

The Annual Audit Letter for Southwark Council

Year ended 31 March 2013

23 October 2013

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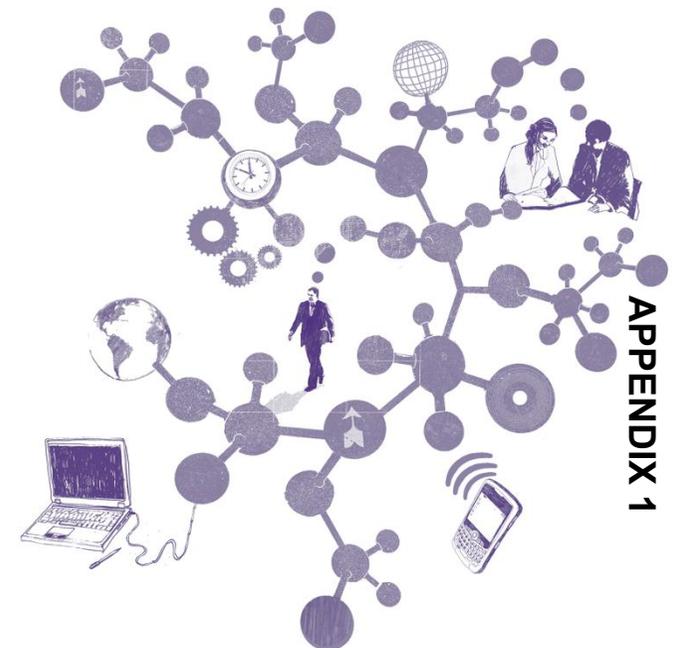
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Section 1: Executive summary

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Executive summary

Purpose of this Letter

Our Annual Audit Letter ('Letter') summarises the key findings arising from the following work that we have carried out at Southwark Council ('the Council') for the year ended 31 March 2013:

- auditing the 2012/13 accounts and Whole of Government Accounts submission (Section two)
- assessing the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (Section three)
- certification of grant claims and returns (Section four).

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. We reported the detailed findings from our audit work to those charged with governance in the Audit Findings Report on 19 September 2013.

Responsibilities of the external auditors and the Council

This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

The Council is responsible for preparing and publishing its accounts, accompanied by an Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (Value for Money).

Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we presented to the Audit and Governance Committee on 30 April 2013. Our audit was conducted in accordance with the Audit Commission's Code of Audit Practice ('the Code'), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

Audit conclusions

The audit conclusions we provided in relation to 2012/13 are as follows:

- an unqualified opinion on the accounts which give a true and fair view of the Council's financial position as at 31 March 2013 and its income and expenditure for the year
- an unqualified conclusion in respect of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources
- an unqualified opinion on the council's Whole of Government Accounts submission
- we have certified three grant claims and returns, all of which were certified without amendment or qualification. Our work is in progress on the Housing and Council Tax Benefit claim and Teachers' Pension return.

Executive summary

Key areas for Council attention

We summarise here the key messages arising from our audit for the Council to consider as well as highlighting key issues facing the Council in the future.

The economic environment remains challenging for local government. In December 2012 the Secretary of State announced further reductions to Revenue Support Grant. You face a significant financial challenge to deliver the current level of services with reducing funding. You have made savings totalling £68 million in the past two years and built in a further £35 million savings into the 2013/14 budget. There is an expectation that you will have to make savings of a similar magnitude over the next three years. It continues to be one of the most challenging financial periods and members and officers have recognised that new ways of working need to be identified.

Against the tight financial backdrop you have continued to meet annual savings targets and delivered a favourable revenue variance in 2012/13 of £519,000. However, identifying savings options and then delivering against them are increasingly difficult. London is the fastest growing part of the UK, with a younger age profile than elsewhere in the UK. This presents a particular set of challenges around the demand for education, housing and welfare services. All of which have been recognised by you as a current challenge and will require you to undertake greater joint working across the Council and with other sectors.

Your financial statements were prepared to a good standard and we issued unqualified opinions on your accounts, and on the pension fund, on 30 September 2013. Our audit identified a number of misstatements, all of which were corrected by you. One of these affected the overall income and expenditure position but did not affect the amount to be raised from council tax.

Acknowledgements

This Letter has been agreed with the Strategic Director of Finance and Corporate Services and will be presented to the Audit and Governance Committee on 12 November 2013.

This has been Grant Thornton's first year as your external auditors. The Audit Commission appointed us for a period of five years, with a 40 per cent reduction in scale fee compared with 2011/12. The fee reduction has required us to work closely with management to deliver the audit in an efficient way. Thanks to the cooperation we received we have carried out our audit within the agreed timescales. We will be meeting with management to discuss how further improvements can be made for next year.

We would like record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
October 2013

Section 2: Audit of the accounts

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Audit of the accounts

Audit of the accounts

The key findings of our audit of the accounts are summarised below:

Preparation of the accounts

You presented us with draft accounts on 27 June 2013, in accordance with the national deadline. Appropriate working papers were made available from the start of the audit fieldwork, which commenced on 8 July 2013. Officers were responsive to queries and additional information requests and the majority of the audit work was completed in the planned six week audit visit.

We met with finance officers regularly to discuss our audit methodology and presented at two closedown champion meetings which enabled officers to respond to the changes early in the accounts production process.

Issues arising from the audit of the accounts

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

- the Council's draft financial statements were complete and submitted by the statutory deadline;
- the draft financial statements submitted for audit were of a good quality;
- the finance team has been very responsive to audit queries and requests for additional information; and
- action plans agreed by management in our Audit Findings Reports for the Council and Pension Fund were approved by the Audit and Governance Committee in September.

Annual governance statement

Your Annual Governance Statement complies with the best practice guidance by CIPFA. We did not identify any omissions or any information which was inconsistent with our knowledge.

Conclusion

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to 'those charged with governance' (defined as the Audit and Governance Committee at the Council). We presented our report to the Audit and Governance Committee on 19 September 2013 and summarise only the key messages in this Letter.

We issued an unqualified opinion on the Council's 2012/13 accounts, including the pension fund accounts, on 30 September 2013, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the accounts give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.

Section 3: Value for Money

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Value for Money

Scope of work

The Code describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give a VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code:

The Council has proper arrangements in place for securing financial resilience. The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness. The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission. We also considered and evaluated your financial resilience as measured by key indicators of financial performance on a RAG (red, amber, green) rating:

- key indicators of financial performance – green;
- financial governance – green;
- financial planning – green;
- financial control – green.

Green rating is defined as: Arrangements meet or exceed adequate standards - adequate arrangements identified and key characteristics of good practice appear to be in place.

Overall our work highlighted the Council has sound processes in place for financial planning, governance and control. It continues to face significant financial pressures to balance its budgets and has recently launched a budget consultation to help address the financial gaps and challenges in delivering services differently in 2014/15 and beyond. Further details are provided in our Financial Resilience report issued in September 2013.

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within and whether it has achieved cost reductions and improved productivity and efficiencies. Our work did not highlight any significant weaknesses that impact on our conclusion. Our work identified that you have continued your good record of making efficiencies.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

Section 4: Certification of grant claims and returns

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Certification of grant claims and returns

Introduction

We are required to certify certain of the claims and returns submitted by the Council. This certification typically takes place some six to nine months after the claim period and represents a final but important part of the process to confirm the Council's entitlement to funding.

We have certified three claims and returns for the financial year 2012/13. These are the Housing Capital Receipts (pooling) claim, National Non-Domestic Rates return and the Single Programme: Greater London Authority return. Our work is on-going on the Housing and Council Tax Benefits claim and Teachers' Pension return.

Approach and context to certification

Arrangements for certification are prescribed by the Audit Commission, which agrees the scope of the work with each relevant government department or agency, and issues auditors with a Certification Instruction (CI) for each specific claim or return.

Key messages

The key messages from our certification work are summarised in the table below. Further details will be provided in our certification report which we will be issued to management in December 2013.

Summary of the Council's arrangements

Aspect of certification arrangements	Key Messages	RAG rating
Submission & certification	The Single Programme: Greater London Authority return was submitted after the authority deadline. However, co-operation from officers ensured that the auditor deadline was still met.	● Amber
Accuracy of claim forms submitted to the auditor (including amendments & qualifications)	<p>The three claims and returns we have certified to date were accurate submissions. No amendments were made as a result of the audits.</p> <p>The audits of the Housing and Council Tax Benefit claim and Teachers' Pension return are on-going. However, initial testing has identified that amendments will be required to both claims.</p>	● Amber
Supporting working papers	The supporting working papers for the three claims and returns certified to date were of a good quality.	● Green

Appendices

Appendix A: Reports issued and fees

We confirm below the fee charged for the audit and provision of non-audit services.

Fees

	Per Audit plan £	Actual fees £
Audit Fee	326,294	313,794
Grant certification fee	47,900	47,900
Pension Fund fee	21,000	21,000
Total fees	395,194	382,694

Fees for other services

Service	Fees £
Advisory services - purchase of Council offices	12,500

The audit fee in the Audit Plan originally included the fee for other services in 2012/13. We identified a risk in relation to the Council's purchase of the main council offices in the financial year. We anticipated that the work would be included within the scope of the audit plan but this fee relates solely to the work of our Government and Infrastructure Advisory team in respect of the purchase of the building and not the audit work completed for the 2012/13 accounts assurance for the audit opinion.

Reports issued

Report	Date issued
Audit Plans for the Council and Pension Fund	April 2013
Audit Findings Reports for the Council and Pension Fund	September 2013
VfM – Financial Resilience Report	September 2013
Annual Audit Letter	October 2013
Certification report (to be issued)	December 2013



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