

Audit, Governance and Standards Committee

Wednesday 2 June 2021

6.30 pm

Ground Floor Meeting Room G02A - 160 Tooley Street, London SE1
2QH

Supplemental Agenda No.1

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Date: 28 May 2021

Item No. 10.	Classification: Open	Date: 2 June 2021	Meeting Name: Audit, governance and standards committee
Report title:		Draft internal audit annual report	
Ward(s) or groups affected:		All	
From:		Strategic Director of Finance and Governance	

RECOMMENDATIONS

1. That the audit, governance and standards committee note the report, as attached at Appendix A.

BACKGROUND INFORMATION

2. The purpose of the report is to detail the work undertaken by internal audit for London Borough of Southwark and provide an overview of the effectiveness of the controls in place for the full year.

Policy implications

3. This report is not considered to have direct policy implications.

Community impact statement

4. This report is not considered to contain any proposals that would have a significant impact on any particular community or group.

Resource implications

5. If there are direct resource implications in this report, such as the payment of fees, these will be met from existing budget provision.

Consultation

6. There has been no consultation on this report.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

7. None required.

REASONS FOR LATENESS

8. It was necessary to wait for some final information to issue further reports that feed into the annual opinion.

REASONS FOR URGENCY

9. This report gives a draft of the annual internal audit report, and this meeting is the last opportunity for members to give feedback before the final report is produced.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
None		

APPENDICES

No.	Title
Appendix A	Internal audit annual report

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report Author	Angela Mason-Bell, BDO	
Version	Final	
Dated	28 May 2021	
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	No	N/A
Cabinet Member	No	No
Date final report sent to Constitutional Team		28 May 2021



London Borough of Southwark

**INTERNAL AUDIT ANNUAL REPORT AND ANNUAL
STATEMENT OF ASSURANCE 2020-21 - DRAFT**

For presentation to the Audit, Governance and Standards Committee

2 June 2021



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SUMMARY OF 2020/21 WORK

Internal Audit 2020/21

This report details the work undertaken by internal audit for London Borough of Southwark and provides an overview of the effectiveness of the controls in place for the full year.

This is a draft annual report for 2020-21, as there are some audits not yet fully completed, we are aiming to complete all fieldwork by the end of May and issue final reports by 30 June 2021. An updated report will be presented to the meeting of the Audit, Governance and Standards Committee on 18 July 2021.

The reports that have been issued for financial year 2020-21, and which form the basis of the annual report for 2020-21 are listed below. These include the audits where fieldwork and reporting were necessarily carried forward from 2019-20 to 202-21 due to the Covid-19 pandemic.

Audits carried forward from 2019-20

- Building Control
- Foster Carers
- Housing Rents
- Payments to Children and Families
- Pest Control
- Supported accommodation hostels (family hostels)
- Tenancy management organisations - Fair Community Housing Services (draft - management response received)
- Tenancy management Organisations - Falcon Point (draft - management response received)
- Voids

Internal audit plan 2020-21

- Accounts Payable (reporting)
- Accounts Receivable/ Debt Management (draft)
- All age disability service - 0 to 24 years (reporting)
- Adoption Service (reporting)
- Anti- Facilitation of Tax Evasion (reporting)
- Bankline
- BUPA Overpayments (draft)
- Climate Emergency Strategy
- Community Infrastructure Levy
- Community Safety Partnerships
- Contracts Register (reporting)
- Corporate Credit Cards
- Customer Experience and Complaints
- Customer Experience Data Collection and Analysis
- Demolition Process (MSHO)
- Direct Payments
- Housing Applications
- Litigation Protocols
- Movement (Transport) Policy & Planning
- New Homes Programme
- Parks
- Payroll & HR (reporting)
- Pensions administration (Schools)
- SAP Scheme of Delegation and Authorisation (draft)
- School Admissions
- Software Asset Management
- South Dock Marina (reporting)
- Substance Misuse Rehabilitation Service
- Supported Living (draft)
- Travel Assistance (draft)
- Treasury Management (draft)
- Tree Management Service

The internal audit team has also completed the following work in 2020-21:

- Monthly audit of the Council's Troubled Families grant claims - a separate letter of engagement and management reports cover this work.
- Transparency reporting support - advisory work to support the Council in ensuring the accuracy of its publically reported data.

Due to the impact of the Covid-19 pandemic upon the Council, the internal audit plan for 2020-21 did not commence until 17 August 2021. At this time, the internal audit plan was revisited and the final programme for 2021-22 agreed. The work to be completed was based upon discussions held with management and was constructed in such a way as to gain a reasonable level of assurance on the main financial and management systems reviewed. There were no restrictions placed upon the scope of our audit and our work complied with Public Sector Internal Audit Standards.

The following audits were deferred from 2020-21 to 2021-22:

- | | |
|--|--|
| • Borough Plan | • Fraud Controls |
| • Cloud and Cyber Security | • Major Works |
| • Commercial Property Portfolio | • NNDR |
| • Continuing Healthcare | • Sickness Absence Management |
| • Contract Management | • Southwark Building Services |
| • Emergency Planning | • Suspense Account Management |
| • Financial Planning & Budget Monitoring | • Youth Offending Service & Youth Violence |

The schools internal audit programme was also paused during 2020/21, with an emphasis upon concluding schools audits in progress when the first lockdown occurred in March to June 2020. A new programme of work has commenced from April 2021. A summary report will be presented to the Audit, Governance and Standards Committee at the meeting in September 2021.

For reports issued in final and draft, we have detailed the opinions for each audit and key findings on pages seven to 24.

Non internal audit services provided by BDO

The following non audit services have been provided by BDO during 2020-21:

- Risk management support
- Counter fraud support

The counter fraud work is delivered by our forensics team, which is separate to the public sector internal audit team that provides internal audit and risk management services to the Council.

We do not consider the work undertaken above to pose a threat to our independence or objectivity in delivering the internal audit services.

HEAD OF INTERNAL AUDIT OPINION 2020-21

The role of internal audit is to provide an opinion to the Council, through the Audit, Governance and Standards Committee, on the adequacy and effectiveness of the internal control system to ensure the achievement of the organisation's objectives in the areas reviewed.

The annual report from internal audit provides an overall opinion on the adequacy and effectiveness of the Council's risk management, control and governance processes, within the scope of work undertaken by our firm as outsourced providers of the internal audit service. It also summarises the activities of internal audit for the period.

The basis for forming my opinion is as follows:

- An assessment of the design and operation of the underpinning assurance framework and supporting processes;
- An assessment of the range of individual opinions arising from risk based audit assignments contained within internal audit risk based plans that have been reported throughout the year;
- This assessment has taken account of the relative materiality of these areas and management's progress in respect of addressing control weaknesses; and
- Any reliance that is being placed upon third party assurances.

Overall, we are able to provide **Moderate Assurance** that there is a sound system of internal control, designed to meet the Council's objectives and that controls are being applied consistently, the same opinion as in 2019-20.

We consider this to be a positive result in light of Covid-19. There was a necessity for the Council to redeploy resources to manage the impact of the pandemic, implement new systems and controls, whilst at the same time maintaining business as usual for key services alongside keeping the back off functions running effectively.

Our annual report and head of internal audit opinion has been prepared based on the audit work undertaken during the year. In forming my view I have taken into account that:

- At the time of writing this draft annual report:
 - In respect of the design of the controls, an opinion of moderate assurance was provided for 20 out of the 30 assurance audits where reports have been issued, substantial assurance was provided in eight areas and limited assurance opinions in two areas. Overall, the Council has maintained its control environment during 2020-21.
 - In respect of the operational effectiveness of the controls, an opinion of moderate assurance was provided for 20 of the 30 assurance audits where reports have been issued, substantial assurance was provided in two areas and limited assurance in eight. The proportion of substantial and moderate assurance opinions has remained relatively constant between 2019-20 and 2020-21, following an overall previous year on year improvement since 2016-17.
- Management has responded positively to reports issued and action plans have been developed to address the recommendations raised.

- We have confirmed that 76% of recommendations due for implementation by the date of reporting had been completed. This represents a decrease from an implementation rate of 88% in 2019-20, due to the continued impact on the implementation of recommendations due to Covid-19 and the adjustment of priorities and redeployment of staff to address this.
- Financial performance: despite the costs of the pandemic, the Council has performed broadly in line with budget. The outturn report for 2020-21 presents a balanced position after movements to and from reserves and the application of £43.5m of general Covid-19 emergency funding. We recognise that the financial position at the end of 2020-21 is complex as the Council reconciles the additional costs and lost income with the funding support received from government and also looks to prioritise resources for the coming period of recovery. There has been a significant increase in reserves, however, most of these are not available to support the provision of services but must be carried forward to cover losses arising from business rate and council tax collection in 2020-21 that will be charged to the General Fund Balance in future years.

REVIEW OF 2020-21 WORK

Report issued	Number of recommendations			Internal Audit Assurance Opinions		Purpose of Audit and Key Findings
	H	M	L	Design	Operational Effectiveness	
Building Control	-	3	-	Moderate	Moderate	<p>Purpose of audit: to review the adequacy and effectiveness of the council's controls and approach to the delivery of the building control service.</p> <p>Key findings:</p> <ul style="list-style-type: none"> No procedure notes for IDOX covering the processes for reviewing and recording cases, similar to the procedure notes in place for the Acolaid system. A number of exceptions were identified in the effectiveness of the Council's processes and controls with regards to ensuring compliance with building control regulations. Out of a sample of 15 applications, we identified: <ul style="list-style-type: none"> Due to system migration issues, the service is having difficulties in allocating and managing available resources against projects We have also observed that as a result of lack of funding, enforcement action is not being taken in some cases. The council is developing a plan to address this.
Foster Carers	-	3	1	Moderate	Moderate	<p>Purpose of audit: to provide assurance on the appointment and payment of foster carers and how the Council ensures that foster carers meet the council's initial and ongoing requirements</p> <p>Key findings:</p> <ul style="list-style-type: none"> Foster carer's training and development plans were not recorded within Mosaic and did not record whether it was compliant with Training, Support and Development Standards (TSD) Sample testing identified 23 overpayments from 2019/20 totaling £23,700

Report issued	Number of recommendations			Internal Audit Assurance Opinions		Purpose of Audit and Key Findings
	H	M	L	Design	Operational Effectiveness	
Housing Rents	-	2	2	N/A		<p>The internal audit was not completed in full due to Covid-19. We report here findings and recommendations identified from the risks identified and reduced scope. A full audit will be completed as part of the approved 2020-21 internal audit plan.</p> <p>Purpose of audit: to provide assurance on the controls in place to accurately collect and allocate rental income.</p> <p>Key findings:</p> <ul style="list-style-type: none"> Unable to confirm whom completed the monthly finance reconciliations and monthly stock reconciliations were undertaken but were unable to confirm whom had reviewed this documentation. Delays in refunds being paid and a small number of arrears where there was insufficient information on file outlining what steps had been taken to recover the arrears.
Payments to Children and Families	1	2	-	Moderate	Limited	<p>Purpose of audit: to provide a review of the controls for monies paid to children and families, including authorisation, records management and reconciliation</p> <p>Key findings:</p> <ul style="list-style-type: none"> Staff travel and expense cards were not issued correctly and documentation was not available for these cards and instant issue cards. Lack of evidence that instant issue cards were used appropriately by client cardholders and spend is not being checked to verify validity of expenditure.
Pest Control	-	-	2	Substantial	Moderate	<p>Purpose of audit: to review the adequacy and effectiveness of the contract management arrangements, delivery against KPI's and the extent to which income generated is meeting the Council's expectations.</p>

Report issued	Number of recommendations			Internal Audit Assurance Opinions		Purpose of Audit and Key Findings
	H	M	L	Design	Operational Effectiveness	
						<p>Key findings:</p> <ul style="list-style-type: none"> A minor discrepancy in the reporting of a monthly customer satisfaction value and the satisfaction surveys did not record who completed the job.
Supported Accommodation - Family Hostels	2	1	-	Moderate	Limited	<p>Purpose of audit: to provide a review against operational procedures, how cases are managed, including new cases, a check of current governance arrangements, income collection, record keeping, security checks, inspections and repairs and maintenance regimes. We also considered actions implemented following the independent service model review commissioned in 2017.</p> <p>Key findings:</p> <ul style="list-style-type: none"> Sample testing of accounts that had arrears recent action had not been taken as well as delays in actions being taken. Sample testing of 10 hostels identified two hostels where there was no evidence of quarterly quality audits had been completed. In addition there were delays in health and safety checks being signed off by the hostel manager and the Council were unable to locate the documentation for the corresponding repairs raised. Tenancies were not signed and inadequate monitoring and documentation has not been retained in relation to tenancy checks.
Tenancy Management Organisations - Fair Community Housing Services <i>Draft Report - Management</i>	2	6	-	Moderate	Limited	<p>Purpose of audit: to provide assurance over the control framework in place at the TMO to ensure there is effective administration of operational and financial process, including the controls around statutory compliance.</p> <p>Key findings:</p> <ul style="list-style-type: none"> The annual budget was not finalised and signed off by the Council and appropriate committee members in advance of the financial year start

Report issued	Number of recommendations			Internal Audit Assurance Opinions		Purpose of Audit and Key Findings
	H	M	L	Design	Operational Effectiveness	
<i>Response received 24 May 2021</i>						<ul style="list-style-type: none"> Budget monitoring is not being carried out on a monthly basis and is not discussed at Management Committee meetings Seven out of ten purchases tested did not have a purchase order and one was approved by an unauthorised Officer, two invoices were paid late, one petty cash slip was claimed and approved for payment by the same person, and not all direct debits have mandates signed by two signatories There is no formal process to ensure that all policies and procedures are reviewed periodically. Equal Opportunities policy and finance procedures are not reviewed regularly, the financial procedures have not been reviewed since September 2006. Business interests were not declared by all committee members New rent accounts are being created and approved by the same person and overpayments to the rent account are not refunded on a timely basis.
Tenancy Management Organisations - Falcon Point <i>Draft Report - management response received 24 May 2021</i>	4	1	2	Limited	Limited	Purpose of audit: to provide assurance over the control framework in place at the TMO to ensure there is effective administration of operational and financial process, including the controls around statutory compliance. Key findings: <ul style="list-style-type: none"> Actions to limit the effects of fire risks were not being implemented. There have been 38 risks identified but no actions to address these. Management Committee terms of reference were not current, approved or reviewed on a regular basis and the Equal Opportunity Policy is not current There was no formal lettings policy and one property was let after the deadline of 28 days, without explanation Bank reconciliations are evidenced quarterly rather than monthly-

Report issued	Number of recommendations			Internal Audit Assurance Opinions		Purpose of Audit and Key Findings
	H	M	L	Design	Operational Effectiveness	
						<ul style="list-style-type: none"> Purchases, cheque payments and petty cash function were not operating according to finance procedures' guidelines (eg petty cash was held above the stated limits and a payment was authorised above the delegated level); direct debits did not have mandates.
Voids	1	1	-	Moderate	Moderate	<p>Purpose of audit: to provide assurance relating to controls over housing voids and timeliness of action to enable the re-letting of the property, including remedial works and checks.</p> <p>Key findings:</p> <ul style="list-style-type: none"> Key safes installed for void properties used a standard code for all types of the same accommodation Issues within the timeliness of addressing voids and undertaking the notification process resulting in delays.
Accounts Payable <i>Reporting in progress</i>				TBC	TBC	<p>Purpose of audit: to provide continuing assurance on the adequacy of the design and operational effectiveness of internal controls in managing accounts payable processed via SAP, to ensure that they are promptly and effectively brought into use. We will also review the timeliness of payments to suppliers and the extent to which the 30 day payment terms are being met. We will determine the reasons where delays in payment are evident.</p> <p>Key findings:</p> <ul style="list-style-type: none"> To be confirmed - reporting in progress
Accounts Receivable/Debt Management <i>Reporting in progress</i>				TBC	TBC	<p>Purpose of audit: to provide assurance on the arrangements to manage income processed via SAP (both by FC&P and other departments) to ensure that they are promptly and accurately collecting and recording income as well as debt recovery.</p> <p>Key findings:</p> <ul style="list-style-type: none"> To be confirmed - reporting in progress

Report issued	Number of recommendations			Internal Audit Assurance Opinions		Purpose of Audit and Key Findings
	H	M	L	Design	Operational Effectiveness	
All Age Disability <i>Reporting in progress</i>				TBC	TBC	<p>Purpose of audit: to review the adequacy and operational effectiveness of the control framework in place for the identification and documentation of care needs and the associated approval, allocation and monitoring of funding.</p> <p>Key findings:</p> <ul style="list-style-type: none"> To be confirmed - reporting in progress
Adoption Service <i>Reporting in progress</i>				TBC	TBC	<p>Purpose of audit: to review the adequacy and effectiveness of the controls in place over payments made to adopters, to confirm accuracy of payments derived from documentation and appropriate approvals.</p> <p>Key findings:</p> <ul style="list-style-type: none"> To be confirmed - reporting in progress
Anti Facilitation of Tax Evasion <i>Reporting in progress</i>				TBC	TBC	<p>Purpose of audit: to review the controls in place to identify, report and record suspected tax evasion to ensure the Council is able to mitigate the risk of facilitating tax evasion.</p> <p>Key findings:</p> <ul style="list-style-type: none"> To be confirmed - reporting in progress
Bank Line	-	3	-	Moderate	Moderate	<p>Purpose of audit: to review the processes and control framework in place for making payments via Bankline to ensure officers are appropriately trained and that payments are made based on requests with full supporting evidence and are authorised in accordance with the Council's authorisation schemes.</p> <p>Key findings:</p> <ul style="list-style-type: none"> A small number of Bankline users access was not removed when staff resign. Testing identified payment forms were not always completed to confirm payment processing information including who processed

Report issued	Number of recommendations			Internal Audit Assurance Opinions		Purpose of Audit and Key Findings
	H	M	L	Design	Operational Effectiveness	
						<p>it and when these were recorded onto the general ledger and SAP.</p> <ul style="list-style-type: none"> Survey results identified some staff inconsistencies and lack of awareness of the correct procedures to follow when requesting payments via Bankline.
<p>BUPA Overpayments <i>Draft Advisory Report</i></p>	7	1	-	N/A (Advisory)	N/A (Advisory)	<p>Purpose of audit: to support the Council in establishing an accurate funding situation and to ensure that the correct fees are paid and that the over-payment is refunded. The review will focus primarily on Collingwood and Havelock, but be cognisant that a wider issue may be present with regards to the procedures and controls over the generation of payments to Bupa. This has been an iterative exercise, with Internal Audit working in collaboration with the Council's Finance, FC&P, CBS and Mosaic Systems Support teams to understand the designed controls and local processes in place, to support the analysis of data held.</p> <p>Key observations:</p> <ul style="list-style-type: none"> Identified some significant gaps in the system of controls in place relating to payment processing from Mosaic system. There are currently no controls in place to monitor these potential overpayments or ongoing regular payments as the CAS Finance teams are not monitoring the accuracy of information held in Mosaic as they neither have the access or the training of Mosaic system. The Mosaic Scheme of Delegation was non-compliant with the department Schemes of Management and Council's Standing Financial Instructions and the POs are being approved by individuals amounts, over their monetary limit allocated. Significant overpayments were identified out of which some have been reclaimed back, however there were further overpayments that need to be reclaimed back.

Report issued	Number of recommendations			Internal Audit Assurance Opinions		Purpose of Audit and Key Findings
	H	M	L	Design	Operational Effectiveness	
Climate Emergency Strategy <i>Draft Advisory Report</i>	-	4	-	N/A (Advisory)	N/A (Advisory)	<p>Purpose of audit: advisory review of the Council’s planned governance arrangements over the implementation of the council’s climate emergency strategy, adequacy of stakeholder engagement and the achievability of the plans in place to deliver the strategy.</p> <p>Key observations:</p> <ul style="list-style-type: none"> • A number of draft climate emergency strategies were written during 2020, which have been hindered in terms of engagement with the members of the public due to the Covid-19 pandemic. • The Council has not yet developed a communications plans or a risk register to support the successful implementation of the Strategy • There were synergies between initiatives in the Transport and the Movement Plan but these have not been harnessed so far although they have the same lead cabinet member.
Community Infrastructure Levy	-	1	-	Substantial	Moderate	<p>Purpose of audit: to provide assurance over the adequacy and effectiveness of current controls over the Community Infrastructure Levy (CIL) and the Mayoral Community Infrastructure Levy (MCIL) and provide advice on improvements as necessary.</p> <p>Key findings:</p> <ul style="list-style-type: none"> • Sample testing identified small number of exceptions of non-compliance with procedures and controls found in the calculation of net chargeable area and corresponding CIL liability.
Community Safety Partnership	-	-	-	Substantial	Moderate	<p>Purpose of audit: to review the strategic framework, governance framework and financial framework relating to the Council’s community safety partnership service.</p> <ul style="list-style-type: none"> • No exceptions were identified. • We concluded moderate assurance for control effectiveness, as three of the funding areas were marked as amber and were behind

Report issued	Number of recommendations			Internal Audit Assurance Opinions		Purpose of Audit and Key Findings
	H	M	L	Design	Operational Effectiveness	
						target.
Contracts Register <i>Reporting in progress</i>				TBC	TBC	<p>Purpose of audit: to review the adequacy and effectiveness of the control framework over the completeness and accuracy of the Council's contract register, including the extent to which contract leads are keeping information up to date so that the version published via the Council's external website is complete. We will also review contract expenditure incurred against contracts, and confirm that the original contract value has not been exceeded (or an approved variation is in place) and that goods / services outside the original scope have not been purchased under the contract.</p> <p>Key findings:</p> <ul style="list-style-type: none"> To be confirmed - reporting in progress
Corporate Credit Cards	-	4	-	Moderate	Limited	<p>Purpose of audit: to review the controls over credit cards issued to employees of the Council, and departmental approval, monitoring and review of expenditure incurred using credit cards.</p> <p>Key findings:</p> <ul style="list-style-type: none"> For the majority of credit cardholders selected a formal review of the use of the credit card had not been undertaken or evidenced. The departmental scheme of management did not match with the cardholder's credit and transactional limits and for some cardholders the transactional limits were not recorded on the departmental scheme of management. Credit card reconciliation statements are not being signed by the cardholder or an independent reviewer. Where the reconciliations were signed we were unable to confirm whether they were completed within a timely manner. Updated records not being maintained by the Corporate Banking and Control Team, signed employee declaration forms are not being retained and cost codes to be debited per the employee

Report issued	Number of recommendations			Internal Audit Assurance Opinions		Purpose of Audit and Key Findings
	H	M	L	Design	Operational Effectiveness	
						declaration forms not reconciling with the records maintained by Financial Control and Processing (FC&P) team.
Customer Experience & Complaints	-	1	1	Substantial	Moderate	<p>Purpose of audit: to review the complaints process and controls with regards to children's services and to confirm that the Council is adhering to legislative requirements under the Children Act.</p> <p>Key finding:</p> <ul style="list-style-type: none"> Sample testing identified a number of exceptions relating to the delays and time frames in the complaint management process.
Customer Experience - Data Collection and Analysis	-	4	-	N/A (Advisory)	N/A (Advisory)	<p>The objectives of the work were to:</p> <ol style="list-style-type: none"> Analyse the sources of data used and how these are translated into KPI reporting, the accuracy and completeness of that data. Analyse the methodology used by the Council, to confirm it can be replicated over time and the same figures arrived at if generated retrospectively Re-perform the reporting lines and Channel Shift Reports i.e. digital channels (emails, MySouthwark) versus traditional channels (such as face to face and telephone), to ensure they appropriately distinguish between digital and traditional channels and to ensure information from all workstreams have been included in the reports presented to the monitoring hierarchy. <p>Key observations:</p> <ul style="list-style-type: none"> We identified a number of reoccurring exceptions in testing of the procedures and sources of data. Presently the data could be understated in regards to phone, service points and email interactions or overstated relating to online e-forms. The Council was not targeting service areas or partners effectively to establish a plan of needs and priorities. The services have been targeted based upon volume and no information was available for at least 35 service areas out of the

Report issued	Number of recommendations			Internal Audit Assurance Opinions		Purpose of Audit and Key Findings
	H	M	L	Design	Operational Effectiveness	
						<p>44 identified services for digital or non-digital interactions with customers.</p> <ul style="list-style-type: none"> No data validation exercise was conducted to verify the accuracy of the data sources as the individuals responsible for collation of date (QTM) do not have direct access to any of these systems and have to rely on the service areas, WST and Hornbill, to report this information on a monthly basis. The services only provided a top level position of the department and do not provide the corresponding data extracts to verify the position for data validation purposes. Lack of communication and formal means of cooperation between departments was identified which has led to inaccurate digital vs non-digital percentages reported to SMT. The data reported to the SMT was understated in regards to phone, service points and email interactions and overstated relating to online e-forms.
Demolition Process (MSHO)	1	3	-	Limited	Moderate	<p>Purpose of audit: to review the controls in place around housing demolitions from the perspective of My Southwark Home Owners (MSHO).</p> <p>Key findings:</p> <ul style="list-style-type: none"> Procedure document relating to the issuance of the demolition process was insufficiently detailed and there are no clear line of responsibility between the regeneration team and MSHO team for the monitoring and reporting of issues The final and extended demolition notices issued were incomplete and therefore not in accordance with regulations.
Direct Payments	-	3	1	Moderate	Moderate	<p>Purpose of audit: to review the adequacy and effectiveness of the control relating to direct payments, and controls over the Allpay cards assigned to clients</p>

Report issued	Number of recommendations			Internal Audit Assurance Opinions		Purpose of Audit and Key Findings
	H	M	L	Design	Operational Effectiveness	
						<p>Key findings:</p> <ul style="list-style-type: none"> Direct payments that required annual reviews of clients' needs was not being monitored and completed Direct payment agreements were not always in place before payment plans are set-up and funds are released.
Housing Applications	-	2	-	Substantial	Moderate	<p>Purpose of audit: to provide assurance over the allocation of housing, including the application of the Council's Housing Allocation Scheme and waiting list management</p> <p>Key findings:</p> <ul style="list-style-type: none"> Identity document scanners were not being used to scrutinise the legitimacy of the identity documents and no other alternative arrangements had been implemented Supporting documentation evidencing the award of a priority star was not being retained electronically
Litigation Protocols	-	3	-	Substantial	Moderate	<p>Purpose of audit: to review the adequacy and effectiveness of the controls, procedures and criteria adopted in respect of whether the Council pursues litigation, including communication, clarity of roles and responsibilities and decision making processes.</p> <p>Key findings:</p> <ul style="list-style-type: none"> Sample testing identified client care letters were missing on case files Incorrect charging of time to the wrong case on Visualfiles and multiple case files being opened Lack of consistency in fee earners completing half yearly and annual performance reviews.
Movement (Transport) Policy and Planning	-	6	-	Moderate	Moderate	<p>Purpose of audit: to review the council's movement (transport) policy and plan to consider the extent to which it is being delivered in line with supporting plans across the council in the first year of the plan.</p>

Report issued	Number of recommendations			Internal Audit Assurance Opinions		Purpose of Audit and Key Findings
	H	M	L	Design	Operational Effectiveness	
						<p>Key findings:</p> <ul style="list-style-type: none"> • Risk assessment of the resources and time invested within the transformation through the Movement Policy and has not been undertaken or added to the Corporate Risk Register • Transport policies have not been updated since 2017 and aligned to the Movement Policies and Plan approved in 2019. The Equity Framework Plan has not been formally approved although it was being use by Highways • The engagement plan results for the population of Southwark for the Movement Policy and Plan did not provide a fully representative view of the various ethnic groups • There were no terms of reference written and approved to document the responsibility and authority of the Southwark Streets Project Board.
New Homes Programme	-	3	2	Moderate	Moderate	<p>Purpose of audit: review the adequacy and effectiveness of the governance and reporting framework with regards to the new homes programme, and an assessment of the robustness of the plan to deliver the new homes target by 2022.</p> <p>Key findings:</p> <ul style="list-style-type: none"> • Actions agreed in the Delivery Programme Board are not consistently being logged and follow up of these actions is not always undertaken and there are no completion dates documented for the actions agreed • The Project Manager’s procedures need to be reviewed and updated to ensure all Project Managers are following the same project management procedures • Reviewed four schemes and noted some financial differences between the Highlight report and Housing Investment Board report, incomplete documentation and the absence of residual

Report issued	Number of recommendations			Internal Audit Assurance Opinions		Purpose of Audit and Key Findings
	H	M	L	Design	Operational Effectiveness	
						risk scores after mitigations had been applied.
Parks	-	2	1	Moderate	Moderate	<p>Purpose of audit: to provide a review of the policy framework, strategic framework, and finance and governance around the use of parks for events and generating commercial income through holding these events.</p> <p>Key findings:</p> <ul style="list-style-type: none"> The Outdoor Events policy was unclear in a number of areas, for example what constitutes an event, circumstances where exemptions can be awarded and the level of exemption permitted. Sample testing found a number of small errors in charges, stakeholders had not been notified of events and non-compliance with the policy.
Payroll and HR <i>Reporting in progress</i>				TBC	TBC	<p>Purpose of audit: to provide assurance on the adequacy and operational effectiveness of the key controls in place to manage the identified risks in respect of the payroll and benefits to staff.</p> <p>Key findings:</p> <ul style="list-style-type: none"> To be confirmed - reporting in progress
Pensions Administration (Schools)	2	1	1	Moderate	Limited	<p>Purpose of audit: a review of the controls and maintenance of records relating to pension administration of schools including timeliness, completeness and accuracy of the pension data submitted by schools' payroll providers.</p> <p>Key findings:</p> <ul style="list-style-type: none"> Schools were not providing their submissions in a timely manner, the majority by Strictly Education and EPM resulted in a significant number of submission errors, the majority by Strictly Education, DataPlan and EPM Southwark and its actuary, AON, have provided extensive

Report issued	Number of recommendations			Internal Audit Assurance Opinions		Purpose of Audit and Key Findings
	H	M	L	Design	Operational Effectiveness	
						<p>training and support to schools and payroll providers throughout 2019/20, but errors are still occurring.</p> <ul style="list-style-type: none"> Schools were not submitting all starter and leaver forms on a timely basis.
SAP Scheme of Delegation and Authorisations <i>Draft Report</i>	-	2	2	Moderate	Moderate	<p>Purpose of audit: to review of the SAP scheme of delegation for the authorisation of payments, including consideration on the appropriateness of the limits for different Council staff, usage of the limits and if they are adhered to.</p> <p>Key findings:</p> <ul style="list-style-type: none"> Identified SAP user authorisation forms designed to ensure a consistent approach to authorizing user access were not always being fully completed and signed off prior to access being granted. A small number of leavers whom had left the council had not been removed from the system within a timely manner and instances where changes to users' roles within the Council had not been appropriately communicated to the FC&P team.
School Admissions	-	-	-	Substantial	Substantial	<p>Purpose of audit: to review the Council's arrangements for ensuring that it complies with the legislative requirements contained within the Code of School Admissions.</p> <ul style="list-style-type: none"> No findings identified or recommendations made.
Software Asset Management	-	4	-	Moderate	Moderate	<p>Purpose of audit: to provide management with assurance that there are systems and processes in place for software asset management and control.</p> <p>Key findings:</p> <ul style="list-style-type: none"> The Council did not have a defined policy or procedure in place for software asset management Not all applications in the Council's application register had been

Report issued	Number of recommendations			Internal Audit Assurance Opinions		Purpose of Audit and Key Findings
	H	M	L	Design	Operational Effectiveness	
						<p>assigned an appropriate business owner nor is specific information about the software recorded in the register</p> <ul style="list-style-type: none"> • There were no procedures in place for involving central IT for the procurement of any software application • Accountability for the SAP contract had not been assigned and there are no arrangements in place for reviewing and reconciling SAP licenses.
South Dock Marina <i>Reporting in progress</i>				<i>TBC</i>	<i>TBC</i>	<p>Purpose of audit: to provide assurance on the operational and financial management controls in place underpinning the running of the Marina.</p> <p>Key findings:</p> <ul style="list-style-type: none"> • To be confirmed - reporting in progress
Substance Misuse Rehabilitation Service	1	4	-	Moderate	Moderate	<p>Purpose of audit: to assess the adequacy and operational effectiveness of the control framework for the management of income and expenditure in relation to substance misuse rehabilitation service initiatives provided by the Council.</p> <p>Key findings:</p> <ul style="list-style-type: none"> • Policies and procedures were insufficiently detailed and the checklist needs to update to ensure all necessary information was captured • Care packages: recording and sign off and subsequent reviews were not being consistently adhered to and invoices were not being authorised in line with the scheme of management.
Supported Living <i>Draft Report</i>	1	3	-	Moderate	Limited	<p>Purpose of audit: to review the adequacy of the design and operational effectiveness of the controls in relation to supported living contracts; Disclosure and Barring Service (DBS) checks and training for staff; risk assessments; and budget management.</p> <p>Key findings:</p>

Report issued	Number of recommendations			Internal Audit Assurance Opinions		Purpose of Audit and Key Findings
	H	M	L	Design	Operational Effectiveness	
						<ul style="list-style-type: none"> • Provider visits were not adequately providing assurance that staff supporting clients in supported living have been DBS checked. • Staff were not routinely interviewed to gain a better understanding of the provider's services and there was no specific confirmation that residents' needs were being met. • Subsequent reviews had not been completed in a timely manner to ensure previous issues are addressed and safeguarding issues are resolved • Confirmation that one provider's risk assessments had been reviewed was absent and for one provider it appeared that no monitoring visit had been arranged.
Travel Assistance <i>Draft Report</i>	-	1	1	Substantial	Moderate	<p>Purpose of audit: to review the adequacy and operational effectiveness of the controls in place for the award and subsequent monitoring and review of travel assistance funding provided and costs incurred by the Council.</p> <p>Key finding:</p> <ul style="list-style-type: none"> • A record of the spot checks undertaken for direct payments under £40 not being maintained and a decision on appeals has not being made within a timely manner due, the delays were due to Covid-19.
Treasury Management <i>Draft Report</i>	-	2	-	Moderate	Substantial	<p>Purpose of audit: provide assurance over the adequacy and effectiveness of the internal control environment for investment and borrowing transactions.</p> <p>Key finding:</p> <ul style="list-style-type: none"> • The Council's Treasury Management was last updated in 2017/18 and also referenced the 2017/18 Treasury Management Strategy, and contained out of date information. • Our review of the JCAD system noted there to be one risk

Report issued	Number of recommendations			Internal Audit Assurance Opinions		Purpose of Audit and Key Findings
	H	M	L	Design	Operational Effectiveness	
						related to treasury management in addition to five supporting control measures. Whilst our audit work was able to confirm the controls were in place, for example the Treasury Management being approved on an annual basis, the production of a mid and full year report, production of a cash flow forecast and the production of valuation reports, the risks had not been reviewed since March 2019.
Tree Management Service	2	2	1	Moderate	Limited	<p>Purpose of audit: review of the adequacy of the Council's Tree Management, ensuring key risks related to ETRP are being adequately addressed.</p> <p>Key findings:</p> <ul style="list-style-type: none"> The in house team was significantly under resourced to carry out the required ongoing maintenance of ageing and growing trees. There was an increasing backlog of tree inspections and resourcing gap due to the inability of in house team to complete the jobs allocated to them There was inaccurate calculation and inconsistent monthly KPI's within the "Performance Monitor" with no formal working papers retained to validate the data.

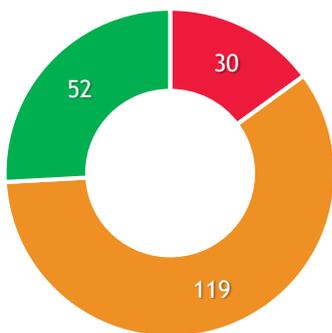
SUMMARY OF FINDINGS

These figures will be updated to include the recommendations and opinions provided in audits currently in progress.

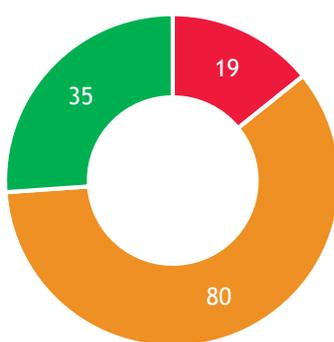
RECOMMENDATIONS AND ASSURANCE DASHBOARD

Recommendations

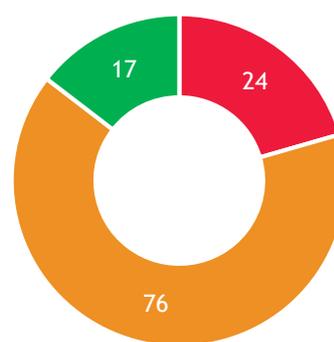
2018-19



2019-20

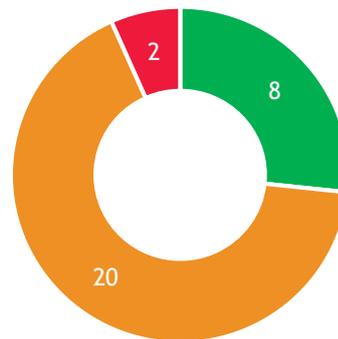
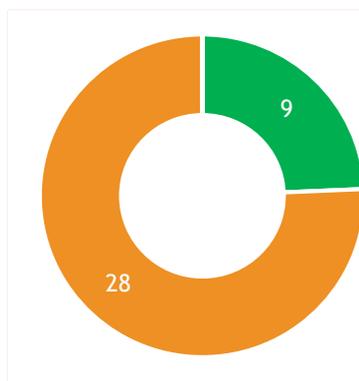
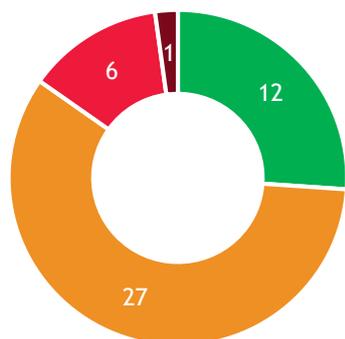


2020-21

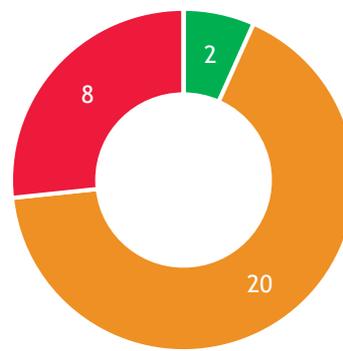
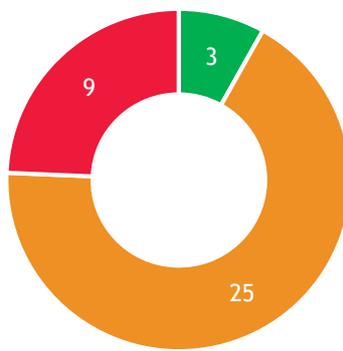
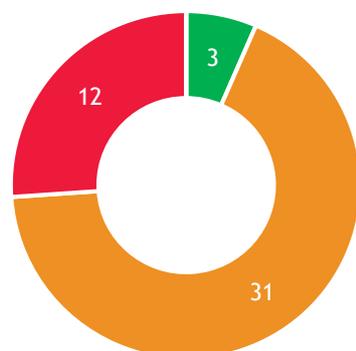


■ High ■ Medium ■ Low

Control Design

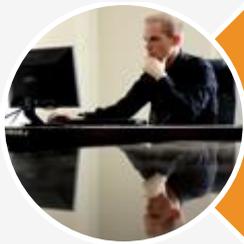


Operational Effectiveness



■ Substantial ■ Moderate ■ Limited ■ No

ADDED VALUE



USE OF SPECIALISTS

We continued to use our IT specialists to deliver the IT audit plan.



RESPONSIVENESS

We have been able to be flexible with the audit plan in light of Covid-19.

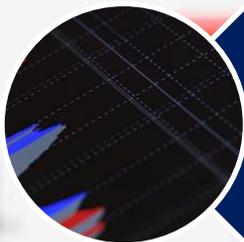


BENCHMARKING AND BEST PRACTICE

We undertook benchmarking to compare the Council's practices with other London boroughs

We identified areas where the council can improve financial performance and create efficiencies e.g. corporate credit card

Best practice comparisons were undertaken (e.g projects and grants funding and monitoring)



INNOVATION

We utilised data analytics in audits where appropriate (e.g. accounts payable, payments to children & families, treasure management and payroll).

KEY THEMES



PEOPLE

Overall, there were clear roles and responsibilities within the areas reviewed. There is a need for departmental Schemes of Delegation and Management to be updated and an improvement in communications across teams e.g. Corporate Credit Cards, SAP Scheme of Delegation and Authorisations and Demolition Process (MSHO). As well as resourcing issues identified within the Tree Management Service audit.



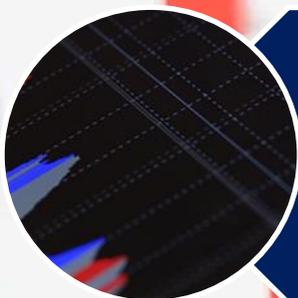
SYSTEMS & PROCESSES

There are policies and procedures in place, however we identified non-compliance with these within the following areas: Pensions Administration (Schools) and Bank Line. Significant gaps within the Mosaic system were identified in the BUPA Overpayments review.



POLICES & PROCEDURES

There are insufficient policies and procedures in the following areas reviewed: Demolition Process (MSHO), Substance Misuse Rehabilitation Service (SMRT), New Homes Programme and IT Software Asset Management



GOVERNANCE & FOLLOW UP

Overall there are sound Governance and effective monitoring arrangements in place across the Council.

BACKGROUND TO ANNUAL OPINION

Introduction

Our role as internal auditors to London Borough of Southwark is to provide the Audit, Governance and Standards Committee, and the Directors with an opinion on the adequacy and effectiveness of the internal control system to ensure the achievement of the organisation's objectives in the areas reviewed. Our approach, as set out in the firm's Internal Audit Manual, is to help the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Due to the impact of Covid-19 upon the late commencement of the 2020-21 internal audit plan (from 17 August 2021) and the carry forward of a number of audits from 2019-21, our internal audit period of work was extended to the end of May 2021, for the completion of all fieldwork relating to the twelve month period from 1 April 2020 to 31 March 2021. The work was carried out in accordance with the internal audit plan approved by management and the Audit, Governance and Standards Committee, adjusted during the year for any emerging risk issues and work deferred due to the impact of the pandemic. The plan delivered was based upon discussions held with management and was constructed in such a way as to gain a level of assurance on the main financial and management systems reviewed. There were no restrictions placed upon the scope of our audit and our work complied with Public Sector Internal Audit Standards.

The annual report from internal audit provides an overall opinion on the adequacy and effectiveness of the organisation's risk management, control and governance processes, within the scope of work undertaken by our firm as outsourced providers of the internal audit service. It also summarises the activities of internal audit for the period.

Scope and Approach

Audit Approach

We have reviewed the control policies and procedures employed by London Borough of Southwark to manage risks in business areas identified by management set out in the 2020-21 Internal Audit Annual Plan approved by the Audit Committee. This report is made solely in relation to those business areas and risks reviewed in the year and does not relate to any of the other operations of the organisation. Our approach complies with best professional practice, in particular, Public Sector Internal Audit Standards, the Chartered Institute of Internal Auditors' Position Statement on Risk Based Internal Auditing.

We discharge our role, as detailed within the audit planning documents agreed with London Borough of Southwark management for each review, by:

- Considering the risks that have been identified by management as being associated with the processes under review
- Reviewing the written policies and procedures and holding discussions with management to identify process controls
- Evaluating the risk management activities and controls established by management to address the risks it is seeking to manage

- Performing walkthrough tests to determine whether the expected risk management activities and controls are in place
- Performing compliance tests (where appropriate) to determine that the risk management activities and controls have operated as expected during the period.

The opinion provided on page five of this report is based on historical information and the projection of any information or conclusions contained in our opinion to any future periods is subject to the risk that changes may alter its validity.

Reporting Mechanisms and Practices

Our initial draft reports are sent to the key officer responsible for the area under review in order to gather management responses. In every instance there is an opportunity to discuss the draft report in detail. Therefore, any issues or concerns can be discussed with management before finalisation of the reports.

Our method of operating with the Audit Committee is to agree reports with management and then present and discuss the matters arising at the Audit Committee meetings.

Management actions on our recommendations

Management have generally been conscientious in reviewing and commenting on our reports. For the reports which have been finalised, management have responded positively. The responses indicate that appropriate steps to implement our recommendations are expected.

Recommendations follow-up

Implementation of recommendations is a key determinant of our annual opinion. If recommendations are not implemented in a timely manner then weaknesses in control and governance frameworks will remain in place. Furthermore, an unwillingness or inability to implement recommendations reflects poorly on management's commitment to the maintenance of a robust control environment.

The implementation rate for previous recommendations is currently 76%. This is low compared to recent years, in particular 2019-20 when we reported an implementation rate of 88%. This is primarily due to the impact of Covid-19.

Relationship with external audit

All our final reports are available to the external auditors through the Audit, Governance and Standards Committee papers and are available on request. Our files are also available to external audit should they wish to review working papers to place reliance on the work of internal audit.

Report by BDO LLP to London Borough of Southwark

As the internal auditors of London Borough of Southwark we are required to provide the Audit Committee, and the Directors with an opinion on the adequacy and effectiveness of risk management, governance and internal control processes, as well as arrangements to promote value for money.

In giving our opinion it should be noted that assurance can never be absolute. The internal audit service provides London Borough of Southwark with Moderate assurance that there are no major weaknesses in the internal control system for the areas reviewed in 2020-21. Therefore, the statement of assurance is not a guarantee that all aspects of the internal control system are adequate and effective. The statement of assurance should confirm that, based on the evidence of the audits conducted, there are no signs of material weaknesses in the framework of control.

In assessing the level of assurance to be given, we have taken into account:

- All internal audits undertaken by BDO LLP during 2020-21
- Any follow-up action taken in respect of audits from previous periods for these audit areas
- Whether any significant recommendations have not been accepted by management and the consequent risks
- The effects of any significant changes in the organisation's objectives or systems
- Matters arising from previous internal audit reports to London borough of Southwark
- Any limitations which may have been placed on the scope of internal audit - no restrictions were placed on our work



KEY PERFORMANCE INDICATORS

Description / KPI for Internal Audit 2019-20	Actual and comment	RAG Rating
Audit Coverage		
Annual Audit Plan delivered in line with timetable	Due to the Covid-19 pandemic, we have been unable to complete all of the audit plan to draft report stage. At the time of writing, 2 audits remain at fieldwork stage and 6 reports are being drafted.	
Actual days are in accordance with Annual Audit Plan - 1,030 days	We have delivered 847 days of the internal audit plan, the remaining days relate to the carry forward of audits to 2021-22 as part of the approved plan.	
Relationships and customer satisfaction		
Customer satisfaction reports - overall score at average of at least 3.5 / 5 for surveys issued at the end of each audit.	We have received nine survey responses as at the end of the year, providing an overall rating of 5 in two cases and 4 out of 5 in seven cases.	
Annual survey to Audit, Governance and Standards Committee to achieve score of at least 70%	New survey to be issued.	-
External audit can rely on the work undertaken by internal audit (where planned)	N/A to date	-
Staffing		
At least 60% input from qualified staff	KPI has been met for the year.	
Audit Reporting		
Issuance of draft report within 3 weeks of fieldwork `closing` meeting	All draft reports issued to date were within 3 weeks of the closing meeting.	
Finalise internal audit report 1 week after management responses to report are received.	All final reports issued to date were within 1 week of receipt of the complete management responses.	
90% recommendations to be accepted by management	Recommendations are largely accepted by management following the closing meeting.	
Information is presented in the format requested by the customer	We have agreed the reporting format with the Strategic Director of Finance and Governance.	
Audit Quality		
High quality documents produced by the auditor that are clear and concise and contain all the information requested - measured within customer satisfaction surveys	We have received nine survey responses as at the end of the year, one providing a rating of 5, seven providing a rating of 4 and one providing a rating of 3 out of 5 with regards to the quality of our outputs.	

Positive result from any external review	An external review was completed in March 2021, and we are awaiting the report.	-
Description / KPI for Council Management and Staff 2019-20	Actual and comment	RAG Rating
<i>Response to terms of reference and reports</i>		
Audit sponsor to respond to terms of reference within one week of receipt and to draft reports within three weeks of receipt	With minor exceptions (usually due to leave commitments), Council management have responded in a timely manner.	
<i>Implementation of recommendations</i>		
Audit sponsor to implement all audit recommendations within the agreed timeframe	At the end of the year 76% of recommendations due had been implemented.	
<i>Co-operation with internal audit</i>		
Internal audit to confirm to each meeting of the Audit, Governance and Standards Committee whether appropriate co-operation has been provided by management and staff: a) providing unrestricted access to all of the Council's records, property, and personnel relevant to the performance of engagements b) responding to internal audit requests and reports within the agreed timeframe and in a professional manner c) being open to internal audit about risks and issues within the organisation d) not requesting any service from internal audit that would impair its independence or objectivity e) providing honest and constructive feedback on the performance of internal audit	We can confirm that to date the Council's management and staff have cooperated as per the commitments a) to e), although there have been some delays in receiving information necessary to complete our audit work, largely due to the commitments and priorities of staff with regards to Covid-19.	

APPENDIX I

ANNUAL OPINION DEFINITION

Substantial - Fully meets expectations	Our audit work provides assurance that the arrangements should deliver the objectives and risk management aims of the organisation in the areas under review. There is only a small risk of failure or non-compliance.
Moderate - Significantly meets expectations	Our audit work provides assurance that the arrangements should deliver the objectives and risk management aims of the organisation in the areas under review. There is some risk of failure or non-compliance.
Limited - Partly meets expectations	Our audit work provides assurance that the arrangements will deliver only some of the key objectives and risk management aims of the organisation in the areas under review. There is a significant risk of failure or non-compliance.
No - Does not meet expectations	Our audit work provides little assurance. The arrangements will not deliver the key objectives and risk management aims of the organisation in the areas under review. There is an almost certain risk of failure or non-compliance.

REPORT OPINION SIGNIFICANCE DEFINITION

Level of Assurance	Design Opinion	Findings	Effectiveness Opinion	Findings
 Substantial	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
 Moderate	In the main, there are appropriate procedures and controls in place to mitigate the key risks reviewed, albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of noncompliance with some controls that may put some of the system objectives at risk.
 Limited	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
 No	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non-compliance and/or compliance with inadequate controls.

RECOMMENDATION SIGNIFICANCE DEFINITION

High	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
Medium	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
Low	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.

FOR MORE INFORMATION:**Greg Rubins**

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Item No. 11.	Classification: Open	Date: 2 June 2021	Meeting Name: Audit, governance and standards committee
Report title:		Audit fee letters - indicative fees and planned work outputs (including pension fund)	
Ward(s) or groups affected:		All	
From:		Strategic Director of Finance and Governance	

RECOMMENDATIONS

1. That the audit, governance and standards committee note the report, as attached at Appendix A.

BACKGROUND INFORMATION

2. The purpose of the report is to provide an overview of the planned scope and timing of the statutory audit of Southwark Council and the pension fund statutory audit.

Policy implications

3. This report is not considered to have direct policy implications.

Community impact statement

4. This report is not considered to contain any proposals that would have a significant impact on any particular community or group.

Resource implications

5. If there are direct resource implications in this report, such as the payment of fees, these will be met from existing budget provision.

Consultation

6. There has been no consultation on this report.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

7. None required.

REASONS FOR LATENESS

8. The External Audit Plans have been delayed beyond the date of the publication of the Agenda due to the need to potentially revisit our Audit

Scope on the back of the latest round of external file reviews which is currently being undertaken to ensure we can provide the most up to date position to the Council

REASONS FOR URGENCY

9. This report sets out the external audit plan, and this meeting is the last opportunity for members to give feedback.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
None		

APPENDICES

No.	Title
Appendix A	External audit plan
Appendix B	Pension fund external audit plan

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report Author	Ciaran McLaughlin, Matt Dean, BDO	
Version	Final	
Dated	28 May 2021	
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	No	N/A
Cabinet Member	No	No
Date final report sent to Constitutional Team		28 May 2021

External Audit Plan

Southwark Council

Year ending 31 March 2021

2 June 2021



Contents



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Key matters

Factors

Canada Water Development

In 2018 the Council signed an agreement with British Land for the redevelopment of Canada Water under the Canada Water Master Development Agreement (MDA). In May 2020 planning consent for the MDA was granted, and following the dismissal of a claim for Judicial Review in November 2020 the scheme has since commenced. The headlease combines the Council's Land with the assets held by British Land to facilitate the MDA. At each stage of the MDA the Council has a range of options available to it in terms of investment, which will need to be managed carefully as the MDA progresses.

The impact of Covid-19

The Covid-19 Pandemic has had a considerable on all aspects of society during the course of 2020-21, and this has been keenly felt by the Council in a number of ways. There has been a considerable impact on the Council's financial position, some of which has been offset by a range of one-off funding from Central Government, but there are areas where the Council has had to utilise its Reserves to support services in the short term. A number of capital schemes have also been paused as the Pandemic has evolved which may well take time to reinstate as things start to return to a degree of normality.

NHS Restructuring

On the 1st of April 2021, NHS Southwark Clinical Commissioning Group (CCG) and the other CCGs in South East London merged together to form the NHS South East London CCG, which covers the whole of the locality. Whilst the aim of this merger is to help deliver a more joined-up approach to healthcare across South East London, eventually forming an Integrated Care System with the Providers in the region, it does present challenges for the interactions between Local Government and the NHS in a given region. The Council will need to monitor these arrangements and developments closely to ensure it remains well placed to support the wider health economy to tackle the emerging challenges, which will only intensify on the back of the Pandemic.

Our response

- We will review the accounting for the Council's involvement in the MDA during this year's Accounts Audit and ensure that adequate disclosures are provided.
- We will also consider the decision making around the Council's involvement as part of our Value for Money work.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.
- We will review the Council's engagement with the NHS South East London CCG as part of our work completing our Value for Money work.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Southwark Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Southwark Council. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- Council's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit, Governance and Standards Committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit, Governance and Standards Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- The revenue cycle includes fraudulent transactions – this risk has been rebutted as documented on page 5
- The expenditure cycle includes fraudulent transactions – this risk has been rebutted as documented on page 5
- Management over-ride of controls
- Valuation of Land and Buildings
- Valuation of the Pension Fund Net Liability
- Valuation of Investment Properties

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £18m (PY £18m) for the Council, which equates to approximately 1.4% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £900k (PY £900k).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following area of focus for our value for money assessment

- Delivery of the planned financial performance in 2020-21, along with the future plans of the Council in 2021-22 and beyond
- Managing the continued impact of Covid-19 on the Council's Service Delivery and Governance Arrangements
- 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

Audit logistics

Our interim visit took place in March 2021 and our final visit will take place between July and September 2021. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report. Our audit approach is detailed in Appendix A.

Our fee for the audit will be £257,718 (PY: £246,926) for the Council, subject to the Council delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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.

Significant risks identified

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.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	<p>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.</p> <p>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:</p> <ul style="list-style-type: none"> • 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 <p>Therefore we do not consider this to be a significant risk for Southwark Council.</p>	
The expenditure cycle includes fraudulent transactions (rebutted)	<p>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.</p> <p>Having considered the risk factors relevant to the Authority, 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 6.</p>	<p>We will:</p> <ul style="list-style-type: none"> • obtain an understanding of the design effectiveness of controls relating to operating expenditure. • perform testing over post-year end transactions to assess completeness of expenditure recognition. • test a sample of operating expenditure to gain assurance in respect of the accuracy of expenditure recorded during the financial year.

Significant risks identified

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.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	<p>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.</p> <p>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.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals made during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.
Valuation of Land and Buildings	<p>The Authority revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£5.127 billion) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used</p> <p>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.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • discuss with the valuer the basis on which the valuation was carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding. We will engage our own valuer to assess the instructions to the Authority's valuer, the Authority's valuer's report and the assumptions that underpin the valuation. • test revaluations made during the year to see if they had been input correctly into the Authority's asset register • evaluating 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.

Significant risks identified

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.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the Pension Fund Net Liability	<p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£607 million in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • test 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 • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.
Valuation of Investment Properties	<p>The Authority 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.</p> <p>Management have engaged the services of a valuer to estimate the current value as at 31 March 2021.</p> <p>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.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuations were carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding, which will include engaging our own valuer to assess the instructions to the Authority's valuer, the Authority's valuer's report and the assumptions that underpin the valuation. • test, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authority's asset register • evaluate 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.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit, Governance and Standards Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings, council dwellings and investment properties
- Depreciation
- Year end provisions and accruals, specifically for demand led services such as Adults and Children's Services
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates
- Valuation of level 2 and level 3 investments

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.



Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered 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 point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainty is unresolved.

Planning enquiries

As part of our planning risk assessment procedures we have shared a questionnaire with Management to obtain their responses over these Accounting Estimates. This document is on the Committee Agenda for approval by Those Charged with Governance in advance of including on our audit file

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540_Revised-December-2018_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
 - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
 - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
 - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VfM work) and ensure that our work on going concern is proportionate for public sector bodies. We will review the Council's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report (see page 12).

Progress against prior year audit recommendations

We identified the following issues in our 2019/20 audit of the Council's 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 have identified that one issue remains to be addressed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1 ✓	<p>Reporting of In-Year Budget Monitoring</p> <p>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.</p> <p>Ensure that there is a clear timetable for reporting in-year financial performance to Cabinet and that this is done with sufficient regularity to allow Members to have a clear handle on the position during the course of the year</p>	<p>As a result of the impact of Covid-19 more regular financial reporting has taken place during the course of the year, including all of the relevant facets of the revised funding regime which has been in place during the Pandemic. On this basis, satisfied this recommendation can be closed.</p>
2 TBC	<p>Self-Authorisation of Journals</p> <p>During our detailed journals testing, we identified two users who had posted and authorised their own journals. We subsequently undertook further testing on the journals posted by these two users, which identified further self-authorised journals by one of the users.</p> <p>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.</p> <p>Ensure that there are appropriate controls in place to prevent the self-authorisation of journals to reduce the risk of inappropriate journals being posted. If journal specific controls cannot be introduced, higher level controls should be considered to provide some assurance in this area.</p>	<p>From the work performed on Journals to date we have identified that the gap in journal controls remains, albeit we have not undertaken any detailed testing yet and thus are unable to confirm whether any self-authorised journals have been posted in 2020-21. We will provide an update to the Committee in our Audit Findings Report with the results of our detailed testing to confirm whether the same issue has been identified.</p>

Materiality

The concept of materiality

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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £18.0m (PY £18.0m) for the Council, which equates to approximately 1.4% of your forecast gross expenditure for the year..

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

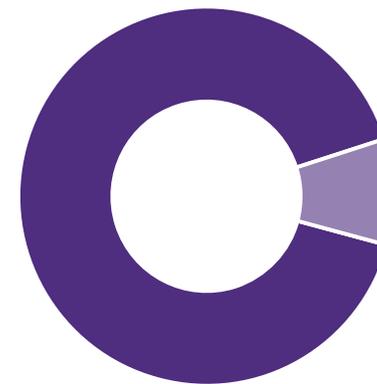
Matters we will report to the Audit, Governance and Standards Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) ‘Communication with those charged with governance’, we are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance. ISA 260 (UK) defines ‘clearly trivial’ as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £xm (PY £xm).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit, Governance and Standards Committee to assist it in fulfilling its governance responsibilities.

Prior year gross operating costs

£1,269m
(PY: £1,264m)



- Prior year gross operating costs
- Materiality

Materiality

£18.0m
Council financial statements materiality
(PY: £18.0m)

£900k
Misstatements reported to the Audit, Governance and Standards Committee
(PY: £900k)

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, rather than the current 'reporting by exception' approach
- The replacement of the binary unqualified approach to VFM conclusions, with 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 three specified reporting criteria. These are as set out below:



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



Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. Whilst our planning assessment did not identify any significant weaknesses in arrangements at this stage, we have highlighted further key areas of focus which are listed below. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

Key areas of focus

Our Value for Money work will primarily focus on the aspects listed below, but may increase in scope as further work is performed:

- Delivery of the planned financial performance in 2020-21, along with the future plans of the Council in 2021-22 and beyond
- Managing the continued impact of Covid-19 on the Council's Service Delivery and Governance Arrangements
- 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

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, 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

Audit logistics and team



Ciaran McLaughlin, Key Audit Partner

Ciaran will be the main point of contact for the Chief Executive, Section 151 Officer and Members. Ciaran will share his wealth of knowledge and experience across the sector providing challenge, sharing good practice, providing pragmatic solutions and acting as a sounding board with Members and the Audit, Governance and Standards Committee. Ciaran will ensure our audit is tailored specifically to you and is delivered efficiently. Ciaran will review all reports and the team's work.



Matt Dean, Audit Manager

Matt will work with the senior members of the finance team ensuring early delivery of testing and agreement of accounting issues on a timely basis. Matt will attend Audit, Governance and Standards Committees, undertake reviews of the team's work and draft reports ensuring they remain clear, concise and understandable to all. Matt will also work with Internal Audit to secure efficiencies and avoid any duplication across the audit.



Ibby Oluwasegun, Assistant Manager

Ibby will lead the onsite team and will be the day to day contact for the audit. Ibby will monitor the deliverables, manage the query log with your finance team and highlight any significant issues and adjustments to senior management. Ibby will undertake the more technical aspects of the audit, coach the junior members of the team and review the team's work.

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees

In 2018, PSAA awarded a contract of audit for Southwark Council to begin with effect from 2018/19. The fee agreed in the contract was £182,718. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2020/21 audit.

As referred to on page 13, the 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years. Our estimate is that for your audit, this will result in an increased fee of £26,000 (14%). This is in line with increases we are proposing at all our local audits.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. We have engaged an audit expert to improve the level of assurance we require for our work on the Council's property valuations estimates, which has been included in our proposed audit fee. Our proposed work and fee for 2020/21, as set out below, is detailed overleaf and has been agreed with the Director of Finance.

	Actual Fee 2018/19	Actual Fee 2019/20	Proposed fee 2020/21
Main Accounts Audit	£193,718	£246,926	£257,718
Total audit fees (excluding VAT)	£193,718	£246,926	£257,718

Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

Area	Fee
Scale fee published by PSAA	£182,718
<i>Ongoing increases to scale fee first identified in 2019/20</i>	
Raising the bar/regulatory factors	£11,500
Enhanced audit procedures for Property, Plant and Equipment	£9,500
Enhanced audit procedures for Pensions	£4,000
Other audit procedures, including work on IFRS16	£7,000
Audit fee 2019/20	£214,718
<i>New issues for 2020/21</i>	
Additional work on Value for Money (VfM) under new NAO Code	£26,000
Increased audit requirements of revised ISAs	£17,000
<i>Proposed increase to agreed 2019/20 fee</i>	£43,000
Total audit fees (excluding VAT)	£257,718

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 (Revised 2019) 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.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Other services

The following other services provided by Grant Thornton were identified {set out in the table below}

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing Capital Receipts Grant	7,000	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 £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.
Certification of the Teachers Pensions Return	8,000	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 £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.

Independence and non-audit services (cont.)

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing Benefit Subsidy Return	32,000	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 £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.
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.

Appendix 1: Revised Auditor Standards and application guidance

FRC revisions to Auditor Standards and associated application guidance

The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	
ISA (UK) 230 – Audit Documentation	January 2020	
ISA (UK) 240 – The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	
ISA (UK) 250 Section B – The Auditor’s Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	
ISA (UK) 500 – Audit Evidence	January 2020	
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	
ISA (UK) 570 – Going Concern	September 2019	
ISA (UK) 580 – Written Representations	January 2020	
ISA (UK) 600 – Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	
ISA (UK) 620 – Using the Work of an Auditor’s Expert	November 2019	
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor’s Report	January 2020	
ISA (UK) 720 – The Auditor’s Responsibilities Relating to Other Information	November 2019	
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	



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External Audit Plan

London Borough of Southwark Pension Fund

Year ending 31 March 2021

2 June 2021



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Pension Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Key matters

Factors

Pension Fund developments

The Pension Fund has bounced back strongly from the impact of the Covid-19 Pandemic, which particularly impacted on the closing asset values as at 31 March 2020. At Month 9 2020-21, the value of the Fund had risen to **£1,913m**, which is an increase of **£355m** of from the value of **£1,558m** at 31 March 2020. The Fund is forecasting similar levels of performance over the final quarter of the financial year, which will generate a strong performance over the course of the past 12 months.

New Pensions Administration System

As mentioned elsewhere within the Plan, the Council has procured a new pensions administration software to replace its current system, which is planned to go live in May 2021. This is a phased project and as part of the implementation process a full data quality check will be undertaken. The new system provides for much improved Member and Employer Self-Service Portals, allowing members to log in securely and check/update basic member data. Employers will be able to submit monthly returns through the secure portal and see any outstanding tasks, such as outstanding leaver forms or requests for data. Forms will be able to be completed 'online' rather than paper-based which is hoped will further improve employer compliance via increased convenience.

Responsible Investment

Like a lot of Pension Funds, the London Borough of Southwark Pension Fund is looking to investment more responsibly moving forward, for example moving away from holdings in companies which generate Fossil Fuels for example. During the course of the year the Pension Fund has appointed Aon Hewitt as an investment advisor to support the Fund's pursuit of a low-carbon approach.

Our response

- We will monitor the financial performance of the Pension Fund over the remainder of the year as part of our Audit of the Accounts.
- We will monitor the implementation of the new Administration System during the course of this year's audit to see if there is any impact on the 2020-21 Accounts. However we anticipate the main impact will be on the 2021-22 Accounts when the change actually takes place.
- We will monitor the Fund's Investments during the course of our audit work to identify any changes which may occur as part of the move to a low-carbon approach to investing.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of the London Borough of Southwark Pension Fund ('the Pension Fund') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of the London Borough of Southwark Pension Fund. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Pension Fund's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit committee).

The audit of the financial statements does not relieve management or the Audit, Governance and Standards Committee of your responsibilities. It is the responsibility of the Pension Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Pension Fund is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Pension Fund's business and is risk based.

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- The revenue cycle includes fraudulent transactions – this risk has been rebutted for the Fund as documented on page 5
- The expenditure cycle includes fraudulent transactions – this risk has been rebutted for the Fund as documented on page 5
- Management over-ride of controls
- The valuation of Direct Property is incorrect (Level 3)

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £16m (PY £16m) for the Pension Fund, which equates to approximately 1% of your prior year net assets as of 31 March 2020.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £800k (PY £800k) for the Pension Fund.

Audit logistics

Our interim visit took place in March 2021 and our final visit will take place between July to September 2021. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A.

Our fee for the audit will be £36,170 (PY: £32,396) for the Pension Fund, subject to the Pension Fund delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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.

Significant risks identified

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.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p>The revenue cycle includes fraudulent transactions (rebutted)</p>	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • 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 <p>Therefore we do not consider this to be a significant risk for the London Borough of Southwark Pension Fund.</p>	<p>Having considered the risk factors set out in ISA(UK&I)240 and the nature of the revenue streams at the London Borough of Southwark Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • The nature of the Pension Fund's revenue is in many respects relatively predictable and does not generally involve cash transactions. • Revenue contributions are made by direct bank transfers from admitted / scheduled bodies and are supported by separately sent schedules and are directly attributable to gross pay making any improper recognition unlikely. • Transfers into the pension scheme are all supported by an independent actuarial valuation of the amount which should be transferred and which is subject to agreement between the transferring and receiving funds. • Historically, the split of responsibilities between the Pension Fund, the Custodian and its Fund Managers provide a very strong separation of duties reducing the risk around investment income.
<p>The expenditure cycle includes fraudulent transactions (rebutted)</p>	<p>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.</p> <p>Having considered the risk factors relevant to the Pension Fund, 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 6.</p>	<p>We will:</p> <ul style="list-style-type: none"> • obtain an understanding of the design effectiveness of controls relating to operating expenditure. • perform testing over post-year end transactions to assess completeness of expenditure recognition. • test a sample of operating expenditure to gain assurance in respect of the accuracy of expenditure recorded during the financial year.

Significant risks identified (continued)

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.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	<p>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.</p> <p>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.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals made during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.
The valuation of Direct Property is incorrect (Level 3)	<p>The Fund revalues its directly held property on an annual basis to ensure that the carrying value is not materially different from the 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 (£246 million) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Management have engaged the services of a valuer to estimate the current value as at 31 March 2021.</p> <p>We therefore identified valuation of directly held property, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • independently request year-end confirmations from investment managers and custodian, and assess their responses as part of our work. • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuations were carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding. We will also engage our own valuer to assess the instructions to the Fund's valuer, the Fund's valuer's report and the assumptions that underpin the valuation. • test, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Fund's asset register/financial records • where available review investment manager service auditor report on design effectiveness of internal controls.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Introduction

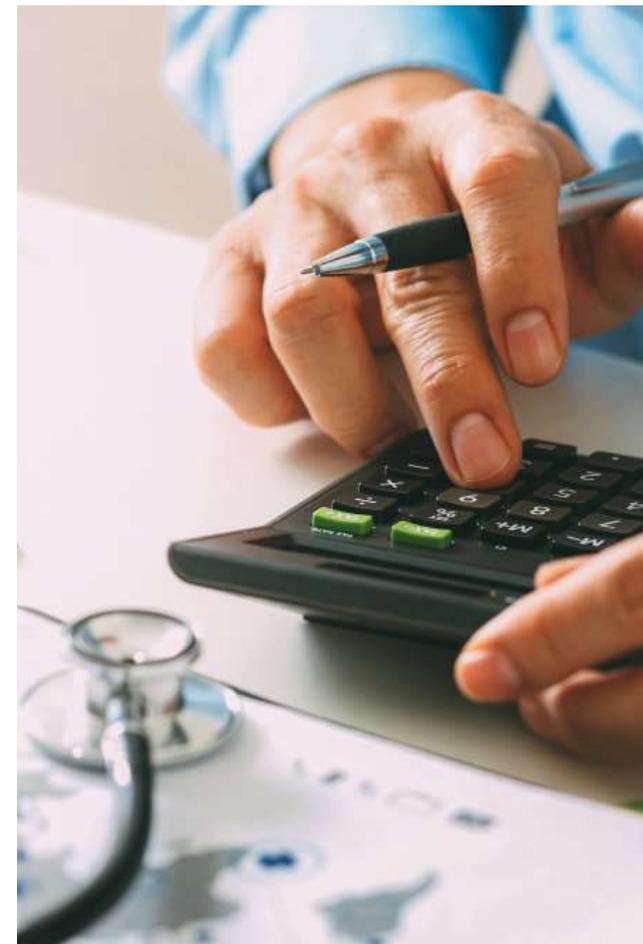
Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit, Governance and Standards Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Pension Fund we have identified the following material accounting estimates for which this is likely to apply:

- Valuation of Level 2 and Level 3 investments

The Pension Fund's Information systems

In respect of the Pension Fund's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Pension Fund uses management experts in deriving some of its more complex estimates, e.g. asset and investment. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Pension Fund (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.



Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered 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 point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainty is unresolved.

Planning enquiries

As part of our planning risk assessment procedures we have shared a questionnaire with Management to obtain their responses over these Accounting Estimates. This document is on the Committee Agenda for approval by Those Charged with Governance in advance of including on our audit file.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540_Revised-December-2018_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

Other matters

Other work

The Pension Fund is administered by Southwark Council (the 'Authority'), and the Pension Fund's accounts form part of the Authority's financial statements.

Therefore, as well as our general responsibilities under the Code of Practice a number of other audit responsibilities also follow in respect of the Pension Fund, such as:

- We read any other information published alongside the Council's financial statements to check that it is consistent with the Pension Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority.
- We consider our other duties under legislation and the Code, as and when required, including:
 - Giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
 - Issue of a report in the public interest or written recommendations to the Fund under section 24 of the Act, copied to the Secretary of State.
 - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
 - Issuing an advisory notice under Section 29 of the Act.
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience and ensure that our work on going concern is proportionate for public sector bodies.

Progress against prior year audit recommendations

We identified the following issue in our 2019/20 audit of the Pension Fund's financial statements, which resulted in one recommendation being reported in our 2019/20 Audit Findings Report. We have followed up on the implementation of our recommendations and have noted the responses below.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
In Progress	<p>Issues over Member Data</p> <p>In 2016/17 we identified errors during our testing of the client's Member Data, which thus could have a potential impact on the accuracy of the data provided to the Actuary. This then could have a potential impact on the valuation provided by the Actuary to the Fund, although the risk of this is low.</p> <p>The Council has undertaken extensive data cleansing during 2017-18 and 2018-19 as part of the production of the annual benefit statements and also through the implementation of i-Connect software in all admitted bodies, scheduled bodies and schools which has significantly improved the quality of data held. The enhanced Member Self Service portal which facilitates member updates of data is now live and members will be made aware of this through newsletters. These will include activation keys which it is hoped will encourage them to log in.</p> <p>However we continued to find issues of this type in 2017-18 and 2018-19, hence why this area was carried forward to 2019-20.</p>	<p>The Pension Fund has procured new pensions administration software to replace its current system, which is planned to go live in May 2021. This is a phased project and as part of the implementation process a full data quality check will be undertaken. The new system provides for much improved Member and Employer Self-Service Portals, allowing members to log in securely and check/update basic member data. Employers will be able to submit monthly returns through the secure portal and see any outstanding tasks, such as outstanding leaver forms or requests for data. Forms will be able to be completed 'online' rather than paper-based which is hoped will further improve employer compliance via increased convenience.</p> <p>The fund is acutely aware of the increased scrutiny on LGPS data by The Pension Regulator and has taken measures to ensure member data is as accurate as it can be.</p> <p>We will perform testing on the Member Data as part of our work during the Final Accounts Visit and will provide an update after this testing as to whether any further issues have been identified.</p>

Materiality

The concept of materiality

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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the net assets of the Pension Fund. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £16m (PY £16m), which equates to approximately 1% of your prior year net assets [as at 31 March 2020].

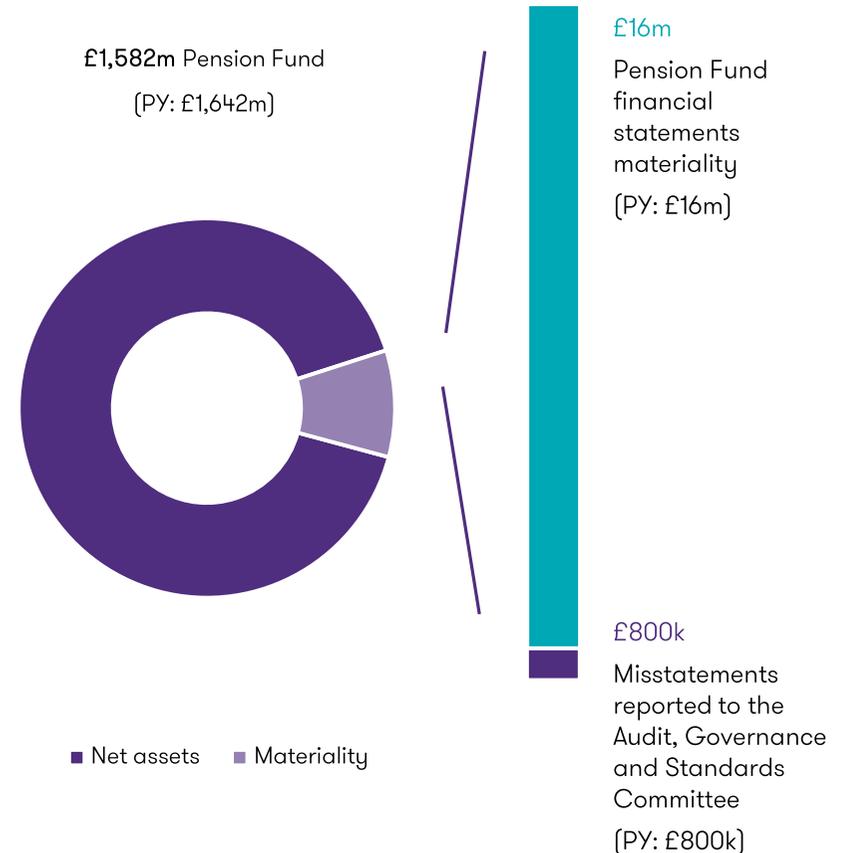
We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit, Governance and Standards Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit, Governance and Standards Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £800k (PY £800k).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit, Governance and Standards Committee to assist it in fulfilling its governance responsibilities.

Prior year net assets {at 31 March 2020}



Audit logistics and team



Ciaran McLaughlin, Key Audit Partner

Ciaran will be the main point of contact for the Chief Executive, Section 151 Officer and Members. Ciaran will share his wealth of knowledge and experience across the sector providing challenge, sharing good practice, providing pragmatic solutions and acting as a sounding board with Members and the Audit, Governance and Standards Committee. Ciaran will ensure our audit is tailored specifically to you and is delivered efficiently. Ciaran will review all reports and the team's work.



Matt Dean, Senior Audit Manager

Matt will work with the senior members of the finance team ensuring early delivery of testing and agreement of accounting issues on a timely basis. Matt will attend Audit, Governance and Standards Committees, undertake reviews of the team's work and draft reports ensuring they remain clear, concise and understandable to all. Matt will also work with Internal Audit to secure efficiencies and avoid any duplication across the audit.



Ibby Oluwasegun, Audit Incharge

Ibby will lead the onsite team and will be the day to day contact for the audit. Ibby will monitor the deliverables, manage the query log with your finance team and highlight any significant issues and adjustments to senior management. Ibby will undertake the more technical aspects of the audit, coach the junior members of the team and review the team's work.

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees

In 2018, PSAA awarded a contract of audit for the London Borough of Southwark Pension Fund to begin with effect from 2018/19. The fee agreed in the contract was £16,170. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2020/21 audit.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. We have engaged an audit expert to improve the level of assurance we require for our on the Pension Fund Investments, Pensions Liabilities and the Asbestosis Provision, which has been included in our proposed audit fee. Our proposed work and fee for 2020/21, as set out below, is detailed overleaf and has been agreed with the s151 Officer.

	Actual Fee 2018/19	Actual Fee 2019/20	Proposed fee 2020/21
Pension Fund Audit	£19,170	£32,396	£36,170
Total audit fees (excluding VAT)	£19,170	£32,396	£36,170

Assumptions

In setting the above fees, we have assumed that the Pension Fund will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \[revised 2019\]](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

Scale fee published by PSAA	£16,170
<i>Ongoing increases to scale fee first identified in 2019/20</i>	
Raising the bar/regulatory factors	£2,500
Enhanced audit procedures for Level 3 Investments, involving an Auditor's Expert	£9,500
Audit fee 2019/20	£28,170
<i>New issues for 2020/21</i>	
Increased audit requirements of revised ISAs	£8,000
<i>Proposed increase to agreed 2019/20 fee</i>	£20,000
Total audit fees (excluding VAT)	£36,170

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Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 (Revised 2019) 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.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority.

Other services

No other services provided by Grant Thornton were identified.

Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

Appendix 1: Revised Auditor Standards and application guidance

FRC revisions to Auditor Standards and associated application guidance

The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	✓
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	✓
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	✓
ISA (UK) 230 – Audit Documentation	January 2020	✓
ISA (UK) 240 – The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	✓
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	✓
ISA (UK) 250 Section B – The Auditor’s Statutory Right and Duty to Report to Regulators of Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	✓

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	
ISA (UK) 500 – Audit Evidence	January 2020	
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	
ISA (UK) 570 – Going Concern	September 2019	
ISA (UK) 580 – Written Representations	January 2020	
ISA (UK) 600 – Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	
ISA (UK) 620 – Using the Work of an Auditor’s Expert	November 2019	
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor’s Report	January 2020	
ISA (UK) 720 – The Auditor’s Responsibilities Relating to Other Information	November 2019	
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	



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Item No. 12.	Classification: Open	Date: 2 June 2021	Meeting Name: Audit, governance and standards committee
Report title:		Informing the audit risk assessment for the council (including pension fund)	
Ward(s) or groups affected:		All	
From:		Strategic Director of Finance and Governance	

RECOMMENDATIONS

1. That the audit, governance and standards committee note the report, as attached at Appendix A.

BACKGROUND INFORMATION

2. The purpose of the report is to demonstrate important areas of the auditor risk assessment where we are required to make inquiries of the audit, governance and standards committee under auditing standards.

Policy implications

3. This report is not considered to have direct policy implications.

Community impact statement

4. This report is not considered to contain any proposals that would have a significant impact on any particular community or group.

Resource implications

5. If there are direct resource implications in this report, such as the payment of fees, these will be met from existing budget provision.

Consultation

6. There has been no consultation on this report.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

7. None required.

REASONS FOR LATENESS

8. The External Audit Plans have been delayed beyond the date of the publication of the Agenda due to the need to potentially revisit our Audit

Scope on the back of the latest round of external file reviews which is currently being undertaken to ensure we can provide the most up to date position to the Council

REASONS FOR URGENCY

9. This report sets out the audit risk assessment, and this meeting is the last opportunity for members to give feedback.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
None		

APPENDICES

No.	Title
Appendix A	Informing the audit risk assessment for the council (including pension fund)

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report Author	Ciaran McLaughlin, Matt Dean, BDO	
Version	Final	
Dated	28 May 2021	
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	No	N/A
Cabinet Member	No	No
Date final report sent to Constitutional Team		28 May 2021



Informing the audit risk assessment for London Borough of Southwark and Pension Fund 2020/21

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between London Borough of Southwark Council ('the Council') and Pension Fund's external auditors and the Audit, Governance and Standards ('AGS') Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the AGS Committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the AGS Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the AGS Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the AGS Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the AGS Committee and supports the AGS Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Council and Pension Fund's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from London Borough of Southwark Council ('the Council') and Pension Fund's management. The Audit, Governance and Standards (AGS) Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21?	For 2020-21 council's final accounts and Pension Fund, the key event impacting the financial statements is the Covid-19 pandemic and the councils response. The Government has provided significant financial support to the council and businesses through the pandemic. This has resulted in a significant increases in the volume of government grants transactions.
2. Have you considered the appropriateness of the accounting policies adopted by the Council and Pension Fund? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	The accounting policies are reviewed for their appropriateness for both the council's and Pension Fund on an annual basis and have been for the 2020-21 final accounts. No.
3. Is there any use of financial instruments, including derivatives?	<p><u>Council accounts</u></p> <p>There are no new financial instruments and no derivatives. Please refer to in notes 38 and 39 for the classes of financial instruments used. This note will be updated for the position as at 31 March 2021.</p> <p><u>Pension Fund</u></p> <p>Investment balances are set out in the Pension Fund accounts and this will include some incidental use of derivatives related to forward currency contracts.</p>
4. Are you aware of any significant transaction outside the normal course of business?	The council's response to Covid-19 pandemic and the significant government financial support received. There has been increased activity in relation to the receipt of government grants for payment to businesses during 2020-21.

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	No. Subject to the valuer's final review.
6. Are you aware of any guarantee contracts?	No.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No material items. Please refer to Legal Services response for contingencies.
8. Other than in house solicitors, can you provide details of those solicitors utilised by the Council and Pension Fund during the year. Please indicate where they are working on open litigation or contingencies from prior years?	Details to be provided by legal. Anticipated that there will be no changes compared with 2019-20's position. Unaware of any open material litigation or contingencies from prior years affecting council / Pension Fund.

General Enquiries of Management

Question	Management response
9. Have any of the Council and Pension Fund's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	No. Legal to respond.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	TBC

Fraud

Issue

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the AGS Committee and management. Management, with the oversight of the AGS Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the AGS Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As London Borough of Southwark Council and Pension Fund's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the AGS Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the AGS Committee oversees the above processes. We are also required to make inquiries of both management and the AGS Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Council and Pension Fund's management.

Fraud risk assessment

Question	Management response
<p>1. Have you assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How does the Council and Pension Fund’s risk management processes link to financial reporting?</p>	<p>a) Yes, the risk of material misstatement has been assessed.</p> <p>b) Yes, please refer to risk register supplied as part of the planning audit visit.</p> <p>c) Risk assessment covers the whole council which includes financial reporting.</p> <p>Regular updates to Audit, Governance and Standards committee.</p> <p>The council is required to manage its affairs to secure the economic, efficient and effective use of resources as reported in its financial statements and to safeguard its assets. It has appointed the strategic director of finance and governance as the officer responsible for proper administration of its financial affairs (the S.151 officer).</p> <p>As part of his responsibilities, he is required to prepare the statement of accounts and in order to do this, he has taken reasonable and appropriate steps to prevent, detect and mitigate the risk of fraud. Assessment of this risk is therefore considered as part of the overall internal audit and anti-fraud proactive planning processes.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Fraud risk assessments are undertaken by the anti-fraud team supported by internal audit (BDO). These risks are considered as part of the internal audit and anti-fraud proactive planning processes and discussed with management. A best practice council-wide proactive counter fraud plan is being developed for 2021-22.</p> <p>Management are ultimately responsible for managing the risks, but internal audit consider the control environment and provide challenge where appropriate.</p> <p>Significant control weaknesses, or those which remain unaddressed would be reported to the Audit, Governance and Standards (AGS) committee via the internal audit and anti fraud progress reports.</p> <p>Business rates reliefs and the Covid-19 business support grants have been identified as risk areas.</p>

Fraud risk assessment

Question	Management response
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within the Council and Pension Fund as a whole or within specific departments since 1 April 2020?</p> <p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p><u>Internal Audit</u></p> <p>As in other years. Internal audit has identified various control weakness and compliance issues as part of their audit engagements. These have been reported to the Audit, Governance and Standards committee (AGS) and recommendations are routinely followed up to address issues identified.</p> <p>Internal audit has not identified any instances of actual, suspected or alleged fraud, errors or other irregularities within the Council and Pension Fund as a whole based upon work reported since April 2020 to date (25 March 2021).</p> <p>Internal audit was requested to undertake an advisory review on BUPA overpayments. This piece of work has identified significant control weaknesses, which gave rise to those overpayments. The internal audit report is currently in draft..</p> <p>Risk issues (including fraud) are communicated through reports to AGS committee.</p>
<p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within the Council and Pension Fund where fraud is more likely to occur?</p>	<p><u>Internal Audit</u></p> <p>Internal audit considers the risk of fraud routinely when scoping individual audits, and the risks covered reflect this as and when appropriate. Recent audit areas where risk of fraud is inherent in the system would include for example procurement, payments processes and direct payments. Specific concerns of fraud being evident have not be identified in recent audits.</p> <p>National Fraud Initiative data matching exercises look for anomalies within the Council and Pension Fund activities.</p>
<p>5. What processes does the Council and Pension Fund have in place to identify and respond to risks of fraud?</p>	<p>The annual internal audit plan and anti-fraud proactive plan are reported to the AGS committee, highlighting potential areas of risk. The internal audit progress reports also identify any control weaknesses. The progress report also includes outcomes from fraud investigations. The AGS committee also receive an annual report on whistle blowing outcomes, and the format of these reports has been reviewed against other local authority reporting to provide more information to the committee.</p>

Fraud risk assessment

Question	Management response
<p>6. How do you assess the overall control environment for the Council and Pension Fund, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p><u>Internal Audit</u> As one source of assurance on the control environment, individual audits completed routinely consider both the adequacy of the design of the framework of internal audit control and the operational effectiveness of the controls in place. This routinely considers segregation of duties of e.g. preparation, approval and input, alongside IT systems access.</p> <p>All internal audit reports provide two opinions for the design and effectiveness of the control framework, and this information along with the significance and number of recommendations made feeds into the annual head of internal audit opinion and assurance statement.</p> <p>Where internal controls are found not to be in place or not working effectively, the council agreed action to address the issues found and recommendations made. All actions have a named 'responsible officer' and agreed timeframe for implementation.</p> <p>Internal audit follows up and reports to senior management and the Audit, Governance and Standards committee on the implementation rates and recommendations outstanding as part of its routine progress report.</p>
<p>7. Are there any areas where there is potential for misreporting?</p>	<p><u>Internal Audit</u> As in any large organisation, the fact that responsibilities are delegated down requires the need for strong review and oversight of what is reported. Generally we have found that reporting is accurate and based upon evidence. Where this is not the case, it tends to be due to a lack of understanding of systems, where corporate knowledge has been lost or the number of officers involved in reporting. Internal audit was asked to complete a review of the collation of customer experience KPIs anomalies had been identified. New systems and review processes were put in place as a result of the work.</p>

Fraud risk assessment

Question	Management response
<p>8. How does the Council and Pension Fund communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</p>	<p>The council has an induction programme, and a fraud and bribery response plan. Information and relevant documents are communicated via the intranet site and the council also offers training and awareness on anti-fraud which includes ethical behaviour. The staff code of conduct requires reporting of gifts and hospitality. Staff and any external advisors involved in procurements are also required to complete declarations of interest. The process of declaring interests has been subject to a recent audit review and recommendations arising will be implemented. The council's rules on gifts and hospitality are set out in the code of conduct, and relevant staff (including those involved in contracting) complete a declaration of interests. The Fairer Future Procurement Strategy and other council policies have encouraged ethical behaviour by contractors in areas such as the London Living Wage, anti-blacklisting and tax compliance. The Investment Strategy Statement for the Pension Fund stipulates that the Fund will seek to engage with and vote company shareholdings in accordance with high ethical standards. The council continues to maintain a high profile anti-fraud stance and to vigorously pursue those who attempt to defraud the council of the public funds which it administers. Once investigations have been completed, they are reported to the AGS committee. Any significant issues will be subject to an internal audit and the findings reported to the AGS committee. Where appropriate the council will publicise anti-fraud prosecutions.</p>
<p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Identification of high-risk posts – officers with ability to authorise payments and receive income are potential risk areas for consideration.</p> <p>The scheme of delegation and segregation of duties, dual authorities for authorised signatories are reviewed on a proactive planning basis by the anti-fraud team.</p>
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and</p>	<p>No. Declarations of interest requested at committee meetings for councillors would identify any related party transactions. Formal disclosure of related parties through the statement of accounts annual work.</p> <p>To mitigate against the risk of fraud there are governance arrangements in existence to deter fraud for example as stated above.</p>

Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the AGS Committee?</p> <p>How does the AGS Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p><u>Internal Audit</u></p> <p>An internal audit (and anti-fraud) progress report is presented to every AGS Committee. This includes a summary of the results of all internal audit work completed (finalised) since the previous meeting. The minutes of these meetings record actions arising (e.g. follow up work by management).</p>
<p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>The council also has a whistleblowing policy, which encourages staff and other concerned parties to report any instances of suspected unlawful conduct, financial malpractice, or actions that are dangerous to the public or environment. There are a small number of whistleblowing complaints each year but few have resulted in further action being taken – legal to update.</p> <p>Annual Report to Audit, Governance and Standards Committee.</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>None</p>

Law and regulations

Issue

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the AGS Committee, is responsible for ensuring that London Borough of Southwark Council and Pension Fund's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the AGS Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does the Council and Pension Fund have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Council and Pension Fund's regulatory environment that may have a significant impact on the financial statements?</p>	<p>Legal to respond.</p> <p>The commissioning of internal audits. External reviews from external auditors, and other regulatory organisations.</p> <p>No</p>
<p>2. How is the AGS Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>Annual Governance Statement provides assurance through the annual review process. Further assurance is provided through internal and external audit work.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2020 with an on-going impact on the 2020/21 financial statements?</p>	<p>Minor non-compliance identified and being resolved with HMRC.</p>
<p>4. Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>Unaware of any litigation or claims that would have a material impact on the financial statements. Legal to confirm.</p>

Impact of laws and regulations

Question	Management response
5. What arrangements does the Council and Pension Fund have in place to identify, evaluate and account for litigation or claims?	Legal to respond.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	Minor non-compliance identified and being resolved with HMRC.

Related Parties

Issue

Matters in relation to Related Parties

The London Borough of Southwark Council and Pension Fund are required to disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the Council or Pension Fund;
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the Council or Pension Fund;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council or the Pension Fund, or of any entity that is a related party of the Council or Pension Fund.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Council or Pension Fund's perspective but material from a related party viewpoint then the council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties disclosed in the Council and Pension Fund's 2019/20 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> the nature of the relationship between these related parties and the Council and Pension Fund whether the Council and Pension Fund has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions 	<p>No changes to 2020-21 processes for identification of related parties compared with 2019-20.</p>
<p>2. What controls does the Council and Pension Fund have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>Please refer to disclosure note 31 related parties – the processes are detailed there.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Not applicable.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>Not applicable.</p>

Accounting estimates

Issue

Matters in relation to Related Accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do AGS Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the AGS Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	The key ongoing event is Covid-19.
2. How does the Council and Pension Fund's risk management process identify and addresses risks relating to accounting estimates?	Risk register identifies key risks.
3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	Professionally qualified staff such as RICS are employed to identify methods and assumptions which are based on a fresh look at 2020-21 in addition to historical reviews.
4. How do management review the outcomes of previous accounting estimates?	Review previous years audited accounts.
5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?	<p>Greater focus placed on estimation processes and potential impact on accounts. Auditing Standard ISA 540 – auditing accounting estimates and related disclosures, has been enhanced to place increasing demands on auditors to understand and assess an entity's internal controls over accounting estimates.</p> <p>Key changes include a requirement to:</p> <ul style="list-style-type: none"> • Consider evolving risks associated with more complex estimates with high estimation uncertainty • Adopt a more independent and challenging sceptical mindset • Improve dialogue between auditors and those charged with governance (committee members) about complex accounting estimates and those with high estimation uncertainty or subjectivity.

Accounting Estimates - General Enquiries of Management

Question	Management response
6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?	For the Pension Fund, Aon Hewitt is an external advisor. For the council no external advisors apart from interim consultant use.
7. How does the Council and Pension Fund determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	Please refer to responses to the GT letter dated 17 March 2021, covering detailed subject responses.
8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	Please refer to responses to the GT letter dated 17 March 2021, covering detailed subject responses.
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	Please refer to responses to the GT letter dated 17 March 2021, covering detailed subject responses.

Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?	Please refer to responses to the GT letter dated 17 March 2021, covering detailed subject responses.
11. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?	Please refer to responses to the GT letter dated 17 March 2021, covering detailed subject responses.
12. How is the AGS Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Please refer to responses to the GT letter dated 17 March 2021, covering detailed subject responses.

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Land and buildings valuations	Refer to detailed valuation reports	Review of inputs and outputs	In-house RICS qualified	Refer to detailed valuation reports	No
Council dwelling valuations	Refer to detailed valuation reports	Review of inputs and outputs	In-house RICS qualified	Refer to detailed valuation reports	No
Investment property valuations	Refer to detailed valuation reports	Review of inputs and outputs	In-house RICS qualified	Refer to detailed valuation reports	No
Depreciation	RAM calculates depreciation based on asset lives and opening fixed asset register balances	Review of inputs and outputs	No	No change in assumptions.	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of defined benefit net pension fund liabilities	Actuarial models and assumptions provided by Aon Hewitt	Review of estimates and assumptions provided by actuary based on local knowledge and expertise.	Yes	See assumptions paper produced with valuation report	No
Level 2 investments	As provided by experts	Review and challenge of advice and reports received.	Yes	Based on observable data	No
Level 3 investments	Advice and assumptions by valuers	Review and challenge of advice and reports.	Yes	Review of sensitivity	No
Fair value of loans	As provided by Treasury Adviser	Review and challenge of advice and reports.	Yes	Low level of uncertainty	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
NNDR appeals provisions	Council NDR provisions forecast model	Review of inputs and outputs	No	Consideration of increasing provision for check, challenges and appeals	No
Significant accruals (i.e. Annual leave accruals)	Accruals method	Review of inputs and outputs	No	Accuracy of data source is SAP and employee data entry / record keeping	No
Credit loss and impairment allowances	Service credit loss and impairment allowances methodologies may be service specific	Review of inputs and outputs	No	Service credit loss and impairment allowances methodologies may be service specific	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
PFI Liabilities	PFI Model	Annual review	No	Standard model and assumptions	No

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Item No. 15a	Classification: Open	Date 2 June 2021	Meeting Name: Audit, Governance and Standards Committee
Report title:		Annual report on corporate risk and insurance	
Ward(s) or groups affected:		All	
From:		Strategic Director of Finance and Governance	

RECOMMENDATION

1. That the audit, governance and standards committee note the annual report on corporate risk and insurance.
2. That the audit, governance and standards committee reviews the current corporate risk register and provides comments to officers for their consideration prior to the publication of the register by the Strategic Director of Finance and Governance.

BACKGROUND INFORMATION

3. This report provides an annual report on the council's key risk register. The key corporate risks were last reported to the committee in February 2020 and also in June 2020 to include the high level mitigations. This report provides an annual update.
4. This report also summarises the corporate risk management and insurance arrangements.
5. In addition also reported are details of the council's risk profile and risk categories.
6. The report for 2021 has been delayed as a consequence of COVID priorities which has of course itself created new risks that continue to be mitigated.

KEY ISSUES FOR CONSIDERATION

Overview

7. The main purposes of the council's corporate risk management process are :
 - To set out the most significant risks to the council in the context of multiple risks identified and managed within each department.
 - Where appropriate, to consolidate common risks issues especially where cumulatively they may amount to a higher risk rating
 - To ensure that single risks that may act to impact across all council services are recorded (e.g. cyber security).
 - To enable risks to be effectively managed to ensure that the council meets its corporate and business objectives; and
 - To alert the council to new or increasing risks that may impact on the council's ability to serve its residents and wider community.
8. The council's corporate risk register is prepared following joint assessment by officers of all departmental risks. Given the range of services provided by the council, these lists are long and detailed and will be rated from low to high. Many risks are of a very specific nature and are unlikely to be translated directly on to the corporate risk register. However, they may be

consolidated into corporate risks in so far that cumulatively they create a higher risk to the council (e.g. loss of or reduction in funding sources; additional demand pressures; etc.).

9. In the process of preparing the corporate risk register, concentration is placed upon moderation of risk ratings to ensure some consistency across the council and to confirm that appropriate mitigations are in place to manage the risk, as far as that is possible.

Risk Categories

10. The council uses the following risk categories to capture risk:
 - Economic (e.g. credit crunch impacting on service delivery)
 - Financial (e.g. budgetary constraints)
 - Reputational (e.g. failures of service delivery which hit the press)
 - Staffing & Culture (e.g. recruitment & retention)
 - Operational (e.g. services not being delivered)
 - Legal & Regulatory (e.g. not complying with a statutory duty)
11. The 2021 split of number of risks by risk category is displayed in the table below. The percentage of financial risks has increased slightly since last year. The other categories remain at a consistent level compared with the percentages last reported.

Risk Category	Percentage (%) Jan 2020	Percentage (%) May 2021
Economic	5	5
Financial	18	20
Reputational	9	9
Staffing & Culture	11	10
Operational	34	34
Legal & Regulatory	22	22

Corporate Risk Register

12. Each department has a departmental risk register. These are updated via the network of departmental risk champions who work with each departmental senior management team to maintain a current risk register. Each risk register records the risk, assessment score, ownership and key controls and action plans to manage each risk.
13. Many departmental risks represent a core component of service delivery and therefore will form part of the day to day performance management of the department.
14. Each risk requires mitigations. These outline the current controls in place to manage the risk and identifies, where necessary, any further controls needed to reduce the risk.
15. These individual risk registers are stored on the council's risk management software system that are used to build the corporate risk register.
16. The departmental risk champions supported by the corporate risk and insurance manager collectively validate the individual departmental risk registers and carry out a review and aggregation exercise to identify the key risks facing the council as a whole. This base exercise was recently repeated and the corporate risk register updated as appropriate and circulated as a final draft to members of audit, governance and standards committee in April 2021.

17. The risks on the corporate risk register have been revised and consolidated where appropriate since the key corporate risks were last reported to the committee. The key corporate risks also align with the unique challenges of the post pandemic era. The corporate risk register has also been checked against the council's most recent annual governance statement to ensure coverage of appropriate areas.
18. The table below provides a breakdown of the number of risks (by their risk score range) across all council departments.

Risk Assessment	Score Range	Number of Risks	
		Jan 2020	May 2021
Red	76 - 100	19	19
Amber	37 - 75	52	54
Yellow	22 - 36	51	51
Green	1 - 21	27	29

19. The total number of risks in the database is currently 153 which is a slight increase in the number of risks reported in 2020, which were 149.
20. Work is ongoing within departments on reviewing their risk registers. The quarterly risk champion meetings for the past year have also focused on a theme at each meeting where possible, these being, health and safety and staff wellbeing. The aim of this was to build relationships across the council and explore areas not previously looked at in depth. This will continue in 2021 and will revisit areas previously considered.
21. A benchmarking exercise was also undertaken comparing Southwark's corporate risk register with all other London Borough's (plus the City of London) looking at the register as a whole but focussing specifically on how financial, Brexit and Covid-19/pandemic risks were captured. No information could be found for 10 Boroughs but where it was available for the rest, Southwark's register is broadly in line with the risks captured.

Key corporate risks

22. As set out above, following a review and validation of the combined departmental risk registers and an aggregation exercise, the top risks across the council have been identified. These top risks are attached in appendix 1.
23. The top risks are generally those that have been assessed as amber or red and which appear in more than one departmental risk register, and are therefore relevant to more than one department. These top risks are those risks which often require most proactive management to ensure that all appropriate mitigation actions have been considered and are being implemented as far as possible.
24. In advance of reporting to the audit, governance and standards committee, these have been reported to the corporate governance panel.

Insurance Overview

25. The council purchases a number of different insurance policies to help protect the council against the potential financial loss resulting from a catastrophic insurable event. The council self-insures an element of this, and self insurance levels vary depending on the types of insurances.

26. Although it is not legally required to hold insurances other than fidelity guarantee insurance (the details of this insurance are explained in the appendix 2), in line with prudent financial management and in line with other local authorities, the council does purchase various liability insurances and property (asset) related insurances.
27. Under the council's financial standing orders, all insurance decisions are the responsibility of the Strategic Director of Finance and Governance. However, the council has limited control over its insurance framework as the public sector insurance market is prescriptive. Levels of cover, scope of cover and excess levels are dictated by what is available in a limited market.

Insurance Cover

28. The council's insurances fall into two main categories; property policies and liability policies:
- Property policies provide cover for the loss or damage to council assets
 - Liability policies protect the council against financial exposure resulting from individuals or organisations making a claim for loss or injury as a result of council activities
29. During the period 1 January 2020 to the 30 April 2021, there were 568 new public liability insurance claims made against the council, these were split as follows:

Damage to third party property	378
Personal Injury	176
Employee	14

30. 134 claims were made against property policies in the same period and these all related to the motor fleet under the motor insurance cover.

Policy Implications

31. This report is not considered to have direct policy implications.

Community Impact Statement

32. This report is not considered to have direct impact on local people and communities; however the management of risk is key to the successful achievement of the council's objectives.

Resource Implications

33. This report is not considered to have direct impact on resource implications, although the management of risk is a part of the effective management of resources.

Consultation

34. Consultation has not been undertaken.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

35. None required.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
None		

APPENDICES

No.	Title
1	The Key Corporate Risks as at March 2021
2	Insurances – summary as at April 2021

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report Author	Laura Sandy	
Version	Final	
Dated	May 2021	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments included
Director of Law and Governance	No	No
Strategic Director of Finance and Governance	Yes	Yes
Cabinet Member	No	No
Date final report sent to Constitutional Team	21 May 2021	

APPENDIX 1 – Corporate Risks and High Level Mitigations as at March 2021

Risk	Mitigation
<p>Medium Term Financial Planning</p> <p>The continued uncertainty regarding local government funding beyond 2021-22 presents the council with significant challenges in presenting balanced medium term financial strategies and in preparing and presenting longer term budget options which reflect the council's priorities and ambitions and safeguard the provision of mandatory functions.</p>	<ul style="list-style-type: none"> • Financial remits presented to cabinet each spring / early summer • Annual budget challenge and options appraisal process in place • Robust monthly budget monitoring to review progress towards targets • Planning future budgets as far as possible to show financial risks related to funding uncertainty • Statutory reporting on robustness of budget estimates • Active engagements through S.151 Chief Finance Officer networks to seek clarity on future funding • Maintenance of adequate levels of balances and reserves
<p>Legal and Regulatory – Government policy</p> <p>Legislative and / or financial changes, including current and future loss of funding or international factors stemming from changes in government policy, seriously impact on the delivery of balanced budgets for council services and the council's ability to meet either the pressures created by changes in demand for services or the opportunities due to lack of capacity.</p>	<ul style="list-style-type: none"> • Seek to influence policy through professional networks • Contributions to local, regional and professional responses to Government consultations and mandates • Departments to keep up to date with changes affecting their services • Collaborative working with other local authorities and London boroughs to fully understand any changes • Seek expert external legal and professional advice as appropriate
<p>Acute Socio-Economic Factors</p> <p>Failure or lack of capacity to react to wider economic and socio-economic trends, including recession, unemployment and potential impact on levels of homelessness, market forces (e.g. London housing market), international and domestic migration, post Brexit developments, inflation, that creates either funding shortfalls or compromises the delivery of council services.</p>	<ul style="list-style-type: none"> • Flexible Medium Term Financial Strategy, reviewed regularly • Capital programme subject to continual review and update to ensure delivery of council priorities • Active but flexible social regeneration programmes • Review of income generating schemes to help mitigate impact / risk of cuts • Active local economy engagement to communicate issues and to help mitigate risks to business and employment • Delivery, implementation and monitoring of economic renewal plan
<p>Post-Pandemic Recovery</p> <p>A slow economic recovery in the post pandemic era as government</p>	<ul style="list-style-type: none"> • Continual monitoring of impacts on council services and local economy

Risk	Mitigation
<p>support is reduced or withdrawn results in high levels of unemployment and other societal fragmentation leading to increased demand for council services such as social care, welfare support and housing resulting in potential for conflicting demands on funding available.</p>	<ul style="list-style-type: none"> • Pan London engagement to communicate with government and other agencies • Engagement of senior managers with regional South East London councils and CCG • Delivery, implementation and monitoring of economic renewal plan • Embedding of Southwark Stands Together programme and related cohesion work to ensure fair and balanced community recovery
<p>Welfare Reform</p> <p>Changes to the welfare support system create direct and indirect financial pressures on the council through increased demand for all services to those affected by the changes creating the potential for capacity and resource shortfalls.</p>	<ul style="list-style-type: none"> • Responsive forecasting and modelling to inform financial planning assumptions • Working with external stakeholders to maximise available support from all sources • Additional support targeted at those most at risk • Data and information management to help inform options analysis and decision taking
<p>IT, Data and Information Management</p> <p>Total or partial loss of significant core business systems, inadequate data security and the system not being fit for purpose to meet business needs, impairs service delivery performance and impacts on resident satisfaction, the reputation of the council and staff productivity and morale.</p>	<ul style="list-style-type: none"> • Robust system back-up, firewall, anti virus and cyber security arrangements in place through council's IT team and the managed IT shared service • Regular maintenance and update of disaster recovery and business continuity plans • Migration of software solutions to hosted managed services • IT capital improvement programme to bring infrastructure up to an efficient and current standard • Further development of IT shared services arrangements • Effective policies, guidance, training and controls to ensure staff compliance • Ensure all hardware and software is supported for security updates • Robust information governance arrangements including well defined Data Protection Officer and Senior Information Risk Owner responsibilities
<p>Unforeseen Major Event</p> <p>An unforeseen major event occurs which affects critical services and the council's ability to deliver business as usual resulting in financial strain and impacts on the resilience and wellbeing of staff.</p>	<ul style="list-style-type: none"> • Maintain and update disaster recovery and business continuity plans • Undertake practice scenarios to check robustness of business continuity plans • Engagement with partners to check preparedness • Flexible, trained staff in place to respond to changes in demand

Risk	Mitigation
<p>Climate Emergency</p> <p>Impact of the climate change strategy creates capacity, financial or practical operational challenges and pressures with the potential for reputational damage for any failure in delivery.</p>	<ul style="list-style-type: none"> • Cross departmental collaboration to develop the council's strategy • Engagement with stakeholders and partners • Development of council governance structures, policies and procedures to incorporate a commitment to the strategy • Development of clear and funded plan of activity to meet objectives of the council • Clear communication plan with all stakeholders
<p>Fraud</p> <p>Process, control, or management failure particularly during periods of significant change, economic and social hardship and ongoing funding reductions leads to an increase in fraudulent activity resulting in financial and legislative consequences for the council and the potential for reputational damage.</p>	<ul style="list-style-type: none"> • Fraud awareness training of key risk areas as identified through the risk register • Internal audit plan aligned to key fraud risks • Proactive work undertaken by internal fraud team • Corporate governance guidance followed • Active contract management by contract managers • Regular reviews of authorisation limits of staff through council's schemes of management and delegation • Crime insurance in place to minimise any financial loss
<p>Health & Safety</p> <p>Failure to provide adequate provision of protection of staff, elected members, residents and all relevant stakeholders leading to their safety and / or mental health and wellbeing being compromised.</p>	<ul style="list-style-type: none"> • Health and safety staffing arrangements and corporate and departmental systems regularly reviewed • Staff wellbeing programme in place and promoted • Cautionary contact warning system being further developed
<p>Failure of Key Provider</p> <p>The unexpected failure of a key provider / partner / contractor resulting in serious disruption to a critical service and potential increased expenditure and need for resources to provide an alternative solution with resulting potential reputational damage.</p>	<ul style="list-style-type: none"> • Robust procurement and contracting processes in place safeguarding against foreseen failure • Evaluation of third sector grant programmes • Contingency and business continuity plans to be maintained • Backup contractors in place where appropriate
<p>Asset Management</p> <p>Failure to invest appropriately in the maintenance or management of the council's assets, to have clear sight of responsibility for assets, or a sudden and unforeseen event which may give</p>	<ul style="list-style-type: none"> • Programmes of planned and preventative maintenance (PPM) in place • Capital investment strategy and targeted investment in assets in place • Annual asset condition verification and effective monitoring of assets

Risk	Mitigation
rise to unacceptable future liabilities.	<ul style="list-style-type: none"> • Insurance programme in place to respond to sudden and unforeseen events
<p>Social Regeneration</p> <p>Unforeseen events and/or adverse reaction to council programmes result in the failure of (or the serious delay to) key social regeneration or direct housing delivery projects causing damage to the council's ability to meet the borough's long term housing and investment needs and resulting in short term financing or funding implications for the council.</p>	<ul style="list-style-type: none"> • Ongoing quality assurance of processes to mitigate scope for challenge • Close inter-departmental working with colleagues to develop overall planning strategies • Work with press office and key partners to manage communication • Key contracts and frameworks being put in place by the council

APPENDIX 2 - Types of Insurance Held by the Council

Insurance Type	Description of Cover	Examples	Insurer	Extent of Cover	Annual Review/ Renewal
Public Liability	As a result of negligence of the council in carrying out its duties, 3rd parties suffer injury or loss.	1. Slip, trip or fall resulting in personal injury 2. Tenant property damage as a result of council negligence in repairing the property 3. Historic child abuse claim	RMP QBE	All Council	1 October
Employers Liability	As a result of negligence of the council, employees (including volunteers, members etc) have suffered injury.	1. Employee falls down stairs and believes the council was negligent (e.g. unsafe working place). 2. Teaching assistant / care working assaulted by 3rd party and believes the council should have provided better protection.	RMP QBE	All Council	1 October
Officials Indemnity	As a result of negligence of a council employee carrying out a statutory duty, a 3rd party suffers a financial loss.	1. Land search is carried out by the council and incorrect information is given to a 3rd party who suffers loss as result.	RMP QBE	All Council	1 October
Professional Indemnity	As a result of the negligence of a council employee carrying out a non-statutory duty, a 3rd party suffers a financial loss.	1. A non-statutory professional service provided by the council e.g. legal advice given is incorrect and 3rd party suffers loss as a result.	RMP QBE	All Council	1 October
Libel And Slander	As a result of writing or doing something that is slanderous to a 3rd party the council is sued for financial loss.	1. Writing something dishonest regarding an individual.	RMP QBE	All Council	1 October

Property (General)	Property damage to school or council office	1. Major fire / flood at council property or school contained in the property schedule.	Zurich	All Council	1 October
Property (Housing)	Property damage to housing stock	1. Major fire or flood at a council owned housing block in the housing schedule of properties.	Zurich	Housing Department	1 October
All Risks	Cover for various works of art and jewels.	1. Theft of mayor's regalia or work of art.	Zurich	All Council	1 October
Money	Money in storage or in transit.	1. Hold up of cash in transit	Zurich	All Council	1 October
Computers	Property damage to removable computer equipment, including servers, laptops etc	1. Fire at general property with damage to computer equipment.	Zurich	All Council	1 October
Crime (Fidelity Guarantee)	An employee defrauds the council of money or assets	1. Officer of the council in collusion with 3rd party circumvents the council's controls to take money or assets.	Zurich	All Council	1 October
Personal Accident and Travel	Non-accidental injury to employee during the course of their employment. Cover also in force when an insured person is travelling on official duties	Member of public attacks and injures an employee of the council while doing their job Cover also provided for medical expenses	RSA	All Council	1 October

Out of School Activity & Pupil Personal Accident Insurance	Travel insurance cover for all insured persons (pupils, teaching and support staff, adult volunteers, helpers and assistants, and other authorised children) of participating schools whilst on organised trips outside the designated school boundaries. Also includes cover for accidents within the school boundaries.	1. School trips cancelled for insurable reason, i.e. sickness / ill health. 2. Injury of pupil while on school trip. 3. Injury whilst within the school boundaries	Chubb	Schools who have bought into the policy.	1 October
Medical Malpractice	Specialist cover for teachers and school helpers who may be required to provide medical procedures to pupils in their care	1. Teaching assistant treats a child with complex medical condition and child suffers injury.	C N A	Schools who have bought into the policy.	1 October
Motor	3rd party motor insurance and accidental damage above excess for council motor vehicles.	1. Council employee while driving injures / kills third party driver, or causes serious damage to vehicle / property.	Zurich	All Council	1 October
Terrorism Cover	Insurance of property against physical loss or physical damage occurring during the period of insurance caused by an Act of Terrorism and/or Sabotage	Act of Terrorism and Act of Sabotage definitions are available	Lloyd's Underwriters	160 Tooley Street & Queens Road Complex	1 October
Marine Insurance	Specialist cover for marine liabilities	Cover provided includes marine operators liabilities, pollution clean up costs, removal of wreck, marine property and equipment and business interruption	IGI Insurance Company Ltd	South Dock Marina	1 October

COMMITTEE: AUDIT, GOVERNANCE AND STANDARDS COMMITTEE (OPEN AGENDA)

NOTE: Original held in Constitutional Team; all amendments/queries to Virginia Wynn-Jones, Constitutional Team on 020 7525 7055 or virginia.wynn-jones@southwark.gov.uk

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