The Audit Findings Report for Southwark Council

Year ended 31 March 2021

17 November 2021

Contents

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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)

Name : Ciaran McLaughlin

For Grant Thornton UK LLP

Date : 17 November 2021

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 2021 for those charged with governance.

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 remotely during June to November 2021. Our findings are summarised on pages 5 to 24. We have identified one adjustment to the financial statements that have resulted in a £2.804 million adjustment to the Council's Comprehensive Income and Expenditure Statement. 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.

At this stage our work is largely complete, following the sickness issues encountered by the audit team earlier in the audit. However, testing remains ongoing in one or two areas where issues have been identified from the initial work performed to enable us to reach a conclusive position in these areas. At this stage we have not identified any issues which may impact on our proposed audit opinion, subject to the completion of the following outstanding matters;

- completion of our outstanding testing (refer to page 5 for more details)
- receipt of management representation letter {refer to Appendix F}; 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 and the financial statements we have audited.

Our anticipated audit report opinion will be unmodified.

1. Headlines

Value for Money (VFM) arrangements	
Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit. Auditors are required to report their commentary on the Council's arrangements under the following specified criteria: - Improving economy, efficiency and effectiveness; - Financial sustainability; and - Governance	We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. Further details are set in Section 3 to this report and a audit letter explaining the reasons for the delay is attached in the Appendix G to this report. We expect to issue our Auditor's Annual Report by mid January 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. No risks of significant weakness have been identified from the work performed to date. Our work in respect of the VFM arrangements is underway and an update is set out in the Value for Money arrangements section of this Report.
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 expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, which will be reported in our Auditor's Annual Report by January 2022.
Significant Matters	We did not encounter any significant difficulties or identify any significant matters arising during our audit.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff amidst the pressure they were under during these unprecedented times.

2. Financial Statements

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;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

No changes have been made to the approach set out in the Audit Plan issued on 2 June 2021.

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 shortly after the Audit, Governance and Standards Committee meeting on 17 November 2021, as detailed in Appendix E. These outstanding items include:

- completion of our outstanding testing in the following areas: Property, Plant and Equipment and Investment Properties.
- receipt of management representation letter; and
- review of the final set of financial statements.

2. Financial Statements

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 on 2 June 2021.

We detail in the table our determination of materiality for Southwark Council.

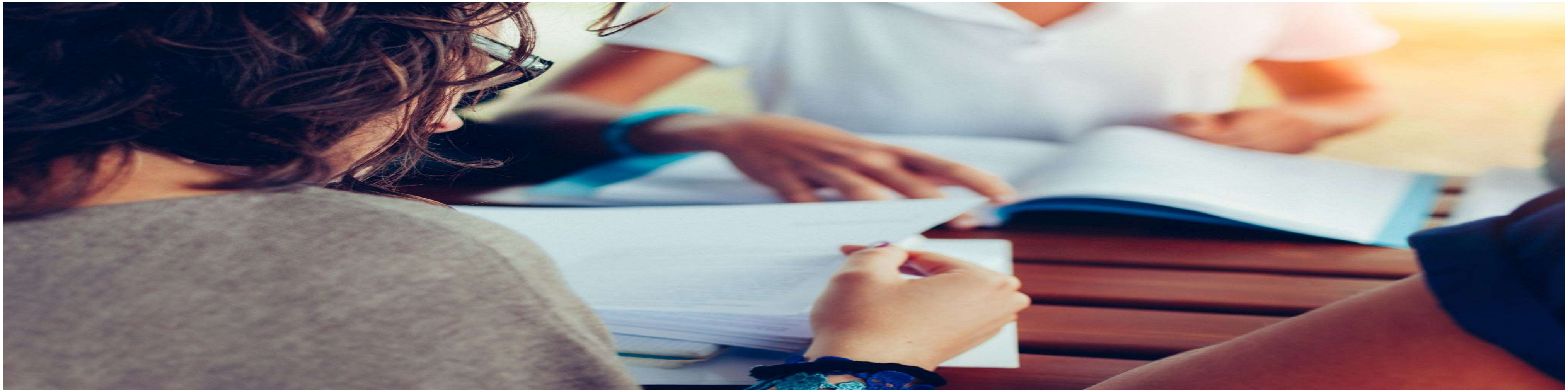
	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	18,000,000	Our Headline Materiality is based on the prior year Gross Revenue Expenditure included in the Accounts.
Performance materiality	12,600,000	Performance Materiality is based on a percentage of the overall materiality.
Trivial matters	900,000	Triviality is based on a percentage of the overall materiality.

2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	During the audit, we have undertaken the following work: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our audit work has not identified any issues in respect of this risk.



2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
The revenue cycle includes fraudulent transactions (rebutted) 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.	During the audit, we have undertaken the following work: • reviewed and tested the Council's revenue recognition policies • performed testing on material revenue streams Our cut-off audit work identified two items of revenue which were omitted from the Accounts despite them relating to the year of account. The total value of these errors was £376k, and both of these errors were above the Council's deminimus for accruing these as Revenue. As a result of these errors additional testing was undertaken, which did not identify any further issues in this area. Due to the size of these errors, Management have not amended the Accounts, which we are comfortable with given the trivial nature of the two issues identified. However we have raised a recommendation for Management around the closedown timetable to ensure sufficient time is allowed for accruals at year end to ensure the balances included within the Accounts are complete.
The expenditure cycle includes fraudulent transactions (rebutted) Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition needs to be considered, especially if an entity is required to meet financial targets. Having considered the risk factors relevant to the Council, we have determined that no separate significant risk relating to expenditure recognition is necessary, as the same rebuttal factors listed above relating to revenue recognition apply. We consider that the risk relating to expenditure recognition would relate primarily to period-end journals and accruals which are considered as part of the standard audit tests mentioned and our testing in relation to the significant risk of Management Over-ride of Controls as mentioned on page 7.	During the audit, we have undertaken the following work: • obtained an understanding of the design effectiveness of controls relating to operating expenditure. • performed testing over post-year end transactions to assess completeness of expenditure recognition. • tested a sample of operating expenditure to gain assurance in respect of the accuracy of expenditure recorded during the financial year. Our work on expenditure cut-off testing has identified a number of items which were incorrectly excluded from the Accounts, despite them relating to the year of account, identical to the revenue issues mentioned above. The total value of these errors was £253k, and on the back of the Council undertook a further review of payments which may have been incorrectly treated, which identified items totalling £1.632 million which had not been accrued in the Accounts. These items have been treated as an unadjusted error and will be included in Management's Letter of Representation. Given the fact we have found issues on both the revenue and expenditure cut-off, it is clear that Management need to strike a better balance between closing the accounts early and ensuring they include all relevant transactions.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of Land and Buildings The Council 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 (£5.127 billion) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council's 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.	During the audit, we have undertaken the following work: • 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 also engaged our own valuer to assess the instructions to the Council's valuer, the Council's valuer's report and the assumptions that underpin the valuation. • tested revaluations made during the year to see if they had been input correctly into the Council's asset register • Evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. From the work performed to date, we have identified that at least two of the Council's Schools have been valued using incorrect pupil capacities, leading to an overstatement of the values included within the Accounts. Due to the nature of the issue identified, Management are currently working with their expert, the internal valuer, to determine the full scale of the issue and whether this will require an amendment to the Accounts. We will provide an update to the Audit, Governance and Standards Committee once this exercise has concluded.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of Investment Properties The Council revalues its Investment Properties on an annual basis to ensure that these assets are held at Fair Value 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 (£344 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 2021. 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	During the audit, we have undertaken the following work: • 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. We also engaged our own valuer to assess the instructions to the Council's valuer, the Council'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 Council'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 Our work on the Investment Property Valuations included within the Accounts identified a number of errors with the individual valuations included within the Accounts, meaning the value of these assets in the Accounts is understated by £2.804 million. The Council has agreed to amend the errors which are above our trivial threshold, and has left the items below this threshold unadjusted, which as they are trivial means they will not be considered as an unadjusted misstatement. We are also currently working through the Council's Accounting for the Canada Water Scheme, on which we have raised an internal technical query to ensure the correct accounting treatment has been applied in the Accounts. Again we will provide an update to Management and the Audit, Governance and Standards Committee once this query has been resolved.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of the Pension Fund Net Liability The Council'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 (£607 million in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	During the audit, we have undertaken the following work: • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate 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 Council's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Council 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 performed any additional procedures suggested within the report. Our audit work has not identified any issues in respect of this risk.

2. Financial Statements – new issues and risks

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 deficiencies identified during the year.

Issue	Commentary	Auditor view
IFRS 16 implementation • Although the implementation of IFRS 16 has been delayed to 1 April 2022, audited bodies still need to include disclosure in their 2020/2021 statements to comply with the requirement of IAS 8 para 31. As a minimum, we expected 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 continued to discuss the implementation of IFRS 16 with the Council, and there is a clear recognition that the lack of a definitive time frame in this area means it is difficult for the Council to proceed in terms of when the standard will finally be implemented.	No issues identified in respect of this area.
Recognition and Presentation of Grant Income • The Council receives a number of grants and contributions and is required to follow the requirements set out in sections 2.3 and 2.6 of the Code. The main considerations are to determine whether the Council is acting as principal/ agent, and if there are any conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income. The Council also needs to assess whether grants are specific, and hence credited to service revenue accounts, or of a general or capital nature in which case they are credited to taxation and non-specific grant income.	During the course of the audit we have performed testing on the Grant Income recognised in the Accounts, including where Income has been deferred to a later year. As a result of the Covid-19 Pandemic there has been a considerable increase in the level of funding received by the Council via this route and thus this testing has been more onerous than would have been the case in previous years.	Our audit work has not identified any issues in respect of this risk.

2. Financial Statements – new issues and risks

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 deficiencies identified during the year.

Issue	Commentary	Auditor view
Redevelopment of Canada Water • During the course of the year the Council's Master Development Agreement with British Land in respect of the Canada Water site became unconditional, which is going to lead a major redevelopment of the area over a number of the years. As part of the Agreement, the Council has contributed some land, and has the option at various stages to either invest further into the scheme, or transfer its rights to British Land. The first tranche has started in 2020-21 and thus this is the first year that this transaction has featured within the Accounts.	The Council have included some detailed disclosures in the first draft of the Accounts, and to date we have requested some enhancements to these disclosures to improve the transparency of these disclosures. We are currently working through the accounting for the Scheme and discussing it with our financial reporting team and will provide further feedback to the Council once this is concluded.	We are currently working through the Council's Accounting for the Canada Water Scheme, on which we have raised an internal technical query to ensure the correct accounting treatment has been applied in the Accounts. Again we will provide an update to Management and the Audit, Governance and Standards Committee once this query has been resolved.
Capital Commitments • During our work on the Capital Commitments disclosed in the Accounts, Management identified that the Commitments disclosed in the Accounts, which were found to have been based on Purchase Order (PO) Reports produced after year end which did not cover committed spend for which a PO had yet to be raised. This led to a significant increase in the value as at 31 March 2021 from £127 million in the draft Accounts to £271 million in the revised Accounts. A similar adjustment was also made in respect of the prior year comparative to ensure this was disclosed on a consistent basis.	The Council provided us with an updated disclosure and supporting listings, and we subsequently undertook testing on both the current and prior year Commitment figures for a sample of projects to confirm whether these were now being correctly recorded in the Accounts.	Our subsequent testing has confirmed the appropriateness of the revised disclosures and we have requested some narrative being added to the note to explain the movement from the previous year.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Council Dwelling valuations – £3,548 million	The Council owns 36,918 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 **£3,548 million**, a net increase of **£120 million** from 2019/20 (**£3,428 million**).	• From the work performed in this area, we are comfortable with the valuation of the Council Dwellings 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. • The valuer has formally dated the valuation as at the 31st of December 2020, and has then undertaken a review to confirm that there is no material impact on the valuation to the 31st of March 2021. • 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. • 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.	● Light Purple

Assessment

- ● [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £971 million	Other land and buildings comprises £597 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 (£374 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 2020 on a five yearly cyclical basis. 87% of total assets were revalued during 2020/21. The valuation of properties valued by the valuer has resulted in a net increase of £98 million. Management have considered the year end value of non-valued properties (£138 million), and the potential valuation change in the assets revalued at 31 December 2020, 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 £971 million, a net decrease of £61 million from 2019/20 (£1,032 million).	From the work performed in this area, we have identified some issues 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 2021, 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 2021 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. (continued over the page)	● Purple

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £971 million	Other land and buildings comprises £597 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 (£374 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 2020 on a five yearly cyclical basis. 87% of total assets were revalued during 2020/21. The valuation of properties valued by the valuer has resulted in a net increase of £98 million. Management have considered the year end value of non-valued properties (£138 million), and the potential valuation change in the assets revalued at 31 December 2020, 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 £971 million, a net decrease of £61 million from 2019/20 (£1,032 million).	(continued from the previous page) From the work performed to date, we have identified that at least two of the Council's Schools have been valued using incorrect pupil numbers, leading to an overstatement of the values included within the Accounts. Due to the nature of the issue identified, Management are currently working with their expert, the internal valuer, to determine the full scale of the issue and whether this will require an amendment to the Accounts. We will provide an update to the Audit, Governance and Standards Committee once this exercise has concluded.	● **Purple**

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – £688 million	The Council's total net pension liability at 31 March 2021 is **£688 million** (PY **£607 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 **£47 million** net actuarial gain during 2020/21.	• 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 2021. • 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: (see table below) • 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 2021, and thus are content with the values included within the Accounts. • No issues were identified from the work performed in this area.	Light Purple

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.1%	2.10%	●
Pension increase rate	2.7%	2.60% - 2.70%	●
Salary growth	4.2%	3.60% - 4.2%	●
Life expectancy – Males currently aged 45 / 65	22.8 20.9	45: 22.5 – 24.7 65: 20.9 – 23.0	●
Life expectancy – Females currently aged 45 / 65	25.6 23.7	45: 25.0 – 27.2 65: 23.5 – 25.5	●

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Grants Income Recognition and Presentation - £773 million	The Council receives a number of grants and contributions and is required to follow the requirements set out in sections 2.3 and 2.6 of the Code. The main considerations are to determine whether the Council is acting as principal/ agent, and if there are any conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income. The Council also needs to assess whether grants are specific, and hence credited to service revenue accounts, or of a general or capital nature in which case they are credited to taxation and non-specific grant income. As a result of the Covid-19 Pandemic there has been a considerable increase in the level of funding received by the Council via this route and thus this testing has been more onerous than would have been the case in previous years.	• From the testing performed, we have identified that the Council has treated all grants included in the Accounts correctly, based on their assessment of whether the Council is the principal or agent in respect of the particular grant.	● Light Purple
Minimum Revenue Provision - £10 million	The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. The year end MRP charge was **£9.988 million**, a net increase **of £1.0 million** from 2019/20.	• From the testing performed, we can confirm the Council's MRP has been calculated in line with the statutory guidance • We can also confirm that the Council's policy on MRP complies with statutory guidance.	● Light Purple

Assessment

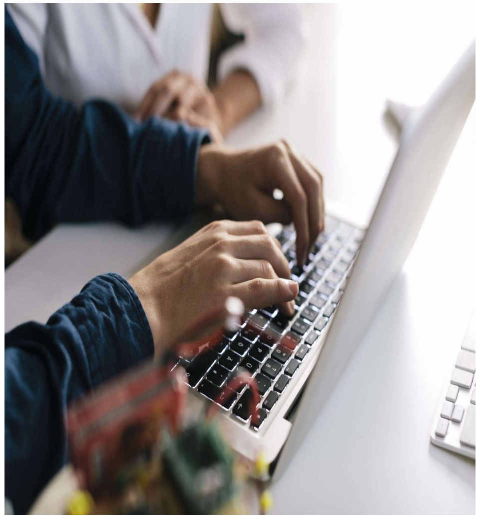
- ● [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - other communication requirements

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

Issue	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 appended to this Report.

2. Financial Statements - other communication requirements



Issue	Commentary
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.
Accounting practices	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.

2. Financial Statements - other communication requirements

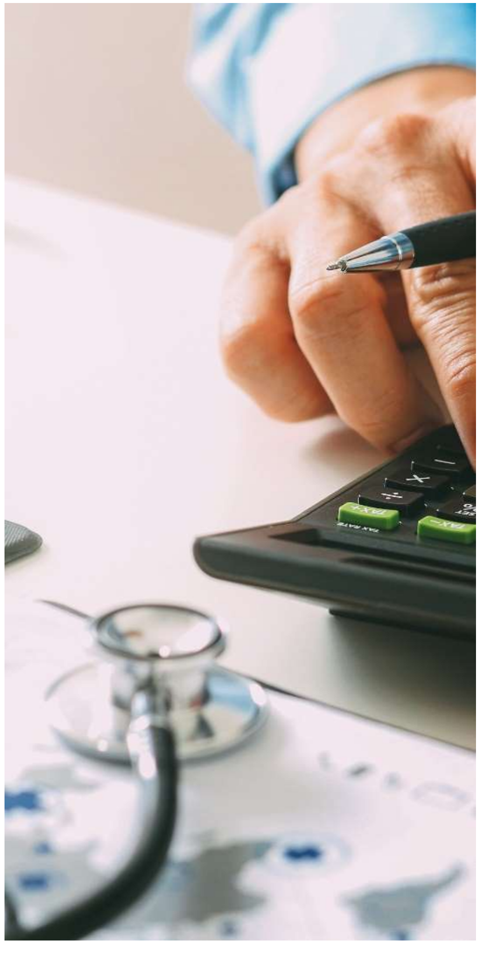
Our responsibility

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).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

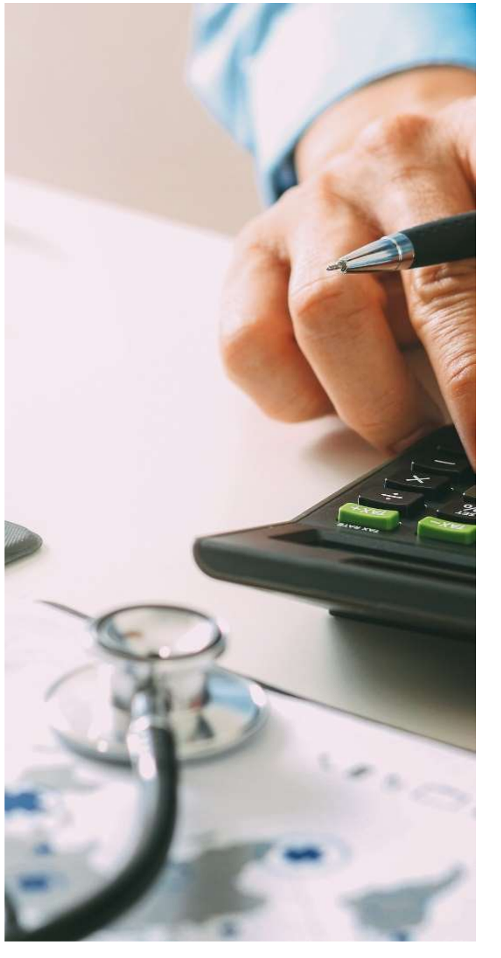
2. Financial Statements - other responsibilities under the Code

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 D.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported a significant weakness. We have nothing to report on these matters.



2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the National Audit Office (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 is not yet completed as the WGA Pack will not be released by the NAO until December 2021 at the earliest. We will complete this work in a timely manner as soon as the Pack is released.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2020/21 audit of Southwark Council in the audit report, as detailed in Appendix D, due to the extended timeframe for our work on the Council's Value for Money Arrangements and the Pension Fund Annual Report and the work on the Whole of Government Accounts, as mentioned above.



3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

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

Financial Sustainability

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

Governance

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

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendices to this report. We expect to issue our Auditor's Annual Report by mid January 2021, which is in line with the National Audit Office's revised deadline of the same date.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. To date no risks of significant weakness have been identified, but we have identified some areas of focus for our work, which are documented below, along with details of the work performed to date.

Areas of focus	Work performed to date
Delivery of the planned financial performance in 2020-21, along with the future plans of the Council in 2021-22 and beyond	To date we have: - reviewed the Council's outturn position at the end of the 2020-21 Financial Year; and - considered the main drivers for this position.
Managing the continued impact of Covid-19 on the Council's Service Delivery and Governance Arrangements	To date we have: - reviewed the governance arrangements which have been in place since the initial outbreak of Covid-19; - considered how these have evolved over the course of the year; and - started to consider how these will evolve further as part of returning the Council to some degree of normality over the course of the next 12 months.
What arrangements the Council is looking to implement post Pandemic to build on some of the changes which have taken place over the course of the past 18 months	To date we have: - reviewed the Council's forward plans for 2021-22 and beyond - considered some of the wider Policy impacts and what these may mean for the services being delivered by the Council.

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

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

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 from the beginning of the financial year to the current date, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Pooling of Housing Capital Receipts	7,000	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 £7,000 in comparison to the total fee for the audit of £257,718 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

Service	Fees £	Threats identified	Safeguards
Audit related (continued)			
Certification of Teachers Pension Return	8,000	Self-Interest (because this is a recurring fee) Self review (because GT 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 £8,000 in comparison to the total fee for the audit of £257,718 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 Housing Benefit Claim	32,000	Self-Interest (because this is a recurring fee) Self review (because GT 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 £32,000 in comparison to the total fee for the audit of £257,718 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.
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 £257,718 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 services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit, Governance and Standards Committee. None of the services provided are subject to contingent fees.

Appendices

A. Action plan – Audit of Financial Statements

We have identified one recommendation for the Council as a result of issues identified during the course of our audit. We have agreed our recommendation with management and we will report on progress on these recommendations during the course of the 2021/22 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	**Incomplete Income and Expenditure Balances at year end** As mentioned earlier in the Report, our cut-off testing on both income and expenditure identified a number of issues which resulted in a considerable level of additional testing to determine the full impact of the errors identified. Whilst we recognise the speed at which the Accounts were produced for audit, the Council need to strike a balance between this speed and ensuring that the Accounts are materially complete and include all relevant transactions relating to the financial year.	Management should revisit the closedown timetable to ensure sufficient time is allowed to ensure that all relevant income and expenditure items are included in the Accounts where applicable. Management response Agreed. We will review the accounts closedown procedures and timetable so that effective arrangements are in place and time available for quality assurance and review, within the statutory deadline.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Follow up of prior year recommendations

We identified the following issues in the audit of Southwark Council's 2019/20 financial statements, which resulted in two recommendations being reported in our 2019/20 Audit Findings report. We have followed up on the implementation of our recommendations and note one is still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	**Self-Authorisation of Journals** During our detailed journals testing in 2019/20, 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. We recommend 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.	From the testing performed in 2020-21, we identified one further journal which was self-authorised. This was discussed with Management, who confirmed that this Journal was posted in October 2020, which was before the Policy in this area was tightened on the back of the findings from the work performed in the prior year. The Council should look to ensure that all Journals are subject to appropriate review and approval ahead of being posted.

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations

We identified the following issues in the audit of Southwark Council's 2019/20 financial statements, which resulted in two recommendations being reported in our 2019/20 Audit Findings report. We have followed up on the implementation of our recommendations and note one is still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
TBC	**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. We recommended that the Council 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 year.	To be updated following the completion of our Value for Money Work.

Assessment

✓ Action completed

X Not yet addressed

C. 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 2021.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Cash and Cash Equivalents The Council had historically set off its Bank Overdraft against the positive cash balances on the Balance Sheet, which is only permitted by the Code where there is a legal right of offset. Thus the Overdraft has now been moved from a Current Asset to a Current Liability, but this has no impact on the Net Assets of the Council.	n/a – no impact on the CIES	Dr Cash and Cash Equivalents £16,620 Cr Bank Overdraft £16,620	n/a – no impact on total net expenditure, this is purely a presentational change to the Balance Sheet
Incorrect Investment Property Valuations Our testing of the Investment Property Valuations included within the Accounts identified a number of assets where the values included within the Accounts were inconsistent with that generated by the Valuer from his formal revaluation. These errors led to an understatement of the value of the assets of £2.804 million.	Dr MIRS - Capital Adjustment Account £2,804 Cr Financing and Investment Income £2,804	Dr Investment Properties £2,804 Cr SOFP - Capital Adjustment Account £2,804	A reduction in total net expenditure of £2,804.
Overall impact	£2,804	£2,804	£2,804

C. 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	Auditor recommendations	Adjusted?
Note 10 – Taxation and Grant Income	During their review of this Note, the Council identified that £3.4m should have been classified as an un-ringfenced government grant within the Note, although the SAP position was accurately recorded. The classification has been updated in the revised Accounts and the total value of this Note remains unchanged.	✓
Note 11 – Adjustments between Funding and Accounting Basis	We identified that the Council has incorrectly transposed the figures relating to Employers Contributions and IAS19 Costs in this Note, which has been subsequently updated in the revised Accounts.	✓
Note 13 – Property, Plant and Equipment – Surplus Assets	Our testing of Surplus Assets identified that the value of assets actually revalued in year was actually **£81,426k**, as opposed to the **£85,150k** shown in the draft Accounts. This has been corrected in the revised Accounts.	✓
Note 13 – Property, Plant and Equipment – Capital Commitments	Our work in this area also identified errors in the Capital Commitments disclosed in the Accounts, which were found to have been based on Purchase Order (PO) Reports produced after year end which did not cover committed spend for which a PO had yet to be raised. This led to a significant increase in the value as at 31 March 2021 from **£127 million** in the draft Accounts to **£271 million** in the revised Accounts. A similar adjustment was also made in respect of the prior year comparative to ensure this was disclosed on a consistent basis, and thus generated a Prior Period Adjustment in the Accounts.	✓
Note 14 – Investment Properties	The disclosures relating to Investment Properties have been updated for the valuation issues mentioned earlier in the Report, and to provide further detail around Investment Properties which are being leased.	✓

C. 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	Auditor recommendations	Adjusted?
Note 38 – Financial Instruments and Note 40 – Fair Value Assets and Liabilities	A number of enhancements were made to these Notes to increase the transparency of the disclosures relating to the Council's Financial Instruments and Fair Value Disclosures.	✓
Minor Disclosure Issues - Narrative Report - Accounting Policies - Note 19 – Provisions	A number of other minor disclosure amendments have been processed. None of these are individually significant enough to warrant separate disclosure.	✓

C. Audit Adjustments

Impact of unadjusted misstatements

The table below provides details of adjustments identified during audit which had not been made within the final set of 2020/21 financial statements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Understatement of Expenditure During our testing of expenditure cut-off, we identified a number of items which should have been accrued in the accounts but had been omitted by Management. Following further testing and a detailed review by Management, we identified that **£1.632 million** of items had been incorrectly excluded from the Accounts. The transactions are split between Revenue and Capital, with **£361k** impacting Revenue and **£1.271m** impacting the Capital Position.	Dr Expenditure 361	Dr PPE 1,271 Cr Creditors 1,271 Cr General Fund 361	An increase of 361	The impact on the Accounts is immaterial, and thus we propose not to adjust for this issue.
Overall impact	£361	£361	£361	

C. Audit Adjustments

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2019/20 financial statements, along with an update on the position during 2020-21.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
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	2019-20 narrative - 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. *2020-21 Update – our testing in this area found further issues in this area, which generated an extrapolated error of £840k. Given this is testing over the same balance, this effectively replaces the £1,004k mentioned in the previous year.*
Overall impact	£1,004	£1,004	£1,004	

D. 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	£257,718	TBC
Total audit fees (excluding VAT)	**£257,718**	**TBC**

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services		
Certification of Pooling of Housing Capital Receipts	7,000	TBC
Certification of Teachers Pension Return	8,000	TBC
Certification of Housing Benefit Claim	32,000	TBC
Certification of GLA Compliance Return	5,000	TBC
Non-Audit Services		
CFO Insights subscription	10,000	TBC
Total non-audit fees (excluding VAT)	**£62,000**	**TBC**

The fees reconcile to the financial statements.

The reason that the 2019-20 Additional Audit Fees of £32,000 are shown in the 2020-21 Financial Year is that these can only be charged once approved by PSAA, which did not take place until early 2021, and hence there was no liability in advance of this date.

E. Audit opinion

Our audit opinion is included below.

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

Independent auditor's report to the members of Southwark Council

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of Southwark Council (the 'Authority') for the year ended 31 March 2021, 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 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2021 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 2020/21; 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, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. 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.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Strategic Director of Finance and Governance's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

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 2020/21 that the Authority's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Strategic Director of Finance and Governance's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Strategic Director of Finance and Governance with respect to going concern are described in the 'Responsibilities of the Authority, the Strategic Director of Finance and Governance and Those Charged with Governance for the financial statements' section of this report.

E. Audit opinion

Our audit opinion is included below.

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

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, 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 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 the 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 in April 2020 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 '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 matters 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, the other information published together with the financial statements in the Statement of Accounts 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 in the Statement of Responsibilities, 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 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

E. Audit opinion

Our audit opinion is included below.

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

accounting in the United Kingdom 2020/21, 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planed and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

• We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003.

• In addition, we concluded that there are certain significant laws and regulations that may have an effect on the determination of the amounts and disclosures in the financial statements and those laws and regulations relating to health and safety, employee matters, and data protection.

• We enquired of senior officers and the Audit, Governance and Standards Committee, concerning the Authority's policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;

- the detection and response to the risks of fraud; and

- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

• We enquired of senior officers, internal audit and the Audit, Governance and Standards Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

• We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:

E. Audit opinion

Our audit opinion is included below.

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

- Journal entries posted which met a range of criteria determined during the course of the audit

• Our audit procedures involved:

- evaluation of the design effectiveness of controls that the Strategic Director of Finance and Governance has in place to prevent and detect fraud;

- journal entry testing, with a focus on those journals we have determined to be most risky based on our risk scoring;

- challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings, investment property and defined benefit pensions liability valuations;

- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

• These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

• The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to land and buildings, investment property and defined benefit pensions liability valuations.

• Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation

- knowledge of the local government sector

- understanding of the legal and regulatory requirements specific to the Authority including:

- the provisions of the applicable legislation

- guidance issued by CIPFA, LASAAC and SOLACE

- the applicable statutory provisions.

• In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Authority's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.

- the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

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

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does

E. Audit opinion

Our audit opinion is included below.

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

not have a material effect on our opinion on the financial statements for the year ended 31 March 2021.

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 undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

• Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;

• Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and

• Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for Southwark Council for the year ended 31 March 2021 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report.

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

xx November 2021

F. Management Letter of Representation

[LETTER TO BE WRITTEN ON CLIENT HEADED PAPER]

Grant Thornton UK LLP

30 Finsbury Square

London

EC2A 1AG

xx November 2021

Dear Sirs

Southwark Council

Financial Statements for the year ended 31 March 2021

This representation letter is provided in connection with the audit of the financial statements of Southwark Council for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards, and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include the valuations of Property, Plant and Equipment and Pensions Liabilities. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

vii. Except as disclosed in the financial statements:

a. there are no unrecorded liabilities, actual or contingent

b. none of the assets of the Council has been assigned, pledged or mortgaged

c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

F. Management Letter of Representation

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Council's financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xi. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiii. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that :

a. the nature of the Council means that, notwithstanding any intention to liquidate the Council or cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements

b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and

c. the Council's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements

Information Provided

xiv. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the Council's financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.

xv. We have communicated to you all deficiencies in internal control of which management is aware.

xvi. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xvii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xviii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xix. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xx. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxi. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.

xxii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

F. Management Letter of Representation

Annual Governance Statement

xxiii. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

xxiv. The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the Council's financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Audit, Governance and Standards Committee at its meeting on 20 September 2021

Yours faithfully

Name……………………………

Position…………………………..

Date……………………………..

Name……………………………

Position…………………………..

Date……………………………..

Signed on behalf of the Council

G. Audit letter in respect of delayed VFM work

Our ref:

Your ref:

Chair of Audit, Governance and Standards Committee

Southwark Council

160 Tooley Street

London

SE1 2QH

24 September 2021

Dear Chair of Audit, Governance and Standards Committee

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies we are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than the end of December 2021.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

Ciaran McLaughlin

Key Audit Partner

Grant Thornton

grantthornton.co.uk