Auditor's Annual Report on Southwark Council

2020-21

July 2022

Contents

We are required under s 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) in 2020 requires us to report to you our commentary relating to proper arrangements.

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

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Executive summary

Value for money arrangements and key recommendations

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The auditor is no longer required to give a binary qualified / unqualified VFM conclusion. Instead, auditors report in more detail on the Authority's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Authority's arrangements under specified criteria. As part of our work, we considered whether there were any risks of significant weakness in the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified risks in respect of:

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

Criteria	Risk assessment	Conclusion
Financial sustainability	No risks of significant weaknesses identified	No significant weaknesses in arrangements identified, but improvement recommendation made
Governance	No risks of significant weaknesses identified	No significant weaknesses in arrangements identified
Improving economy, efficiency and effectiveness	Follow up on potential risk areas in the Housing Service.	No significant weaknesses in arrangements identified, but improvement recommendation made

Financial sustainability

The Authority is operating in an increasingly uncertain financial environment. For the second successive year, the Comprehensive Spending Review was a single year spending review. Southwark as with all local authorities, will need to continue to plan with little certainty over funding in the medium term. Despite this uncertainty, and the challenges posed by COVID-19, the Authority maintained a healthy financial position in 2020/21. The Authority was also able to put forward a balanced budget for 2021/22 and 2022/23 and maintain a healthy level of reserves. Overall, we are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its financial sustainability. We have not identified any significant weaknesses in arrangements, however members will need to be vigilant in the light of current challenges and we have identified a number of opportunities for improvement in the presentation of medium term financial planning, the need to reduce the call on reserves to balance the budget and the need to fully implement the DSG deficit recovery plan.

Further details can be seen on pages 6-11 of this report.

Governance

Our work this year has focussed on developing a detailed understanding of the governance arrangements in place at the Authority and the changes instigated as a response to the pandemic. Our work on both business as usual governance and adapted structures has not identified any significant weaknesses in arrangements or improvement recommendations in relation to governance.

Further details can be seen on pages 12-13 of this report.

Improving economy, efficiency and effectiveness

The Authority has demonstrated a clear understanding of its role in securing economy, efficiency and effectiveness in is use of resources. We found no significant weaknesses in arrangements and made one Improvement recommendation in regard to procurement.

As part of our rolling programme of VfM work, for 2020/21 we undertook additional work to review a number of potential risk areas in the Housing Services regarding the repairs and maintenance service and management arrangements for the New Build programme for council house development. We also followed up on the fire risk assessment process in the wake of Lakanal House and Grenfell Tower. Our findings are summarised here, but a more detailed report will be provided in due course. We found no evidence of significant weakness in the areas under review but have made a number of Improvement Recommendations.

Further details can be seen on pages 14-25 of this report.

Covid-19 Arrangements

The Council has maintained a good oversight of its COVID-19 related costs and income losses. These were identified early on and subject to detailed monitoring and scrutiny. Our work has not identified any significant weaknesses in arrangements or improvement recommendations in relation to managing the Covid-19 pandemic.

Further details can be seen on page 26 of this report.

Opinion on the financial statements

We have substantially completed our audit of the Council's financial statements and plan to issue an unqualified audit opinion following the resolution of the challenges around the Infrastructure Assets issue, which is preventing us signing any opinions for any Local Government Audit Clients with a material Infrastructure balance at this current time. Once we receive guidance on how to progress the Infrastructure Assets issue we will look to close the audit off in a timely manner.

Commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources

All Councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:

Financial sustainability

Arrangements for ensuring the Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).

Governance

Arrangements for ensuring that the Council makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Council makes decisions based on appropriate information.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the Council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Our commentary on each of these three areas, as well as the impact of Covid-19, is set out on pages x to x. Further detail on how we approached our work is included in Appendix B.

Financial sustainability

We considered how the Council:

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

Managing financial pressures in 2020/21

The Council has continued to demonstrate effective financial management during 2020/21 under challenging circumstances. In assessing the Council's financial sustainability, it is important to recognise the financial journey that the Council has been on. In the decade following the government's spending review in 2010 in response to the banking crisis, Southwark had to make substantial reductions in the cost of services in order to meet the available funding envelope. That this was done with minimal impact on front line services as experienced by the population of Southwark represents a significant achievement. This period of funding 'austerity' officially ended in 2019/20 when the government announced a real term investment in local government and this was preceded by a shift in government policy towards multi-year funding settlements that made it much easier for the Council to plan finances for the medium to long term. During this period, Southwark took the opportunity to eliminate structural deficits in the funding of services and move towards longer term financial sustainability. Unfortunately 2020/21 and 2021/22 heralded the unprecedented need to manage the COVID-19 pandemic at its peak, and the inflow of substantial amounts of emergency grant to cover the additional cost has somewhat obscured the financial position. Unprecedented levels of uncertainty around cost inflation in areas such as social care and the return to one year funding settlements has made it very difficult for the Council to plan its finances for the medium term.

Southwark has historically performed well in managing its finances, with a record of strong financial and budgetary management. Despite the challenging environment in which it is operating, the Council was able to effectively track its underlying cost and income baseline position separately from COVID-19 cost pressures and grant during 2020/21. The 2020/21 outturn position, prior to accounting for the impact of COVID-19, resulted in break-even for the General Fund and a £5.4m net favourable variance for the HRA. The impact of COVID-19, which added a further £43.5m of costs and income losses, was offset by emergency funding made available by central government. During the year the Council was also able to make a significant contribution to reserves in line with the financial plan. The building up of reserves to meet future financial challenges was a key part of the Councils financial strategy.

In July 2020, the Council began to plan ahead for the next financial year and set out the baseline financial assumptions that would for the basis for the 2021/22 budget and the medium term outlook up to 2023/24 (referred to as the Financial Remit). This included the results of financial modelling across a range of scenarios that projected a funding gap of between £12.8 and £46.8, settling on £26.2 for 2021/22 rising to £47.9 by 2023/24. In our view this reflects a robust approach to managing financial pressures and the additional uncertainty caused by the COVID-19 pandemic. Further updates were presented to Cabinet in December and January 2021 before the 2021/22 budget was finalised in February 2021.

We note that the Council has maintained a firm grip on the 2021/22 financial position and financial management arrangements have withstood significant challenges faced in the year in the context of COVID-19 and other economic pressures. As a t March 2022, the Council is currently forecasting a relatively small £1.9m overspend for the year 2021/22, after application of the Government's Emergency COVID-19 Funding and contingency budget of £4.0m. This is driven by overspends in Children's services, Corporate Services and Housing in particular where homelessness temporary accommodation costs are significantly above budget, primarily due to ongoing COVID-19 related demand pressures. We further note that a balanced budget has been set for 2022/23 alongside a refreshed Fairer Futures Medium Term Financial Strategy for the period 2022/23 to 2026/27. Overall we consider the Council's arrangements for managing financial pressures to be robust but we will continue to monitor the financial position closely as part of our 2021/22 VfM audit.

Medium Term Financial Planning

We note that although the Council clearly uses medium term financial analysis to feed into the annual budget setting process, the published Medium Term Financial Strategy document provides a financial policy narrative, rather than a clear high level financial plan for the medium term.

We understand the Council's view that the current the current level of uncertainty makes it very difficult to plan beyond the next financial year, however this is out of step with generally accepted practice. The risk is that this reduces the visibility of the Council's strategy for managing finances in the medium term and hence the opportunity for scrutiny by members and the public.

Improvement Recommendation

We recommend that a high level MTFS projection is included either in the Policy and Resources Strategy paper that accompanies the budget in the February report to Cabinet, or in the Medium Term Financial Strategy document. This should outline the base case financial projection over a 3-5 year horizon and the key funding and cost assumptions. It should also demonstrate how longer term efficiency programmes can contribute to reducing projected deficits in future years. And the extent to which the risk can be mitigated through reserves and other measures.

DSG Deficit

At the end of 2020/21 the Council had accumulated a **£20.5m** cumulative overspend against the Dedicated Schools Grant (DSG) with the accumulated deficit increasing by £2m in 2020/21 from £18.5m in the prior year. This was mainly due to the level of available funding from the Department of Education (DfE) continuing to be in-sufficient to cover the cost of delivering Education and Health and Care Plans (EHCP's) to support high needs services.

The Government has recognised this as a challenge for many councils and has allowed DSG deficit to be carried forward as long as a recovery plan is put in place to reduce the deficit over time. We note that for 2021/22 onwards the Council's recovery plan has seen the DSG budget brought back in line with budget so it is no longer increasing.

The Council's focus is now on addressing the backlog from the deficit that has accrued over the last few years. The Council is currently in dialogue with the Department of Education (DfE) to agree a plan to address the historic deficit and keep future years in balance, which will be a challenge if additional government funding is not forthcoming.

The plan is currently being implemented and is expected to be highly challenging if substantial cuts to the service are to be avoided, however we note that this issue is partly structural and Southwark are one of a large number of top tier Councils facing similar challenges. It is important that members continue to monitor progress in the delivery of the plan.

Improvement Recommendation

The Council should closely monitor progress in delivering a sustainable plan for reducing the DCG deficit.

Bridging the funding gap with sustainable savings

The Government funding settlement for 2020/21 resulted in an adverse impact for Council contributing to a £8.7m deficit of planned cost over the available funding, representing just under 2.4% of budgeted net expenditure. In February 2020 the Council The Council identified a strategy for closing the gap through £8m of efficiency savings and increased income, with no reliance on the use of reserves to balance the budget.

In the February 2021 Policy and Resources Strategy paper, the Council identified a plan for closing a funding gap of £14.3m through further efficiency savings, after the use of reserves of £5.8m to help balance the budget. These savings were set following protracted budget challenge discussions in June/July 2020 through to the Autumn and were then agreed and removed from budgets at the start of the 2021/22 financial year.

In both years, service budgets were then monitored throughout the year as part of the financial monitoring process to make sure that there was a corresponding reduction in actual cost based on the forecast outturn. The overall financial breakeven position achieved at the end of 2020/21 and 2021/22 indicated that that the financial arrangements to plan and deliver sustainable savings are effective.

We note that the 2021/22 budget was balanced through the use of reserves, and the most recent budget for 2022/23 included a £2.1m contribution from reserves. Although these amounts have been risk assessed and the contributions are relatively small in proportion to the net cost of services, this does reflect an erosion of the Council's ability to manage financial risk in the future.

Improvement Recommendation

The Council should develop sufficient headroom in its savings and efficiency plans to eliminate the need to use reserves to balance the budget and plans to replenish reserves used to balance the budget in 2021/22 and 2022/23 should be implemented with progress to be closely monitored by members.

Financial Planning

The financial plans appear to be robust and there is a rigorous budget setting and challenge process which runs from mid summer to Autumn before the budget is finalised and presented to the Overview and Scrutiny Committee and Cabinet in December/January each year. All the assumptions are fully tested and challenged throughout that process. There is an element of short term planning due to the ongoing pandemic and the Council's response to that. There is a clear focus on the medium term while accepting that the situation is volatile and planning needs to be agile and flexible.

The Borough Plan clearly sets out corporate strategic priorities, which are referenced within the Council's financial planning. This planning aims to provide a framework to invest in the Plan's broader ambitions and long term priorities, as well as the recovery from COVID-19.

The capital programme supports the Council's corporate priorities. Its budget is mainly focused on the key aim of improving housing stock and the availability of social housing. The Council's actual capital spend was £333m in 2020/21, the largest portion of which (£215m) was on the Housing investment programme. We are satisfied there is a clear linkage between the Policy & Resources Strategy (ie. The council's Medium Term Financial Strategy) and the priorities set out in the Borough Plan.

Managing risks to financial resilience

The Council has incorporated uncertainty into its planning and based the Policy and Resources Strategy on a mid-range scenario., having modelling three different scenarios of additional growth pressures. Based on this, the initial funding gap was estimated at £26.2m for 2021/22 and plans were developed to close this gap for the 2021/22 budget over the latter part of 2020/21.

As noted, the majority of this was managed by planned savings of £14.3m and £5.8m of reserves were earmarked to manage the funding gap in 2021/22 with the plan that these will be replenished in future years. The £14.3m of savings options reflected those that were able to be delivered during 2020/21 and taken out of the 2021/22 budget on a recurrent basis. The majority of savings related to reductions in FTE posts and improved processes. The use of reserves was needed to mitigate the shortfall of savings initiatives that could not be developed and delivered by 1st April 2021. Review of subsequent budget monitor reports and the directorate narratives supporting them indicate that although the were pressures in year that had to be mitigated by underspends and short term measures, in general these did not relate to the non-delivery of the agreed savings plans.

Generally, we find the Council to be well managed and there is a high level of understanding of its budgetary position, budgetary pressures and any savings required. There is an established process by which the budget is reviewed regularly, and issues are reported on a timely basis to those charged with governance.

The Council was able to set balanced budgets for both 2021/22 and 2022/23 and significant work has been undertaken by the Council to identify savings opportunities. The medium term financial planning undertaken demonstrates a prudent approach, with a recognition that future funding levels remain uncertain.

Reserves and other contingencies

The Council starts from a relatively strong reserves position (general fund and earmarked reserves, excluding Schools and HRA) with £172.2m reported in the 2020/21 accounts up from £168.1m 2019/20. We note that in addition, the 2021/22 year end reserve position was also boosted by £54.4m of specific COVID-19 funding which was able to be carried forward from 2020/21 to be defrayed against future COVID related pressures in 2021/22 (and future years).

We note that the combined effect of the use of reserves to balance the budget (£5.8m in 2021/22 and a further £2.1m in 2022/23), the depletion of remaining COVID-19 reserves and the need to absorb any net overspend in 2021/22 will serve to reduce the reserves available to manage pressures in future years. Although the Council should be able to maintain a viable reserves position after these deductions, the ability to manage future financial uncertainties and risks will be diminished and will need to be closely monitored by members (see our earlier recommendation).

Only reserves already earmarked for managing short term budgetary constraints have been utilised to support 2021/22 and 2022/23. Reserves management is seen by the Council as critical and it has been seen that members understand reserves are not available to be spent to 'balance the books'. There is an objective to maintain this reserves position, not to regularly or permanently reduce them (other than those earmarked to finance the Council's specific capital programmes).

The Council also operates a £4m budgeted contingency, which helps protects reserves from in year budget fluctuations and if unused can be used to rebuild reserves.

Conclusion

Overall, we are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its financial sustainability. We have not identified any risks of significant weaknesses, however members will need to be vigilant in the light of current challenges and we have identified a number of opportunities for improvement in the presentation of medium term financial planning, the need to reduce the call on reserves to balance the budget and the need to fully implement the DSG deficit recovery plan.

Improvement recommendation 1

Financial Sustainability

Recommendation 1	We recommend that a high level MTFS projection is included either in the Policy and Resources Strategy paper that accompanies the budget in the February report to Cabinet, or in the Medium Term Financial Strategy document. This should outline the base case financial projection over a 3-5 year horizon and the key funding and cost assumptions. It should also demonstrate how longer term efficiency programmes can contribute to reducing projected deficits in future years. And the extent to which the risk can be mitigated through reserves and other measures.
Why/impact	We understand the Council's view that the current the current level of uncertainty makes it very difficult to plan beyond the next financial year, however this is out of step with generally accepted practice. The risk is that this reduces the visibility of the Council's strategy for managing finances in the medium term and hence the opportunity for scrutiny by members and the public.
Auditor judgement	This is an issue of presentation and transparency, as we can see that the Council does use scenarios to help plan its financial position. This is therefore an improvement recommendation and does not reflect a significant weakness.
Summary findings	We note that although the Council clearly uses medium term financial analysis to feed into the annual budget setting process, the published Medium Term Financial Strategy document provides a financial policy narrative, rather than a clear high level financial plan for he medium term.
Management comment	

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

Improvement recommendation 2

Financial Sustainability

Recommendation 2	The Council should closely monitor progress in delivering a sustainable plan for reducing the DCG deficit.
Why/impact	The plan is currently being implemented and is expected to be highly challenging if substantial cuts to the service are to be avoided, however we note that this issue is partly structural and Southwark are one of a large number of top tier Councils facing similar challenges. It is important that members continue to monitor progress in the delivery of the plan.
Auditor judgement	The Council is implementing a plan to reduce the deficit and therefore there is no significant weakness. This improvement recommendation is to draw attention to the importance of implementing the plan alongside other financial challenges.
Summary findings	At the end of 2020/21 the Council had accumulated a £20.5m cumulative overspend against the Dedicated Schools Grant (DSG) with the accumulated deficit increasing by £2m in 2020/21 from £18.5m in the prior year. This was mainly due to the level of available funding from the Department of Education (DfE) continuing to be in-sufficient to cover the cost of delivering Education and Health and Care Plans (EHCP's) to support high needs services. The Government has recognised this as a challenge for many councils and has allowed DSG deficit to be carried forward as long as a recovery plan is put in place to reduce the deficit over time. We note that for 2021/22 onwards the Council's recovery plan has seen the DSG budget brought back in line with budget so it is no longer increasing. The Council's focus is now on addressing the backlog from the deficit that has accrued over the last few years. The Council is currently in dialogue with the Department of Education (DfE) to agree a plan to address the historic deficit and keep future years in balance, which will be a challenge if additional government funding is not forthcoming.
Management comment	

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

Improvement recommendation 3

Financial Sustainability

Recommendation 3	The Council should develop sufficient headroom in its savings and efficiency plans to eliminate the need to use reserves to balance the budget and plans to replenish reserves used to balance the budget in 2021/22 and 2022/23 should be implemented with progress to be closely monitored by members.
Why/impact	We note that the 2021/22 budget was balanced through the use of reserves, and the most recent budget for 2022/23 included a £2.1m contribution from reserves. Although these amounts have been risk assessed and the contributions are relatively small in proportion to the net cost of services, this does reflect an erosion of the Council's ability to manage financial risk in the future.
Auditor judgement	The Council's financial management arrangements have protected its financial sustainability in the period since March 2021, and there is no immediate significant risk. However, the ongoing reliance on reserves to balance the budget is a concern and we therefor make an improvement recommendation.
Summary findings	In the February 2021 Policy and Resources Strategy paper, the Council identified a plan for closing a funding gap of £14.3m through further efficiency savings, after the use of reserves of £5.8m to help balance the budget. These savings were set following protracted budget challenge discussions in June/July 2020 through to the Autumn and were then agreed and removed from budgets at the start of the 2021/22 financial year.
Management comment	

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

Governance

We considered how the Council:

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

Monitoring and assessing risk

The Council has an effective risk management process with each departmental management team producing its own risk register. This is then reported to their Strategic Director to discuss at departmental meetings. Challenge is provided by the Overview and Scrutiny Committee focusing on those risks that are scored highest to ensure that they are mitigated against as much as possible. This corporate risk register and the overall process is reviewed by the Audit, Governance and Standards Committee. The Cabinet is consulted on the key corporate level risks.

Robust business continuity management arrangements are in place, with all critical services having business continuity plans in place. The Council's understanding of and planning for risks appears sound, and does not demonstrate a risk of a serious weakness.

The Council has an established Internal Audit service that provides a good level of coverage and has ben able to continue to deliver reviews despite working under pandemic conditions. We note that there were several audits deferred from 2020-21 to 2021-22, including the schools internal audit programme. Overall, the head of internal audit opinion for 2020/21 gave moderate assurance and it was shown there is a sound system of internal control, designed to meet the Council's objectives and that controls have been applied consistently. In respect of the design of the controls, an opinion of moderate assurance was provided for 23 out of the 34 assurance audits where reports have been issued, substantial assurance was provided in eight areas and limited assurance opinions in three areas. In respect of the operational effectiveness of the controls, an opinion of moderate assurance was provided for 22 of the 34 assurance audits where reports have been issued, substantial assurance was provided in two areas and limited assurance in ten. These figures are consistent with previous years and management have issued action plans to implement any recommendations. We have reviewed the limited assurance reports arising in the year and conclude that these do not reflect a significant VfM risk in their own right or collectively.

The payment of COVID grants to businesses, together with the urgency with which these grants were required to be paid, presented a new risk during the year. Payments were approved under emergency powers to ensure businesses in need were given immediate assistance. There appears to have been an appreciation of the risk posed by this situation, with internal audit involved from the start and all payments made using emergency powers subsequently reported to the ASC. We are satisfied the Council put in place procedures to review these payments.

Senior Leadership Transition

The past 12-18 months has seen some significant changes in the leadership of the Council both in terms of a new Leader and the announcement of the retirement of the CEO. Inevitably, with changes at this level of the organisation there can be a destabilising effect and the council needs to be alive to the risks of the ensuing loss of corporate knowledge. Our work has not detected any specific issues at this point. We will continue to monitor progress as the new team is established and make sure that the Council leadership team keeps the transition firmly in view and is alive to the potential risks this can bring and ensure that the "tone from the top" remains strong in terms of prudent governance and financial management.

Budgetary Setting Process

We found that the budget-setting process is multi-layered and thorough, with several stages starting in June/July, moving through a robust challenge process in the Autumn before being presented to the Overview and Scrutiny Committee ahead of being presented to cabinet in January with additional papers presented to Cabinet to approve the budget in February.

The budget and Policy & Resources Strategy are considered concurrently. The published MTFS is primarily a financial policy narrative rather than a conventional forward projection, but the longer-term projections and any risks to the medium term are incorporated into the reports accompanying the budgetary information considered by Cabinet, primarily at the outset of the budget setting process in June/ July. We have made a recommendation under Financial Sustainability regarding the way the MTFS is presented to members and the public.

This high level of scrutiny together with the Council's track record of achieving its planned savings and balancing its budget confirm the strength and validity of the budget setting processes in place.

Budgetary control

There are good systems in place for oversight of the budget, including a regular review of budget to outturn position by Cabinet. The Finance Department engages at least monthly with budget holders via Departmental Finance managers who support the service departments. Budget reports are formally submitted to and considered by cabinet in months 4, 8 and 11, These can be viewed either at a summary (high) level or at a detailed level. There is stringent in year oversight of the budget at a high level, with Overview and Scrutiny Committee and Senior leadership Team reviewing and assessing the actual outturn and future risks to the budget. The budget monitoring reports detail variances by department (and service lines within departments) demonstrating a regular identification of in-year variances. Actions being taken or to be taken by departments in response to such variances are set out. We not that the in year monitoring reports are action focused and demonstrate a proactive approach to managing budget variances.

Leadership and committee effectiveness/decision making

The Council operates a Leader and Cabinet form of executive arrangements and appropriate leadership and high level governance arrangements are in place.

The work of the Council's committees is governed by the Council Constitution. The Constitution is regularly reviewed and updated annually. It is shared with all staff members on joining and is openly available on the Council's website. The Annual Governance Statement is intended to be read alongside the Council's constitution, which sets out how the Council operates, how decisions are made and the policies which are followed to ensure that these are efficient, transparent and accountable to local people.

There is a suite of policies in place, covering anti-fraud and corruption, and the Council has an established antifraud culture.

Monitoring and ensuring appropriate standards

The annual governance statement is compliant with the CIPFA code. An appropriate level of care is taken to ensure the Council's policies and procedures comply with all relevant codes and legislative frameworks.

Conclusion

Overall, we found no evidence of significant weaknesses in the Council's arrangements for ensuring that it makes informed decisions and properly manages its risks.

Improving economy, efficiency and effectiveness

We considered how the Council:

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

Performance review, monitoring and assessment

The Council has a Performance Monitoring Board which monitors corporate performance on a regular basis. They manage the performance challenge process by liaising with departments in order to gather data on their performance. This data is then collated to create a master spreadsheet which is then used in their quarterly meetings with Cabinet. This spreadsheet helps to indicate if a department is on track to deliver its commitments and highlights any issues to discuss at these meetings. Each meeting is conducted by one Cabinet member and any action points are then picked up during the next round of meetings. Our review of committee papers indicates that the level of information produced for scrutiny should be adequate to facilitate effective scrutiny.

Cabinet receives a comprehensive report of performance against the Borough Plan provided at July 2021 Cabinet meeting. It aligns each performance measure to the Borough Plan and tracks progress each quarter. This report is compiled from the periodic monitoring reports which are submitted to the Performance Monitoring Board.

The Council has purchased access to the GT CFOi benchmarking tool. We held discussions with key service heads about high unit cost spend in a number of services (Childrens, Environment, Highways and Cultural services) and found that all had a good appreciation of the reasons for such high unit costs. In childrens the council have undertaken some of their own local benchmarking outside of the CFOi tool and this has shown them to be efficient in their spend. In some areas, however, the staff did not appear to have been aware of these high unit costs ahead of our discussions and a potential improvement recommendation is for the council to make more use of their access to the CFOi tool available. GT can provide some additional training on interpretation of the tool if that is helpful

The Borough Plan is an aspirational tool setting out a strategic vision for Southwark. The work underpinning this plan is rigorous, as is the scrutiny and oversight of its delivery. The Council are clear that the strategies in this Plan must remain relevant to its communities and as such, it is reviewed regularly to ensure it remains current and demonstrates that the Council have listened to and responded to its communities.

The Council has insourced a number of its services and only a limited number remain outsourced e.g. waste, leisure centres, shared ICT service which reduces the overall exposure to risk from reliance on third parties. These services are performance managed within the directorates, and performance issues are reported to Cabinet by exception.

Partnership working

One area which is worthy of note is in Childrens and Adults Social care where the emerging partnership with the ICS is being developed. This is expected to start in July 2021 though the final details are currently being finalised.

Southwark is the host authority for Adopt London South (a 9 council partnership, about to extend to 10) and this has been at the forefront of leading VFM work across the region moving from a funding approach based on historic spend which has proved to be inherently unreliable, to develop a demand based funding model based on use while enabling councils to, as best as possible, anticipate demand and manage fluctuations. A considered and detailed piece of work, it is now being subject to final agreement to move to years 2 and 3 of a full implementation of demand based funding.

Southwark Council also joined the Commissioning Alliance, a Dynamic Purchasing vehicle (DPV) with 14 councils on the framework (incl. Southwark) in two specific areas for Children's Residential Care and Independent Fostering Agencies. The Alliance utilises its buying powers to drive improved quality and costs for local authorities. It has also very well developed and strong relationships with its providers of Childrens services in particular and is working closely with them to build a new Chilldren's Home in the borough. We will continue to monitor the Council's progress in realising financial benefits from this arrangement.

Southwark is in a strong position as it owns a lot of the buildings in its borough so is able to support providers and work with them and this is ensuring they are getting good value for money both in terms of maximising the VAT benefits and through the Southwark Ethical care charter, where the council have designed in resilience to the partnership arrangements. The local providers are receiving a steady flow of work through the charter and due to this they are happy to operate at lower profit margins (2-5%) than is typical, thus ensuring the council is getting excellent value for money.

Other factors which have contributed to the securing good value for money have been the use of a Budget Recovery Board to carry out regular forensic analysis of spend and the fact that the council owns a number of its care homes and this means that providers feel the council has a real commitment to the partnership and is "putting its shoulder to the wheel" to ensure it works.

Benchmarking

As Southwark is the host authority for Adopt South London there is a very close working relationship with all members. Benchmarking on services between the member authorities is carried out regularly to gauge relative service performance. For example in the case of costing in house services for the proposed Children's home. Southwark was successful in securing DfE capital funding to build a Children's home in the borough. As part of this work various procurement options have been considered including in house provision and partnership with other local authorities. Greenwich was very helpful in providing data on their own costings for the children's home. Also as part of the Adopt London South funding calculations extensive work was done on comparing KPIs between member councils. This was done in terms of calculating the membership of the new borough joining as well as developing a demand based funding model going forward.

We reviewed baseline benchmarking for Council services based on financial returns provided to central government by Councils on an annual basis, using the CFOI benchmarking tool of which the Council is also a subscriber. This indicated some areas of high spend in areas such as placements for Looked After Children (LAC) within Children's Services which were well known to the relevant Council departments. However, overall this did not indicate any significant issues with the cost efficiency of services and the total net spend per head of population was low in comparison to other London Borough Councils.

Procurement

The Council has an extensive and detailed procurement strategy, called the Fairer Future Procurement Framework (FFPF). This has been developed over the past 6 years and now incorporates social value, climate change and Equality. Procurement in the council is devolved to individual Directors so it is important that there is a level of support for Directors in ensuring value for money in procurement. The recent cabinet update on the FFPF has highlighted the additional training that is being implemented around social value and contract management. Also a contract management toolkit has been developed to support Directors and a Contracts register has been set up to support this process.

It will be important moving forward that this is monitored and reported on a regular basis so that the council can keep track of how it is ensuring value for money on an ongoing basis. It will be helpful as part of this process to develop ways of reporting on the value for money obtained through its contracts.

Improvement Recommendation

The council should continue to develop its procurement toolkit for managers and in particular develop a way of centrally reporting on value for money gained via its contracts register.

Conclusion

Overall, we are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its oversight in ensuring economy, efficiency and effectiveness in its use of resources. We have identified an opportunity for improvement.

Improvement recommendation

Improving economy, efficiency and effectiveness

Recommendation	The Council should continue to develop its procurement toolkit for managers and in particular develop a way of centrally reporting on value for money gained via its contracts. Via its contracts register
Why/impact	Central reporting of value for money from contracts via the Contracts register will demonstrate the value of the FFPF. This will help in ensuring that the council is getting the most out of its Fairer Funding procurement Framework (FFPF).
Auditor judgement	This is an improvement recommendation to help the Council optimise the opportunities presented by FFPF and does not reflect a significant risk.
Summary findings	Central reporting of value for money from contracts via the Contracts register will demonstrate the value of the FFPF. This will help in ensuring that the council is getting the most out of its Fairer Funding procurement Framework (FFPF).
Management comment	

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

Improving economy, efficiency and effectiveness – Housing Review

Housing Maintenance

Southwark Council owns and manages some 55,000 homes at an annual revenue cost of £233 million. As such this is a significant area of corporate expenditure. We have carried out a 'deep dive' to test that spend on repairs and maintenance has been subject to the appropriate checks and controls.

Areas where things are working well

- Governance – we reviewed the full set of gateway reports (GW0 – GW3) for seven workstreams finding them to demonstrate high levels of transparency and accountability.
- Procurement – Contract award, variation and extensions were dealt with in accordance with the Council's procedures, which reflected legal requirements and good procurement practice.
- Contract management – ongoing performance and financial monitoring of contractors (including formal annual performance reviews (APR's) except for when provided by DLO.
- Controls – our testing of the comprehensive system of checks, authorisation and verification supports the view that the Council's Contract Standing Orders and financial regulations are being complied with on a consistent basis.

Opportunities for Improvement

We noted that the quality and accuracy of existing stock condition survey data could be improved, as team members do not have confidence in the data. As well as verification of existing data, processes for updating stock condition data could be improved. We have raised recommendations in respect of these two distinct issues.

The strategy of moving from a single contractor to two contractors seems to have served the Council well in terms of value for money outcomes. However, we note that in terms of the main repairs and maintenance contract, the Council's approach has moved in the opposite direction. The Councils wholly owned Direct Labour Organisation (DLO), Southwark Building Services now provides the service for the whole of the Borough, where before half of the work was carried out by an external contractor. We recommend that the new arrangements are reviewed to ensure that this arrangement is delivering value for money.

Within our wider remit as external auditors we conducted work in response to an elector's objection to the Council's 2019/20 accounts relating to the management and procurement of minor housing repair works. We have considered these findings and conclude that they do not amount to a significant risk in the wider scope of the Value for Money audit and we concluded that there was no evidence of unlawful activity or material financial loss

However, the work did highlight a number of weaknesses in arrangements and opportunities for improvement in the Housing Maintenance Service. These findings are reported to the Council separately, in our formal response to the objection, alongside a number of Improvement Recommendations. We do not propose to reproduce our detailed findings or recommendations in this report but would like to draw your attention to the following opportunities for improvement that were identified:

- The Council should monitor the allocation of small value works to different providers to ensure that works are allocated in a fair and independent manner and this is reported to an appropriate governance forum to ensure appropriate oversight of the process.
- The Council should review of the quality of works carried out by all contractors to ensure that work meets appropriate quality standards. This should form a part of the Council's Contract Management activity with suppliers.
- Where the cumulative spend with a single supplier is substantial (e.g. above £100k) within the year, the Council considers the best way to formalise the contractual position. This should include arrangements to monitor the performance against quality standards.
- A catch-up report on smaller repairs and maintenance should be presented to Corporate Contract Review Boards (CCRB) and regular updates should be reported thereafter in accordance with the Council' Contract Standing Orders.
- The Council's vendor records should be updated to show the full legal name to ensure information published is accurate.
- Where the Council appoints legal advisors who are not on the approved Solicitors' Panel that this is approved by the Monitoring Officer and a formal record is retained.
- If the Council regularly requires specific legal advice which is not available from the solicitors on is approved Solicitor's Panel, it should consider whether they need to appoint additional expertise to the panel and carry out an appropriate procurement exercise.

Fire Safety

Carrying out Fire Risk Assessments has always been an important duty for landlords. High rise blocks and those with certain types of cladding carry additional risks. Tragedies such as the fires at Lakanal House and Grenfell Tower have brought fire risk assessments into even sharper focus.

Areas where things are working well

- Policies and procedures – the Council has put in place clear policies and procedures
- Risk based approach – the Council has adopted a four-category approach to fire risk assessment, depending on the number of storeys that the building has. The overall risk ratings are shown in the context of a five – by - five risk matrix, plotting the likelihood of fire against the consequences of fire.
- Fire risk assessment reporting – we reviewed a sample of ten fire risk assessments. The reports inspired confidence showing many good practice features. The reports were comprehensive, followed a standard format and were well supported by photographic evidence. Reports were generally of consistent quality.
- COVID – the programme of fire risk assessment (of communal areas only) continued, with safeguards for staff, during COVID. We understand that the latest round of assessments involves gaining access to individual dwellings.

Opportunities for Improvement

Although the fire risk assessment reports were of a consistently high quality, we have noted some observations from our review where we feel that the reports could be further enhanced:

- Inclusion of an executive summary containing certain standard information.
- Consideration should be given to setting a target FRA rating for each block., the cost and other resources required to increase the rating to target (and intermediate status if applicable) should be identified where possible.
- Inclusion of a brief commentary on actions outstanding from previous inspection, by exception.

New Build programme

Southwark Council is aiming to deliver 11,000 new council homes by 2043.

The Council is investing significant resources to enable it to deliver this ambitious programme following the value for money principles of economy, efficiency and effectiveness.

The Council is on a journey to achieve this, with the investment in the PAMWIN project appraisal/management software being key to this.

Areas where things are working well

- Governance and reporting – Delivery Programme Board, Strategy, regular standard and exception reports
- Risk Management – tracked at scheme and programme level and monitored by Delivery Programme Board
- Financial appraisal – expected set of assumptions, discounted cashflows, Net Present Value decision rule.
- Options appraisal – optimal delivery model for individual schemes.

Opportunities for Improvement

Southwark is on a journey to attain the standards of economy, efficiency and effectiveness achieved by the best developing registered providers.

The Council must ensure that full benefits of the investment in the PAMWIN project appraisal/management software are realised. For example, we have recommended exporting projected cashflows from PAMWIN to the Council's cash management tool.

We have also recommended that data is shared with asset management eg component replacement costs and cycles.

Conclusion

We found no evidence of significant weakness in the areas under review but have made six Improvement Recommendations. These are set out in the following pages.

Improvement recommendation Repairs and maintenance

Improving economy, efficiency and effectiveness

Recommendation	We recommend that a comprehensive exercise is undertaken to improve the quality of stock condition survey data, beyond that which is currently seen as the standard within the sector. The Council could consider revising arrangements so that when team members visit homes, they are involved in validating existing records and updating stock condition data as this will give rise to a sense of ownership and increase confidence in the stock condition survey data amongst team members.
Why/impact	Complete and accurate stock condition survey data is required in order to plan future capital programmes, cashflows and establish probable future maintenance commitments. Control over the cost of component replacement is particularly important in the current inflationary environment.
Auditor judgement	This issue is not of sufficient magnitude to reflect a significant risk, however it is important to action this as an Improvement Recommendation in order to mitigate risks in future. This needs to be supported by appropriate technology.
Summary findings	Discussions with various officers revealed that stock condition survey data is not as accurate as it might be. It appears that there is a widespread lack of confidence in the quality and reliability of stock condition data.
Management Comments	

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

Improvement recommendation Repairs and maintenance

Improving economy, efficiency and effectiveness

Recommendation	We recommend that resources are put in place to ensure that stock condition survey data is kept up to date. If all team members visiting homes are involved in validating existing records and updating stock condition data this will give rise to a sense of ownership and increase confidence in the stock condition survey data amongst team members.
Why/impact	Complete and accurate stock condition survey data is required in order to plan future capital programmes, cashflows and to establish probable future maintenance commitments. Control over the cost of component replacement is particularly important in the current inflationary environment.
Auditor judgement	This issue is not of sufficient magnitude to reflect a significant risk, however it is important to action this as an Improvement Recommendation in order to mitigate risks in future. This needs to be supported by appropriate technology.
Summary findings	Discussions with various officers revealed that the process for updating stock condition survey data electronically is cumbersome and not always done on a timely basis
Management Comments	

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

Improvement recommendations Repairs and maintenance

Improving economy, efficiency and effectiveness

Recommendation	We recommend that a review is carried out to ascertain whether Southwark is achieving value for money from relying on a single contractor for the delivery of its main repairs and maintenance contract. We recommend that the client carries out an annual performance review of the DLO as would be the case for external contractors.
Why/impact	Achieving best value for money ensures a good service for tenants at an advantageous cost. Control over the cost of repairs and maintenance is particularly important in the current inflationary environment. Having to ration non essential repairs due to cost considerations can impact adversely on tenant satisfaction.
Auditor judgement	This issue is not of sufficient magnitude to reflect a significant risk, however it is important to action this as an Improvement Recommendation in order to mitigate risks in future.
Summary findings	We note that over the past few years, Southwark has moved away from using single contractors to provide services such as lift maintenance, heating and water etc. This has assisted the Council in obtaining value for money, security of supply, access to innovations and best practice. However, the opposite strategy has been adopted for the main repairs and maintenance contract, where the delivery has been brought entirely in-house. Annual Performance Reviews are not carried out for the DLO as they are for external contractors.
Management Comments	

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

Improvement recommendation Fire risk assessments (FRA)

Improving economy, efficiency and effectiveness

Recommendation	We recommend that consideration is given to our observations in terms of how individual fire risk assessment reports might be improved further: • Inclusion of an executive summary containing certain standard information. • A brief commentary on actions outstanding from previous inspection, by exception.
Why/impact	The recommendations in terms of the content and presentation would make the key points of the assessment easier to read 'at a glance'. They would also make the reports more action orientated and easier to follow up.
Auditor judgement	This issue is not of sufficient magnitude to reflect a significant risk, however it is important to action this as an Improvement Recommendation in order to mitigate risks in future.
Summary findings	Although the fire risk assessment reports were of a consistently high quality, we have noted some observations from our review where we feel that the reports could be further enhanced. We will share our detailed observations with management in a separate report.
Management Comments	

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

Improvement recommendations Fire risk assessments (FRA)

Improving economy, efficiency and effectiveness

Recommendation	We recommend that the actions identified to bring blocks up to target are costed and identified in the stock condition survey.
Why/impact	Complete and accurate stock condition survey data is required in order to plan and prioritise (especially FRA related works) future capital programmes, manage cashflows and to establish probable future maintenance commitments.
Auditor judgement	This issue is not of sufficient magnitude to reflect a significant risk, however it is important to action this as an Improvement Recommendation in order to mitigate risks in future.
Summary findings	Some of the FRA's described what actions needed to be taken to improve the risk rating. Eg from high moderate to low moderate to tolerable. This is good practice and should be replicated across all future FRA reports. Consideration should be given to setting a target FRA rating for each block., the cost and other resources required to increase the rating to target (and intermediate status if applicable) should be identified where possible.
Management Comments	

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

Improvement recommendation New build programme

Improving economy, efficiency and effectiveness

Recommendation	We recommend that an electronic file of consolidated development cashflows from the new PAMWIN system is uploaded to the cashflow module of the finance system on a monthly basis as part of the regular period end routine.
Why/impact	This will ensure that cash flow is managed effectively, avoiding 'surprise' drawdowns or maintain excessive cash balances. Borrowing requirements to fund capital expenditure can then be identified at an early stage and planned accordingly.
Auditor judgement	This issue is not of sufficient magnitude to reflect a significant risk, however it is important to action this as an Improvement Recommendation in order to mitigate risks in future.
Summary findings	A new project appraisal/ management tool (PAMWIN) is being rolled out for new projects coming on stream. Project managers will be able to ensure that project cashflows are updated for the latest estimates of income and expenditure. It is intended that actual expenditure will be uploaded from the finance system and ultimately that cashflow estimates can be exported to the finance system.
Management Comments	

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

Improvement recommendation New build programme

Improving economy, efficiency and effectiveness

Recommendation	We recommend that when new build properties are ready to be handed over to housing management to be let, that a process is put in place to ensure that the stock condition survey is updated to include the new units. Individual component lives should be noted, ideally with the current costs of replacement.
Why/impact	This will ensure the completeness and accuracy of stock condition data. In turn this will assist the Council in estimating the cost of future capital programmes required to maintain the stock of council housing at the desired standard.
Auditor judgement	This issue is not of sufficient magnitude to reflect a significant risk, however it is important to action this as an Improvement Recommendation in order to mitigate risks in future.
Summary findings	The changes in processes to allow the proper management of the Council's extensive new build programme is an opportunity to integrate best practices for developing landlords.
Management Comments	

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

COVID-19 arrangements

Since March 2020 COVID-19 has had a significant impact on the population as a whole and how local government services are delivered.

We have considered how the Council's arrangements have adapted to respond to the new risks they are facing.

Financial sustainability

The impact of COVID-19 has cut across the Council, impacting both its income in the collection rates of housing rents, Council Tax and Business Rates, and expenditure which has seen additional pressures, most notably on adult social care.

The Council has maintained a good oversight of its COVID-19 related costs and income losses. These were identified early on and subject to detailed monitoring and scrutiny. The Policy & Resources strategy was reviewed and updated during the year, and detailed quarterly reporting against the budget to cabinet was maintained throughout the year. Additional costs and lost income due to the pandemic amounted to £43.5m which has been met by emergency funding support (including sales, fees and charges compensation).

In 2020-21 the council has also had to implement national Covid-19 support schemes such as the business grant support schemes; the council tax hardship support schemes; test and trace payments; the winter support payments scheme; infection control schemes; and contain outbreak management schemes as well as dealing with and implementing a range of supplier relief schemes and addressing increased demand for support to vulnerable households whilst accommodating new ways of working in response to the pandemic

Despite the 'cushion' of Covid grants the Council expects these financial pressures to be ongoing. Whilst it has set a balanced budget for 2021/22, with savings and efficiencies built in, the Council will undoubtedly need to maintain its high level of monitoring and scrutiny over its finances in order to achieve this budget.

Governance

While the Council generally maintained a business-as-usual approach to its governance arrangements during the pandemic, some adjustments were required. As a result of the lockdown restrictions announced on the 16th March 2020, the Council adjusted some of its internal control processes to support effective governance throughout the pandemic. As soon as these were lawful, the Council started holding members' meetings online.

Internal audit have acted in an advisory capacity throughout, where processes and systems have had to adapt to changed circumstances. Internal audit also demonstrated it can offer a responsive service, adapting its annual plan to accommodate new reviews required as a result of changed circumstances.

All office-based staff were provided with the necessary equipment to work from home, enabling a smooth transition to remote working where this was possible. Home-based working has continued throughout the pandemic and there has been a good level of continuity of service. Enabling staff to work from home also supported the Council in protecting its frontline staff and residents by reducing the risk of virus transmission. PPE was also sourced and provided to all Council staff where this was deemed necessary.

Improving economy, efficiency and effectiveness

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

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

Conclusion

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

Appendices

Appendix A - Responsibilities of the Council

Role of the Chief Financial Officer (or equivalent):

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

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

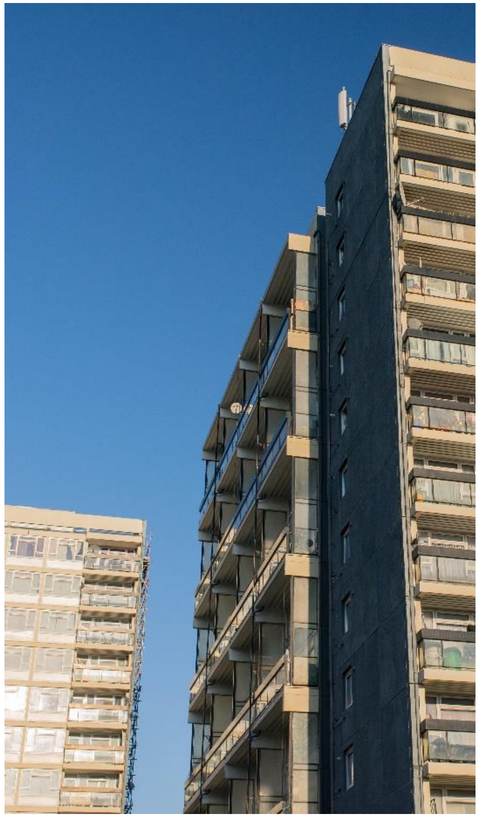
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records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

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

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

The Chief Financial Officer (or equivalent) or equivalent is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

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



Appendix B - An explanatory note on recommendations

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

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Council to discuss and respond publicly to the report.	No	NA
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	No	NA
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.	Yes	9,10,11,16,18,19,20 21,22,23

Grant Thornton

grantthornton.co.uk