APPENDIX A

The Audit Findings Report for Southwark Council

Year ended 31 March 2019

16 July 2019

Contents

Your key Grant Thornton team members are:

Ciaran McLaughlin
Key Audit Partner
T: 020 7728 2936
E: ciaran.t.mclaughlin@uk.gt.com

Matt Dean
Senior Audit Manager
T: 020 7728 3181
E: matthew.dean@uk.gt.com

Liulu Chen
In-Charge Accountant
T: 020 7865 2561
E: liulu.chen@uk.gt.com

Headlines

This table summarises the key findings and other matters 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 2019 for those charged with governance.

Financial Statements	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the 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 • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our audit work was completed on site during June and July. Our findings are summarised on page 4 to 13. To date we have not identified any amendments to the overall financial position reported within the Statement of Comprehensive Income and Expenditure. A number of minor audit adjustments have been identified and are detailed in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix A. Our work is substantially complete, subject to the following outstanding matters; - completion of our testing in a few areas (refer to the following page for more detail) - 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. We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited. Our anticipated audit report opinion will be unmodified.
Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	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. We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix D. Our findings are summarised on pages 14 to 21.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code but are unable to issue our completion certificate until we complete our work on the Council's Whole of Government Accounts (WGA) Return, and the Pension Fund Annual Report.

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

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

Audit approach

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

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

We have not had to alter or change our audit plan, as communicated to you on 11 February 2019

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 16 July 2019, as detailed in Appendix E. These outstanding items include:

- completion of our testing in the following areas: Pension Liability – including the impact of McCloud and GMP
- 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 2018/19, 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	£25.000m	£24.000m	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	£18.750m	£18.000m	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	£1.250m	£1.200m	As above, Triviality is based on a percentage of the overall materiality, hence a decrease in this value has decreased Triviality.
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 2018-19.

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
1	**Improper revenue recognition** 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.	**Auditor commentary** Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including Southwark Council, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Southwark Council. To support this assessment, we have completed the following work in respect of this risk: • reviewed and tested the Council's revenue recognition policies • performed testing on material revenue streams Our audit work has not identified any significant issues in relation to the risk identified.
2	**Management override of controls** Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We identified management override of controls as a risk requiring special audit consideration.	**Auditor commentary** We have undertaken the following work in relation to this risk: • gain an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness • obtain a full listing of journal entries, identify and test unusual journal entries for appropriateness • evaluate the rationale for any changes in accounting policies or significant unusual transactions. Our audit work to date has not identified any significant issues in relation to the risk identified.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
3 Valuation of Property, Plant and Equipment The Council revalues its land and buildings on an rolling five-year basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements. As mentioned in the Audit Plan, the potential impact of Brexit may also have an impact on the valuations included within the Accounts, and the Council will need to work closely with their experts to ensure any impact is reflected within the Accounts. We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.	**Auditor commentary** We have undertaken the following work in relation to this risk: • reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • considered the competence, expertise and objectivity of any management experts used; • discussed with the valuer the basis on which the valuation is carried out and challenge the key assumptions; • reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding; • tested revaluations made during the year to ensure they are input correctly into the Council's asset register; and • 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. 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.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
4 Valuation of Pension Fund net liability The Council's Pension Fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£640 million in the Council's Statement of Financial Position) and the sensitivity of the estimate to changes in key assumptions. Again Brexit could have an impact on the values included within the Accounts at year end so this will need to be factored into the considerations as well. We therefore identified valuation of the Council's Pension Fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	**Auditor commentary** We have undertaken the following work in relation to this risk: • updated our understanding of the processes and controls put in place by management to ensure that the Council's Pension Fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the assumptions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation; • assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • tested the consistency of the Pension Fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report. We have also ensured that Brexit has been considered when arriving at the values included within the Accounts. During the course of our audit, the position of the McCloud Case has been finalised, which may potentially have an impact on the value of the liability on the Balance Sheet. The Council is seeking support from its actuary to determine whether this is material and thus would need an adjustment to the Accounts. We will provide an update to members of the Committee once this is finalised. Should any further issues be identified from our outstanding work, then we will provide an update to Management and the Committee.

Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
Provisions for NNDR Appeals - £21,320k	The Council are responsible for repaying a proportion of successful rateable value appeals. The calculation for the Provision is performed internally by the team responsible for monitoring Business Rate collection across the Borough. The Council's calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates. The Provision included within the Accounts has increased significantly in 2018-19 due to the Council taking part in the Business Rate Retention Scheme across London, which whilst increasing the level of income the Council receives, also means the Council takes on more of the risk of non-collection.	• Based on the work performed, we are comfortable with the approach taken by management in calculating this Provision. • The methodology used by the Council is consistent with that used in previous years, and is based on the latest appeals notified to the Council by the VOA, and an assessment of the likelihood of success of the outstanding appeals.	● **Green**
Land and Buildings – Council Housing - £3,423m	The Council owns 37,312 dwellings and is required to revalue these properties in accordance with MHCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged its internal valuer to complete the valuation of these properties. The year end valuation of Council Housing was £3,423m, a net decrease of £56m from 2017/18 (£3,479m).	• From the work performed in this area, we are comfortable with the valuation of the Council's Housing Stock included within the Accounts. • The valuer has correctly prepared the valuation using the Stock Valuation Guidance issued by MHCLG, and has ensured the correct factor has been applied when calculating the Existing Use Value – Social Housing (EUV-SH) value disclosed within the Accounts. • The valuer has formally dated the valuation as at the 31st of December 2018, and has then undertaken a review to confirm that there is no material impact on the valuation to the 31st of March 2019. • We have reviewed and challenged this assessment, and are comfortable with the assumptions made by the valuer in respect of this period.	● **Green**

Assessment

- ● - Red - We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● - Amber - We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● - Yellow - We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● - Green - We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Land and Buildings – Other - £1,027m	Other land and buildings comprises £54m of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£992m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged the internal valuer to complete the valuation of properties as at 31 December 2018 on a five yearly cyclical basis. 78% of total assets were revalued during 2018/19. The valuation of properties valued by the valuer has resulted in a net increase of £9m. Management have considered the year end value of non-valued properties, and the potential valuation change in the assets revalued at 31 December 2018, to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties value. The total year end valuation of Other land and buildings was £1,027m, a net increase/decrease of £29m from 2017/18 (£998m).	• From the work performed in this area, we are comfortable with the valuation of the Council's Other Land and Buildings included within the Accounts. • The valuer has agreed clear terms of reference for this work with the Council in advance of the work being performed, including within which were the assumptions that were going to be applied to this work. • We have reviewed the assumptions applied by the Valuer to the valuation performed, and have confirmed they are reasonable and appropriate given the nature of the assets held by the Council. • We have also reviewed the assessment undertaken by the valuer that there has not been any material movement in the valuation of Other Land and Buildings between the end of December and the end of March 2019, and are content with the assumptions made by the valuer in respect of this period. • We also considered the work which the valuer has done on those assets not valued as at the 31st of March 2019 to confirm that their carrying value is not materially different to their carrying value included within the Accounts. Again we were content with the assessment made by the valuer in this area, which provides us with sufficient assurance over the values included within the Accounts.	● **Green**

Assessment

- Red - We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Amber - We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Yellow - We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Green - We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Net pension liability – £683m	The Council's total net pension liability at 31 March 2019 is £683m (PY £640m), comprising the Southwark Council PF Local Government and unfunded defined benefit pension scheme obligations. The Council uses Aon Hewitt to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £16m net actuarial loss during 2018/19.	• The Council have used Aon Hewitt as their Actuary for a number of years, and thus we are content with their competence and capability to provide the valuations required by the Council in respect of the net pension fund liability as at the 31 March 2019. • We have reviewed the assumptions made by the actuary when calculating the IAS26 costs included within the Accounts to confirm their reasonableness. We made use of PwC, as an Auditor's Expert to obtain assurance over this area. A summary of the work performed can be seen in the table below:	● Green

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.4%	2.4-2.5%	●
Pension increase rate	2.2%	2.1-2.2%	●
Salary growth	3.7%	3.1-3.7%	●
Life expectancy – Males currently aged 45 / 65	24.3/22.6	23.0 - 25.3 / 22.2 - 23.7	●
Life expectancy – Females currently aged 45 / 65	28.1/26.3	25.9 - 28.1 / 24.1 – 26.3	●

• Based on the table above, we are content with the assumptions applied by Aon Hewitt to value the Council's Pension Fund Liability as at the 31st of March 2019, and thus are content with the values included within the Accounts, subject to the consideration of the McCloud and GMP issues mentioned elsewhere in the Report.

Assessment

- ● - Red - We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● - Amber - We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● - Yellow - We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● - Green - We consider management's process is appropriate and key assumptions are neither optimistic or cautious

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**	• 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.
2	**Matters in relation to related parties**	• We are not aware of any related parties or related party transactions which have not been disclosed.
3	**Matters in relation to laws and regulations**	• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4	**Written representations**	• A letter of representation has been requested from the Council, which is included in the papers for this Committee.
5	**Confirmation requests from third parties**	• 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. • 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.
6	**Disclosures**	• Our review identified a small 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.
7	**Audit evidence and explanations/significant difficulties**	• The Council produced a good set of Accounts and working papers in line with the agreed timeframes, and responded promptly to the queries raised during the course of the audit. The small number of amendments identified in this Report reflect the quality of the draft Accounts prepared by management.

Other responsibilities under the Code

	Issue	Commentary
1	**Other information**	• We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. We identified a couple of areas where management have agreed to add some additional narrative to enhance the transparency of the disclosures included. We plan to issue an unmodified opinion in this respect – refer to appendix D
2	**Matters on which we report by exception**	We are required to report on a number of matters by exception in a numbers of 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 other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters.
3	**Specified procedures for Whole of Government Accounts**	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. As the Council exceeds the specified group reporting threshold of £500m we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. 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 2019.
4	**Certification of the closure of the audit**	We are unable to certify the closure of the 2018/19 audit of Southwark Council in the audit opinion, as detailed in Appendix D. This is due to the work on the Pension Fund Annual Report, for which the deadline is the end of November 2019.

Value for Money

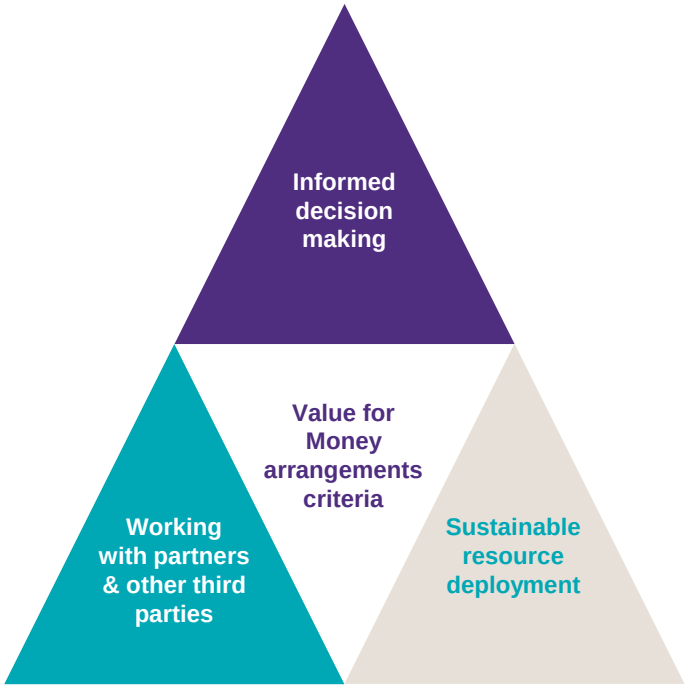
Background to our VFM approach

We are required to satisfy ourselves that the Council has made 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. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 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 2019 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 11 February 2019.

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.

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 risks 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 2018-19, including the movement of **£17.552m** to General Fund Reserves to help strengthen the overall financial position of the Council. This is the second year in a row that the Council has made a significant contribution to this area, which is helping to strengthen reserves which had been depleted in recent years.
- Continued improvements in respect of Social Care lead to this area delivering a **£25k** underspend, which is a significant improvement from the overspends which have been incurred in recent years.
- However challenges in respect of the Dedicated Schools Grant (DSG) are continuing to increase, with a further overspend of **£7.4m** being incurred in-year, bringing the cumulative deficit in this area to **£11.5m**.
- A balanced budget has been set for 2019-20, which includes the delivery of **£19.615m** of further efficiencies and income to balance 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-2021, 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 risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found at Appendix D.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed that the two recommendations raised in the previous year are still appropriate, which are 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. In the absence of additional government funding, these overspends are not sustainable over the Medium Term if spending in these areas cannot be brought back under control.

We have made a note that there is still work to do in each of these areas as part of our responses to the recommendations raised in the prior year's Audit Findings Report, which can be seen in 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:

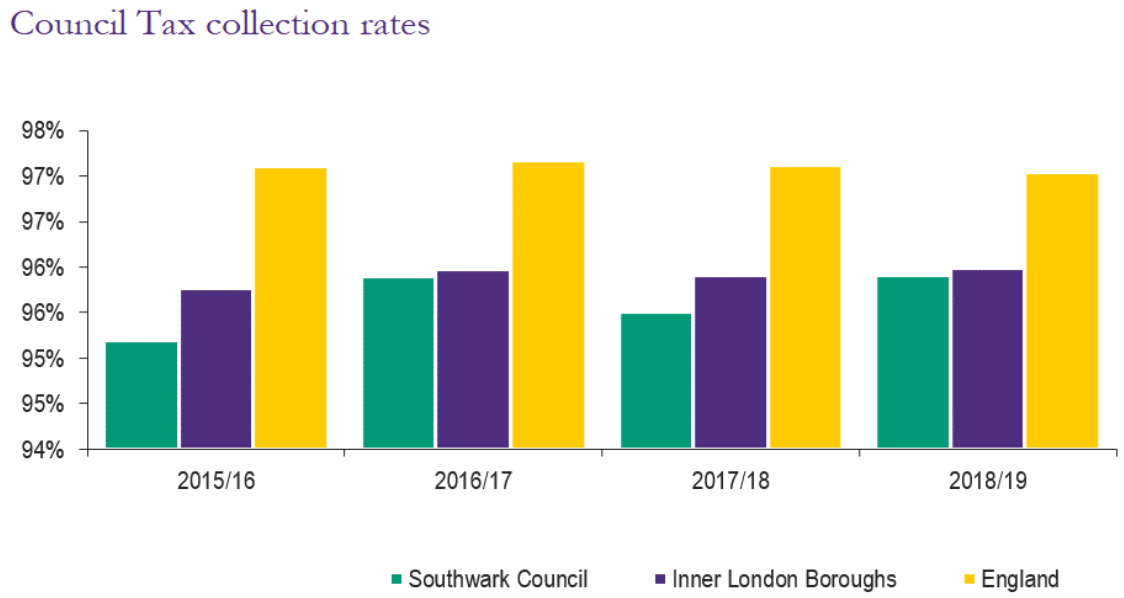
	Significant risk	Findings
1	**Ongoing financial performance** The Council is continuing to face pressure on its Social Care Budgets, and other factors such as the demand for temporary accommodation and the impact of nil resource to public funds are putting the Council's finances under considerable strain. Therefore, the Council needs to manage its resources carefully to ensure a sustainable future for the Borough ahead of the 2020 Funding Settlement. Brexit will also potentially add another unknown to these challenges and the Council will need to monitor developments close as the end of March approaches. • review the 2018-19 Outturn, including details of performance against both the Revenue and Capital Budgets; • review progress against the 2019-20 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 also consider the financial impact of any financial issues arising from Brexit. These may include changes in property values, adverse changes to investment and borrowing rates, changes to business rate income, and the impact on the Authority's workforce.	**Revenue Outturn for 2018/19** The Council has managed to deliver a balanced budget again in 2018-19, following the movements to and from reserves which have been processed at year end. For the second year in a row, the Council has been able to make significant contributions into reserves during the course of the year. The Council was able to add **£17.552m** of funding to General Fund Reserves in addition to the **£10m** that was taken to General Fund Reserves in 2017-18. During the course of 2018-19 the Council faced significant pressure on its spend against the Dedicated Schools Grant (DSG), which is becoming a challenge for London and nationally as a result of increased demands and pressures on this area of the budget. In 2018-19, the Council overspent its DSG allowance by **£7.4m**, which gives the Council a cumulative net overspend (negative position) of **£11.5m** at the end of 2018-19. The main reason for the overspends is the increased costs arising from children and young people with High Need, who are required to be funded out of the DSG Balance instead of being covered by routine spend on Children's Social Care. In terms of positive developments, the Council has continued to make considerable progress in respect of Social Care spending, where the Council ended the year with a net underspend against budget of **£25k**, (an improvement for an overspend of nearly **£30m** two years ago). Due to the challenges which the Council has encountered in respect of this area, it has spent considerable time and effort embedding processes to manage the service, such as the Budget Recovery Board, which gives the Council considerable oversight of the spend in this area, and thus should help the Council to continue to improve in this area. There does however remain risk in this area, such as the fact that the Better Care Fund makes up nearly a quarter of the Council's Budget in this area in 2019-20, but there is no confirmation of where the Better Care Fund position is going to be post 2019-20, which could cause further challenges post this period if a replacement source of funding is not identified. Two areas which continue to pose a challenge for the Council are common themes across a range of London Boroughs. These areas were Nil Recourse to Public Funds and Temporary Accommodation. Despite the Council increasing the Budget for Nil Recourse for Public Funds, they still incurred a overspend of **£0.6m**, which however is a fall from the previous year, where the overspend was **£1.3m**. This is an area where the Council continues to remain reliant on the Home Office on clearing the case load, and thus the Council only has a degree of control and will thus need to continue to monitor closely to ensure this doesn't impact wider financial sustainability as well. However, given that progress has been made in 2018-19, it does show improvements in the way that the Council is managing and monitoring this area. Temporary Accommodation has been a particular challenge for several years and led to a **£3.9m** overspend during the course of the year, which is an increase of **£1.3m** from the **£2.6m** overspend incurred in 2017-18. The Council has noted that there has been considerable focus on the funding in this area, with the budget having been increased again, and the Council has received considerable additional Grant Funding in this area as well. Cabinet has been made aware that this area is likely to continue to be a challenge, and the Council is proposing making some Policy Changes in 2019-20 to try and reduce the financial impact of these challenges. However, overall the Council has had a positive 2018-19, and is in a stronger and more resilient financial position than was the case 12 months ago, and hopefully the Council can continue to build on this over the coming year.

Significant risk	Findings
1 **Ongoing financial performance** Continuation of risk noted on page 16.	**Taxation collection rates** As part of our review of the Medium Term Financial Strategy (MTFS), we have reviewed you 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 2018/19.

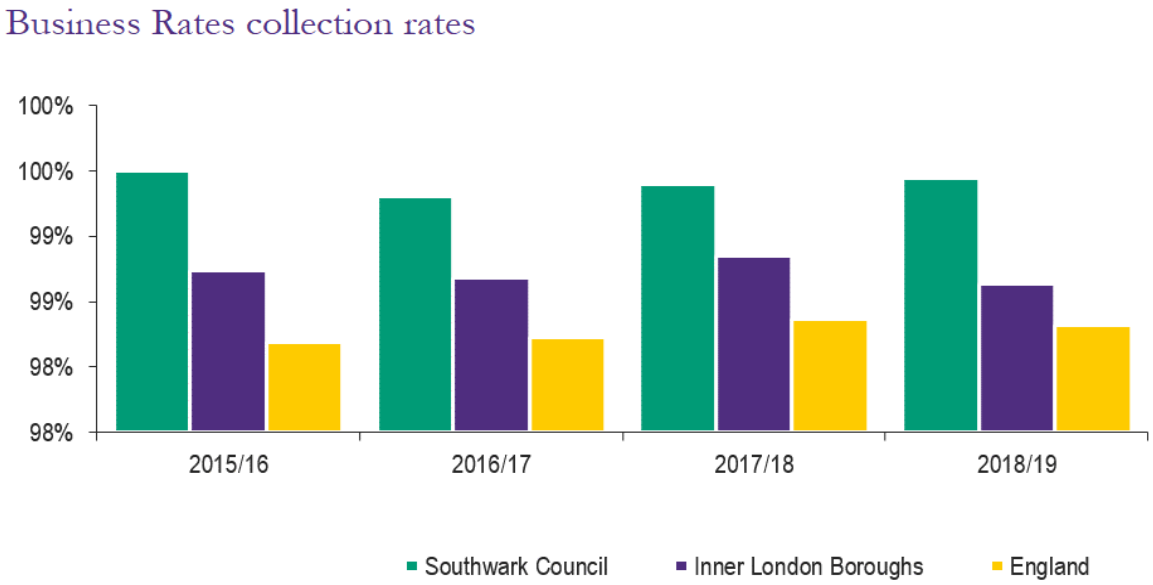
Collection of Council Tax

Over the last four years, your rates of Council Tax collection have been an average of **95.6%**, which is below the average for Inner London Boroughs of **96.0%** 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 **95.9%** in 2018/19, which represents a slight improvement of the collection rate of **95.5%** achieved in 2017/18. We recognise that this performance needs to be viewed against an increase in your Council Tax base of **5.47%** for 2018/19, as a result of continued housing development, and also a **4.90%** increase in Council Tax rates, inclusive of the 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.



Significant risk	Findings
1 **Ongoing financial performance** Continuation of risk noted on page 16.	**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 **99.4%**, compared to **98.7%** for boroughs in Inner London, and **98.3%** 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 2018/19, you reported a collection rate of 99.4%, which represents a very slight 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 is now adding the Council under the revised Business Rates Retention Scheme which took effect in 2018-19 and generated the Council an additional £10.2m of Income compared to what has been previously budgeted. The Council has taken the prudent step of earmarking this funding for use to help generate new ideas moving forward and will give members opportunities to apply for access to this fund if there are potential new Schemes afoot which may meet the definition of this pool of funding.



Conclusion

Your collection rates for Council Tax and Business Rates income have improved during 2018-19 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.

	Significant risk	Findings
1	**Ongoing financial performance** Continuation of risk noted on page 16.	**2019/20 budget and Medium Term Financial Strategy** In February 2019, the Council approved its Budget for 2019-20, which continues to remain the Council's overall financial planning timeframe, due to the level of uncertainty around the Local Authority Spending Review, which has now been deferred for another year, and thus will now not take effect until the 2021-22 financial year at the earliest. Whilst we can understand this approach, it does mean that the Authority is continuing to not take a chance to start scenario planning as to what life post-2021 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 2019-20, the Council is looking to build on the relatively strong performance delivered in the course of the past two years, which as mentioned previously allowed the Council to move over **£21m** to General Fund Reserves over the course of the past two years. In the plan approved in February 2019, the Council is going to be required to deliver **£19.615m** of efficiencies and additional income during the course of the year to enable it to deliver a balanced budget. This demand is split with **£13.9m** being obtained from efficiencies and effective use of existing resources, **£4.8m** being generated from additional fees and charges, and **£0.9m** from other savings. 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. 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. As in previous years, the Council has been 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 **2.99%** increase in Council Tax, which will generate a potential further **£3.2m** of revenue for the Council. As the Council has raised the maximum 3% precept for Adult Social Care in each of the previous two years, no further increases are permitted this year. 2019-20 is the second 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 may be moving towards over the coming years. This generated **£10.2m** in additional revenue for the Council in 2018-19 and they will be hopeful of similar growth during the course of 2019-20 as well. Whilst the plans in place seem robust, there will clearly be challenges for the Council to manage during the course of the year. Whilst Social Care appears to be operating within budget, the Council will need to make sure this area is monitored closely to ensure progress does not falter. Dedicated Schools Grant will also continue to be a challenge in 2019-20, where although additional funding has been indicated by Government to cover the increased spend on the High Needs Block, the DSG is likely to remain in deficit for some years to come. **Conclusion** Therefore overall it is clear that whilst a robust plan has been prepared for 2019-20, future particularly over the medium term, is more uncertain. Therefore both Officers and Members need to make sure that effective financial management continues to be at the heart of all decisions to ensure that the Council is best placed to deal with the challenges ahead.

Significant risk	Findings
1 **Ongoing financial performance** Continuation of risk noted on page 16.	

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 **£133.3m** as at the 31st of March 2019. This compares to **£89.5m** as at 31 March 2018, **£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 2019 relative to other London Boroughs as per their draft published financial statements for 2018/19:

Borough **Southwark**

18/19 **Southwark**

Measure	Southwark	Average for London Boroughs	Ranking relative to other London Boroughs (/32)
Total general fund and non-schools earmarked general fund reserves as at 31 March 2019 (£'000s)	121,807	106,462	23
Total general fund and earmarked general fund reserves as at 31 March 2019 (£'000s)	134,682	118,126	22
General fund and non-schools earmarked general fund reserves as a percentage of net service revenue expenditure (%)	28%	42%	11

17/18 **Southwark**

Measure	Southwark	Average for London Boroughs	Ranking relative to other London Boroughs (/32)
Total general fund and non-schools earmarked general fund reserves as at 31 March 2018 (£'000s)	89,455	97,064	17
Total general fund and earmarked general fund reserves as at 31 March 2018 (£'000s)	99,312	108,873	17
General fund and non-schools earmarked general fund reserves as a percentage of net service revenue expenditure (%)	22%	48%	5

This analysis supports the narrative mentioned elsewhere in the Report that the Council has strengthened its Reserves Position from the previous year, with the Council having improved its position by six positions from the previous year when considering the General Fund and Non-Schools Earmarked General Fund Reserves as a percentage of Net Service Revenue Expenditure. The Council has also strengthened its position when considering the absolute value of its Reserves as well, as the Council now sits above the London Borough average for both of the key metrics mentioned in the table above.

	Significant risk	Findings
1	**Ongoing financial performance** Continuation of risk noted on page 16.	**Reserves and financial position** Thus overall the Council is in a stronger position than the previous year, although the only caveat to this is that the Dedicated Schools Grant position has worsened by **£7.4m**, generating a cumulative deficit of **£11.5m** over the past couple of years. Due to the challenges across the Country in this area, the Council has had to submit a recovery plan to the Department for Education, within which the Council feels it could be up to 10 years before they are able to return this area to financial balance. Thus the Council will need to ensure that this area is tightly managed over the coming years to make sure this doesn't have a too detrimental impact on the Council's overall financial position. **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 continue to strive to do more moving forward to make sure it is able to deal with the upcoming challenges in local government financing, particularly around the challenges with the Dedicated Schools Grant, which appears to be the next area which is becoming a particular challenge for a number of Authorities.

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, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	£	Threats	Safeguards
Audit related			
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 £182,718 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	6,000	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 £182,718 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.
Non-audit related			
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 £182,718 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.
Financial Resilience Review	24,358	Self-Review	This work is being delivered by a separate team within Grant Thornton, and will be used to support our overall Value for Money Conclusion work, which has been mentioned previously within the Plan. As a result, satisfied that this doesn't pose a threat to our independence.

These services are consistent with the Council's policy on the allotment of non-audit work to your. All services have been approved by the General Purposes and Audit Committee. None of the services provided are subject to contingent fees.

Follow up of prior year recommendations

We identified the following issues in the audit of Southwark Council's 2017/18 financial statements, which resulted in four recommendations being reported in our 2017/18 Audit Findings report. We have followed up on the implementation of our recommendations and note three of these are still in progress, some of them due to challenges outside the control of the Council.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	X	**HR – Casual Workers** In the past two years, we identified an issue that the Council needed to ensure sufficient documentation is in place to confirm the employment status of casual workers engaged during the course of the year.	To gain assurance over whether this area has been resolved, we selected a sample of five casual workers to determine whether there was sufficient documentation in place. For all of the five workers selected, the Council were unable to provide appropriate documentation to confirm their engagement with the Council, and thus there is a need for the Council to clarify their processes in this area. The Council has been taking active steps to ensure that casual workers, consultants and contractors are engaged in a manner that is appropriate to the setting in which they will be operating with sufficient documentation and accurate recording to support this. Last year we commenced retrospective remedial work where documentation has proven to be unsatisfactory and categorisation has been wrong and this work continues. Support is being provided to managers who regularly engage workers so that they are clear on expectations of minimum documentation. Where such workers are engaged in settings where appropriate disclosure and barring checks are required, these checks are undertaken before the worker undertakes any work for the Council. We are continuing to review the status of those appearing on the Council's 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.
2	✓	**Value for Money – Social Care** 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. Whilst progress had been made in this during 2017-18, it is clear that further work would be needed in 2018-19 to confirm whether this challenge has been resolved.	Based on the 2018-19 Outturn, it is clear that the Council have also managed to get the challenges with Children's Social Care under control, and have been able to deliver an underspend on the Social Care Budget for the first time in several years. Therefore satisfied that we can close this recommendation.

Assessment

✓ Action completed

X Not yet addressed

Follow up of prior year recommendations

We identified the following issues in the audit of Southwark Council's 2017/18 financial statements, which resulted in four recommendations being reported in our 2017/18 Audit Findings report. We have followed up on the implementation of our recommendations and note three of these are still in progress, some of them due to challenges outside the control of the Council.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
3	X	**Value for Money – future financial sustainability** We recommended in the previous year that 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	At the moment there is still work for the Council to do in this area, largely because of uncertainty over the 2019 spending review and proposed Local Government Funding reform. Therefore the Council needs to make sure that all of the interested parties are aware of the challenges the Council is facing and may continue to face depending on the outcome of the Funding Settlement.
4	X	**Value for Money – Dedicated Schools Grant** The Council encountered considerable challenges on spending normally covered via the Dedicated Schools Grant (DSG), 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 overspent their DSG by over £7m in 2018-19, largely due to the demands on the High Needs Block, bringing the cumulative DSG Deficit to over £11m. Due to the challenges in this area, the Council has had to submit a recovery plan to the Department for Education, but is realistic as to how quickly this deficit can be recovered.

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 and unadjusted misstatements

To date, no adjusted or unadjusted misstatements have been identified from the work performed during the course of the audit.

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?
Various Notes	Various	A number of minor presentational and disclosure amendments have been made to the Accounts to enhance the transparency of the disclosures within the Accounts.	✓

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	182,718	TBC
Grant Certification	17,717	TBC
Total audit fees (excluding VAT)	**£200,435**	**TBC**

Due to the issues in respect of McCloud mentioned earlier in the Report, we are unable to confirm our final Audit Fee at this stage of proceedings. Also given we are not due to start our work on the Certification of the Council's Housing Benefit Return until August 2019, we are unable to confirm whether any additional fees will be charged in respect of this work.

Non Audit Fees

Fees for other services	Fees £
Audit related services:	
• Certification of Housing Capital Receipts Grant	5,000
• Certification of Teachers Pensions Return	6,000
Non-audit services:	
• CFO Insights Subscription	10,000
• Financial Resilience Review	24,358
Total	**35,358**

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 2019 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 Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:
• give a true and fair view of the financial position of the Authority as at 31 March 2019 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 2018/19; 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.

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's 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 and our auditor's report on the pension fund financial statements. 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of 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

Audit Opinion (continued)

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

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.

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

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

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

As explained more fully in the Statement of Responsibilities [set out on page 12, 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 2018/19, for being satisfied that they 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 there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit, Governance and Standards Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

Audit Opinion (continued)

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

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 2019.

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 2019.

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.

Report on other legal and regulatory requirements - 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 2019. 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 Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Use of our report

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

[Signature]

Ciaran McLaughlin, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor
Bishopsgate, London
xx July 2019