✓ Action completed
- X Not yet addressed

# Audit Adjustments

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

### Impact of adjusted misstatements

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

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000
<div>1</div> <b>Removal of Support Cost Recharges from the CIES</b> Our work on the CIES identified the inclusion of support costs as a line on the CIES, which is not permitted by the CIPFA Code of Practice. Whilst this issue impacts the values in the individual lines within Net Cost of Services, it has no impact on the overall Net Cost of Services balance. The prior year balances have also been adjusted to ensure consistency year-on-year.	Net impact is nil, however the balance of £42,109k has been removed from the face of the CIES.	Nil impact – this only has an impact on the CIES	Nil
<b>Overall impact</b>	£0	£0	£0

# Audit Adjustments

## Misclassification and disclosure changes

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

Disclosure omission	Value (£000)	Impact on the Accounts	Adjusted?
<b>Note 1 – Expenditure and Funding Analysis (EFA)</b>	Various	Following the amendment to the CIES, the Council has provided additional disclosures within the EFA to enable the revised CIES to be clearly linked back to the Council's internal reporting, which is required by the Code for this Analysis	✓
<b>Note 2 – Accounting Policies</b>	n/a – narrative disclosures	Our initial review of the Accounts identified that several material accounting policies required enhancements to aid the transparency of these disclosures. The Council has subsequently updated the Accounts to provide the required transparency in these areas.	✓
<b>Note 13 – Property, Plant and Equipment</b>	Various	We identified that the Council had not provided an analysis of the valuation dates of their asset base, which is required by the Code. This disclosure has now been provided within the revised Accounts.	✓
<b>Note 13 – Property, Plant and Equipment and Note 14 – Investment Properties</b>	Various	The Council had also not included the required disclosures relating to the fair value measurements of Surplus Assets and Investment Properties, which have subsequently been included within the revised Accounts.	✓
<b>Note 16 – Cash and Cash Equivalents</b>	£6,754k	The draft Accounts showed the Council's overdraft being netted off against the positive cash balances. The Council has since revised this disclosure to make the status of this overdraft clear in the Accounts.	✓
<b>Note 37 – Defined Benefit Pension Schemes</b>	£121,081k	The initial disclosure showed a value under Quoted Investments shown as 'Other', which did not provide sufficient detail over the nature of these Assets. This has subsequently been updated in the revised Accounts.	✓
<b>Note 38 – Financial Instruments</b>	Various	Our work identified that several disclosures relating to Financial Instruments required enhancements in the revised Accounts, which have subsequently been processed by the Council.	✓
<b>Note 38 – Financial Instruments – Fair Value of PFI Liability</b>	£95,454k	Our review of the draft Accounts identified that the Fair Value of the PFI Liabilities included within the Accounts had not been correctly calculated. This value has been correctly amended within the revised Accounts.	✓

# Audit Adjustments

## Misclassification and disclosure changes

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

Disclosure omission	Value (£000)	Impact on the Accounts	Adjusted?
Multiple Areas	Various	The disclosures required by the Code, around the group element of Local Authority Schools had not been included within the draft Accounts. These disclosures have since been provided within the revised Accounts.	✓



# Audit Adjustments

## Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2016/17 financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000	Reason for not adjusting
<b>1 Investment Properties</b> During our testing of Investment Properties, we identified one property with a total value of £1.96m which had been disposed of during the course of the year which was still included within the Accounts at year end. This property should have been removed from the Balance Sheet, along with the balance held in the Revaluation Reserve in respect of this property.	Dr Gain/Loss on Disposal 1,960  Cr MIRS 1,960	Cr Investment Property 1,960  Dr Capital Adjustment Account 1,960  Dr Capital Adjustment Account 153  Cr Revaluation Reserve 153	1,960	2016-17 - The Council have not adjusted for this misstatement as it is immaterial to the overall financial statements, as well as the complexity of ensuring all the related PPE amendments are processed correctly.  2017-18 Update – we have reviewed the PPE Balances included within the Accounts and can confirm this amendment has been subsequently processed by the Council during the course of this year.
<b>Overall impact</b>	<b>£1,960</b>	<b>£1,960</b>	<b>£1,960</b>	

# Fees

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

## Audit Fees

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

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

## Non Audit Fees

Fees for other services	Fees £
Audit related services:	
• Certification of Housing Capital Receipts Grant	5,000
• Certification of Teachers Pensions Return	5,000
Non-audit services:	
• CFO Insights Subscription	10,000
Total	20,000

# Audit opinion

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

## Independent auditor's report to the members of Southwark Council

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Southwark Council (the 'Authority') for the year ended 31 March 2018 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves 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 Income and Expenditure Account and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2018 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Who we are reporting to

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

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Strategic Director of Finance and Governance's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Strategic Director of Finance and Governance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

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

We have nothing to report in this regard.

# Audit opinion (continued)

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

### Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we are required to report by exception

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

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

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

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

As explained more fully in the Statement of Responsibilities the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Strategic Director of Finance and Governance. 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 2017/18, which give a true and fair view, and for such internal control as the Strategic Director of Finance and Governance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Strategic Director of Finance and Governance is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the Authority.

The Audit, Governance and Standards Committee is Those Charged with Governance

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with

ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

#### Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that *the Authority* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

#### Responsibilities of the Authority

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

### Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects 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 this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

# Audit opinion (continued)

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

**Report on other legal and regulatory requirements - Certificate**

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

[Signature]

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

Grant Thornton UK LLP  
30 Finsbury Square  
LONDON  
EC2P 2YU

xx July 2018

