

# Annual Audit Letter

London Borough of Southwark

Audit 2010/11



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## Traffic light explanation



Red  Green 

# Key messages

**This report summarises the findings from my 2010/11 audit. My audit comprises two elements:**

- **the audit of your financial statements; and**
- **my assessment of your arrangements to achieve value for money in your use of resources.**

**I have included only significant recommendations in this report. The Council has accepted these recommendations.**

Key audit risk	Our findings
Unqualified audit opinion	
Proper arrangements to secure value for money	

## Audit opinion and financial statements

I issued unqualified opinions on the Council's financial statements and on the pension fund accounts on 29 September 2011.

I issue an audit certificate when the audit is formally closed and all of the work has been completed. I am delaying the issue of this certificate until I have completed my consideration of matters brought to my attention by members of the public. I am satisfied that these matters do not have a material effect on the financial statements for the year ended 31 March 2011.

In September 2011 I presented annual governance reports to the Audit and Governance Committee on the financial statements and the

pension fund accounts. The reports highlighted a number of errors that the Council agreed to adjust within the financial statements.

The Council produced International Financial Reporting Standards (IFRS) compliant financial statements for the first time in 2010/11. Despite the challenges of IFRS, the level of errors in the financial statements has reduced from the previous year.

## Value for money

I issued an unqualified value for money conclusion on 29 September 2011.

I am satisfied that the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

The conclusion is based on my assessment of the Council against the two criteria specified by the Audit Commission.

# Current and future challenges

The Council faces considerable challenges in the coming years as a result of the economic situation and the move towards greater use of shared services and joint arrangements to gain efficiencies, as shown in the following table:

Economic downturn and pressure on the public sector	<p>The wider financial outlook continues to be challenging for the public sector. The Local Government financial settlement announced in February 2011 reduced funding available to the Council by 11.3% in 2011/12 and 7.4% in 2012/13. These cuts amount to a total reduction in spending power of £46.9 million over the two years.</p> <p>The Council has been working to manage the impact of the financial settlement but a number of funding gaps remain. Additional pressures such as increasing inflation levels and volatility in the financial markets which will impact on investment returns for the Council also need to be managed.</p>
Joint arrangements / shared services	<p>The Council has a number of joint arrangements in place such as pooled budgets with the primary care trust and a joint communications team with Westminster City Council.</p> <p>The Council, along with five other councils from the South East London Shared Services Partnership (SELSSP), commissioned an independent report that considered the potential for collaborative work. The report identified opportunities for possible savings in the range of £2.5 million - £8 million, over a period of three years across the six Councils, in parking, residential and nursing care, and home care services. Collaborative opportunities were identified in areas such as procurement, supplier management and other areas such as knowledge sharing.</p>
Income streams	<p>The Council's main income streams are the revenue support grant (RSG), schools grant, housing and council tax benefit subsidy, and housing subsidy. Other key income sources include non-domestic rates and council tax. The</p>

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Reform of local government finance

Council is facing significant reductions in a number of its income streams. The Council's charges for some areas of miscellaneous income are below the London average. The Council has an opportunity to bring fees and charges in line with the rest of London. The Council has pursued a progressive policy, in line with its Medium Term Resource Strategy for commercial rents and has maintained income levels whilst rationalising the overall property portfolio.

The Housing Revenue Account (HRA) subsidy system comes to end from April 2012 and HRA self financing will be introduced which will result in changes to capital financing and accounting arrangements.

The Council needs to develop a 30 year business plan in which it sets future rent levels. The Department of Communities and Local Government (DCLG) allows a transitional period of up to five years with authorities able to move across to full depreciation accounting beforehand should they wish. This transitional period will allow the Council to deal with the short term affordability issues as a result of the introduction of the new model.

Consultation is currently underway for the proposal to repatriate business rate income to local authorities, and allow them to borrow against future growth of this income, from 2013/14.

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**Recommendation**

**R1** The Council should review the cost effectiveness of collaborative ways of working to achieve additional efficiency savings.

**R2** Develop arrangements for the transition to HRA self financing model and implement plans to minimise the impact of affordability issues as a result of this introduction.

# Financial statements and annual governance statement

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The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

## Overall conclusion from the audit

- 1 I issued an unqualified opinion on the Council's financial statements and pension fund accounts on 29 September 2011, in advance of the deadline of 30 September 2011.
- 2 Before giving my opinion I reported to those charged with governance, the Audit and Governance Committee, on the issues arising from the 2010/11 audit. Detailed reports were presented to the Audit and Governance Committee on 27 September 2011.
- 3 The financial statements submitted for audit were generally complete and were adequately supported by working papers. My audit identified a number of non-trivial errors which were amended by officers. The changes had no impact on the Council's outturn for the year or its available resources.

## Significant weaknesses in internal control

- 4 My testing found that there were delays in undertaking a full reconciliation between the fixed asset register and general ledger. This was not provided until the end of August and resulted in the identification of significant amendments to the plant, property and equipment note.
- 5 My testing of the Council's financial systems found a number of instances where the operation of controls was not evidenced. Examples included, but were not limited to:
  - The monthly review by HR managers of payroll starters and leavers;
  - Journal authorisation; and
  - Verification of the completeness and accuracy of the fixed asset register.
- 6 In response to the control weaknesses the Council has responded by:
  - Undertaking a review of the processes for evidencing controls for starters and leavers;

- Undertaking an exercise checking compliance with the Council's protocol on preparing and authorising journals. This involves looking at samples of transactions entered into SAP each month. The results from the exercise will be reviewed in December;
- Verifying the information contained in the fixed asset register and the housing rental system. In addition officers are reviewing processes to better triangulate asset disposal information between different departments within the Council.

## Overall conclusion from the pension fund audit

7 In my Pension Fund Annual Governance report, I reported the pension fund financial statements submitted for audit were substantially complete. The Council had not disclosed an analysis of financial instruments which is required under the transition to International Financial Reporting Standards (IFRS) in 2010/11. The Council had not separately disclosed assets over 5% of any class or type of security. These disclosures were all made in the final version of the statements. There was no impact on the Net Assets Statement, nor the Fund Account due to these additional disclosures.

## Whole of Government Accounts

8 I was able to certify the Council's Whole of Government Accounts (WGA) return on 2 November 2011. The delay was as a result of supporting papers being unavailable for audit. A significant number of amendments were reported due to changes between the draft return and audited financial statements.

Recommendation
R3 Align production of the Whole of Government Accounts return and supporting working papers earlier in the closedown timetable.

## Other matters

- 9 Audit certificates concluding the audits for the years ended 31 March 2008 and 31 March 2009 were issued on 15 June 2011.
- 10 The audits for the years ended 31 March 2010 and 31 March 2011 cannot be formally concluded and an audit certificate issued until I complete my consideration of matters brought to my attention by local government electors. These matters relate to the financial statements for the years ended 31 March 2010 and 31 March 2011.
- 11 At the time of writing this report, my audit of the Council's 2010/11 grant claims and returns is in progress. Of the ten which require audit certification, seven have been certified and submitted on time to the appropriate grant paying body. The remaining three claims and returns are on course for being certified within the required timeframes.

# Value for money

**I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.**

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My overall conclusion is that the Council has adequate arrangements to secure, economy, efficiency and effectiveness in its use of resources.

My conclusion on each of the two areas is set out below.

## Value for money criteria and key messages

Criterion	Key messages
<p><b>1. Financial resilience</b></p> <p><b>The organisation has proper arrangements in place to secure financial resilience.</b></p> <p>Focus for 2010/11:</p> <p>The organisation 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.</p>	<p>The comprehensive spending review (CSR) requires the Council to save 25% between 2011/12 and 2013/14. This equates to £84.3 million of efficiencies and savings over the three years. My review found that the Council has adequate arrangements in place to respond to the CSR.</p> <p>Significant further savings are required to achieve a balanced medium term financial plan. Whilst the Council is well-positioned, the scale of the challenge means that there is a risk it could fail to make the required savings.</p> <p>The Council should continue to work to identify and implement savings to achieve its medium term financial plan, whilst delivering against statutory requirements and the Council's priorities.</p>
<p><b>2. Securing economy efficiency and effectiveness</b></p> <p><b>The organisation has proper arrangements</b></p>	<p>The Council has prioritised its resources within tighter budgets. The Council delivered £17 million of efficiencies and savings in 2010/11 against a target of £20.8 million.</p> <p>The Council has a good understanding of its costs. The Council has reduced costs including:</p>



Criterion	Key messages
<p><b>for challenging how it secures economy, efficiency and effectiveness.</b></p> <p>Focus for 2010/11: The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<ul style="list-style-type: none"> <li>■ Children's Services - £2.2 million of savings were targeted at improved commissioning and procurement, more effective combining of funding streams £400,000, and service reconfiguration and redesign £1.35 million; and</li> <li>■ Adult Services savings include £600,000 for redesign of support for people with learning difficulties, £700,000 for re-tender of contracts and £2 million from re-modelling, and reconfiguration of service areas.</li> </ul> <p>In 2010/11, the Council made the transition to a cabinet. The Council updated its governance arrangements in response to this change. I undertook a review of the Council's governance arrangements which found that there are adequate arrangements in place. I do not have any recommendations arising from my work in this area.</p>

## Review of capital arrangements

**12** To support my review of the criteria I undertook a review of the capital arrangements at the Council. I have reported my detailed findings to the Council in a separate report.

**13** My review has found that the Council has adequate arrangements in place for managing its capital programme to ensure that it achieves value for money, but improvements are needed in a number of areas.

- The Council's investment in stock condition surveys and key performance indicators support the Council's understanding of the property portfolio. A clear set of evaluation criteria help to guide the development of the capital programme, although the standard of completion of scheme bid submissions could be improved.
- The main corporate forum for the management of the Council's capital programme is the Capital Working Group. This provides a key opportunity to tap into staff expertise and knowledge across the borough. However greater engagement by officers is needed to make the group more effective.

# Closing remarks

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I have discussed and agreed this letter with the Chief Executive and the Finance Director. I will present this letter at the Audit and Governance Committee on 9 January 2012.

Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Report	Date issued
Audit opinion plan	April 2011
Capital arrangements report	May 2011
Annual governance report	September 2011
Auditor report	September 2011
VFM conclusion	September 2011
Final accounts memorandum	November 2011

The Council has taken a positive and constructive approach to our audit. I wish to thank the Council staff for their support and co-operation during the audit.

Susan M. Exton

District Auditor

November 2011

# Appendix 1 - Fees

	Actual	Proposed	Variance
Total audit fee <sup>*1</sup>	£581,000	£581,000	nil
Pension Fund audit fee	£35,000	£35,000	nil
Non-audit work <sup>*2</sup>	£86,200	n/a	£86,200
<b>Total</b>			

<sup>\*1</sup> The total audit fee is shown gross. The Audit Commission is paying a rebate of £19,898 to you.

<sup>\*2</sup> Non-audit work includes £35,000 for work on revenue and benefits and £51,200 for work on elector queries.

# Appendix 2 - Glossary

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## **Audit opinion**

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

## **Value for money conclusion**

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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