

Item No. 10. & 11.	Classification: Open	Date: 16 July 2019	Meeting Name: Audit, governance and standards committee
Report title:		2018-19 Statement of Accounts for Southwark Council and Audit findings report (ISA 260) - including pensions fund: Southwark Council Audit Findings Report 2018-19 and Pension Fund Audit Findings Report 2018-19	
Ward(s) or groups affected:		All	
From:		Strategic Director of Finance and Governance	

RECOMMENDATION

1. That the audit, governance and standards committee:
 - a) consider the matters raised in Grant Thornton's audit findings report for 2018-19 (Appendix A) before approval of the council's accounts
 - b) note the adjustments to the accounts as set out on page 24 of the audit findings report
 - c) approve the council's letter of representation set out at Appendix B
 - d) consider the matters raised in the pension fund audit findings report 2018-19 (Appendix C) prior to approval of the pension fund statement of accounts
 - e) note the adjustments to the pension fund statement of accounts as set out in page 12 of the audit findings report
 - f) approve the pension fund letter of representation set out at Appendix D
 - g) approve the Statement of Accounts 2018-19 (Appendix E), subject to any final changes required by the conclusion of the audit, being delegated to the Strategic Director of Finance and Governance in consultation with the chair of audit, governance and standards committee.

BACKGROUND INFORMATION

2. As the council's appointed external auditor, Grant Thornton is required under the statutory Code of Audit Practice for Local Government Bodies to issue reports to those charged with governance summarising the conclusions of the audit work. The audit, governance and standards committee is the council's constitutional body for receiving these reports and needs to consider the auditor's reports before approving the accounts.
3. The audit of the pension fund accounts is separate from the audit of the council's main accounts. There is a separate audit findings reports from the auditor for the Pension Fund accounts.

4. The auditor is required by professional auditing standards to report to the committee certain matters before giving their opinion on the financial statements. There are separate sections in each report covering these matters.
5. In addition to reporting on the financial statements, the auditor reports on any circumstances where they suspect or detect fraud and on whether, in their view, the council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
6. The principal purposes of the reports are to:
 - reach a mutual understanding of the scope of the audit and the respective responsibilities of the auditor and the audit, governance and standards committee;
 - share information to assist both the auditor and the committee to fulfil their respective responsibilities;
 - provide the committee with recommendations for improvement arising from the audit process.
7. Before the auditor issues their formal opinion, they will require letters of representations to be provided by the council. The draft letters, relating to each of the main accounts and pension fund accounts, are set out in Appendices B and D respectively. The final letters, once approved by this committee, will be signed by the strategic director of finance and governance on behalf of the council.

KEY ISSUES FOR CONSIDERATION

Audit opinion

8. The auditor expects to give unqualified opinions on both council's accounts and pension fund accounts prior to the statutory deadline of 31 July 2019.
9. The purpose of Grant Thornton's Audit Findings Report (AFR) is to detail their findings and matters arising during the course of auditing the financial statements. The report of the main accounts is attached at Appendix A and includes key audit issues and value for money conclusions. The Auditors will make an oral presentation of their findings to the Committee.
10. It is very pleasing to note that Grant Thornton have commented that *'the small number of amendments identified in this Report (AFR) reflect the quality of the draft Accounts prepared by management.'*
11. There are currently no areas of dispute between the Council and the Auditors and no unadjusted misstatements, subject to the outstanding review of the accounting treatment of the impact of 'McCloud' and 'GMP' referenced in Grant Thornton's AFR.
12. The McCloud judgement refers to the Court of Appeal's affirmation of an Employment Tribunal decision that the treatment of younger judges was less favourable on grounds of age compared to that of older judges in the transition to new pension arrangements. The judgement will have direct implications for local government pension funds.
13. At the time the draft accounts were prepared and approved, there was general consensus within the local government finance sector that the appropriate

accounting treatment was to report the impact within the accounts as a contingent liability, if material. Using the Government Actuary's Department (GAD) estimate, the potential increase in the pensions liability for Southwark council would be between £11.7m and £23.4m (below materiality of £25m).

14. On 27 June 2019 it was confirmed that the Supreme Court would not give the government permission to challenge the judgement. Whilst the judgement increased the probability that the impact would become an actual obligation, there remain a number of complexities and uncertainties which would support the judgement that the appropriate accounting treatment remains as a contingent liability. However, the view of the auditing firms including Grant Thornton is that this is now an actual liability which would require adjustment to the accounts if material.
15. Accordingly we have commissioned the council's actuary to update the pension fund valuation report. On receipt of the report, the strategic director of finance and governance will determine the appropriate accounting treatment within the councils Statement of Accounts.
16. The 'GMP' issue refers to a court ruling on 26 October 2018 to determine whether members' benefits should be adjusted to reflect gender inequalities in Guaranteed Minimum Pensions (GMPs). The impact for Southwark is immaterial.

Letters of representation

17. The proposed letters of representation for the main council statements and the pension fund are set out in Appendices B and D respectively. The auditor has asked for a number of representations to be given, and there are no reservations in being able to give these representations.

Community impact statement

18. This report and the accompanying statement of accounts are not considered to have a direct impact on local people and communities.

Resource implications

19. There are no direct resource implications arising from this report.

Consultation

20. Consultation on the accounts is carried out through public inspection. The accounts were open for public inspection from 3 June 2019 until 12 July 2019. The audit findings reports are key documents in assessing the council's progress and plans for the future, such as through the council's policy and resources strategy. The final report will be published on the council's website.

Reasons for lateness

21. The audit of the accounts is ongoing. The Audit Findings Reports were received after the dispatch of the audit, governance and standards committee agenda.

Reasons for urgency

22. The Accounts and Audit Regulations 2015 require the council to approve the accounts by 31 July each year.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

23. None required.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Finance and Governance files	Finance and Governance, Second Floor, Tooley Street	Rob Woollatt 020 7525 0614

APPENDICES

No.	Title
Appendix A	Grant Thornton - Council Audit Findings Report 2018-19
Appendix B	Letter of Representation – Council
Appendix C	Grant Thornton - Pension Fund Audit Findings Report 2018-19
Appendix D	Letter of Representation – Pension Fund
Appendix E	Statement of Accounts 2018-19

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report Author	Rob Woollatt, Interim Departmental Finance Manager	
Version	Final	
Dated	12 July 2019	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments included
Director of Law and Democracy	No	N/A
Strategic Director of Finance and Governance	N/A	N/A
Cabinet Member	N/A	N/A
Date final report sent to Constitutional Team		12 July 2019