Grant Thornton

The Audit Findings Report for Southwark Council

Year ended 31 March 2020

20 October 2020

Contents

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Southwark Council (‘the Council’) and the preparation of the Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Covid-19

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council. This has had an impact on both the front-line services operated by the Council, along with those people who work behind the scenes, who have had to get used to a new way of working as the pandemic has progressed.

Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.

We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 3 June 2020. In that addendum we reported an additional financial statement risk in respect of Covid-19 and highlighted the impact on our VfM approach. Further detail is set out on page 6.

Restrictions for non-essential travel has meant both the Council’s and audit staff have had to deliver the audit remotely, including accessing financial systems remotely, undertaking video calling to discuss queries and to obtain assurance over the completeness and accuracy of information produced by the entity. Despite these challenges the Council was able to provide the draft Accounts in line with the agreed timeframe, and has responded promptly throughout the audit to queries raised by the audit team.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements:

- give a true and fair view of the financial position of the Council and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed on site/remotely during July to October 2020. Our findings are summarised on pages 5 to 18. We have identified two adjustments to the financial statements that have resulted in a £22.1m adjustment to the Council’s Comprehensive Income and Expenditure Statement, via a prior period adjustment. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year’s audit are detailed in Appendix B.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (attached at Appendix E) or material changes to the financial statements, subject to the following outstanding matters;

- completion of our outstanding testing (refer to Page 5 for more detail);
- our final internal quality reviews;
- receipt of management representation letter; and
- review of the final set of financial statements.

We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation.

Our anticipated audit report opinion will be unqualified including an Emphasis of Matter paragraph, highlighting the material uncertainties disclosed in respect of your Property Valuations, including Investment Properties. An Emphasis of Matter paragraph is not a qualification.

1. Headlines

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Council's value for money arrangements. We have concluded that Southwark Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19. We therefore anticipate issuing an unqualified Value for Money Conclusion, as detailed in Appendix E. Our findings are summarised on pages 19 to 27.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code but are unable to issue our completion certificate until we complete our work on the Whole of Government Accounts (WGA) Return, the Pension Fund Annual Report, along with the work ongoing on the objection to the Council's Accounts.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

2. Audit approach

Overview of the scope of our audit

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

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

Audit approach

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

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

We have had to alter our audit plan, as communicated to you on 3 June 2020, to reflect our response to the Covid-19 pandemic. This included the identification of two new Significant Risks, one relating to Covid-19, and one in respect of the valuation of the Council's Investment Properties, which have been detailed on pages 7 and 11 of this Report.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit, Governance and Standards Committee meeting on 20 October 2020, as detailed in Appendix E. These outstanding items include:

- completion of our outstanding testing in the following areas: Cash, Debtors, Creditors, Property, Plant and Equipment and Pensions
- our final internal quality reviews;
- receipt of management representation letter; and
- review of the final set of financial statements.

2. Materiality

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our Audit Plan.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	18,000,000	Our Headline Materiality is based on the prior year Gross Revenue Expenditure included in the Accounts.
Performance materiality	13,500,000	Performance Materiality is based on a percentage of the overall materiality.
Trivial matters	900,000	Triviality is based on a percentage of the overall materiality.

2. Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Covid–19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have undertaken the following work in respect of this risk: • Worked with management to understand the implications the response to the Covid-19 pandemic has had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications on our audit approach. • Liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arise. • Evaluated the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic. • Evaluated whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely. • Evaluated whether sufficient audit evidence can be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances. • Evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment. • Discussed with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence. From the work performed to date, we have identified that there is a material uncertainty attached to the valuation of the Council's Property, Plant and Equipment and Investment Properties, due to the inherent uncertainty over the asset valuations at 31 March 2020. This has been reflected within the Accounts in Note 5, and will be reflected within our Audit Opinion as an Emphasis of Matter Paragraph, which is not a qualification. Should any further issues be identified from our remaining testing, then we will provide an update to Management and Committee.

2. Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
The revenue cycle includes fraudulent transactions Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Southwark Council, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Southwark Council.	We have undertaken the following work in respect of this risk: • reviewed and tested the Council’s revenue recognition policies • performed testing on material revenue streams Our audit work has not identified any significant issues in relation to the risk identified.

2. Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of Land and Buildings The Authority revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£5.054 billion) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have undertaken the following work in respect of this risk: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work. • evaluated the competence, capabilities and objectivity of the valuation expert. • discussed with the valuer the basis on which the valuation was carried out. • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding. We have engaged our own valuer to assess the instructions to the Authority's valuer, the Authority's valuer's report and the assumptions that underpinned the valuation. • tested revaluations made during the year to see if they had been input correctly into the Authority's asset register. • evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these are not materially different to current value at year end. From the work performed to date, as mentioned earlier we have identified that there is a material uncertainty attached to the valuation of the Council's Property, Plant and Equipment, due to the inherent uncertainty over the asset valuations at 31 March 2020. This has been reflected within the Accounts in Note 5, and will be reflected within our Audit Opinion as an Emphasis of Matter Paragraph, which is not a qualification. Should any further issues be identified from our remaining testing, then we will provide an update to Management and Committee.

2. Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of the Pension Fund Net Liability The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£712 million in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have undertaken the following work in respect of this risk: • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report. From the work performed to date, we identified that the valuation of the net liability in the draft Accounts was based on December 2019 actuals, as opposed to March 2020 actuals. This was due to the Council preparing their accounts to the original 31 May 2020 deadline, which meant it would have been unable to obtain a figure using the March 2020 data in a timely manner for inclusion. However the impact of Covid-19 had a significant impact on Asset Values at 31 March 2020, hence the need for an updated valuation. The impact of this updated valuation was to reduce the value of the assets held by the pension scheme by **£22.1 million**, thus increasing the Net Liability position by the same value. However this has no impact on the Council's General Fund Balance due to the way the Net Liability is treated on the Balance Sheet. Should any further issues be identified from our remaining testing, then we will provide an update to Management and Committee.

2. Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of Investment Properties The Authority revalues its Investment Properties on an annual basis to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets) at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£335 million) and the sensitivity of this estimate to changes in key assumptions. Management have engaged the services of a valuer to estimate the current value as at 31 March 2020. We therefore identified valuation of Investment Properties, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have undertaken the following work in respect of this risk: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • written to the valuer to confirm the basis on which the valuations were carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, which included engaging our own valuer to assess the instructions to the Authority's valuer, the Authority's valuer's report and the assumptions that underpin the valuation. • tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authority's asset register • evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. From the work performed to date, as mentioned earlier we have identified that there is a material uncertainty attached to the valuation of the Council's Investment Properties, due to the inherent uncertainty over the asset valuations at 31 March 2020. This has been reflected within the Accounts in Note 5, and will be reflected within our Audit Opinion as an Emphasis of Matter Paragraph, which is not a qualification. No other issues have been identified from the work performed in this area.

2. Significant findings – other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
IFRS 16 implementation has been delayed by one year Although the implementation of IFRS 16 has been delayed to 1 April 2021, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases.	We have discussed the implementation of IFRS16 with the Council who have confirmed that whilst considerable progress had been made, this has been put on hold following the deferral and the Covid-19 Pandemic. There are however plans in place for this work to be restarted once this year's accounts are finalised to ensure the Council is well placed for 2021-22.	No issues identified in this area.
Dedicated Schools Grant The Council had a cumulative overspend of **£18.5 million** as 31 March 2020 due to insufficient government funding. We have reviewed the statement from CIPFA which confirms the guidance in LAAP bulletin 99 Local Authority Reserves and Balances remains extant i.e.. it "neither anticipates nor allows for a voluntary earmarked balance to be presented in a deficit position."	The Council has continued to record the deficit on the Dedicated Schools Grant as a negative reserve, offsetting it against the positive Schools Reserves which are also held. The size of the deficit has grown by **£7.0 million** during the course of 2019-20, with it standing at **£18.5 million** in total at the end of the financial year. We are content with this approach given the current guidance, as ultimately it ensures the correct General Fund Position is shown in the Accounts. We are also aware that further guidance is imminent in this area to clarify matters ahead of 2020-21.	No issues identified in this area.

2. Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Council Dwellings - £3,428m	The Council owns 37,147 dwellings and is required to revalue these properties in accordance with MHCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged its internal valuer to complete the valuation of these properties. The year end valuation of Council Housing was £3,428m, a net increase of £5m from 2018/19 (£3,423m).	From the work performed in this area, we are comfortable with the valuation of the Council's Housing Stock included within the Accounts. The valuer has correctly prepared the valuation using the Stock Valuation Guidance issued by MHCLG, and has ensured the correct factor has been applied when calculating the Existing Use Value – Social Housing (EUV-SH) value disclosed within the Accounts. The valuer has formally dated the valuation as at the 31st of December 2019, and has then undertaken a review to confirm that there is no material impact on the valuation to the 31st of March 2020. We have reviewed and challenged this assessment, and are comfortable with the assumptions made by the valuer in respect of this period. This has also included a review of these assumptions and approach by an Auditor's Expert, who also confirmed the reasonableness and appropriateness of the approach followed by the Council.	● Green

Assessment

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

2. Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Other - £1,032m	Other land and buildings comprises £538 million of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£494 million) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged the internal valuer to complete the valuation of properties as at 31 December 2019 on a five yearly cyclical basis. 85% of total assets were revalued during 2019/20. The valuation of properties valued by the valuer has resulted in a net increase of £90 million. Management have considered the year end value of non-valued properties, and the potential valuation change in the assets revalued at 31 December 2019, to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties value. The total year end valuation of Other Land and Buildings was £1,032 million, a net increase of £5 million from 2018/19 (£1,027 million). In line with RICS guidance, the Council's Valuer disclosed a material uncertainty in the valuation of the Council's Land and Buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in Note 5.	• From the work performed in this area, we are comfortable with the valuation of the Council's Other Land and Buildings included within the Accounts. • The valuer has agreed clear terms of reference for this work with the Council in advance of the work being performed, including within which were the assumptions that were going to be applied to this work. • We have reviewed the assumptions applied by the Valuer to the valuation performed, and have confirmed they are reasonable and appropriate given the nature of the assets held by the Council. This review has also been supported by our Auditor's Expert, who also did not identify any issues from their review. • We have also reviewed the assessment undertaken by the valuer that there has not been any material movement in the valuation of Other Land and Buildings between the end of December and the end of March 2020, and are content with the assumptions made by the valuer in respect of this period. • We also considered the work which the valuer has done on those assets not valued as at the 31st of March 2020 to confirm that their carrying value is not materially different to their carrying value included within the Accounts. Again we were content with the assessment made by the valuer in this area, which provides us with sufficient assurance over the values included within the Accounts. • As mentioned earlier in the Report, the Valuer has included a material uncertainty on the valuation certificate, which has been correctly reflected within the Accounts, within Note 5. We will reflect this matter as an Emphasis of Matter in our Audit Opinion, which again is not a qualification.	● Green

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

2. Significant findings – key estimates and judgements

Accounting area: **Net pension liability – £607m**

Summary of management's policy

The Council's total net pension liability at 31 March 2020 is £607 million (PY £712 million), comprising the Southwark Council PF Local Government and unfunded defined benefit pension scheme obligations.

The Council uses Aon Hewitt to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns.

Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £150m net actuarial gain during 2019/20.

Auditor commentary

- The Council have used Aon Hewitt as their Actuary for a number of years, and thus we are content with their competence and capability to provide the valuations required by the Council in respect of the net pension fund liability as at the 31 March 2020.
- We have reviewed the assumptions made by the actuary when calculating the IAS26 costs included within the Accounts to confirm their reasonableness. We made use of PwC, as an Auditor's Expert to obtain assurance over this area. A summary of the work performed can be seen in the table below:

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.3%	2.3%	●
Pension increase rate	2.0%	1.9% to 2.1%	●
Salary growth	3.5%	3.0% to 3.6%	●
Life expectancy – Males currently aged 45 / 65	22.7 20.8	22.5-24.7 20.8-23.0	●
Life expectancy – Females currently aged 45 / 65	25.5 23.6	25.0-27.2 23.5-25.5	●

- Based on the table above, we are content with the assumptions applied by Aon Hewitt to value the Council's Pension Fund Liability as at the 31st of March 2020, and thus are content with the values included within the Accounts.
- Although as mentioned earlier in the Report, the Council had to obtain an updated Actuary Report based on March 2020 Actuals instead of December 2019 Data being rolled forward. The impact of this updated valuation was to reduce the value of the assets held by the pension scheme by **£22.1 million**, thus increasing the Net Liability position by the same value. However this has no impact on the Council's General Fund Balance due to the way the Net Liability is treated in the Balance Sheet.

Assessment

● Green

Assessment

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

2. Significant findings – Going Concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary	Auditor commentary
Management's assessment process	Management’s starting point for the 2019-20 Accounts was that the Council remained a Going Concern given the range of services which the Council is currently providing, and will continuing to be doing so for the foreseeable future as it stands. The Council held adequate cash balances at year end, which can easily be supplemented by the Short Term Investments the Council continues to hold to manage these cash balances to help generate additional income for the Council. This assessment was clearly reflected within Note 2.1 of the Accounts.
Work performed	During the course of the audit we have challenged management over the potential impact of Covid-19 on the Council, which we have identified has cost the Council **£96 million** of unplanned expenditure and lost income for 2020/21. This has been offset by additional income from Central Government of **£59 million**, leading to a gap in the outturn of **£37 million** at the end of July 2020. Whilst there is an anticipation from the Council that additional funding will be provided by Central Government, this is uncertain at the date of issuing our Report. However it is fairly clear that even if additional funding is forthcoming for the Sector, this will not be sufficient to fill the whole gap, along with the fact that this gap could grow further as well. On this basis it is almost certain that the Council will need to utilise some of its Reserves to balance the budget, which the Council has been able to contribute **£39 million** to over the course of the past three years and will be extremely beneficial in helping minimise the impact of the pandemic on front-line services. Clearly once the pandemic has passed, considerable work will need to be done to help replenish these Reserves which will require further challenging decisions to be made about the plans for the Council in the future.
Concluding comments	Based on the work performed, we are satisfied that the Council remains a Going Concern, despite the ongoing challenges caused by Covid-19. However as can be seen from Note 5 in the Accounts, it is clear that Covid-19 could impact the Council in a range of areas as things progress, such as Property Valuations, Pensions Liabilities and income from Investment Properties. Clearly the Council will need to monitor developments closely to ensure these do not have a significant impact on the financial standing of the Council moving forward.

2. Other matters for communication

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

Issue	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit, Governance and Standards Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, which is included in the Audit, Governance and Standards Committee papers as a separate Agenda Item.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to all of the Council's counter parties. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation. We requested management to send letters to those solicitors who worked with the Council during the year. All responses have been received and no issues have been identified.
Disclosures	Our review identified a small number of disclosures which required amendment or expansion, and management agreed to amend all of the items identified. Further detail is provided within the Misclassifications and disclosure changes page, which is included later in the Report.
Audit evidence and explanations/significant difficulties	The Council produced a good set of Accounts and working papers in line with the agreed timeframes, and responded promptly to the queries raised during the course of the audit despite the challenges of remote working. The small number of amendments identified in this Report reflect the quality of the draft Accounts prepared by management, and as mentioned earlier the issues relating to the Pension Valuation only arose because the Council worked to the original end of May deadline for which we commend the Council.

2. Other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to Appendix E.
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the specified group reporting threshold of £500 million we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. This work will be completed towards the end of October 2020 once the final accounts work is complete, and we will provide an update to the Committee in our Annual Audit Letter.
Certification of the closure of the audit	We are currently unable to certify the closure of the 2019/20 audit of Southwark Council due to our ongoing work on the Whole of Government Accounts (WGA) Return, the Pension Fund Annual Report, along with the work ongoing on the objection to the Council’s Accounts.

3. Value for Money

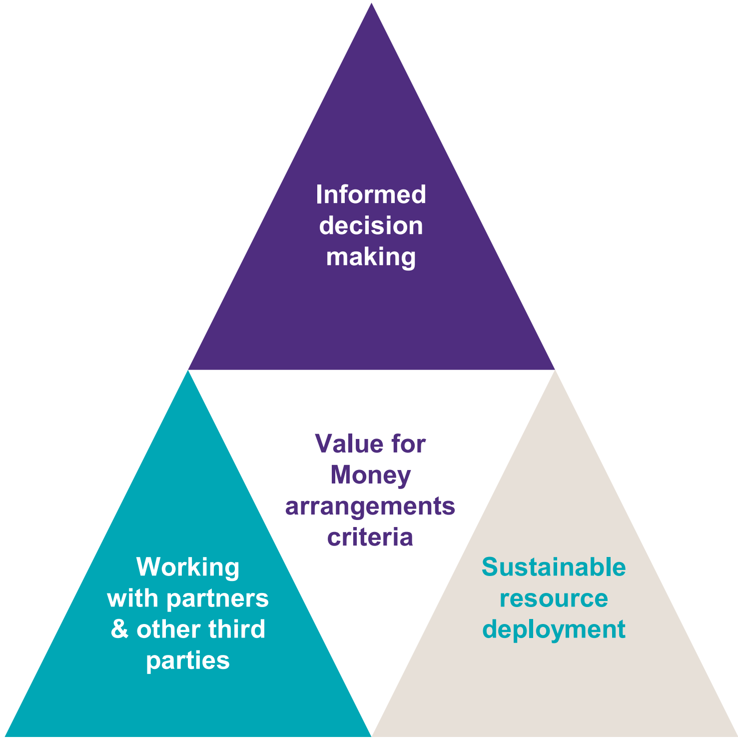
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in February 2020 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 10th February 2020.

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

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

Ongoing Financial Sustainability

Risk

The Council is continuing to face pressure on its Social Care Budgets, and other factors such as the demand for temporary accommodation and the impact of nil resource to public funds are putting the Council's finances under considerable strain. Therefore the Council needs to manage its resources carefully to ensure a sustainable future for the Borough ahead of the 2020 Funding Settlement. Brexit will also potentially add another unknown to these challenges and the Council will need to monitor developments close as the end of March approaches.

Planned Response

To gain assurance over this risk we planned to undertake work in the following areas:
- review the 2019-20 Outturn, including details of performance against both the Revenue and Capital Budgets;
- review progress against the 2020-21 financial plan up to the completion of our audit; and
- obtain an update on the Council's Medium Term Financial Strategy, including progress on identifying the savings required in coming years including discussions with Management on progress to date.

We also planned to consider the financial impact of any financial issues arising from Brexit. These may include changes in property values, adverse changes to investment and borrowing rates, changes to business rate income, and the impact on the Authority's workforce.

3. Value for Money

Our work

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

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

- The Council have managed to deliver a balanced budget in 2020-21, including the movement of **£10.1 million** to General Fund Reserves to help strengthen the overall financial position of the Council. This is the third year in a row that the Council has made a significant contribution to this area, which is helping to strengthen reserves which had been depleted in recent years.
- The focus on Social Care has continued, leading to this area delivering a **£204k** overspend, which whilst an overspend, reflects well on the continued improvements in this area that have occurred in recent years.
- However challenges in respect of the Dedicated Schools Grant (DSG) are continuing to increase, with a further overspend of **£7.0 million** being incurred in-year, bringing the cumulative deficit in this area to **£18.5 million**.
- A balanced budget had been set for 2020-21 prior to the arrival of Covid-19, which has had a significant impact on the Council's Financial Position. As it stands the Council has a gap of **£37 million** in the planned 2020-21 outturn, which it is likely will require the use of Reserves to help manage this gap by year end.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 21 to 27.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A

Significant difficulties in undertaking our work

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

Significant matters discussed with management

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

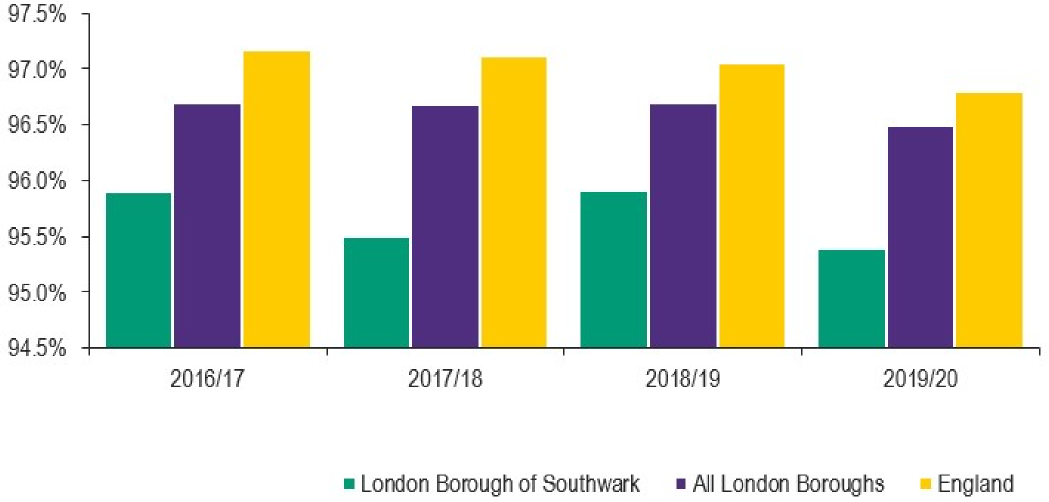
Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment:

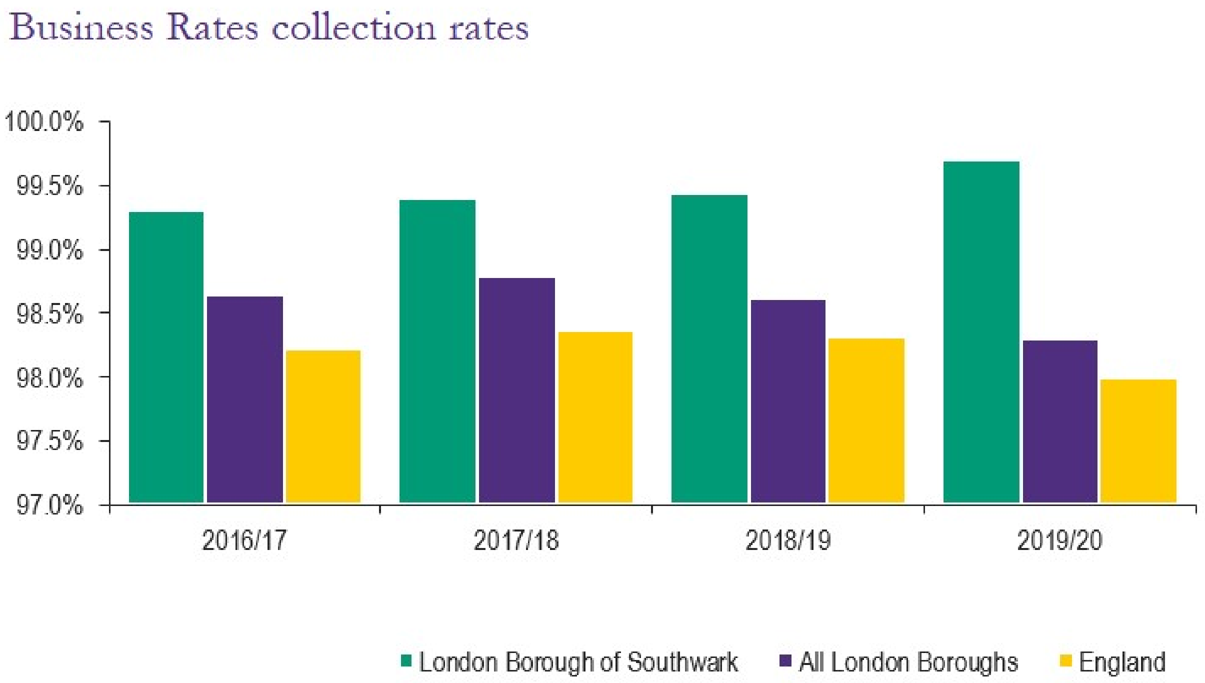
Significant risk	Findings
Ongoing financial performance The Council is continuing to face pressure on its Social Care Budgets, and other factors such as the demand for temporary accommodation and the impact of nil resource to public funds are putting the Council's finances under considerable strain. Therefore the Council needs to manage its resources carefully to ensure a sustainable future for the Borough ahead of the 2020 Funding Settlement. Brexit will also potentially add another unknown to these challenges and the Council will need to monitor developments close as the end of March approaches. **Response** Our response to this risk was as follows: • review the 2019-20 Outturn, including details of performance against both the Revenue and Capital Budgets; • review progress against the 2020-21 financial plan up to the completion of our audit; and • obtain an update on the Council's Medium Term Financial Strategy, including progress on identifying the savings required in coming years including discussions with Management on progress to date. We will also consider the financial impact of any financial issues arising from Brexit. These may include changes in property values, adverse changes to investment and borrowing rates, changes to business rate income, and the impact on the Authority's workforce.	**Revenue Outturn for 2019/20** The Council has managed to deliver a balanced budget in 2019-20, following the movements to and from reserves which have been processed at year end. For the third year in a row, the Council has been able to make significant contributions into reserves during the course of the year, despite the challenges of Covid-19, which appeared towards the end of the financial year. The Council was able to add a further **£10.1 million** of funding to General Fund Reserves, in addition to the **£28 million** that has been added to General Fund Reserves during the course of the past two years. However most of this balance relates to the Covid-19 funding received by the Council during the early stages of the pandemic which will be utilised to cover the costs of the pandemic in 2020-21. During the course of the year the Council continued to face significant pressure on its spend against the Dedicated Schools Grant (DSG), which remains a challenge for London and nationally as a result of increased demands and pressures on this area of the budget. In 2019-20, the Council overspent its DSG allowance by **£7.0 million**, giving the Council a cumulative net overspend (negative position) of **£18.5 million** at the end of 2019-20. The main reason for the overspends remains the increased costs arising from children and young people with High Needs, who are required to be funded out of the DSG Balance instead of being covered by routine spend on Children's Social Care. In terms of areas of focus, the Council has continued to perform strongly in the delivery of Social Care, both from a Children's and Adults perspective, delivering a small overspend of **£204k** against a budgeted position of **£176.5 million**. The work which has been done in previous years in respect of a Budget Recovery Board in this area has continued to help manage performance in this area despite the continued increases in demand which are being faced in this area across the Country. Moving forward, the Council will need to develop relationships with the newly merged CCG, which now covers the whole of South East London, as this will now be responsible to managing the Better Care Fund balances which have helped support the Council in this area over the past couple of years. Areas which continue to pose a challenge for the Council are common themes across a range of London Boroughs. These areas were Nil Recourse to Public Funds and Temporary Accommodation. This year the Council spent **£6.4 million** (an underspend of **£0.6 million**) on Nil Recourse for Public Funds, which is fall of **£1.7 million** from the highest level of spend in this area, which was **£8.1 million** in 2016-17. Whilst risks remain in this area, due to the unpredictable nature of demand, considerable work has been done to make this area more manageable moving forward. Temporary Accommodation remains a challenge and led to a **£2.5 million** overspend during the course of the year, which is a reduction of **£1.4 million** from the **£3.9 million** overspend incurred in 2018-19. The Council has noted that there has been considerable focus on the funding in this area, with the budget having been increased again, and the Council has received considerable additional Grant Funding in this area as well. Cabinet has been made aware that this area is likely to continue to be a challenge, partly due to delays in making the planned policy changes during the course of the year. However, overall the Council has performed well during the course of 2019-20, and is reasonably well placed to face the challenges which look like to appear in 2020-21 following the onset of the Covid-19 pandemic, in particular following the building up of Reserves which has occurred over the course of the past three years.

Significant risk	Findings
Ongoing financial performance Continuation of risk noted on page 19.	**Taxation collection rates** As part of our review of the Medium Term Financial Strategy (MTFS), we have reviewed your performance in your collection of Council Tax and Business Rates income. It should be highlighted that in some cases, collection of taxation revenues takes place across an number of years and not just in the year of billing. Overall, your collection rates are lower than the average for Inner London and for England, due to the higher levels of deprivation in your Borough compared to other parts of London and nationally. This in part explains the variances that are outline below and overall we note that your performance remains strong despite the challenges which have occurred in 2019/20. **Collection of Council Tax** Over the last four years, your rates of Council Tax collection has been an average of **95.7%**, which is below the average for Inner London Boroughs of **95.9%** and the national average for England of **97.0%**. You have taken actions in recent years to improve your Council Tax collection rate through improving the capacity of your collections team. You achieved an overall collection rate of **95.4%** in 2019/20, which represents a slight decrease of the collection rate of **95.9%** achieved in 2018/19. We recognise that this performance needs to be viewed against an increase in your Council Tax base of **2.68%** for 2019/20, as a result of continued housing development, and also a **4.13%** increase in Council Tax rates, inclusive of the adult social care precept and the GLA precept. This comes on top of successive expansion of your Council Tax base in recent years. This shows that your collection rates have been maintained at a largely consistent level despite increases in the volumes and amounts of Council Tax bills levied, as well as the potential impact of Universal Credit being rolled out to selected tenants within the Borough as part of the Government's national roll out of Universal Credit over the coming years.

Council Tax collection rates



Significant risk	Findings
Ongoing financial performance Continuation of risk noted on page 19.	**Collection of Business Rates** In contrast to the trend for your Council Tax income, your business rates collection rates are above the average for Inner London and for England. Your average business rates collection rate over the last four year was **99.5%**, compared to **98.6%** for boroughs in Inner London, and **98.2%** for authorities across England. Over the course of the past four years, the Council's collection rates were above your neighbouring authorities and the average across England. For 2019/20, you reported a collection rate of **99.7%,** which represents a very slight increase on the previous year. We consider this a strong level of performance given the additional pressure faced by your business rates collection team due to the national revaluation of rateable values by the Valuation Office Agency, and is an achievement which the Council should be proud of. Clearly this level of collection is now aiding the Council under the revised Business Rates Retention Scheme which continued in 2019-20 and generated additional income the Council was able to utilise during the course of the year. The Council has taken the prudent step of earmarking this funding for use to help generate new ideas moving forward and will give members opportunities to apply for access to this fund if there are potential new Schemes afoot which may meet the definition of this pool of funding.



Conclusion

Your collection rates for Council Tax and Business Rates income have remained strong during the course of 2019-20, despite the challenges of Covid-19. This indicates that your arrangements for the collection of taxation income are working well. Based on your recent track record, we have no overall concerns around the reasonableness of the collection rate assumptions reflected within the MTFS.

Significant risk	Findings
Ongoing financial performance Continuation of risk noted on page 19.	**2020/21 Budget and Medium Term Financial Strategy** In February 2020, the Council approved its Budget for 2020-21, which continues to remain the Council's overall financial planning timeframe, due to the level of uncertainty around the Local Authority Spending Review, which had already been deferred before Covid-19 appeared in March 2020. However the onset of Covid-19 has thrown everyone's plans up in the air, meaning the monitoring of the budget in-year has had to be adjusted significantly since it was initially set. Before Covid-19 appeared, the Council was looking to build on the relatively strong performance delivered in the course of the past two years, which as mentioned previously allowed the Council to move over **£39 million** to General Fund Reserves over the course of the past three years. In the plan approved in February 2020, the Council is going to be required to deliver **£8.7 million** of efficiencies and additional income during the course of the year to enable it to deliver a balanced budget. This demand is split with **£6.0 million** being obtained from efficiencies and effective use of existing resources, **£2.3 million** being generated from additional fees and charges, and **£0.4 million** from other savings. This remains a positive way of dealing with the shortfall in funding as clearly savings on their own are no longer able to cover budget gaps given this continued period of austerity in local authority finance. At the date of approving the budget all of the efficiencies and additional sources of income had been identified, which is also a positive position to be in. As in previous years, the Council has been prudent in terms of the assumptions underlying the budget, with allowances included for inflation, pay increases, and a range of other growth factors which are likely to occur over the course of year. The demand on services across the whole country continues to increase despite the fall in the revenue available to support them, and is requiring all local authorities to be innovative when it comes to identifying solutions to these challenges. This is something that the Council will not be immune to, and this will require involvement from both Officers and Members to ensure the Council does not drift off course and face some really difficult financial decisions in later years. Some of the key elements of the budget include a further 3.99% increase in Council Tax (a 1.99% increase on the local element along with a further 2% Adult Social Care Precept), which will generate a further **£4.6 million** for the Council, along with an extra **£24.7 million** of additional Business Rates over and above what the Council would have received under previous arrangements. Whilst this is a slight reduction in the additional income from 2019-20, it is still a considerable benefit which the Council will be able to utilise in-year to support growth in the Borough. The Council is also going to receive some additional grants in 2020-21, including an additional **£7.3 million** for Social Care, **£5.1 million** to support children with Special Educational Needs via the Dedicated Schools Grant, along with a further **£2.4 million** from the Settlement Funding Assessment, which is the first time in a decade that the Council has seen growth in this area. Whilst the plans in place seem robust, there will clearly be challenges for the Council to manage during the course of the year. Whilst Social Care appears to be operating within budget, the Council will need to make sure this area is monitored closely to ensure progress does not falter. Dedicated Schools Grant will also continue to be a challenge in 2020-21, where although additional funding has been indicated by Government to cover the increased spend on the High Needs Block, the DSG is likely to remain in deficit for some years to come. **Impact of Covid-19** Clearly all of the above has been thrown up in the air by Covid-19, which arrived in March 2020 and has put the entire public sector under immense strain since then. From the latest report, which set out the position as at July 2020, the Council had received **£59 million** of additional funding from Government to deal with the effects of the pandemic, but in turn the Council has incurred **£48.6 million** of additional expenditure in year, along with lost income of **£47.4 million**, generating additional financial pressures of **£96 million**. This effectively leaves the Council needing to find **£37 million** to balance the Budget. Whilst some additional funding is expected from Government, at this stage this is unclear and means it is almost certain the Council will need to utilise Reserves to balance the budget, which will then need to be built back up in future years. Clearly this situation is unprecedented, and will require robust financial management and reporting as the pandemic progresses to ensure Management and Councillors are clear of the impact and the actions that are needed to help return the Council to a stronger financial position once the pandemic has passed. This reporting hasn't been as regular as we would have expected prior to the pandemic, but has seen a greater focus since then with regular updates being provided

Significant risk	Findings
Ongoing financial performance Continuation of risk noted on page 19.	to the Audit, Governance and Standards Committee, along with updates to Cabinet and Full Council. Moving forward, the Council should look to ensure that regular updates are provided to Cabinet during the course of the year so that everyone is clear where the current financial position is during the course of the year, and remedial action can be clearly communicated as well. **Conclusion** Whilst a robust plan was put in place for 2020-21, the arrival of Covid-19 has thrown all of those plans up in the air as the Council tries to manage the extreme impact on its day-to-day services. The work which the Council has put in place during the course of the past three years to strengthen reserves means it is better placed to manage the shock caused by Covid-19 than would have been the case and should ensure the Council will be able to come through this crisis, albeit work will need to be done in the following years to replenish reserves utilised over the course of the next 12 to 18 months. Regular financial reporting has become common place since the arrival of the pandemic, and the Council should look to embed this longer term to help ensure robust decision making in future years.

Significant risk	Findings

Ongoing financial performance

Continuation of risk noted on page 19.

Reserves and financial position

While your reserves have reduced in recent years as a result of the financial pressures that you have faced and your investments in supporting the borough, you continue to maintain a reserves position that is largely average when compared to other London Boroughs. As at 31 March 2020, you had total general fund reserves and earmarked reserves excluding schools reserves of **£170.1 million**. This compares to **£133.3 million** as at 31 March 2019, **£89.5 million** as at 31 March 2018, **£73.3 million** as at 31 March 2017 and **£91.8 million** as at 31 March 2016.

The following table sets out a summary of your reserves position and key financial ratios as at 31 March 2020 relative to other London Boroughs as per their draft published financial statements for 2019/20:

2019/20

Measure	Southwark	Average for London Boroughs	Ranking relative to other London Boroughs (/31)
Total General Fund and Non-Schools Earmarked General Fund Reserves as at 31 March 2020 (£'000s)	168,076	113,493	6
Total General Fund and Earmarked General Fund Reserves as at 31 March 2020 (£'000s)	175,516	121,734	6
Total General Fund and Non-Schools Earmarked General Fund Reserves as a percentage of net service revenue expenditure	37.6%	44.8%	14

2018/19

Measure	Southwark	Average for London Boroughs	Ranking relative to other London Boroughs (/32)
Total General Fund and Non-Schools Earmarked General Fund Reserves as at 31 March 2020 (£'000s)	121,807	106,642	23
Total General Fund and Earmarked General Fund Reserves as at 31 March 2020 (£'000s)	134,682	118,126	22
Total General Fund and Non-Schools Earmarked General Fund Reserves as a percentage of net service revenue expenditure	28%	42%	11

Significant risk	Findings
Ongoing financial performance Continuation of risk noted on page 19.	This analysis supports the narrative mentioned elsewhere in the Report that the Council has strengthened its Reserves Position from the previous year, with the Council having improved its position by six positions from the previous year when considering the General Fund and Non-Schools Earmarked General Fund Reserves as a percentage of Net Service Revenue Expenditure. The Council has also strengthened its position when considering the absolute value of its Reserves as well, as the Council now sits above the London Borough average for both of the key metrics mentioned in the table above. **Reserves and financial position** Thus overall the Council is in a stronger position than the previous year, although the only caveat to this is that the Dedicated Schools Grant position has worsened by **£7.0 million**, generating a cumulative deficit of **£18.5 million** over the past couple of years. Due to the challenges across the Country in this area, the Council has had to submit a recovery plan to the Department for Education, within which the Council feels it could be up to 10 years before they are able to return this area to financial balance. Thus the Council will need to ensure that this area is tightly managed over the coming years to make sure this doesn't have a too detrimental impact on the Council's overall financial position. **Conclusion** On the basis of the work completed we have concluded that the risk that we identified in respect of your financial sustainability has been sufficiently mitigated and that you have proper arrangements. However it is clear that the Council needs to continue to strive to do more moving forward to make sure it is able to deal with the upcoming challenges in local government financing, particularly around the challenges with the Dedicated Schools Grant, which appears to be the next area which is becoming a particular challenge for a number of Authorities.

4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified which were charged from the beginning of the financial year to 20 October 2020, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Pooling of Housing Capital Receipts	5,000	Self-Interest (because this is a recurring fee) Self review (because Grant Thornton UK LLP provides audit services)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the total fee for the audit of £214,718 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Teachers Pension Return	6,000	Self-Interest (because this is a recurring fee) Self review (because Grant Thornton UK LLP provides audit services)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £6,000 in comparison to the total fee for the audit of £214,718 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

4. Independence and ethics (continued)

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefit Claim	21,700	Self-Interest (because this is a recurring fee) Self review (because Grant Thornton UK LLP provides audit services)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £21,700 in comparison to the total fee for the audit of £214,718 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. To mitigate against the self review threat , the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

	Fees £	Threats identified	Safeguards
Non-audit related			
CFO Insights Subscription	10,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £10,000 in comparison to the total fee for the audit of £214,718 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. These fees have not been reflected in the accounts because of the timing of CFO Insights The CFO insights service provides the Council with access to various data sources, which they decide how to use and make their own decisions about the delivery of services, therefore we do not believe there is an impact on the value for money conclusion.

Action plan

We have identified two of recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
● Medium	**Self-Authorisation of Journals** During our detailed journals testing, we identified two users who had posted and authorised their own journals. We subsequently undertook further testing on the journals posted by these two users, which identified further self-authorised journals by one of the users. Whilst we were content with the sufficiency and appropriateness of the journals selected, this gap in the control environment does increase the potential for inappropriate journals to be posted without this being picked up. We understand the potential challenges over the practicality of implementing a control in this area, but the Council needs to weigh up the risks of what could occur without a control of this type.	Ensure that there are appropriate controls in place to prevent the self-authorisation of journals to reduce the risk of inappropriate journals being posted. If journal specific controls cannot be introduced, higher level controls should be considered to provide some assurance in this area. **Management response** Journals are subject to strict controls. Detailed rules on their use are set out in the journals protocol which details the procedures to be followed when using general ledger journals. Departmental Finance Managers must assure themselves that proper control is exercised over those staff inputting journals and should review and monitor the journals created. Journal protocol procedures will be reviewed to ensure there is appropriate segregation and evidence of review/authorisation.
● Medium	**Reporting of In-Year Budget Monitoring** During our Value for Money Work, we have identified the in-year reporting of the Council's Budget Monitoring has been irregular, with no consistent pattern of reports going to Cabinet or other Committees. Whilst there has been clear evidence of things strengthening in this area since the onset of Covid-19, the Council should look to ensure more regular report is maintained once things return to normal to enable issues to be challenged in a timely manner and remedial action to be put in place promptly.	Ensure that there is a clear timetable for reporting in-year financial performance to Cabinet and that this is done with sufficient regularity to allow Members to have a clear handle on the position during the course of the year. **Management response** The budget monitoring arrangements require each chief officer to produce a budget monitoring report monthly in accordance with a corporate timetable set by the Strategic Director of Finance and Governance. Formal monitoring to Cabinet is undertaken on a regular basis and included on the Forward Plan for the forthcoming year. Reporting is undertaken by exception and will be more frequent and regular where appropriate.

Controls

- ● - Red - High – Significant effect on control system
- ● - Amber - Medium – Effect on control system
- ● - Green - Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of Southwark Council's 2017/18 financial statements, which resulted in one recommendation being reported in our 2017/18 Audit Findings report. We are pleased to report that management have implemented this recommendation and are satisfied this does not need to be carried forward.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**HR – Casual Workers** In the past three years, we identified an issue that the Council needed to ensure sufficient documentation is in place to confirm the employment status of casual workers engaged during the course of the year.	We have undertaken considerable discussion with the Council during the last twelve months over this area and have identified that enhanced processes have been put in place around the recruitment of casual workers. This ensures that the Council has undertaken appropriate consideration before taking these workers on and ensures that appropriate documentation is in place in respect of these employees. On this basis we have accepted that the Council have cleared the original recommendation, and thus we are able to close this recommendation in 2019-20.

Assessment

✓ Action completed

X Not yet addressed

Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Detail	Comprehensive Income and Expenditure Statement £‘000	Statement of Financial Position £’000	Impact on total net expenditure £’000
Updated Pensions Valuations As mentioned earlier in the Report, the initial Net Pensions Liability included within the Accounts was based on December 2019 actuals rolled forward to March 2020, instead of being based on March 2020 actuals. Due to the impact of Covid-19, when an updated report was obtained from the Actuary using the March 2020 Actuals, the Net Pensions Liability increased by **£22.1 million**, due to reduction in the Asset Values at that date.	Dr Other Comprehensive Income and Expenditure 22,100 Cr Movement in Reserves Statement 22,100	Dr Pensions Reserve 22,100 Cr Pensions Liability 22,100	The increase in expenditure of 22,100 is reversed out through the MiRS.
Removal of Duplicate Asset During the course of the year, the Council identified an item of surplus land held on the Asset Register that should have been removed in 2018-19, when the full site became operational. Instead of treating this item as a disposal in 2019-20, a prior period adjustment has been required to reverse out the previous revaluation gains incorrectly recognised in the prior year. This restated the closing 2018-19 position by **£21.5 million**. There is nil impact overall.	Dr Movement in Reserves Statement 21,500 Cr Gain/Loss on Disposal 21,500	Dr Surplus Assets 21,500 Cr Capital Adjustment Account 21,500 Dr Capital Adjustment Account 21,500 Cr Revaluation Reserve 21,500	The Gain on Disposal of 21,500 will have been removed, and will now have been processed via the prior period adjustment.
Overall impact	**£nil**	**£nil**	**£nil**

Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. The Audit, Governance and Standards Committee is required to approve management's proposed treatment of all items recorded within the table below:

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000	Reason for not adjusting
1	**Overstatement of Housing Benefits Debtors** During our testing of the Council's Housing Benefit Debtors included within the Accounts, we identified four cases, with a total value of £5,696, where the Debtor Balance included within the Accounts did not tie back to the Housing Benefit System, when we would have expected it to. We have extrapolated these errors over the population, which indicates that the balance could be overstated by **£1.004 million**.	Dr Expenditure 1,004	Cr Debtors 1,004	An increase of 1,004	This is an extrapolated error and not reflective of the full population. We are liaising with Northgate, our Housing Benefit System Supplier, to understand these issues and identify other cases affected in this way. There is no known system solution fix or any Northgate means to isolate affected cases.
	Overall extrapolated impact	£1,004	£1,004	£1,004	

Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Misclassification and disclosure changes

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

Disclosure omission	Detail	Impact on the Accounts	Adjusted?
Note 13 – Property, Plant and Equipment, Note 23 Capital Adjustment Account and Revaluation Reserve	Prior period adjustment of **£21.5 million**	The notes mentioned have been updated to reflect the impact of the prior period adjustment and in year correction, as identified on the previous page, through the remainder of the Accounts.	✓
Note 23 – Pensions Reserve and Note 37 – Defined Benefit Pension Schemes	Increase in Net Pension Liability of **£22.1 million**	The notes mentioned have been updated to reflect the impact of the increase in the Net Pensions Liability, as identified on the previous page, through the remainder of the Accounts.	✓
Minor Disclosure Issues	Various Notes	A number of other minor disclosure amendments have been processed in the areas mentioned. None of these are individually significant enough to warrant separate disclosure.	✓

Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit fees	Proposed fee	Final fee
Council Audit	214,718	TBC
Total audit fees (excluding VAT)	**£214,718**	**£214,718**

The fees reconcile to the financial statements.

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services		
Certification of Housing Benefit Return	24,000	TBC
Certification of Pooling of Housing Capital Receipts	6,000	TBC
Certification of Teachers Pension Return	7,000	TBC
Non-Audit Related Services		
CFO Insights	10,000	10,000
Total non-audit fees (excluding VAT)	**£47,000**	**TBC**

Audit opinion

We anticipate we will provide the Council with an unqualified audit opinion including an Emphasis of Matter Paragraph

Independent auditor's report to the members of Southwark Council

Report on the Audit of the Financial Statements

Opinion
We have audited the financial statements of Southwark Council (the 'Authority') for the year ended 31 March 2020 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:
• give a true and fair view of the financial position of the Authority as at 31 March 2020 and of its expenditure and income for the year then ended;
• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
• have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of macro-economic uncertainties on our audit
Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Strategic Director of Finance and Governance and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Authority's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the Authority's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

Conclusions relating to going concern
We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:
• the Strategic Director of Finance and Governance's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
• the Strategic Director of Finance and Governance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

In our evaluation of the Strategic Director of Finance and Governance's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority will continue in operation.

Audit opinion

We anticipate we will provide the Council with an unqualified audit opinion including an Emphasis of Matter Paragraph

Emphasis of Matter – effects of Covid-19 on the Valuation of Land and Buildings and Investment Properties
We draw attention to Note 5 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's land and buildings, including Investment Properties and the Authority's share of the pension fund's property investments as at 31 March 2020. As disclosed in note 5 to the financial statements, the outbreak of Covid-19 has impacted global financial markets and as the valuation date, less weight can be attached to previous market evidence to inform opinions of value. There is an unprecedented set of circumstances on which to base a judgement. Valuations are therefore reported on the basis of 'material valuation uncertainty' as per the RICS Red Book Global. A material valuation uncertainty was therefore disclosed in both the Authority's property valuer's reports, which also covers the Council's Investment Property, and the pension fund's property valuation report. Our opinion is not modified in respect of this matter.

Other information
The Strategic Director of Finance and Governance is responsible for the other information. The other information comprises the information included in the Statement of Accounts and the Annual Governance Statement, other than the financial statements and our auditor's report thereon, and our auditor's report on the pension fund financial statements. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice
In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
Under the Code of Audit Practice, we are required to report to you if:
• we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
• we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
• we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
• we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
•we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

Responsibilities of the Authority, the Strategic Director of Finance and Governance and Those Charged with Governance for the financial statements
As explained more fully in the Statement of Responsibilities set out on page 11, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Strategic Director of Finance and Governance. The Strategic

Audit opinion

We anticipate we will provide the Council with an unqualified audit opinion including an Emphasis of Matter Paragraph

Director of Finance and Governance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Strategic Director of Finance and Governance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Strategic Director of Finance and Governance is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

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

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

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

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion
On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources
We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Delay in certification of completion of the audit
We are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2020. As the Authority has not prepared the Pension Fund Annual

Audit opinion

We anticipate we will provide the Council with an unqualified audit opinion including an Emphasis of Matter Paragraph

Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

AND

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2020. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

AND

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2020 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our consideration of an objection brought to our attention by a local authority elector under Section 27 of the Local Audit and Accountability Act 2014. We are satisfied that these matters do not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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

[Signature]

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

[Date]