The Audit Findings
for South Staffordshire Council

Year ended 31 March 2016
September 2016

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27 September 2016
Dear Members of the Audit Committee

Audit Findings for South Staffordshire Council Council for the year ending 31 March 2016

This Audit Findings report highlights the key findings arising from the audit for the benefit of those charged with governance (in the case of South Staffordshire Council, the Audit Committee), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with management.

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

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Mark Stocks
Partner
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Section 1: Executive summary
Executive summary

**Purpose of this report**
This report highlights the key issues affecting the results of South Staffordshire Council (‘the Council’) and the preparation of the Council’s financial statements for the year ended 31 March 2016. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 (‘the Act’).

Under the National Audit Office (NAO) Code of Audit Practice (‘the Code’), we are required to report whether, in our opinion, the Council’s financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources (‘the value for money (VFM) conclusion’).

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:
- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act)

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

**Introduction**
In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 1 March 2016.

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable. The Council has worked hard to deliver a sound set of financial statements and support the audit process. There have been a number of changes in role in the finance team during the past year as the Council looks to increase its commercial activities. The Council has responded well to this challenge.

Our audit is substantially complete although we are finalising our procedures in the following areas:
- completion of work on Collection Fund entries in relation to creditors & business rate appeals. the narrative description on creditors entries in relation to the collaboration fund has resulted in additional audit input and can be improved going forward.
- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion.
Executive summary

**Key audit and financial reporting issues**

**Financial statements opinion**

The draft financial statements for the year ended 31 March 2016 recorded net expenditure of £1,347k. We have not identified any adjustments affecting the Council's reported financial position. An amendment identified by the Council increased net expenditure by £10k to £1,357k. We have recommended a number of adjustments to improve the presentation of the financial statements.

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

- the accounts and working papers presented for audit were of a good quality
- officers worked positively with us to complete the audit
- we note that the Collection Fund is in deficit for NDR mainly as a result of NDR appeals. This will place additional pressure on the Council's finances going forward.

Further details are set out in section two of this report.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

**Controls**

**Roles and responsibilities**

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

**Findings**

Our work has not identified any control weaknesses which we wish to highlight for your attention.

Further details are provided within section two of this report.

**Other financial statement responsibilities**

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit.

We have not identified any concerns with the Annual Governance Statement.
Executive summary

Value for Money
Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Further detail of our work on Value for Money are set out in section three of this report.

Other statutory powers and duties
We have not identified any issues that have required us to apply our statutory powers and duties under the Act

Grant certification
In addition to our responsibilities under the Code, we are required to certify the Council’s Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2016. We will report the outcome of this certification work through a separate report to the Audit Committee which is due in December 2016.

The way forward
Matters arising from the financial statements audit and our review of the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with management.
We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with management.

Acknowledgement
We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
September 2016
Section 2: Audit findings

01. Executive summary
02. Audit findings
03. Value for Money
04. Other statutory powers and duties
05. Fees, non audit services and independence
06. Communication of audit matters
Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £851k (being 2% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have adjusted this on receipt of the draft accounts to £863k (based on 2% of gross revenue expenditure).

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £43k. This remains the same as reported in our audit plan.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

<table>
<thead>
<tr>
<th>Balance/transaction/disclosure</th>
<th>Explanation</th>
<th>Materiality level</th>
<th>Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disclosures of officers’ remuneration, salary bandings and exit packages in notes to the statements</td>
<td>Due to public interest in these disclosures and the statutory requirement for them to be made.</td>
<td>Any errors identified by testing in excess of £10,000 would be deemed to have implications on the users understanding of the financial statements</td>
<td>We identified no such errors during the course of our work.</td>
</tr>
<tr>
<td>Disclosure of auditors’ remuneration in notes to the statements</td>
<td>Due to public interest in these disclosures and the statutory requirement for them to be made.</td>
<td>Any errors identified by testing would be deemed to have implications on the users understanding of the financial statements</td>
<td>We identified that the auditors remuneration disclosure in note 25 had overstated the total audit fee by £14k. The accounts have been amended to reflect the correct balance.</td>
</tr>
<tr>
<td>Related party transactions</td>
<td>Related party transactions have to be disclosed if they are material to the Council or to the related party</td>
<td>Any errors identified by testing will be assessed individually, with due regard given to the nature of the error and its potential impact on users of the financial statements. We are unable to quantify a materiality level as the concept of related party transactions takes in to account what is material to both the Council and the related party</td>
<td>We identified no such errors during the course of our work.</td>
</tr>
</tbody>
</table>
Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards:

<table>
<thead>
<tr>
<th>Risks identified in our audit plan</th>
<th>Work completed</th>
<th>Assurance gained and issues arising</th>
</tr>
</thead>
</table>
| 1. The revenue cycle includes fraudulent transactions | Having considered the risk factors set out in ISA240 and the nature of the revenue streams at South Staffordshire Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:  
  - there is little incentive to manipulate revenue recognition,  
  - opportunities to manipulate revenue recognition are limited,  
  - the culture and ethical frameworks of local authorities, including South Staffordshire Council, mean that all forms of fraud are seen as unacceptable.  
  We have also:  
  - reviewed and tested revenue recognition policies  
  - tested material revenue streams  
  - reviewed unusual significant transactions | Our audit work has not identified any issues in respect of revenue recognition. |
| 2. Management over-ride of controls | We have undertaken the following testing  
  - Discussed with management the rationale and evidence to support key accounting estimates and judgements.  
  - Reviewed accounting estimates, judgments and decisions made by management  
  - Tested of journal entries  
  - Reviewed of unusual significant transactions | Our audit work has not identified any evidence of management override of controls. |
Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

<table>
<thead>
<tr>
<th>Transaction cycle</th>
<th>Description of risk</th>
<th>Work completed</th>
<th>Assurance gained &amp; issues arising</th>
</tr>
</thead>
</table>
| Employee remuneration | Employee remuneration accruals understated (Remuneration expenses not correct) | We have undertaken the following work in relation to this risk:  
- documented the processes and controls in place around accounting for operating expenses. Walkthrough tests to confirm the operation of the controls  
- tested the completeness of the payroll reconciliation to ensure that information from the payroll system can be agreed to the ledger and financial statements  
- reviewed of monthly trend analysis of total payroll  
- substantively tested senior officer remuneration  
- tested a sample of employee remuneration payments covering the period 1/4/15 to 31/3/16 to ensure they have been accurately accounted for and in the correct period. | Our audit work has not identified any significant issues in relation to the risk identified |
| Operating expenses | Creditors understated or not recorded in the correct period (Operating expenses understated) | We have undertaken the following work in relation to this risk:  
- documented the processes and controls in place around accounting for operating expenses. Walkthrough tests to confirm the operation of the controls  
- tested the completeness of the subsidiary system interfaces and control account reconciliations  
- obtained an understanding of the accruals process and test accruals  
- tested cut-off of purchase orders and goods received notes (both before and after year end).  
- tested a sample of operating expenses covering the period 1/4/15 to 31/3/16 to ensure they have been accurately accounted for and in the correct period. | Our audit work has not identified any significant issues in relation to the risk identified |
### Audit findings against other risks continued

<table>
<thead>
<tr>
<th>Transaction cycle</th>
<th>Description of risk</th>
<th>Work completed</th>
<th>Assurance gained &amp; issues arising</th>
</tr>
</thead>
</table>
| **Welfare expenditure** | Welfare benefit expenditure improperly computed            | We have undertaken the following work in relation to this risk:  
• documented the processes and controls in place around accounting for operating expenses  
• Walkthrough tests to confirm the operation of the controls  
• tested the reconciliation of expenditure to welfare benefits system  
• tested the reconciliation of welfare benefit income to grant claim and cash received  
• carried out initial testing in accordance with the methodology required to certify the housing benefit subsidy claim including,  
  • housing benefit discovery testing  
  • housing benefit analytical review  
  • uprating model  
  • software tool                                                                                                                                                                                                                                                                                                                                                                           | Our audit work has not identified any significant issues in relation to the risk identified                                                                                                                                                                                                                                                                                                                                                     |
Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

<table>
<thead>
<tr>
<th>Accounting area</th>
<th>Summary of policy</th>
<th>Comments</th>
<th>Assessment</th>
</tr>
</thead>
</table>
| Revenue recognition              | The Council's policy is set out in its accounting policies:                      | • The Council's policy is appropriate and consistent with the relevant accounting framework – the Local Government Code of Accounting Practice
• Minimal judgement is involved
• The accounting policy is appropriately disclosed | Green      |
|                                  | • Accruals of Income and Expenditure,                                            |                                                                                                                                                                                                          |
|                                  | • Government Grants and Contributions,                                           |                                                                                                                                                                                                          |
|                                  | • Revenue Grants and Contributions, and                                          |                                                                                                                                                                                                          |
|                                  | • Provisions                                                                      |                                                                                                                                                                                                          |

| Other accounting policies        | We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards. | Our review of accounting policies has not highlighted any issues which we wish to bring to your attention | Green      |

| Judgements and estimates         | Key estimates and judgements include:                                            | The Council's approach to estimates and judgements is reasonable and appropriately disclosed, using expert advice where appropriate. We are satisfied that the valuations recognised in the balance sheet are not materially different to their current value. The Council engaged its Valuer to provide information on valuation movements in the year. Overall this indicated an increase in value of £221k. Gerald Eve LLP has been appointed by the National Audit Office to provide a professional view on expected (benchmarked) movements in values of tangible fixed assets over the period 1 April 2015 to 31 March 2016 based upon the trends over the past five years. Examination of the indices suggests a positive movement of £551k. Both the Councils and auditors information does not indicate a material difference between the carrying value and the current value reported in the financial statements but that they are understated in the range £221k–£551k. |
|                                  | • Future levels of government funding                                            |                                                                                                                                                                                                          | Green      |
|                                  | • Asset valuations and useful lives                                              |                                                                                                                                                                                                          |
|                                  | • Provisions                                                                      |                                                                                                                                                                                                          |
|                                  | • Pensions liability                                                              |                                                                                                                                                                                                          |
|                                  | • Recovery of Council tax and other debt arrears                                 |                                                                                                                                                                                                          |
|                                  | • Classification of leases                                                       |                                                                                                                                                                                                          |
|                                  | • Assets held for sale                                                            |                                                                                                                                                                                                          |
|                                  | • Classification of Investment properties                                        |                                                                                                                                                                                                          |
Accounting policies, estimates and judgements continued

<table>
<thead>
<tr>
<th>Accounting area</th>
<th>Summary of policy</th>
<th>Comments</th>
<th>Assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Going concern</td>
<td>Management and ‘Those Charged with Governance’ have a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.</td>
<td>We have reviewed the assessment and are satisfied with management’s assessment that the going concern basis is appropriate for the 2015/16 financial statements.</td>
<td>Green</td>
</tr>
</tbody>
</table>
Other communication requirements

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

<table>
<thead>
<tr>
<th>Issue</th>
<th>Commentary</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Matters in relation to fraud</td>
<td>• We have previously discussed the risk of fraud with the Audit Committee and were not made aware of any material fraud risks. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit.</td>
</tr>
<tr>
<td>2. Matters in relation to related parties</td>
<td>• We are not aware of any related party transactions which have not been disclosed.</td>
</tr>
<tr>
<td>3. Matters in relation to laws and regulations</td>
<td>• We are not aware of any significant incidences of non-compliance with relevant laws and regulations</td>
</tr>
<tr>
<td>4. Written representations</td>
<td>• A letter of representation has been requested from the Council.</td>
</tr>
<tr>
<td></td>
<td>• In particular, representations will be requested from management in respect of the significant assumptions used in making accounting estimates</td>
</tr>
<tr>
<td>5. Confirmation requests from third parties</td>
<td>• We obtained direct confirmations from PWLB and requested from management permission to send confirmation requests to other financial institutions for bank and investment balances. This permission was granted and the requests were sent. These have now been received with 1 exception, this is being followed up by the finance and audit team.</td>
</tr>
<tr>
<td>6. Disclosures</td>
<td>• Our review found no non-trivial omissions in the financial statements</td>
</tr>
</tbody>
</table>
### Other communication requirements continued

<table>
<thead>
<tr>
<th>Issue</th>
<th>Commentary</th>
</tr>
</thead>
</table>
| 7. **Matters on which we report by exception** | We have not identified any issues we would be required to report by exception in the following areas  
- If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit  
- The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Council acquired in the course of performing our audit, or otherwise misleading. |
| 8. **Specified procedures for Whole of Government Accounts** | We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Note that work is not required as the Council does not exceed the £350m threshold. |
Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Employee Remuneration, Operating Expenses, Journals, and Housing Benefits as set out on pages 11 to 12.

The controls were found to be operating effectively and we have no matters to report to the Audit Committee.
**Unadjusted misstatements**

The table below provides details of adjustments identified during the audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

<table>
<thead>
<tr>
<th>Detail</th>
<th>Comprehensive Income and Expenditure Statement £'000</th>
<th>Balance Sheet £'000</th>
<th>Reason for not adjusting</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The Council engaged its valuer to provide information on valuation movements in the year to ensure the carrying value was not materially different to the current value. Overall this indicated an increase in value of £221k. We used an auditor's expert to assess the potential movement in the year, indices suggests a positive movement of £551k. Therefore we estimate that the carrying value is understated in the range £221k-£551k</td>
<td>£551</td>
<td>Not material, this represents a uncertainty and not an error.</td>
</tr>
</tbody>
</table>

**Overall impact** £nil £551
### Misclassifications and disclosure changes

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

<table>
<thead>
<tr>
<th>Adjustment type</th>
<th>Value £'000</th>
<th>Account balance</th>
<th>Impact on the financial statements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disclosure 1</td>
<td>£3,642</td>
<td>Note 26 Grant income – credited to taxation and Non Specific Grant income</td>
<td>Note amended in include £475k in relation to Transformation Challenge Award to agree to the Comprehensive Income and Expenditure Statement.</td>
</tr>
<tr>
<td>Disclosure 2</td>
<td>-</td>
<td>Note 4 Assumptions made about the future and other major sources of estimation uncertainty</td>
<td>Additional narrative to more fully explain the process carried out valuation process undertaken by the Council.</td>
</tr>
<tr>
<td>Disclosure 3</td>
<td>-</td>
<td>Note 19b Cash Flow Statement – Reconciliation of Net Cash Flows from Operating Activities to the Surplus/Deficit on the Provision of Services</td>
<td>Additional narrative included to explain the 'other' balance of £932k</td>
</tr>
<tr>
<td>Disclosure 4</td>
<td>-</td>
<td>Note 23 Members Allowances and</td>
<td>Amendment to improve presentation of the disclosure</td>
</tr>
<tr>
<td>Disclosure 5</td>
<td>-</td>
<td>Note 24 Officers remuneration</td>
<td>Updated narrative to reflect legislative change to the Accounts and Audit Regulations 2015</td>
</tr>
<tr>
<td>Disclosure 6</td>
<td>-</td>
<td>Various</td>
<td>A number of amendments were made to improve the referencing, terminology and general appearance of the accounts.</td>
</tr>
</tbody>
</table>
Section 3: Value for Money

01. Executive summary
02. Audit findings
03. Value for Money
04. Other statutory powers and duties
05. Fees, non-audit services and independence
06. Communication of audit matters
**Background**

We are required by section 21 of the Local Audit and Accountability Act 2014 (‘the Act’) and the NAO Code of Audit Practice (‘the Code’) to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

*In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.*

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

**Risk assessment**

We carried out an initial risk assessment in early 2016 and identified the following significant risks, which we communicated to you in our Audit Update report in June 2016.

- Financial resilience
- Collaboration and commercialisation.

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and on-going risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

**Significant qualitative aspects**

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

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

- Financial resilience: the service and financial planning work which has been developed, initially as part of the Transformation Development Plan in 2012 and then more recently through the Efficiency and Income Plan (E&I Plan), has positioned the Council well. A challenge for the Council will now be to bring the various strands together into one 'business' to deliver its strategy.
- Financial resilience: There is appropriate governance in place to support strategic decision making. The Council now needs to be fully embedded the business processes that will drive the Council toward its ambition of self-sufficiency.
- Collaboration and commercialisation: The Council is now more willing to increase its appetite for risk in its investments. Sourcing the right investments will be key to ensure the required return on investment. This is more difficult within the local area but the Council is working with appropriate Partners to maximise opportunities and gain access to appropriate deals.
Looking ahead, the pace of change is an overarching risk for the Council. The dynamic environment within which it operates, coupled with changes to the Senior Leadership team present opportunities and risks. Considerable work has been undertaken to embed a culture which embraces change and reacts with commerciality and agility. This must continue to ensure that the Council delivers its overall strategic objectives. The Council must also ensure that the staff resource keeps pace with the 'growing' business. As the E&I Plan gathers pace, ensuring that there is sufficient resource will be essential and that this is used to best effect.

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

**Overall conclusion**

Based on the work we performed to address the significant risks, we concluded that the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources. The text of our report, which confirms this can be found at Appendix B.

**Recommendations for improvement**

We discussed findings arising from our work with management and have agreed recommendation for improvement as follows.

- The Council now needs to embed the governance processes in place around their commercial activity so that there is a maturity and consistency around decision making, clarity on when to exit if necessary and the capacity to see the wider market and respond to market changes.

- It is important that the Council brings the various projects within the E&I Plan together as one business to ensure that strategically they all support the overall ambition of self-sufficiency.

- There needs to be a balance between sourcing and accepting the right investment opportunities, the Council's desire to invest and the risk that if it does not invest that it will not make the return required to deliver self-sufficiency.

Management's response to these can be found in the Action Plan at Appendix A.
Key findings

<table>
<thead>
<tr>
<th>Significant risk</th>
<th>Work to address</th>
<th>Findings and conclusions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial resilience</td>
<td>We will review the Council's arrangements in place for identifying, agreeing and monitoring its sustainability and operational plans, and communicating key findings to the Cabinet and Audit Committee. We will review the Council's updated medium term financial plan and monthly financial monitoring reports and assess the assumptions used.</td>
<td>The Council has a realistic Medium Term Financial Plan to 2020/21 which underpins a robust approach to annual budget setting. The level of general fund balance stands at £5.573 million. The projected general fund balance at the end of 2018/19 is a positive balance of £3.537 million, which is in excess of the £1 million minimum reserve level set by the Council. This assumes a £5 increase in Council Tax in 2016/17 and a 2% increase on council tax for all years from 2017/18. Projections for 2019/20 and beyond show decreasing balances which remain a significant risk for the Council. However, there is sufficient time remaining and the Council is taking positive actions to address this potential shortfall in funding. Ear marked reserves are used in line with their purpose. Savings from the Efficiency and Income Plan (E&amp;I Plan) are only reported once they are certain. The Council also reports where potential savings or income are in the pipeline using a RAG rating. This is received by the Senior Management Team on a monthly basis and by Members on a quarterly basis. A number of KPIs are also reported to provide context to the overall position. The Council has a strong balance sheet and up to recently had no external debt. They have made a strategic decision to borrow for specific investments as part of their E&amp;I Plan. The out-turn positions for 2015/16 for both revenue and capital delivered ahead of the financial plans. The Council is cash rich and delivers a balanced budget each year. The budget is monitored and reported to Members appropriately with key issues and variances highlighted. The Council has redesigned its scrutiny functions to ensure they deliver challenge and are focused on the key priorities. Overall we can conclude that appropriate governance arrangements are in place for identifying, agreeing and monitoring the plans in place. The organisation structure and frequency of meetings mean that information is relayed to members in a timely manner allowing them to resolve or challenge matters in relation to the operational and financial sustainability of the Council. The Council has a clear Corporate Plan which underpins its strategic objectives, maintaining a focus on both the medium and short term. The plan also encompasses three main strands; a skilled and prosperous district, a safe and sustainable district and a connected district. These strands also support the delivery of the Efficiency and Income Plan (E&amp;I Plan). There is a strong leadership team in place driving forward a clear vision to ensure that the Council keeps pace with the changing agenda within Local Government. The Council has recently announced a change in Chief Executive following the appointment of the Deputy Chief Executive to this role. This should provide continuity for the Council in the delivery of its overall vision. A key focus for the Council is to generate additional income to 'grow' themselves out of the current Government funding reductions. Whilst there are many strands to this, the main projects currently in place include the B South Staffordshire Business Hub and the Asset Investment Strategy including a trading vehicle set up to develop buy-to-lets. Both of these are linked to the strategic aim of supporting regeneration and allowing small businesses to develop and create wealth within the District. The Council now needs to embed the processes in place so that there is a maturity and consistency around decision making, being clear on when to exit if necessary and the capacity to see the wider market and respond to market changes. We have assessed the assumptions in the medium term strategy as appropriate. The financial and non-financial data covers a period of five years and acknowledges the funding restraints the Council faces both now and in the future. Assumptions were found to be based upon the latest information available but is refreshed on annual basis indicating that the Council is responsive to the changing Government landscape.</td>
</tr>
</tbody>
</table>
### Collaboration and commercialisation

The Government is clear that the public sector needs to rethink the boundaries to create efficiencies and deliver services in a more meaningful way to the taxpayer. As such, they have passed legislation which devolves powers to localities. Whilst not directly involved in any devolution plans, the Council is positioning itself to maximise opportunities from devolution changes around them.

The Council continues to develop partnerships with the private sector and further links with other public sector bodies who are delivering services through alternative delivery models. This ensures they are innovative in their approach and learn from any good practice already established. Some of these arrangements are still in their infancy.

<table>
<thead>
<tr>
<th>Significant risk</th>
<th>Work to address</th>
<th>Findings and conclusions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collaboration and commercialisation</td>
<td>We will understand the partnership working being developed by the Council and how this is evolving to support the delivery of the Efficiency and Income Plan and the strategic objective of being self-sufficient. We will assess the governance arrangements which are being established to support any significant partnerships and consider how these plans are reflected in the longer term strategic planning of the Council.</td>
<td>The Council is positioning itself to respond to the changing Local Government agenda. As a District Council, an important part of this is developing partnerships. Key partnership arrangements are in place with Staffordshire County Council and other public sector neighbours including housing and health bodies. The Council has a wider view of partnerships seeing all connections with external bodies as a partnership which has enabled them to seize opportunities and remain well placed to respond to the dynamic environment within which they operate. The Council is involved in numerous partnerships. Some, such as the i54, are now considered to be mature whilst other new partnerships are being established as part of the Efficiency and Income Plan. Joint funding has been received with Staffordshire County Council for the One Public Estate project. The Council is embracing the opportunity this presents to think strategically about the wider public sector estate and how this could be utilised to maximise benefits for the public purse rather than individual bodies. The boundaries for this project are fluid to enable all options to be considered and seen within a wider ‘picture’. The Council has developed a Business Improvement Team which brings together its customer service, communications and IT skills to provide a greater commercial focus for projects within the E&amp;I Plan. This overarches the individual projects within the plan. It is important that the Council brings the various projects within the E&amp;I Plan together as one business with consistent branding to ensure that strategically they all support the overall ambition of self-sufficiency. The Senior Leadership team has worked hard to maintain its external focus and position itself well to secure opportunities for partnership working. Being open to new ideas and having a wide perspective of the market has ensured that the Council has been best placed to maximise the benefit from its partnerships. The Council is developing relationships with the private sector and using alternative delivery models to create agility and flexibility in its service delivery. The Council continues to explore new ways of working which will complement the current range of delivery methods. All projects are fully costed to ensure that they deliver benefits for the Council in the long-term. The Council has sufficient existing committee structures in place to ensure that proposed partnerships are assessed for reasonableness and supported on an on-going basis. This is mainly via the Strategic Management Team, Informal Cabinet and the Overview and Scrutiny Committees. The Asset Investment Scrutiny panel has been established to engage non-Cabinet Members and draw on specific skills and experience within the Council to support this commercial venture. This provides agility in decision making where required but with appropriate governance arrangements in place to support this. This is becoming more important as the Council explores more commercial opportunities. A challenge for the Council will be to source the right investment opportunities within the local area. The geography of the District means that there are limited sites where the return on investment can be achieved, and so the Council needs to balance this against its desire to invest and the risk that if it does not it will not make the return required to deliver self-sufficiency.</td>
</tr>
</tbody>
</table>
**Value for money**

**Significant difficulties in undertaking our work**

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

**Significant matters discussed with management**

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

**Any other matters**

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.
Section 4: Fees, non-audit services and independence
Fees, non-audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of no audit services.

<table>
<thead>
<tr>
<th>Fees</th>
<th>Proposed fee</th>
<th>Final fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Council audit</td>
<td>46,325</td>
<td>46,325</td>
</tr>
<tr>
<td>Grant certification</td>
<td>7,524</td>
<td>TBC*</td>
</tr>
<tr>
<td><strong>Total audit fees (excluding VAT)</strong></td>
<td><strong>53,849</strong></td>
<td><strong>53,849</strong></td>
</tr>
</tbody>
</table>

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

* Our work on the grant certification required by the Audit Commission will not be complete until 30 November 2015. At this stage, we will know the actual fees involved and will report these to you in the Annual Audit Letter.

**Grant certification**

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.
Section 5: Communication of audit matters
Communication of audit matters

Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/).

We have been appointed as the Council’s independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice (‘the Code’) issued by the NAO (https://www.nao.org.uk/code-audit-practice/about-code/). Our work considers the Council’s key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan

| Respective responsibilities of auditor and management/those charged with governance | ✓ |
| Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications | ✓ |
| Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought | ✓ |
| Confirmation of independence and objectivity | ✓ | ✓ |
| A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. | ✓ | ✓ |
| Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged | ✓ |
| Details of safeguards applied to threats to independence | ✓ |
| Material weaknesses in internal control identified during the audit | ✓ |
| Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements | ✓ |
| Non compliance with laws and regulations | ✓ |
| Expected modifications to auditor's report | ✓ |
| Uncorrected misstatements | ✓ |
| Significant matters arising in connection with related parties | ✓ |
| Significant matters in relation to going concern | ✓ |
### Appendix A: Action Plan

**Priority**
- **High** - Significant effect on control system
- **Medium** - Effect on control system
- **Low** - Best practice

<table>
<thead>
<tr>
<th>Rec No.</th>
<th>Recommendation</th>
<th>Priority</th>
<th>Management response</th>
<th>Implementation date &amp; responsibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The Council now needs to embed the governance processes in place around their commercial activity so that there is a maturity and consistency around decision making, clarity on when to exit if necessary and the capacity to see the wider market and respond to market changes.</td>
<td>Medium</td>
<td>We have utilised the last twelve months to strengthen our plans and governance arrangements around our commercial activity and have continued to work closely with the private sector and other local authorities who have set up similar arrangements to further strengthen commercial opportunities. We will continue to take this approach over the next twelve months to ensure we continue to be well placed as a Council to respond to the commercial market. In recognition of the need to ensure a robust governance process around our property investment strategy we established the Asset Investment Scrutiny panel as a sub committee of Overview and scrutiny committee to act as a critical friend. This panel draws on the knowledge, expertise and skill sets of our elected members. We will evaluate each new commercial venture and mirror the scrutiny/critical friend arrangement wherever practicable.</td>
<td>On-going Chief Executive</td>
</tr>
<tr>
<td>2</td>
<td>It is important that the Council brings the various projects within the E&amp;I Plan together as one business to ensure that strategically they all support the overall ambition of self-sufficiency.</td>
<td>Medium</td>
<td>The E&amp;I Plan has progressed well over the last eighteen months since its launch in April 2015. The Plan will now be reviewed recognising the necessity to re-focus targets and actions allowing for a greater integration of the key work streams within the Plan.</td>
<td>March 2017 Chief Executive</td>
</tr>
</tbody>
</table>
Appendix B: Audit opinion

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH STAFFORDSHIRE COUNCIL

We have audited the financial statements of South Staffordshire Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Account and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

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

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:
- present a true and fair view of the financial position of the Authority as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:
- in our opinion the Annual Governance Statement does not comply with the guidance included in ‘Delivering Good Governance in Local Government: a Framework’ published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 24 of the Act; or
- we make a written recommendation to the Authority under section 24 of the Act; or
- we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.
Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

Respective responsibilities of the Authority and auditor

The Authority 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.

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

Scope of the review of the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

Certificate

We certify that we have completed the audit of the accounts of the Authority in accordance with the requirements of the Act and the Code.

Signature

Mark C Stocks
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Colmore Building
Colmore Circus
Birmingham
B4 6AT

27 September 2016