Open Agenda

Audit, Governance and Standards Committee

Wednesday 17 November 2021
7.00 pm
160 Tooley Street, London SE1 2QH

Supplemental Agenda No. 1

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Contact

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Date: 12 November 2021

Agenda Item 6

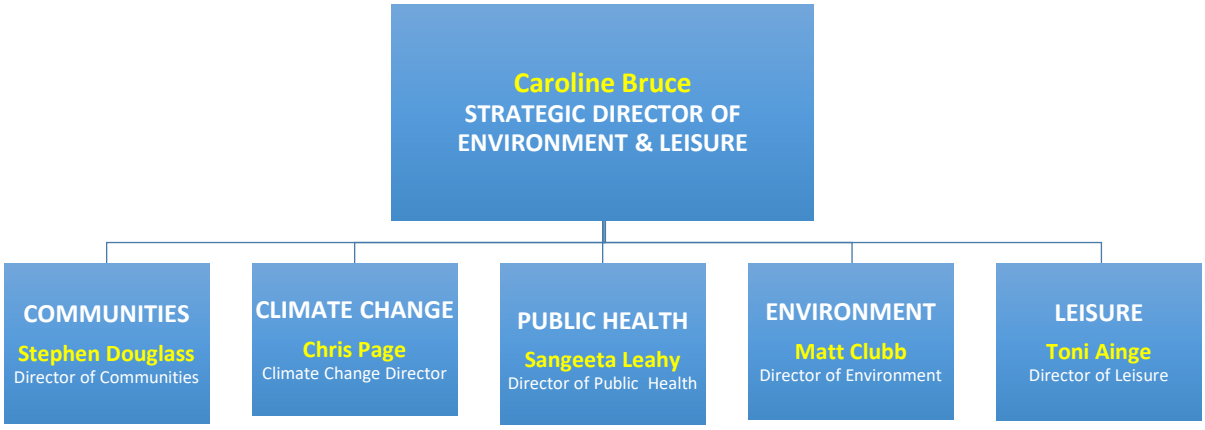
Item No: 6.	Classification: Open	Date: 17 November 2021	Meeting Name: Audit, Governance and Standards Committee
Report title:		Governance Conversation – Caroline Bruce	
Ward(s) or groups affected:		All	
From:		Strategic Director of Environment and Leisure	

Introduction to the Department

1. The Environment and Leisure department delivers services that make a real difference to the everyday lives of all residents and visitors. The department is focused on providing high quality services to the borough's residents – the universal services we deliver are those recognised by our residents as being the face of the council – but there is significant range in what we do: parking and highways, bereavement services, culture and events, sexual health services, violence and community harm reduction, tenant and resident involvement, and civic services to name but a few.

2. The Environment and Leisure Department is made up of five divisions:
   - Environment
   - Leisure
   - Public Health
   - Climate Change
   - Communities

3. Public Health became part of the department in April 2019 and Communities in August 2020. The management team is set out below and has been in place since April 2021 following the recruitment of the three directors for Public Health, Environment and Leisure in the Autumn of 2020.



The Department in numbers

4. The gross expenditure budget for Environment and Leisure in 2021-22 is £196m with an income budget of £108m from grants, fees and charges. The biggest single source of external funding is the Public Health grant and the rest is determined through the annual review of fees and charges with this income covering discretionary charges (burial fees, parking charges, sport pitch charges for example) and statutory charges for elements of regulatory services.

Directorate	**Gross Expenditure**	**Income**	**Net Expenditure Budgets**
	£'000	**£'000**	**£'000**
Communities	17,508	(5,245)	12,263
Environment	119,058	(65,933)	53,124
Leisure	29,393	(6,673)	22,720
Sustainability / Climate Change	845	(1,140)	(295)
Public Health	28,731	(28,731)	(0)
TOTAL E&L	**195,535**	**(107,722)**	**87,812**

5. The department also has a 10-year Capital Programme budget for 2021/22 of £140m.

6. The department has adopted the agreed corporate practices in all financial systems, financial management arrangements, financial governance arrangements and financial practices. The budget monitoring system adopted in Southwark requires each chief officer to produce a budget monitoring report monthly (with a four monthly report to Cabinet) in accordance with the corporate timetable.

7. The department has a bottom-up monthly budget monitoring process (from Budget holders reviews right through to chief officer) with rigorous challenges at each step of the process. This ensures that all projections are robust, sound and clearly owned by service managers in line with council objectives. The rigorous challenging process also aims to ensure that what takes place represents a complete, timely and accurate record of the use of resources and gives the assurance of reliable financial information for the council.

8. The department's approach to achieving savings follows the budget principles by focusing on core provision of quality services, efficiency savings, smarter procurement and robust contract management. The department is also seeking to increase income by raising demand for discretionary services.

Our workforce

9. Almost 1500 colleagues work in Environment and Leisure.

10. In contrast to the council's, almost, 50:50 ratio of men and women, the department has a 75:25 ratio, and women are underrepresented in our front-line, depot based services.

11. We also have a significantly larger number of staff in grades 1 to 6 compared with the rest of the council, and more of our staff are in the age ranges 16 to 24 and over 55 when compared with the rest of the council.

12. In February 2021, the council undertook a second survey to understand how staff were feeling as a result of the prolonged impact of covid and the changes to their working and personal lives.

13. 487 staff from Environment and Leisure responded to the survey, equivalent to 35% of the department's workforce. 327 respondents reported having had at least one health and wellbeing discussion with their manager.

14. The top three ongoing concerns identified by Environment and Leisure staff were:
    1. My mental health and wellbeing
    2. My physical health and wellbeing
    3. The health and wellbeing of loved ones

15. When asked questions regarding their mental health at the time of the survey, our staff responded by saying:
    - 68% of respondents felt that they could make up their own minds all the time or often
    - 56% of respondents felt useful all the time or often
    - 57% of respondents said that they thought clearly all of the time or often
    - 30% of respondents felt relaxed **rarely or none of the time**
    - 30% of respondents felt close to people **rarely or none of the time**
    - 19% of respondents were optimistic **rarely or none of the time**

16. We will continue to work hard with colleagues to ensure that they have the health and wellbeing support they need, and the council has a range of resources to enable staff to access support directly and confidentially.

<u>Departmental Change Programme</u>

17. Last year, as our services looked to renew following the initial impacts of the pandemic, we asked our management team to take the opportunity to assess their services against the key themes of what we deliver, why do we as the Council deliver this service, and how do we deliver it.

18. In the last twelve months, we have been building on this service renewal, with the delivery of the Department's Change Programme.

19. The key identified drivers of this programme are:
    - Ensuring we're fit to meet the challenges of the future – that we're fit for purpose, delivering excellent services at the right cost;
    - That we have a skilled, empowered and supported workforce who are motivated in everything they do and delivering the Southwark values consistently;
    - We resolve the issues of acting up and temporary management arrangements so that we have a permanent cohort of skilled managers and leaders throughout the department;

- We have a departmental identity and culture and the structure supports the most effective ways of delivering services;
- We have a departmental response to Black Lives Matter and Southwark Stands Together and we are making the disruptive changes necessary within the department to tackle racial injustice head on;
- We're responding to the challenges of Covid and a post-Covid world so that renewal focuses on the things that are important and priorities for members;
- We balance the books.

Departmental Governance Arrangements

Risk Management/Registers

20. The departmental risk register and associated controls and mitigations will be re-assessed with senior management during Q3 and Q4 21/22.

21. Our management teams have been undertaking individual risk assessments with all staff alongside Health and Wellbeing conversations throughout the pandemic, most recently with a particular focus recently for those looking to return to our workplaces safely.

Assurance Statements

22. Departmental Assurance Statements are completed on an annual basis. This year, as requested, a slimmed down version of the usual statement has been completed.

Scheme of Management

23. The Scheme of Management was updated in Q1 21/22 to reflect corporate updates, changes to SAP authorisation levels and recruitment of new permanent Divisional Directors into the department.

Regular Governance Meetings

- Departmental Liaison Committee Meetings are held quarterly, attended by:
    - Strategic Director (chair)
    - Departmental Management Team
    - HR Strategic Business Partner
    - Union Representatives

- Health and Safety Committee Meetings are held quarterly, attended by:
    - Strategic Director (chair)
    - Health and Safety Manager
    - Departmental Management Team
    - Union Representatives

- Departmental Contract Review Boards are held monthly, attended by:
    - Strategic Director (chair)

- Departmental Management Team
- Legal and Procurement colleagues, Finance and Governance
- Report Authors

- Departmental Management Team meetings are held weekly, attended by:
  - Strategic Director (chair)
  - Divisional Directors
  - Strategic HR Business Partner
  - Departmental Finance Manager

- Regular Standing Agenda Items include Departmental and Corporate Forward Plans, Financial Monitors and Contract Registers

- The Department's Senior Management Team is held monthly, attended by:
  - Strategic Director (chair)
  - Divisional Directors
  - Heads of Service

Current Governance Issues

Covid

24. As with all council departments, Covid was the most significant governance event for the department in 2020-21 and this has continued into 2021-22.

25. In order to protect Southwark's residents, Public Health established strong outbreak prevention control measures such as local testing facilities including targeted 'surge' testing for Variants of Concerns, local contact tracing, a response centre for outbreaks and incident management and community prevention schemes such as community health ambassadors.

26. In 2020-21, Public Health completed the following review work:
    - The Director of Public Health undertook a PHE led review and assurance process of the Southwark Outbreak Prevention Control Plan. This was managed together with the London Convenor as well as the lead London Council Chief Executive and Regional Director of Public Health to ensure that we provide high standards of outbreak prevention and control measures for our population.
    - An epidemiological assessment was conducted into vaccination rates together with deep dives into under vaccinated areas to inform targeted activities to address vaccine take up and hesitancy. This included an assurance process carried out with the CCG and reported to PHE and NHSE.
    - The impact of the pandemic on Southwark's population was reviewed using national and local surveillance data to identify lessons to inform the development of actions and policies with regard to tackling health inequalities and Black Lives Matter.
    - Weekly review and assessment of epidemiological data sources to ensure that high standards of public health surveillance are maintained.

- As needs assessment was carried out on food poverty to inform the development of a network of food insecurity measures such as food banks, community larders and holiday hunger programmes.
- Working with partners to ensure data governance:
- GP held records were reviewed to identify patients at higher CVD risk for health checks.
- NCMP records were reviewed to identify overweight and obese children to provide online support.

27. Alongside Public Health, Regulatory Services worked with residents and businesses to engage, support and enforce social distancing and covid-safe workplaces. And highways and network management teams implemented streetspace initiatives.

28. At the start of the pandemic the covid response was under the Council's emergency response arrangements and the Gold and Silver command structure, but as soon as practically possible the Council's usual governance arrangements were reintroduced.

Key projects

29. There are a number of projects and programmes which are being delivered by the department and are significant for the council. These will need active management to ensure that they deliver the desired outcomes. Non exhaustive examples include:

    - Insourcing the leisure service;
    - The Youth New Deal;
    - Delivering the climate change strategy and action plan;
    - Continuing the improvements to the tree service;
    - Private sector licensing schemes and the resultant application to the Secretary of State;
    - Community Harm and Exploitation Hub – reducing youth violence;
    - Streets for People including low traffic neighbourhoods and improved air quality;
    - Borough plan commitments;
    - Projects and programmes which form part of Southwark Stands Together.

Item No. 9.	Classification: Open	Date: 17 November 2021	Meeting Name: Audit, Governance and Standards Committee
Report title:		Grant Thornton - Audit findings report: Draft 2020-21 statement of accounts for Southwark council	
Ward(s) or groups affected:		All	
From:		Strategic Director of Finance and Governance	

RECOMMENDATION

1. That the audit, governance and standards committee note the updated 2020-21 Audit Findings Report for the main accounts and Pension Fund (appendices 1 and 2).

BACKGROUND INFORMATION

2. Under the constitution, the audit, governance and standards committee is the body that formally receives and approves the annual accounts.

3. Audit, governance and standards committee received and considered Grant Thornton's initial draft 2020-21 Audit Findings Report (ISA 260), for main accounts and Pension Fund on 20 September 2021. At that meeting, the committee approved the Statement of Accounts 2020-21 subject to any final changes required by the conclusion of the audit, being delegated to the strategic director of finance and governance in consultation with the chair of audit, governance and standards committee.

KEY ISSUES FOR CONSIDERATION

4. Since the last AGS committee, the audit has been ongoing and is currently reaching a conclusion. Grant Thornton have issued a revised draft 2020-21 Audit Findings Report (ISA 260) for main accounts and Pension Fund to update members (appendices 1 and 2).

5. The draft 2020-21 statement of accounts has been updated to reflect the current status of audit (appendix 3).

Community, equalities (including socio-economic) and health impacts

6. There are no implications from the recommendations arising from this report.

Climate change implications

7. There are no implications for climate change from the recommendations arising from this report.

Resource implications

8. There are no direct resource implications in this report.

Consultation

9. Consultation on the draft statement of accounts was carried out through formal public inspection. The draft accounts were available for public inspection from Friday 9 July 2021 until Friday 20 August 2021.

Reasons for lateness

10. The audit of the accounts is ongoing up to the date of receipt of the audit opinion. The audit findings reports were received close to the deadline for the dispatch of the audit, governance and standards committee agenda.

Reasons for urgency

11. The Accounts and Audit Regulations 2015 require the council to approve the accounts by 31 July each year. However, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2021 revised the statutory deadline from 30 November for 2019-20 to 30 September for 2020-21.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

12. None required.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Finance and Governance files	Finance and Governance, Second Floor, Tooley Street	Rob Woollatt 07984 581401 Jade Cheung 07592 115556

APPENDICES

No.	Title
Appendix 1	Grant Thornton's 2020-21 Audit Findings Report (ISA 260) – Main accounts
Appendix 2	Grant Thornton's 2020-21 Audit Findings Report (ISA 260) – Pension Fund
Appendix 3	Draft 2020-21 statement of accounts for Southwark council (to follow)

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report Author	Jade Cheung, Accountant Rob Woollatt, Interim Departmental Finance Manager	
Version	Final	
Dated	11 November 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	N/A	N/A
Cabinet Member	N/A	N/A
Date final report sent to Constitutional Team		11 November 2021

Grant Thornton

The Audit Findings Report for Southwark Council

Year ended 31 March 2021

17 November 2021

Contents

Your key Grant Thornton team members are:

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This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK)

Name : Ciaran McLaughlin

For Grant Thornton UK LLP

Date : 17 November 2021

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Southwark Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2021 for those charged with governance.

Financial Statements

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

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

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

Our audit work was completed on remotely during June to November 2021. Our findings are summarised on pages 5 to 24. We have identified one adjustment to the financial statements that have resulted in a **£2.804 million** adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

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

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

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

Our anticipated audit report opinion will be unmodified.

1. Headlines

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

Statutory duties	
The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • to certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, which will be reported in our Auditor's Annual Report by January 2022.
Significant Matters	We did not encounter any significant difficulties or identify any significant matters arising during our audit.

Acknowledgements

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

2. Financial Statements

Overview of the scope of our audit

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

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

Audit approach

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

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

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

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion shortly after the Audit, Governance and Standards Committee meeting on 17 November 2021, as detailed in Appendix E. These outstanding items include:

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

2. Financial Statements

Our approach to materiality

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

Materiality levels remain the same as reported in our Audit Plan on 2 June 2021.

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

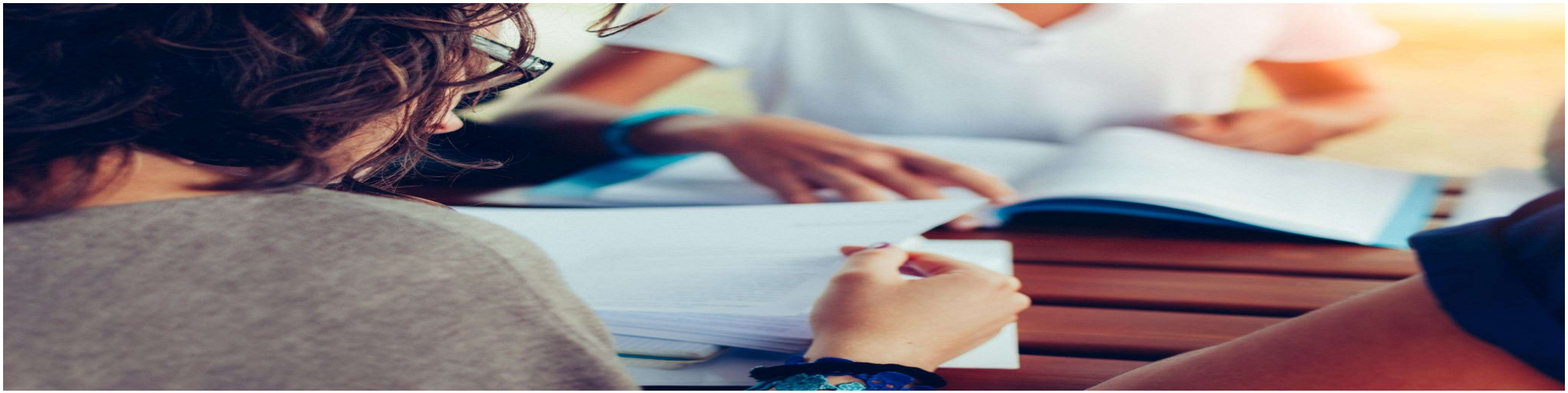
	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	18,000,000	Our Headline Materiality is based on the prior year Gross Revenue Expenditure included in the Accounts.
Performance materiality	12,600,000	Performance Materiality is based on a percentage of the overall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

2. Financial Statements - Significant risks

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

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

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



2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
The revenue cycle includes fraudulent transactions (rebutted) Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Southwark Council, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Southwark Council.	During the audit, we have undertaken the following work: • reviewed and tested the Council's revenue recognition policies • performed testing on material revenue streams Our cut-off audit work identified two items of revenue which were omitted from the Accounts despite them relating to the year of account. The total value of these errors was **£376k**, and both of these errors were above the Council's deminimus for accruing these as Revenue. As a result of these errors additional testing was undertaken, which did not identify any further issues in this area. Due to the size of these errors, Management have not amended the Accounts, which we are comfortable with given the trivial nature of the two issues identified. However we have raised a recommendation for Management around the closedown timetable to ensure sufficient time is allowed for accruals at year end to ensure the balances included within the Accounts are complete.
The expenditure cycle includes fraudulent transactions (rebutted) Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition needs to be considered, especially if an entity is required to meet financial targets. Having considered the risk factors relevant to the Council, we have determined that no separate significant risk relating to expenditure recognition is necessary, as the same rebuttal factors listed above relating to revenue recognition apply. We consider that the risk relating to expenditure recognition would relate primarily to period-end journals and accruals which are considered as part of the standard audit tests mentioned and our testing in relation to the significant risk of Management Over-ride of Controls as mentioned on page 7.	During the audit, we have undertaken the following work: • obtained an understanding of the design effectiveness of controls relating to operating expenditure. • performed testing over post-year end transactions to assess completeness of expenditure recognition. • tested a sample of operating expenditure to gain assurance in respect of the accuracy of expenditure recorded during the financial year. Our work on expenditure cut-off testing has identified a number of items which were incorrectly excluded from the Accounts, despite them relating to the year of account, identical to the revenue issues mentioned above. The total value of these errors was **£253k**, and on the back of the Council undertook a further review of payments which may have been incorrectly treated, which identified items totalling **£1.632 million** which had not been accrued in the Accounts. These items have been treated as an unadjusted error and will be included in Management's Letter of Representation. Given the fact we have found issues on both the revenue and expenditure cut-off, it is clear that Management need to strike a better balance between closing the accounts early and ensuring they include all relevant transactions.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of Land and Buildings The Council revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£5.127 billion) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council's financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	During the audit, we have undertaken the following work: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • discussed with the valuer the basis on which the valuation was carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding. We also engaged our own valuer to assess the instructions to the Council's valuer, the Council's valuer's report and the assumptions that underpin the valuation. • tested revaluations made during the year to see if they had been input correctly into the Council's asset register • Evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. From the work performed to date, we have identified that at least two of the Council's Schools have been valued using incorrect pupil capacities, leading to an overstatement of the values included within the Accounts. Due to the nature of the issue identified, Management are currently working with their expert, the internal valuer, to determine the full scale of the issue and whether this will require an amendment to the Accounts. We will provide an update to the Audit, Governance and Standards Committee once this exercise has concluded.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of Investment Properties The Council revalues its Investment Properties on an annual basis to ensure that these assets are held at Fair Value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£344 million) and the sensitivity of this estimate to changes in key assumptions. Management have engaged the services of a valuer to estimate the current value as at 31 March 2021. We therefore identified valuation of Investment Properties, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement	During the audit, we have undertaken the following work: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • written to the valuer to confirm the basis on which the valuations were carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding. We also engaged our own valuer to assess the instructions to the Council's valuer, the Council's valuer's report and the assumptions that underpin the valuation. • tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Council's asset register • evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value Our work on the Investment Property Valuations included within the Accounts identified a number of errors with the individual valuations included within the Accounts, meaning the value of these assets in the Accounts is understated by **£2.804 million**. The Council has agreed to amend the errors which are above our trivial threshold, and has left the items below this threshold unadjusted, which as they are trivial means they will not be considered as an unadjusted misstatement. We are also currently working through the Council's Accounting for the Canada Water Scheme, on which we have raised an internal technical query to ensure the correct accounting treatment has been applied in the Accounts. Again we will provide an update to Management and the Audit, Governance and Standards Committee once this query has been resolved.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of the Pension Fund Net Liability The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£607 million in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	During the audit, we have undertaken the following work: • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performed any additional procedures suggested within the report. Our audit work has not identified any issues in respect of this risk.

2. Financial Statements – new issues and risks

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

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

2. Financial Statements – new issues and risks

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

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

2. Financial Statements – key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Council Dwelling valuations – £3,548 million	The Council owns 36,918 dwellings and is required to revalue these properties in accordance with MHCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged its internal valuer to complete the valuation of these properties. The year end valuation of Council Housing was **£3,548 million**, a net increase of **£120 million** from 2019/20 (**£3,428 million**).	• From the work performed in this area, we are comfortable with the valuation of the Council Dwellings included within the Accounts. • The valuer has agreed clear terms of reference for this work with the Council in advance of the work being performed, including within which were the assumptions that were going to be applied to this work. • The valuer has formally dated the valuation as at the 31st of December 2020, and has then undertaken a review to confirm that there is no material impact on the valuation to the 31st of March 2021. • We have reviewed the assumptions applied by the Valuer to the valuation performed, and have confirmed they are reasonable and appropriate given the nature of the assets held by the Council. This review has also been supported by our Auditor's Expert, who also did not identify any issues from their review. • The valuer has correctly prepared the valuation using the Stock Valuation Guidance issued by MHCLG, and has ensured the correct factor has been applied when calculating the Existing Use Value – Social Housing (EUV-SH) value disclosed within the Accounts.	● Light Purple

Assessment

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

2. Financial Statements – key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £971 million	Other land and buildings comprises **£597 million** of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (**£374 million**) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged the internal valuer to complete the valuation of properties as at 31 December 2020 on a five yearly cyclical basis. 87% of total assets were revalued during 2020/21. The valuation of properties valued by the valuer has resulted in a net increase of **£98 million**. Management have considered the year end value of non-valued properties (**£138 million**), and the potential valuation change in the assets revalued at 31 December 2020, to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties value. The total year end valuation of Other Land and Buildings was **£971 million**, a net decrease of **£61 million** from 2019/20 (**£1,032 million**).	From the work performed in this area, we have identified some issues with the valuation of the Council's Other Land and Buildings included within the Accounts. The valuer has agreed clear terms of reference for this work with the Council in advance of the work being performed, including within which were the assumptions that were going to be applied to this work. We have reviewed the assumptions applied by the Valuer to the valuation performed, and have confirmed they are reasonable and appropriate given the nature of the assets held by the Council. This review has also been supported by our Auditor's Expert, who also did not identify any issues from their review. We have also reviewed the assessment undertaken by the valuer that there has not been any material movement in the valuation of Other Land and Buildings between the end of December and the end of March 2021, and are content with the assumptions made by the valuer in respect of this period. We also considered the work which the valuer has done on those assets not valued as at the 31st of March 2021 to confirm that their carrying value is not materially different to their carrying value included within the Accounts. Again we were content with the assessment made by the valuer in this area, which provides us with sufficient assurance over the values included within the Accounts. (continued over the page)	● **Purple**

Assessment

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

2. Financial Statements – key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £971 million	Other land and buildings comprises **£597 million** of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (**£374 million**) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged the internal valuer to complete the valuation of properties as at 31 December 2020 on a five yearly cyclical basis. 87% of total assets were revalued during 2020/21. The valuation of properties valued by the valuer has resulted in a net increase of **£98 million**. Management have considered the year end value of non-valued properties (**£138 million**), and the potential valuation change in the assets revalued at 31 December 2020, to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties value. The total year end valuation of Other Land and Buildings was **£971 million**, a net decrease of **£61 million** from 2019/20 (**£1,032 million**).	(continued from the previous page) From the work performed to date, we have identified that at least two of the Council's Schools have been valued using incorrect pupil numbers, leading to an overstatement of the values included within the Accounts. Due to the nature of the issue identified, Management are currently working with their expert, the internal valuer, to determine the full scale of the issue and whether this will require an amendment to the Accounts. We will provide an update to the Audit, Governance and Standards Committee once this exercise has concluded.	● **Purple**

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – £688 million	The Council's total net pension liability at 31 March 2021 is **£688 million** (PY **£607 million**), comprising the Southwark Council PF Local Government and unfunded defined benefit pension scheme obligations. The Council uses Aon Hewitt to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a **£47 million** net actuarial gain during 2020/21.	• The Council have used Aon Hewitt as their Actuary for a number of years, and thus we are content with their competence and capability to provide the valuations required by the Council in respect of the net pension fund liability as at the 31 March 2021. • We have reviewed the assumptions made by the actuary when calculating the IAS26 costs included within the Accounts to confirm their reasonableness. We made use of PwC, as an Auditor's Expert to obtain assurance over this area. A summary of the work performed can be seen in the table below:	● Light Purple

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

- Based on the table above, we are content with the assumptions applied by Aon Hewitt to value the Council's Pension Fund Liability as at the 31st of March 2021, and thus are content with the values included within the Accounts.
- No issues were identified from the work performed in this area.

2. Financial Statements - key judgements and estimates

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

Assessment

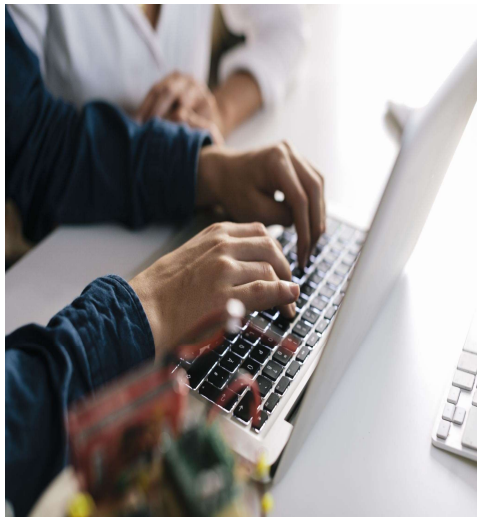
- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider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

2. Financial Statements - other communication requirements

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

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit, Governance and Standards Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, which is appended to this Report.

2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send confirmation requests to all of the Council's counter parties. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation. We requested management to send letters to those solicitors who worked with the Council during the year. All responses have been received and no issues have been identified.
Accounting practices	Our review identified a small number of disclosures which required amendment or expansion, and management agreed to amend all of the items identified. Further detail is provided within the Misclassifications and disclosure changes page, which is included later in the Report.
Audit evidence and explanations/ significant difficulties	The Council produced a good set of Accounts and working papers in line with the agreed timeframes, and responded promptly to the queries raised during the course of the audit despite the challenges of remote working.

2. Financial Statements - other communication requirements

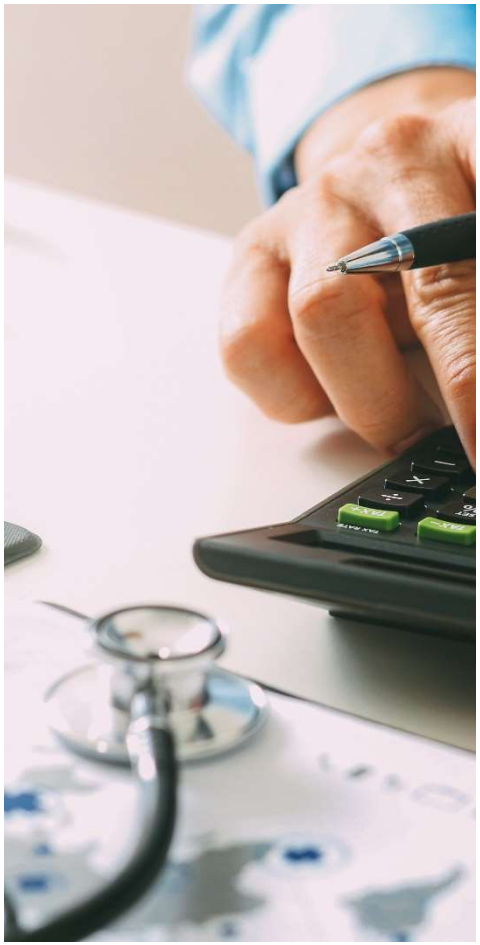
Our responsibility

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

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

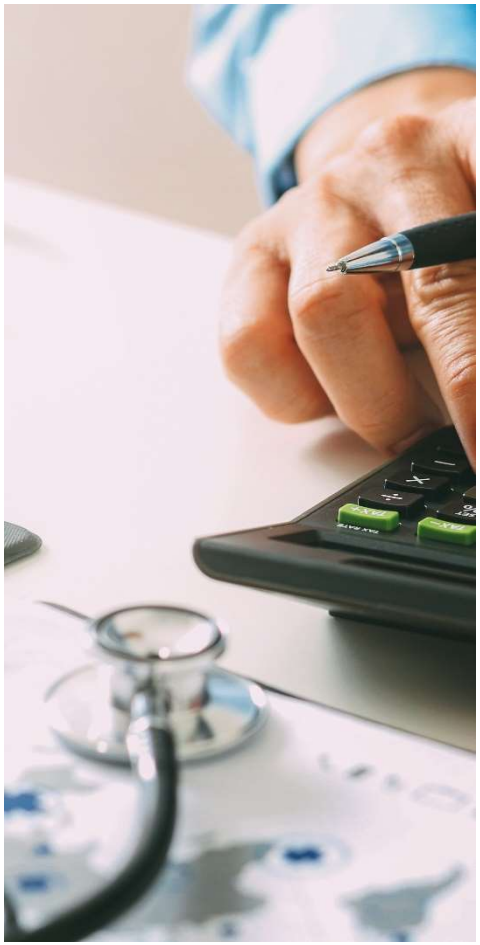
2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements, including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to Appendix D.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported a significant weakness. We have nothing to report on these matters.



2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the National Audit Office (NAO)) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the specified group reporting threshold of £500 million we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. This work is not yet completed as the WGA Pack will not be released by the NAO until December 2021 at the earliest. We will complete this work in a timely manner as soon as the Pack is released.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2020/21 audit of Southwark Council in the audit report, as detailed in Appendix D, due to the extended timeframe for our work on the Council's Value for Money Arrangements and the Pension Fund Annual Report and the work on the Whole of Government Accounts, as mentioned above.



3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

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

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

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

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

Improving economy, efficiency and effectiveness

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

Financial Sustainability

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

Governance

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

Potential types of recommendations

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

Statutory recommendation

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

Key recommendation

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

Improvement recommendation

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

3. VFM - our procedures and conclusions

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

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

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

4. Independence and ethics

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

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

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

Details of fees charged are detailed in Appendix D

Transparency

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

Audit and non-audit services

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

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Pooling of Housing Capital Receipts	7,000	Self-Interest (because this is a recurring fee) Self review (because Grant Thornton UK LLP provides audit services)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £7,000 in comparison to the total fee for the audit of £257,718 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

4. Independence and ethics

Service	Fees £	Threats identified	Safeguards
Audit related (continued)			
Certification of Teachers Pension Return	8,000	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £8,000 in comparison to the total fee for the audit of £257,718 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Certification of Housing Benefit Claim	32,000	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £32,000 in comparison to the total fee for the audit of £257,718 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Non-audit related			
CFO Insights subscription	10,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £10,000 in comparison to the total fee for the audit of £257,718 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit, Governance and Standards Committee. None of the services provided are subject to contingent fees.

Appendices

A. Action plan – Audit of Financial Statements

We have identified one recommendation for the Council as a result of issues identified during the course of our audit. We have agreed our recommendation with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

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

Controls

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

B. Follow up of prior year recommendations

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

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	**Self-Authorisation of Journals** During our detailed journals testing in 2019/20, we identified two users who had posted and authorised their own journals. We subsequently undertook further testing on the journals posted by these two users, which identified further self-authorised journals by one of the users. Whilst we were content with the sufficiency and appropriateness of the journals selected, this gap in the control environment does increase the potential for inappropriate journals to be posted without this being picked up. We understand the potential challenges over the practicality of implementing a control in this area, but the Council needs to weigh up the risks of what could occur without a control of this type. We recommend that there are appropriate controls in place to prevent the self-authorisation of journals to reduce the risk of inappropriate journals being posted. If journal specific controls cannot be introduced, higher level controls should be considered to provide some assurance in this area.	From the testing performed in 2020-21, we identified one further journal which was self-authorised. This was discussed with Management, who confirmed that this Journal was posted in October 2020, which was before the Policy in this area was tightened on the back of the findings from the work performed in the prior year. The Council should look to ensure that all Journals are subject to appropriate review and approval ahead of being posted.

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations

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

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
TBC	**Reporting of in-Year Budget Monitoring** During our Value for Money Work, we have identified the in-year reporting of the Council's Budget Monitoring has been irregular, with no consistent pattern of reports going to Cabinet or other Committees. Whilst there has been clear evidence of things strengthening in this area since the onset of Covid-19, the Council should look to ensure more regular report is maintained once things return to normal to enable issues to be challenged in a timely manner and remedial action to be put in place promptly. We recommended that the Council ensure that there is a clear timetable for reporting in-year financial performance to Cabinet and that this is done with sufficient regularity to allow Members to have a clear handle on the position during the year.	To be updated following the completion of our Value for Money Work.

Assessment

✓ Action completed

X Not yet addressed

C. Audit Adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

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

C. Audit Adjustments

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

Misclassification and disclosure changes

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

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

C. Audit Adjustments

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

Misclassification and disclosure changes

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

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

C. Audit Adjustments

Impact of unadjusted misstatements

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

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

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C. Audit Adjustments

Impact of prior year unadjusted misstatements

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

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Overstatement of Housing Benefits Debtors During our testing of the Council's Housing Benefit Debtors included within the Accounts, we identified four cases, with a total value of £5,696, where the Debtor Balance included within the Accounts did not tie back to the Housing Benefit System, when we would have expected it to. We have extrapolated these errors over the population, which indicates that the balance could be overstated by **£1.004 million.**	Dr Expenditure 1,004	Cr Debtors 1,004	An increase of 1,004	2019-20 narrative - This is an extrapolated error and not reflective of the full population. We are liaising with Northgate, our Housing Benefit System Supplier, to understand these issues and identify other cases affected in this way. There is no known system solution fix or any Northgate means to isolate affected cases. *2020-21 Update – our testing in this area found further issues in this area, which generated an extrapolated error of £840k. Given this is testing over the same balance, this effectively replaces the £1,004k mentioned in the previous year.*
Overall impact	£1,004	£1,004	£1,004	

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D. Fees

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

Audit fees	Proposed fee	Final fee
Council Audit	£257,718	TBC
Total audit fees (excluding VAT)	£257,718	TBC

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

The fees reconcile to the financial statements.

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

E. Audit opinion

Our audit opinion is included below.

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

Independent auditor's report to the members of Southwark Council

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of Southwark Council (the 'Authority') for the year ended 31 March 2021, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

• give a true and fair view of the financial position of the Authority as at 31 March 2021 and of its expenditure and income for the year then ended;

• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; and

• have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

In our evaluation of the Strategic Director of Finance and Governance's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Authority's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority's disclosures over the going concern period.

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

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

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

E. Audit opinion

Our audit opinion is included below.

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

Other information

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

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

We have nothing to report in this regard.

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

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

• we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or

• we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or

• we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;

• we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or

• we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

Responsibilities of the Authority, the Strategic Director of Finance and Governance and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Strategic Director of Finance and Governance. The Strategic Director of Finance and Governance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority

E. Audit opinion

Our audit opinion is included below.

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

accounting in the United Kingdom 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Strategic Director of Finance and Governance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

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

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

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

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

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

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

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

E. Audit opinion

Our audit opinion is included below.

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

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

• Our audit procedures involved:

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

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

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

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

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

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

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

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

- knowledge of the local government sector

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

- the provisions of the applicable legislation

- guidance issued by CIPFA, LASAAC and SOLACE

- the applicable statutory provisions.

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

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

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

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

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

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

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

E. Audit opinion

Our audit opinion is included below.

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

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

Responsibilities of the Authority

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

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

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

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

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

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

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

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

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

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

Use of our report

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

Signature:

Ciaran McLaughlin, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

London

xx November 2021

F. Management Letter of Representation

[LETTER TO BE WRITTEN ON CLIENT HEADED PAPER]

Grant Thornton UK LLP

30 Finsbury Square

London

EC2A 1AG

xx November 2021

Dear Sirs

Southwark Council

Financial Statements for the year ended 31 March 2021

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

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

Financial Statements

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

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

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

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

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

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

vii. Except as disclosed in the financial statements:

a. there are no unrecorded liabilities, actual or contingent

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

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

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

F. Management Letter of Representation

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

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

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

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

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

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

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

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

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

Information Provided

xiv. We have provided you with:

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

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

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

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

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

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

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

a. management;

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

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

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

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

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

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

F. Management Letter of Representation

Annual Governance Statement

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

Narrative Report

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

Approval

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

Yours faithfully

Name……

Position……

Date……

Name……

Position……

Date……

Signed on behalf of the Council

G. Audit letter in respect of delayed VFM work

Our ref:

Your ref:

Chair of Audit, Governance and Standards Committee

Southwark Council

160 Tooley Street

London

SE1 2QH

24 September 2021

Dear Chair of Audit, Governance and Standards Committee

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

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

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

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

Yours faithfully

Ciaran McLaughlin

Key Audit Partner

Grant Thornton

grantthornton.co.uk

Grant Thornton

The Audit Findings Report for the London Borough of Southwark Pension Fund

Year ended 31 March 2021

17 November 2021

Contents

Your key Grant Thornton team members are:

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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.

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of the London Borough of Southwark Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2021 for those charged with governance.

Financial Statements	
Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion: • the Pension Fund's financial statements give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.	Our audit work was completed remotely during June to November 2021. Our findings are summarised on pages 4 to 13. To date we have not identified any adjustments to the Pension Fund's reported financial position. We have identified some minor presentational issues which are documented in Appendix B. Our follow up of the recommendation from the prior year's audit is detailed in Appendix A. At this stage our work is almost complete, following the sickness challenges encountered earlier in the audit. To date we have not identified any issues which may impact on our proposed audit opinion, subject to the completion of the following outstanding matters; there are no matters of which we are aware that would require modification of our audit opinion [Refer to Appendix D] or material changes to the financial statements, subject to the following outstanding matters; • completion of our outstanding testing – refer to Page 4 for more details • receipt of management representation letter {Refer to Appendix E}; and • receipt and review of the Annual Report • review of the final set of financial statements We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited. During the course of our work we identified that the Fund reported itself to the Pensions Regulator in April 2021 due to a delay in being able to process the Annual Pensions Uplift within the Pensions Payroll System. This error was subsequently corrected by the Fund in July 2021, and all pensioners received their arrears in the following month. No action was taken by the Pensions Regulator in respect of this issue, and this will not impact on our audit report in any way. Our anticipated audit report opinion will be unmodified.

2. Financial Statements

Overview of the scope of our audit

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

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

Audit approach

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

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

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

Conclusion

At this stage our work is still in progress due to some sickness challenges which were encountered during the course of the audit, meaning our work will be continuing beyond the end of September. We are hopeful of completing our work by the middle of November to keep any delay to a minimum. These outstanding items include:

- completion of our outstanding testing in the following areas: Investments, Contributions and Benefits Payable.
- receipt of management representation letter; and
- review of the final set of financial statements.

2. Financial Statements

Our approach to materiality

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

We have revised the performance materiality due to the Net Assets of the Fund changing significantly from that at the planning stage resulting in a review of the appropriateness of the materiality figure.

We detail in the table below our determination of materiality for the London Borough of Southwark Pension Fund.

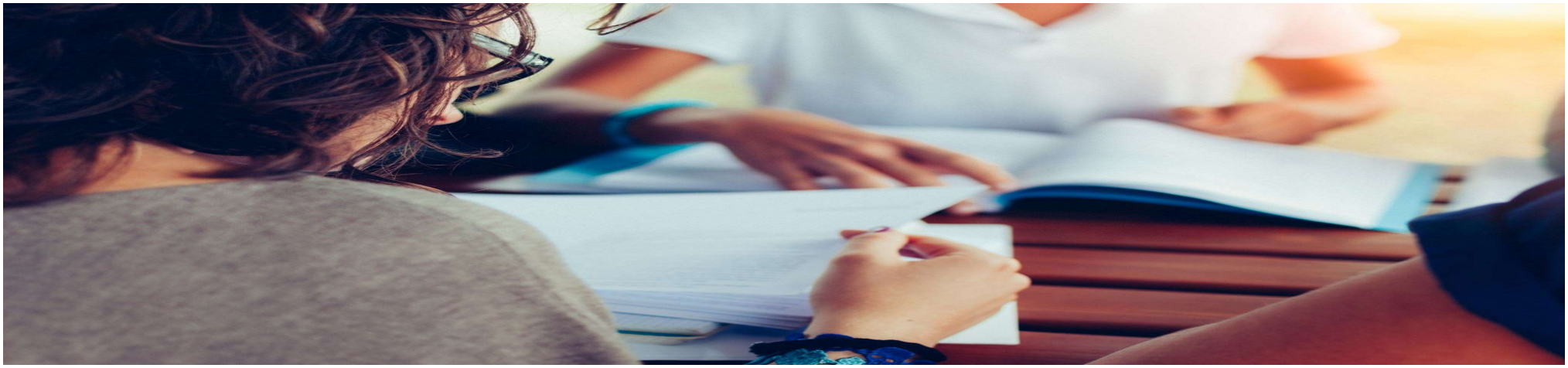
	Pension Fund Amount (£)	Qualitative factors considered
Materiality for the financial statements	19,000,000	Our Headline Materiality is based on the Net Assets of the Fund. Due to the considerable increase in the value from the prior year, we have revised this figure upwards ahead of the Final Accounts Audit.
Performance materiality	14,250,000	Performance Materiality is based on a percentage of the overall materiality.
Trivial matters	950,000	Triviality is based on a percentage of the overall materiality.

2. Financial Statements - Significant risks

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

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

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



2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
The revenue cycle includes fraudulent transactions (rebutted) Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Southwark Council, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for the London Borough of Southwark Pension Fund.	During the audit, we have undertaken the following work: • reviewed and tested the Fund's revenue recognition policies • performed testing on material revenue streams Our audit work has not identified any issues in respect of this risk.
The expenditure cycle includes fraudulent transactions (rebutted) Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition needs to be considered, especially if an entity is required to meet financial targets. Having considered the risk factors relevant to the 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.	During the audit, we have undertaken the following work: • 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. Our audit work has not identified any issues in respect of this risk.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
The valuation of Direct Property is incorrect (Level 3) 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 (£255 million) and the sensitivity of this estimate to changes in key assumptions. Management have engaged the services of a valuer to estimate the current value as at 31 March 2021. We therefore identified valuation of directly held property, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	During the audit, we have undertaken the following work: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • independently request year-end confirmations from investment managers and custodian, and assessed their responses as part of our work. • evaluated the competence, capabilities and objectivity of the valuation expert • written to the valuer to confirm the basis on which the valuations were carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding. We have also engaged 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. • tested, 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, we have reviewed investment manager service auditor report on design effectiveness of internal controls. Our work in this area identified an issue between the split of Property Investments in Note 12, as this incorrectly analysed the investments between Direct Property and Property Unit Trusts. However this had no impact on the total value of the investments held by the Fund at 31 March 2021. No other issues were identified from the testing performed in this area.

2. Financial Statements – key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 3 Investments – Direct Property - £255 million	The Pension Fund has investments in Direct Property that in total are valued on the Net Asset Statement as at 31 March 2021 at **£255 million**. These properties are valued by a RICS Qualified Valuer as at 31 March 2021. The Valuer is employed by the Fund Manager on behalf of the Fund to provide valuations in line with the CIPFA Code of Practice guidance in this area.	Based on the work performed, we have been able to obtain sufficient assurance over the Direct Property Valuations included within the Accounts as at 31 March 2021. We have reviewed the work undertaken by the Fund's Valuer to derive the values as at 31 March 2021 for inclusion within the Accounts, and we are comfortable with the judgements made and the assumptions applied by the valuer in deriving these values. As mentioned on the previous page, we did identify some classification issues in the Accounts but these did not impact the value of these investments as at 31 March 2021.	● Light Purple
Level 3 investments (excluding Direct Property)	The Pension Fund has investments in Infrastructure Funds that in total are valued on the Net Asset Statement as at 31 March 2021 at **£41 million**. These investments are not traded on an open exchange/market and the valuation of these investments is highly subjective due to a lack of observable inputs. In order to determine the values, management rely on the valuation provided by the Fund Manager, which are usually based on an audited value of the fund as at 31 December 2020, with the valuation then rolled forward to March 2021, considering any cash movements which have taken place in the intervening period.	Based on the work performed, we have been able to obtain sufficient assurance over the Level 3 valuations included within the Accounts. We have, on a sample basis, reviewed the basis on which the valuation of the Funds/Investments has been prepared, and where appropriate, considered the Audited Accounts of the Funds/Investments as well. No issues were identified from the work performed in this area.	● Light Purple

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 2 Investments – £329m	The Pension Fund have investments in Bonds and Pooled Investment Vehicles that in total are valued on the Net Asset Statement as at 31 March 2021 at **£329 million**. Whilst these investments themselves are not actively traded on an open market, the underlying investments are and the valuations of these investments will be based on the value of these underlying investments at 31 March 2021, or the closest trade date to year end. The valuation of these investments has decreased by **£45 million** from their value at 31 March 2020 (**£284 million**).	Based on the work performed, we have been able to obtain sufficient assurance over the Level 2 valuations included within the Accounts. We have undertaken full triangulation of the closing valuations provided by the relevant Fund Managers to the values provided by the Fund's Custodian, and considered any significant variances identified from this work. No issues have been identified from the work performed in this area.	● Light Purple

Assessment

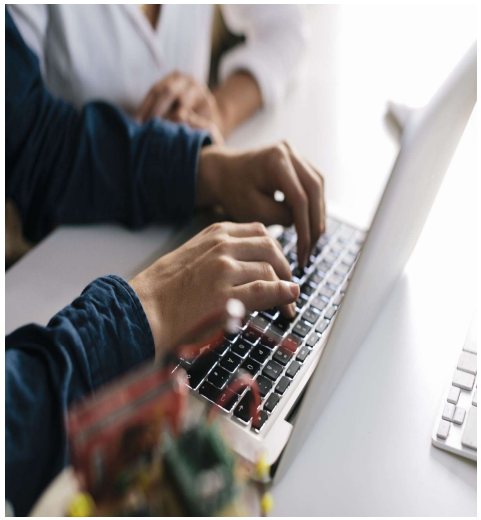
- ● [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider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

2. Financial Statements - other communication requirements

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

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit, Governance and Standards Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	During the course of our work we identified that the Fund reported itself to the Pensions Regulator in April 2021 due to a delay in being able to process the Annual Pensions Uplift within the Pensions Payroll System. This error was subsequently corrected by the Fund in July 2021, and all pensioners received their arrears in the following month. No action was taken by the Pensions Regulator in respect of this issue.
Written representations	A letter of representation has been requested from the Pension Fund, which is appended to this Report.

2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send confirmation requests to all of the Pension Fund's counter parties. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation. We requested management to send letters to those solicitors who worked with the Pension Fund during the year. All responses have been received and no issues have been identified.
Accounting practices	We have evaluated the appropriateness of the Pension Fund's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	The Fund produced a good set of Accounts and working papers in line with the agreed timeframes, and responded promptly to the queries raised during the course of the audit despite the challenges of remote working. The small number of amendments identified in this Report reflect the quality of the draft Accounts prepared by management.
Disclosures	Inconsistencies have been identified but have been adequately rectified by management. We plan to issue an unmodified opinion in this respect – refer to Appendix D.
Matters on which we report by exception	We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. Due to statutory deadlines the Pension Fund Annual Report is not required to be published until 1 December 2021 and therefore this report has not yet been produced. We have therefore not given this separate opinion at this time and are unable to certify completion of the audit of the administering authority until this work has been completed.

2. Financial Statements - other communication requirements

Our responsibility

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

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

3. Independence and ethics

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

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

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

Details of fees charged are detailed in Appendix C.

Transparency

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

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. No non-audit services were identified which were charged from the beginning of the financial year to the current date.

Appendices

A. Follow up of prior year recommendations

We identified the following issues in the audit of the London Borough of Southwark Pension Fund's 2019/20 financial statements, which resulted in one recommendations being reported in our 2019/20 Audit Findings Report. Our work in respect of this recommendation is still in progress and we will provide an update to Management and the Audit, Governance and Standards Committee once this work is complete.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	Issues in Member Data 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. 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. However we continued to find issues of this type in the three years since then, hence why it has been carried forward to 2020/21.	We are pleased to report that no issues were identified with the testing performed in this area during this year's audit. This is a reflection of the hard work put in by Management since the adverse finding in 2016/17 to strengthen the processes and controls in this area. Management should continue to ensure that robust processes and controls remain in place over this area given its importance to the overall value of the Pension Fund Liability.

Assessment

✓ Action completed

X Not yet addressed

B. Audit Adjustments

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

Impact of adjusted and unadjusted misstatements

To date, no adjusted or unadjusted misstatements have been identified from the work performed during the course of the audit.

Misclassification and disclosure changes

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

Disclosure omission	Impact on the Accounts	Adjusted?
Note 12 – Investments Classification	The split of Property Investments held by the Fund was incorrectly analysed between Direct Property and Property Unit Trusts in the first draft of the Accounts. This has subsequently been corrected in the updated Accounts.	✓
Note 12 – Investment Purchases and Sales	Our testing on the purchases and sales included within the Accounts identified that the balances for Newton were incorrect in Note 12 – Purchases increases to £115,037k and Sales increases to £91,656k. This has no impact on the closing market value of the fund as the difference is adjusted via the Change in Market Value Column in the same Note.	✓
Minor Disclosure Issues - Note 1 – Introduction - Note 3 – Accounting Policies - Note 4 – Critical Judgements - Note 5 – Estimation Uncertainty - Note 14 – Related Parties - Note 15 – Fair Value Hierarchy - Note 18 – Financial Instruments	A number of other minor disclosure amendments have been processed. None of these are individually significant enough to warrant separate disclosure.	✓

C. Fees

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

Audit fees	Proposed fee	Final fee
Pension Fund Audit	36,170	TBC
Total audit fees (excluding VAT)	£36,170	TBC

We can confirm no non-audit services have been delivered in respect of the Pension Fund.

The fees reconcile to the financial statements – refer to Note 10 of the Pension Fund Accounts for confirmation of this.

D. Audit opinion

Our audit opinion is included below.

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

Independent auditor's report to the members of Southwark Council on the pension fund financial statements of the London Borough of Southwark Pension Fund

Opinion

We have audited the financial statements of the London Borough of Southwark Pension Fund (the 'Pension Fund') administered by Southwark Council (the 'Authority') for the year ended 31 March 2021 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

• give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2021 and of the amount and disposition at that date of the fund's assets and liabilities,

• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; and

• have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the Pension Fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

In our evaluation of the Strategic Director of Finance and Governance's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Pension Fund's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Pension Fund. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority in the Pension Fund financial statements and the disclosures in the Pension Fund financial statements over the going concern period.

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

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

The responsibilities of the Strategic Director of Finance and Governance with respect to going concern are described in the 'Responsibilities of the Authority, the Strategic

D. Audit opinion

Our audit opinion is included below.

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

Director of Finance and Governance and Those Charged with Governance for the financial statements' section of this report.

Other information

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

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

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice (2020) published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the Pension Fund's financial statements and our knowledge of the Pension Fund, the other information published together with the Pension Fund's financial statements in the Statement of Accounts, for the financial year for which the financial statements are prepared is consistent with the Pension Fund financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

Responsibilities of the Authority, the Strategic Director of Finance and Governance and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Strategic Director of Finance and Governance. The Strategic Director of Finance and Governance is responsible for the preparation of the Statement of Accounts, which includes the Pension Fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Strategic Director of Finance and Governance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Pension Fund's financial statements, the Strategic Director of Finance and Governance is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that

D. Audit opinion

Our audit opinion is included below.

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

the services provided by the Pension Fund will no longer be provided.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

• We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Public Service Pensions Act 2013, The Local government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

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

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

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

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

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

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

- the journals posted by relevant officers during the course of the year, taking into account a range of different criteria to focus our testing on the most risky journals.

• Our audit procedures involved:

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

- journal entry testing, with a focus on those journals that have been deemed risky via our assessment based on a range of criteria;

- challenging assumptions and judgements made by management in its significant accounting estimates in respect of level 3 investments; and

D. Audit opinion

Our audit opinion is included below.

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

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

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

• The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition.

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

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

- knowledge of the local government pensions sector

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

- the provisions of the applicable legislation

- guidance issued by CIPFA, LASAAC and SOLACE

- the applicable statutory provisions.

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

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

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

Use of our report

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

[Signature]

Ciaran McLaughlin, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

London

xx November 2021

E. Management Letter of Representation

[LETTER TO BE WRITTEN ON CLIENT HEADED PAPER]

Grant Thornton UK LLP

30 Finsbury Square

London

EC2A 1AG

xx November 2021

Dear Sirs

London Borough of Southwark Pension Fund

Financial Statements for the year ended 31 March 2021

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

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

Financial Statements

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

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

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

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

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include the valuation of Level 3 Investments. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vi. Except as disclosed in the financial statements:

a. there are no unrecorded liabilities, actual or contingent

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

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

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

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

E. Management Letter of Representation – Pension Fund

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

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

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

xii. We have updated our going concern assessment. We continue to believe that the Fund's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that that :

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

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

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

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

Information Provided

xiii. We have provided you with:

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

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

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

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

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

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

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

a. management;

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

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

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

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

xx. We have drawn to your attention all correspondence and notes of meetings with regulators, in particular our correspondence with the Pensions Regulator in respect of the delay in processing the Pensions Uplift on the Pensions Payroll System.

xxi. We are not aware of any reports having been made to The Pensions Regulator by any of our advisors.

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

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

E. Management Letter of Representation – Pension Fund

Approval

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

Yours faithfully

Name……

Position……

Date……

Name……

Position……

Date……

Signed on behalf of the Fund

Item No. 14	Classification: Open	Date: 17 November 2021	Meeting Name: Audit, governance and standards committee
Report title:		Capital and treasury management strategy 2022-23	
Ward(s) or groups affected:		All	
From:		Strategic Director of Finance and Governance	

RECOMMENDATIONS

1. That the audit governance and standards committee note the draft Capital Strategy and Treasury Management Strategy 2022-23.

BACKGROUND INFORMATION

2. Each year council assembly agrees an annual strategy covering the management of council debt, capital and treasury investments. The strategy is to be agreed following consultation with the audit, governance and standards committee.

3. Treasury management is the management of the authority's cash flows, borrowing and investments. The council is exposed to financial risks from treasury management activity including possible losses associated with council investment and potential for increased borrowing costs arising from market movements. The identification, monitoring and control of financial risks are therefore a crucial part the financial management and governance arrangements of the council.

4. Since 2019-20 the council is required to produce a capital strategy report (Appendix A) providing a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how any associated risks are managed and the implications for future financial sustainability.

5. The impact on the UK from coronavirus, together with its exit from the European Union and future trading arrangements, will remain a major influence on the Authority's treasury management strategy for 2022-23.

6. Under financial delegation, the strategic director of finance and governance is responsible for all executive and operational decisions on treasury management. This treasury management strategy, together with supporting prudential indicators and policies will ensure that these responsibilities can be carried out effectively.

KEY ISSUES FOR CONSIDERATION

Borrowing strategy and debt management activity and position

7. The council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required.

8. The council's debt management strategy is to pursue a policy of internal borrowing, which is the use of existing reserves and balances to temporarily fund capital expenditure, where possible, rather than the use of external borrowing.

9. The use of internal borrowing allows the council to minimise unnecessary external borrowing costs by only borrowing when needed for liquidity, or to benefit from advantageous borrowing rates. Efficient use of existing council resources to fund capital expenditure through internal borrowing also reduces the council's counterparty risk inherent in the investment of cash balances.

10. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans. By doing so, the Authority is able to reduce net borrowing costs and reduce overall treasury risk.

11. The benefits of internal/short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. This will help inform decisions on whether the council borrows additional sums at long-term fixed rates in 2022-23 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

12. The council has an ambitious capital programme for both General Fund and Housing Revenue Account capital expenditure, as set out in the approved Capital Programme. Projects for capital expenditure and financing, as well as long term cashflow forecasts, indicate that the council may require additional borrowing of £1.3bn by the end of 2025.

13. Historical long term debt for the council has traditionally been drawn from the PWLB. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield. The Authority will consider the most appropriate source for long-term loans. Any borrowing decision will be made in consideration of capital and cashflow forecasts, market conditions, interest rate expectations and with respect to associated risks. The council will also utilise the advice of external treasury advisor Arlingclose.

Proposed Investment Strategy

14. The council's investment objectives are to preserve principal, provide liquidity and secure a return on investments consistent with the prior objectives of security and liquidity. This is in line with investment guidance produced by the Ministry of Housing, Communities and Local Government (MHCLG), now the Department of Levelling Up Housing and Communities (DLUHC).

15. The annual investment management strategy 2022-23 is attached at Appendix C. The strategy will allow investment access to highly rated sovereigns, banks and other corporates, quasi-sovereigns, covered bonds whilst limiting excessive exposure to market volatility and maintaining the overarching objective of ensuring appropriate security and liquidity. External fund managers will be utilised to implement the strategy when appropriate.

16. In considering the investment strategy for 2022-23 the council has taken advice from the external treasury advisor Arlingclose, in addition to ongoing engagement with the council's external fund managers, to ensure that any investment limits and restrictions remain appropriate to meet the investment objectives.

17. The investment strategy for the council for 2022-23 is proposed to remain unchanged as it is considered overall to be well structured to limit any undue risks to the security of assets and preservation of liquidity whilst also allowing the council and delegated managers to access suitable investment opportunities.

Minimum Revenue Provision

18. Each year, the General Fund sets aside sums known as the minimum revenue provision to reduce its borrowing liabilities. The HRA may also set aside sums to reduce its own borrowing liabilities. The policy for MRP is set out in Appendix D and complies with the latest guidance issued by the MHCLG (DLUHC).

19. Government guidance on the MRP requires that the general fund set aside prudent sums to reduce debt and long term liabilities (such as PFI schemes) arising from capital spend and that the council produces a statement on its MRP policy. MRP costs fall on revenue budgets and runs on for many years into the future, usually over the period to which the capital item provides an economic benefit or the duration of the revenue grant supporting the expenditure.

20. A council may not change the total MRP it is liable for but may prudently modify the timing of payments to improve affordability and take account of individual spend and financing characteristics. No changes are proposed for 2022-23.

Prudential Indicators

21. Local authority borrowing, investment and capital finance activity is supported by the Prudential Code for Capital Finance and the Treasury Management in the Public Services Code of Practice and Guidance published by the Chartered institute of Public Finance and Accountancy, backed by the Local Government Act 2003. The codes introduced a series of indicators and limits, which the council assembly should agree annually.

22. The indicators needing approval relate to 2022-23 to 2024-25 and are set out at Appendix E. The indicators are of a technical nature and include a self-imposed authorised limit on debt which the council assembly must determine each year. Approval will ensure that the council meets its obligations under the 2003 Act and that the strategic director of finance and governance can carry out their financial responsibilities in this area.

Community, equalities (including socio-economic) and health impacts

23. This report is not considered to have a direct impact on local people and communities. However, good governance arrangements are important to the delivery of local services and to the achievement of outcomes.

Climate change implications

24. There are no climate change implications arising directly from this report.

Resource implications

25. There are no direct resource implications in this report.

Consultation

26. There has been no consultation on this report.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

27. None required.

REASONS FOR URGENCY

28. The council is required to report the Draft Capital and Treasury Management Strategy for the following year to Audit and Governance Standards prior to the presentation of the Strategy at Council assembly in Feb 2022.

REASONS FOR LATENESS

29. The delay was due to the need to include the latest economic data and specifically to incorporate advice and guidance from the council's external treasury management advisors.

BACKGROUND DOCUMENTS

Background Papers	Held at	Contact
None		

APPENDICES

No.	Title
Appendix A	Capital Strategy 2022-23
Appendix B	Treasury Management Strategy 2022-23
Appendix C	Annual Investment Management Strategy 2022-23
Appendix D	Annual Minimum Revenue Provision Statement
Appendix E	Prudential Indicators

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report Author	Timothy Jones, Departmental Finance Manager	
Version	Final	
Dated	10 November 2021	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	**Comment included**
Director of Law and Democracy	No	N/A
Strategic Director of Finance and Governance	No	N/A
Cabinet Member	**No**	**N/A**
Date final report sent to Constitutional Teams		11 November 2021

APPENDIX A

CAPITAL STRATEGY
2022-23 – 2031-32

1. INTRODUCTION AND BACKGROUND

This Capital Strategy is an overarching document which sets the policy framework for the development, management and monitoring of capital investment. The strategy focuses on core principles that underpin the council's capital programme; its short, medium and long-term objectives; the key issues and risks that will impact on the delivery of the programme; and the governance framework required to ensure the capital programme is delivered and provides value for money for residents of Southwark.

The capital strategy aligns with the priorities set out in the Borough Plan and other key council strategies. The strategy is integrated with the medium term financial strategy and treasury management strategy.

2. CORE PRINCIPLES THAT UNDERPIN THE CAPITAL PROGRAMME

The key principles for the capital programme are summarised below:

- Capital investment decisions reflect the aspirations and priorities included within the Borough Plan and supporting strategies;
- Schemes to be added to the capital programme will be subject to a gateway process, prioritised according to availability of resources and scheme specific funding, fairer future for all commitments and factors such as legal obligations, health and safety considerations and the longer-term impact on the council's financial position;
- The cost of financing capital schemes, net of revenue benefits, are profiled over the lifetime of each scheme and incorporated into the annual policy and resources strategy and budget;
- Commissioning and procuring for capital schemes will comply with the requirements set out in the council's constitution, financial regulations and contract standing orders.

A risk review is an important aspect of the consideration of any proposed capital or investment proposal. The risks will be considered in line with the risk management strategies we have in place and commensurate with the council's low risk appetite. Subject to careful due diligence, the council may consider a moderately higher level of risk for strategic initiatives, where there is a direct gain to the council's revenues or the ability to deliver its statutory duties more effectively and efficiently.

3. GOVERNANCE FRAMEWORK

The council's constitution requires the Council Assembly to agree the capital strategy and programme at least once every four years and in the event of a significant change in circumstances. The reports from the chief finance officer will consider the compliance of proposed schemes in the programme with the medium term financial strategy, the capital resources available to the council, the revenue implications of the proposed capital expenditure, and any other relevant information.

Democratic decision-making and scrutiny processes provide overall political direction and ensure accountability for investment in the capital programme. These processes include:

- Council Assembly approves the Borough Plan which sets out the strategic priorities for the council
- Council Assembly is ultimately responsible for approving the Capital Strategy, Treasury Management Strategy and capital programme
- The Cabinet receives regular capital monitoring reports, approves variations to the programme and considers new bids for inclusion in the capital programme
- Portfolio holders are assigned projects in line with their responsibilities
- Scrutiny committees can call in Cabinet reports, receive and scrutinise reports
- All projects progressing to the capital programme follow the constitution, and financial regulations
- The capital programme and capital expenditure is subject to internal and external audit.

Approval to spend on individual capital schemes will only be given once procedural guidelines have been complied with and assessed to the satisfaction of the strategic director of finance and governance.

Senior officer teams exist within directorates to monitor the delivery of the directorate capital programme. Directorate management teams must consider and recommend all additions, variations to their directorate capital programme before being agreed by the strategic director of finance and governance and then by cabinet.

4. CAPITAL INVESTMENT PRIORITIES AND PLANS

The capital programme for the council is a long term ambition, with the lifetime of new and existing assets stretching far into the future. The obligation for maintaining and improving council dwellings and operational buildings is very long term and as such will be considered accordingly in financial and asset management planning.

Capital investment plans are driven by the Borough Plan, the council's key strategic document that sets out the council's vision, ambitions, values and priorities. The refreshed Borough Plan includes the following key capital commitments:

- to build more council houses and secure new homes at London Living Rent
- to build a new library and GP health centre on the Aylesbury estate
- to open a new, modern leisure centre at Canada Water
- to open a new secondary school at Borough
- to build a new library on the Walworth Road
- to open a new library at Grove Vale in East Dulwich
- to work with the Mayor of London to build a new pedestrian and cycling bridge from Canada Water to Canary Wharf
- to deliver new affordable business spaces
- to open two nursing homes
- to build extra care housing

The application and planning for the capital expenditure obligations and objectives can be considered over short, medium and long term time horizons. Long-term forecasts are not easily predicted and the accuracy of all financial estimates will be limited. However, long-term forecasting is valuable in informing strategic plans taking account of the cumulative sustainability and affordability of existing and planned investment, which will need to be repaid over future periods. For major projects and investment the funding and financial implications need to be planned well in advance. The council maintains an approved capital programme that covers a ten year period. Prudential indicators for capital

expenditure and financing are set out in Appendix E.

5. TREASURY MANAGEMENT

Treasury Management is concerned with keeping sufficient but not excessive cash available to meet the council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of resources will be met by prudential borrowing. The council is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.

Each year the council assembly agrees an annual treasury management strategy covering the management of council debt and cash investments Appendix B.

6. ASSET MANAGEMENT PLANNING

The overriding objective of asset management within the council is to achieve a corporate portfolio of property assets that is appropriate, fit for purpose and affordable. The council's property portfolio consists of operational property, investment property and property held for specific community or regeneration purposes. The council has specific reasons for owning and retaining property:

- Operational purposes e.g. assets that support core business and service delivery e.g. schools, office buildings.
- Investment properties held to provide a financial return to the council that supports service provision.
- Parks, playgrounds and open spaces.
- Regeneration, enabling strategic place shaping and economic growth.

Asset management is an important part of the council's business management arrangements and is crucial to the delivery of efficient and effective services, the ongoing management and maintenance of capital assets will be considered as part of the strategy. The asset management planning includes an objective to optimise the council's land and property portfolio through proactive estate management and effective corporate arrangements for the acquisition and disposal of land and property assets.

The council will continue to realise the value of any properties that have been declared surplus to requirements in a timely manner, having regard to the prevailing market conditions.

7. COMMERCIAL ACTIVITY AND INVESTMENT PROPERTY

Returns from property ownership can be both income driven (through the receipt of rent) and by way of appreciation of the underlying asset value (capital growth). The combination of these is a consideration in assessing the attractiveness of a property for acquisition.

In the context of the Capital Strategy, the council is using capital to invest in property to provide a positive surplus/financial return. The council may fund the purchase of the property by borrowing money, normally from the Debt Management Office as part of HM Treasury. The rental income paid by the tenant should exceed the cost of repaying the

borrowed money each year. The annual surplus then supports the council's budget position, and enables the council to continue to provide services for local people.

Historically, property has provided strong investment returns in terms of capital growth and generation of stable income. However, property investment is not without risk as property values can fall as well as rise and changing economic conditions could cause tenants to leave with properties remaining vacant. The investment appraisal, including taking external professional advice, ensuring all investments are in Southwark (local strategic knowledge) and risk assessment ensure that commercial investments remain proportionate to the size of the council and that the revenue impact can be managed should expected yields not arise.

The strategy makes it clear that the council will continue to invest prudently on a commercial basis and to take advantage of opportunities as they present themselves, supported by our robust governance process.

8. LOANS AND OTHER LIABILITIES

The council has discretion to make loans for a number of reasons, primarily for economic development. These loans are treated as capital expenditure.

In making loans the council is exposing itself to the risk that the borrower defaults on repayments. The council, in making these loans, must therefore ensure they are prudent and has fully considered the risk implications, with regard to both the individual loan and that the cumulative exposure of the council is proportionate and prudent.

The council will ensure that a full due diligence exercise is undertaken and adequate security is in place. The business case will balance the benefits and risks. All loans are agreed by Cabinet. All loans will be subject to close, regular monitoring.

In addition to debt liabilities set out in the treasury management strategy, the council is committed to making future payments to cover any pension deficit. The pension fund is subject to a triennial valuation and the revenue implications are built into the Medium Term Financial strategy.

9. REVENUE BUDGET IMPLICATIONS

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and Minimum Revenue Provision (or debt repayment in HRA) are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream, i.e. the amount funded from council tax, business rates and general government grants (see Prudential Indicators).

Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend up to 50 years into the future. Capital investment decision making is not only about ensuring the initial allocation of capital funds meets the corporate and service priorities but ensuring the asset is fully utilised, sustainable and affordable throughout its whole life. This overarching commitment to long term affordability is a key principle in any capital investment appraisal decision. In approving the inclusion of schemes and projects within the capital programme, the strategic director of finance and governance must be satisfied that the proposed capital programme is prudent, affordable and sustainable.

10. KNOWLEDGE AND SKILLS

The council has professionally qualified staff across a range of disciplines including finance, legal and property that follow continuous professional development (CPD) and attend courses on an ongoing basis to keep abreast of new developments and skills.

The council establishes project teams from all the professional disciplines from across the council as and when required. External professional advice is taken where required and will always be sought in consideration of any major commercial property investment decision.

Internal and external training is offered to members to ensure they have up to date knowledge and expertise to understand and challenge capital and treasury decisions taken by the strategic director of finance and governance.

APPENDIX B

TREASURY MANAGEMENT STRATEGY STATEMENT 2022-23

Introduction

1. Treasury management is the management of the authority's cash flows, borrowing and investments. The council is exposed to financial risks from treasury management activity including possible losses associated with council investment and potential for increased borrowing costs arising from market movements. The identification, monitoring and control of financial risks are a crucial part of the financial management and governance arrangements of the council.

2. Treasury risk management is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the council to approve a treasury management strategy before the start of each financial year. This report fulfils the council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

3. Investments held for service purposes or for commercial profit are considered in the Capital Strategy.

4. Under financial delegation, the strategic director of finance and governance is responsible for all executive and operational decisions on treasury management. This treasury management strategy, together with supporting prudential indicators and policies will ensure that these responsibilities can be carried out effectively.

Net Borrowing Position

5. As at 30 September 2021 the council held £826m of borrowing and £143m of investments.

6. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, known as internal borrowing.

7. The Council has an increasing CFR due to its ambitious capital programme. Based on current forecasts there is an estimated need to borrow up to £1.3bn by 31 March 2025.

Borrowing strategy and debt management activity and position

8. The council's debt management strategy has been to pursue a policy of internal borrowing, which is the use of existing reserves and balances to temporarily fund capital expenditure rather than the use of external borrowing.

9. The use of internal borrowing allows the council to minimise unnecessary external borrowing costs by only borrowing when needed for liquidity, or to benefit from advantageous borrowing rates. Borrowing in advance of need from a cashflow perspective creates a 'cost of carry' which is the difference between the short term investment income earned through holding cash balances compared against longer term external debt financing costs

10. Efficient use of existing council resources to fund capital expenditure through internal borrowing also reduces the council's counterparty risk inherent in the investment of cash balances.

11. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans. By doing so, the Authority is able to reduce net borrowing costs and reduce overall treasury risk.

12. Officers regularly monitor current and forecast interest rates to determine the benefits of internal/short-term borrowing against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly.

13. Future borrowing requirements arising from the approved capital programme, the extent of internal borrowing and the need to refinance scheduled debt repayments, together with potential for interest rate rises, indicate the need for further borrowing during 2022-23.

14. The council could borrow through the PWLB, financial institutions and banks or directly from other local authorities. Alternative sources of borrowing to the PWLB will be considered to ensure the lowest available rates are achieved.

15. All short term borrowing during 2021-22 was via other local authorities. Borrowing from other local authorities is typically at lower rates than from other sources for short duration debt.

16. The majority of long-term outstanding debt was borrowed from the Public Works Loans Board (PWLB), part of HM Treasury, at fixed rates of interest. The council's outstanding debt portfolio, used to fund historical capital expenditure, stood at £821m as at 30 September 2021 (£886m as at 31 March 2021).

17. The weighted average rate of interest for the council's debt portfolio was 3.3% as at 30 September 2021. (3.2% as at 31 March 2021).

Investment Position and Activity

18. The council holds sizable investment balances, representing income received in advance of expenditure plus balances and reserves held. Investments as at 30 September 2021 were £143m.

19. Council resources that are not immediately required for current expenditure are invested in money market instruments in accordance with the MHCLG (now the Department of Levelling Up and Housing and Communities (DLUHC)) Guidance on Local Authority Investments and the approved investment strategy. The guidance gives priority to security and liquidity and the council's aim is to achieve a yield commensurate with these principles.

20. Council investments are managed both in-house and delegated to two fund managers: Alliance Bernstein and Aberdeen Standard (formerly Aberdeen Asset Management). The focus for in-house investment is to meet variable near term cash liquidity requirements, principally using money market funds and other highly secure, liquid financial instruments

21. Any surplus cash resources not required in the short term to fund council activities is placed with the council's two external fund managers. The fund managers invest for a longer term in UK government gilts, supranational bank bonds, certificates of deposits issued by major banks/ building societies and other financial instruments.

22. The use of fund managers has the advantage of diversification of investment risk, coupled with the services of professional fund managers, which over the longer-term, provides enhanced returns within the council's risk appetite. Although investments can be redeemed from the fund managers at short notice, the intention is to hold them for the medium term. Their performance and suitability in meeting the council's investment objectives are regularly monitored.

23. The distribution of council investments across counterparties by rating and maturity as at 30 September 2021 is set out in the table below:

	A		**AA**		**AAA**		**Total**	
Investment Maturity	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**
Up to 1Year	57.0	39.9	3.1	2.1	46.6	32.6	106.7	74.7
1-2 Years	0.3	0.2	2.0	1.4	17.3	12.1	19.6	13.7
2-5Years	0.3	0.2	12.7	8.9	3.6	2.5	16.6	11.6
Total	**57.6**	**40.3**	**17.8**	**12.4**	**67.5**	**47.2**	**142.9**	**100**

24. The ongoing impact on the UK from coronavirus, together with higher inflation, the likelihood of higher interest rates, and the country's trade position post-Brexit, will be major influences on the council's treasury management strategy for 2022/23.

25. The Authority's treasury management adviser Arlingclose is forecasting that Bank of England Bank Rate will increase interest rates soon, but not to the 1% level expected by financial markets.

26. To analyse the treasury management portfolio, the council measures the return against a composite investment benchmark of three month LIBID and one to three year gilt index.

27. The rate of investment return generated by the treasury management portfolio is a consequence of the council's prudent, low risk approach to treasury management investing. This is in line with the requirements of the statutory guidance for local government treasury investment issued by MHCLG (now DLHUC)

28. The priorities for treasury management investment are, in order of priority, security, liquidity and yield. The objective therefore is to ensure that funds are available to meet council liabilities as they fall due.

29. It is important that the treasury management strategy is suitably flexible such that the council can take advantage of market opportunities and maintain appropriate asset diversification within the portfolio to best support the council's revenue budget, whilst retaining the overriding objectives of security and liquidity.

APPENDIX C

THE ANNUAL INVESTMENT MANAGEMENT STRATEGY 2022-23

BACKGROUND

1. The guidance on local government investments produced by the Ministry of Housing, Communities and Local Government (MHCLG) now known as Department of Levelling up as updated in February 2018, requires that local authorities produce an annual investment strategy. The guidance promotes prudent management of investments with security and liquidity as priorities, while also considering yield.

2. Investments held as part of the council's pension fund are managed under a separate regulatory framework and are outside the scope of this strategy.

3. Investments held for service purposes or for commercial profit are considered within the capital strategy.

INVESTMENT OBJECTIVES

4. The council's treasury investment objectives are to preserve principal, provide liquidity and secure a reasonable return.

5. The council holds cash in the normal course of its business and any cash not immediately required for settling council liabilities should be invested until needed. Investments should be managed prudently and fall within two categories: specified investments and non-specified investments, as set out in government guidance. Specified investments are investments up to one year, as detailed below, with high liquidity and credit quality. Non-specified investments, as set out below, are investments that exceed one year and are potentially more responsive to liquidity, credit and market factors.

6. Prudent exposure to non-specified investments can help raise the overall level and diversification of investment returns over the long term and so should be considered as part of an investment strategy, having regard to prevailing credit and market conditions. Investment exposure shall be diversified and managed with due care and attention.

7. All investments will be denominated in GBP sterling, comply with credit standards and investment limits. Exposure to share capital that is treated as capital expenditure is outside the scope of this strategy.

8. The strategic director of finance and governance is responsible for this strategy and its management. Fund managers may be appointed to assist in advising or executing elements of the strategy.

SPECIFIED INVESTMENTS

9. Specified investments shall consist of investments with a remaining term of up to one year in the following categories. Actual exposure shall be subject to investment limits, be managed prudently and have regard to prevailing credit and market conditions.

Specified investments - in sterling, meeting credit standards and with remaining life not longer than 1 year	
A	Term deposits, notice accounts, certificates of deposits, commercial paper, notes, collateral backed lending, bills, bonds (including covered bonds) issued or guaranteed by: the UK government, supranational banks, foreign governments, quasi-sovereigns, UK local authorities, banks or UK building societies.
B	Money market funds and short duration low volatility enhanced cash funds rated AAA/Aaa/AAA (Fitch/Moody's/S&P) with stable or variable net asset values.

NON-SPECIFIED INVESTMENTS

10. Non-specified investments shall consist of investments with a remaining term exceeding one year in the following categories of investments. Actual exposure shall be subject to investment limits, be managed prudently and have regard to prevailing credit and market conditions.

Non-specified Investments - in sterling, meeting credit standards and with remaining life longer than 1 year	
A	Term deposits, notice accounts, certificates of deposits, commercial paper, notes, collateral backed lending, bills, bonds (including covered bonds) issued or guaranteed by: the UK government, supranational banks, foreign governments, quasi-sovereigns, UK local authorities, banks or UK building societies, pooled multiasset income funds.

CREDIT STANDARDS

11. Credit risk, the risk that an entity with which investments are held fails to meet its obligations to investors, shall be contained and credit ratings consulted.

12. The minimum credit ratings are set out in the tables and paragraphs below. While these ratings indicate a low risk of default and are well above the minimum regarded as investment grade, they may not always keep up with developments in turbulent markets Therefore, in managing exposure, attention should also be paid to developments in the financial and credit markets. Rating definitions are set out below.

Minimum Credit Rating Criteria

Minimum long term rating from one of the three rating agencies		
Fitch Ratings	Moody's Investor Services	Standard & Poor's
A-	A3	A-

13. Credit requirements shall not apply to investments issued or guaranteed by the UK Government, nationalised entities, UK local authorities, the council's clearing bank (RBS) or the cash manager custodian bank (BNY Mellon). Local authorities are not usually rated, but the Local Government Act 2003 provides sanctions in the event that an authority fails to meet its liabilities to lenders.

14. Ratings shall be reviewed frequently and at least monthly. In the event of significant adverse rating changes, investments may be recalled prior to maturity where it would be prudent to do so.

15. The strategic director of finance and governance shall have discretion to vary minimum rating and limits in response to market developments, cash flow volatility or operational requirements where prudent to protect the council's interests.

INVESTMENT LIMITS

16. Investment exposure shall be subject to the following limits.

Investment limits, subject to overall constraints and minimum ratings		
	Issuer/Institution	**Upper limits (percent or amount of council investment portfolio)**
A	UK National Government	No limit
B	UK Local Authorities	Up to 1 year £10m per issuer maximum 25% in total
C	Foreign sovereigns, supranational banks and quasi-sovereigns, minimum rating AAA/Aaa/AAA	Up to 5.5 years 20% per issuer
D	Foreign sovereigns, supranational banks and quasi-sovereigns, minimum rating AA-/Aa3/AA-	Up to 5.5 years 12.5% per issuer
E	Foreign sovereigns, supranational banks and quasi-sovereigns minimum rating A1-/A3/A-	Up to 1 year; 5% per issuer
F	Banks and building societies Minimum rating AAA/Aaa/AAA	Up to 5.5 years 20% per issuer
G	Banks and building societies minimum rating AA-/Aa3/AA-	Up to 3 years 12.5% per issuer
H	Banks and building societies long term rating A-/A3/A-	Up to 1 year; 5% per issuer
I	Other Corporate Entities long term rating AA-/Aa3/AA-	Up to 3 years 10% per issuer
J	Other Corporate Entities long term rating A-/A3/A	Up to 1 year; 5% per issuer
K	Money market funds above £1,000m in holdings	£50m per fund
L	Short duration low volatility enhanced cash funds	£10m per fund maximum 20% in total
M	Sterling government money market funds above £200m in holdings	£50m per fund
N	Multi asset income pooled fund	£10m in total
O	Royal Bank of Scotland (NatWest) and Bank of New York Mellon (custodian)	Up to 3 months £75m per issuer
Overall portfolio: maximum above 1 year maturity 65% maximum weighted average maturity 2.5 years (the maturity of floating rate instruments is treated as the next interest re-set date)		

RATING DEFINITIONS

17. Ratings are research based opinions of rating companies (Fitch Ratings, Moody's and Standard & Poor's) on the ability of an entity or security to meet financial commitments such as interest, preferred dividends and repayment of principal in accordance with their terms. Ratings do not constitute recommendations to buy, sell or hold any security, nor do they comment on the adequacy of market price, or the suitability of any security for a particular investor.

18. Fitch Long Term Ratings are shown below

AAA	Highest credit quality. AAA ratings denote the lowest expectation of default risk. They are assigned only in cases of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events
AA	Very high credit quality. AA ratings denote expectations of very low default risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A	High credit quality. A ratings denote expectations of low default risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.

19. The modifiers "+" or "-" may be appended to a rating to denote relative status within major rating categories.

20. The Fitch Short Term Ratings are shown below

F1	Highest short-term credit quality. Indicates the strongest intrinsic capacity for timely payment of financial commitments; may have an added “+” to denote any exceptionally strong credit feature.
F2	Good short-term credit quality. Good intrinsic capacity for timely payment of financial commitments
F3	Fair short-term credit quality.

21. Moody’s Long Term Ratings are shown below

Aaa	Obligations rated Aaa are judged to be of the highest quality, with minimal credit risk.
Aa	Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.
A	Obligations rated A are considered upper-medium grade and are subject to low credit risk.

22. Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa.

23. Moody’s short-term ratings are opinions of the ability of issuers to honour short-term financial obligations and are shown below.

P-1	Issuers (or supporting institutions) rated Prime-1 have a superior ability to repay short-term debt obligations.
P-2	Issuers (or supporting institutions) rated Prime-2 have a strong ability to repay short-term debt obligations.

24. Standard and Poor’s (S&P) Long Term Rating

AAA	An obligation rated AAA has the highest rating assigned by S&P. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.
AA	An obligation rated AA differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.
A	An obligation rated A is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.

25. The ratings from AA to CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

26. Standard and Poor's (S&P) Short Term Ratings are shown below

A-1	A short-term obligation rated A-1 is rated in the highest category by S&P. The obligor's capacity to meet its financial commitment on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitment on these obligations is extremely strong.
A-2	A short-term obligation rated A-2 is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the obligor's capacity to meet its financial commitment on the obligation is satisfactory.

APPENDIX D

ANNUAL MINIMUM REVENUE PROVISION STATEMENT 2022-23

Background

1. Minimum Revenue Provision (MRP) is statutory requirement to make a charge to the council's General Fund to make provision for the repayment of the council's past capital debt and other credit liabilities.

2. The Local Government Act 2003 requires local authorities to have regard to central government guidance on Minimum Revenue Provision.

3. The broad aim of the Guidance is to ensure that capital expenditure is financed over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by government grant, reasonably commensurate with the period implicit in the determination of that grant.

4. The Guidance requires the council to approve an Annual MRP Statement each year and recommends a number of options for calculating a prudent amount of MRP. This forms part of the Treasury Management Strategy considered by Council Assembly annually.

5. A prudent level of MRP on any significant asset or expenditure may be assessed on its own merits or in relation to its financing characteristics in the interest of affordability or financial flexibility.

6. The strategic director of finance and governance has delegated responsibility for implementing the Annual Minimum Revenue Provision Statement and executive, managerial, operational and financial discretion to determine MRP and any practical interpretation issues.

7. The strategic director of finance and governance may make additional revenue provisions, over and above those set out, and set aside capital receipts, balances or reserves to discharge financing liabilities for the proper management of the financial affairs of the HRA or the general fund. The strategic director of finance and governance may make a capital provision in place of any revenue MRP provision.

General Fund Supported Capital Expenditure or Capital Expenditure incurred before 1 April 2008

8. In relation to capital expenditure for which support forms part of the calculation of revenue grant by the government or any capital expenditure incurred before 1 April 2008, the MRP shall be calculated in accordance with the Local Authorities (Capital Finance and Accounting) Regulations 2003 as if it had not been revoked. In arriving at that calculation, the capital financing requirement shall be adjusted as described in the guidance.

9. In addition, the calculation method and the rate or the period of amortisation referred to in the guidance may be varied by the strategic director of finance and governance in the interest of affordability.

10. The methodology applied to pre-2008 debt, is an annuity basis, calculated over 40 years remaining as at 31 March 2018 (within the pre-2008 debt portfolio the final loan is due for repayment in 2057-58).

General Fund Self- Financed Capital Expenditure from 1 April 2008.

11. Where capital expenditure incurred from 1 April 2008 is on an asset financed wholly or partly by self-funded borrowing, the MRP is to be made in instalments over the life of the asset. The calculation method and the rate or the period of amortisation shall be determined by the strategic director of finance and governance.

12. The strategic director of finance and governance shall determine how much and which capital expenditure is funded from borrowing and which from other sources. Where expenditure is only temporarily funded from borrowing in any one financial year and it is intended that its funding be replaced with other sources by the following year, no MRP shall apply. Nor shall any annual MRP apply where spend is anticipated to be funded from capital receipts or grants due in the future but is in the meantime funded from borrowing, subject to a maximum of three years or the year the receipt or grant is actually received, if sooner.

13. The asset life method shall also be applied to borrowing to meet expenditure from 1 April 2008 which is treated as capital expenditure by virtue of either a direction under section 16(2) of the 2003 Act or regulation 25(1) of the 2003 Regulations. The strategic director of finance and governance shall determine the asset life. When borrowing to construct an asset, the asset life may be treated as commencing in the year the asset first becomes operational and postpone MRP until that year.

14. Where capital expenditure involves repayable loans or grants to third parties no MRP is required where the loan or grant is repayable. By exception, on the basis of a business case and risk assessment, this approach may be amended at the discretion of the strategic director of finance and governance.

15. Where capital expenditure involves a variety of different types of works and assets, the period over which the overall expenditure is judged to have benefit over shall be considered as the life for MRP purposes. Expenditure arising from or related or incidental to major elements of a capital project may be treated as having the same asset life for MRP purposes as the major element itself. An estimate of the life of capital expenditure may also be made by reference to a collection or grouping of expenditure type or types.

PFI, leases

16. In the case of finance leases, on balance sheet private finance initiative contracts or other credit arrangements, MRP shall be the sum that writes down the balance sheet liability. These are being written down over the PFI contract term.

The Annuity Method

17. The annuity method makes provision for an annual charge to the General Fund which takes account of the time value of money (whereby paying £100 in 10 years' time is less of a burden than paying £100 now). The annuity method also matches the repayment profile to how the benefits of the asset financed by borrowing are consumed over its useful life (i.e. the method reflects the fact that asset deterioration is slower in the early years of an asset and accelerates towards the latter years). This re-profiling of MRP therefore conforms to the Guidance "Meaning of Prudent Provision" which provide that "*debt [should be] repaid over a period that is reasonably commensurate with that which the capital expenditure provides benefits*".

APPENDIX E

Prudential Indicators 2022-23 – 2024-25

1. The Local Government Act 2003 requires the Authority to have regard to the Chartered Institute of Public Finance and Accountancy's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Estimates of Capital Expenditure

2. The Authority's planned capital expenditure and financing may be summarised as follows.

Capital Expenditure and Financing	2021-22 Estimate £m	2022-23 Estimate £m	2023-24 Estimate £m	2024-25 Estimate £m
General Fund	139	147	64	26
HRA	302	612	495	303
Total Expenditure	**441**	**759**	**559**	**329**
Capital Receipts	52	94	57	26
Capital Grants	30	103	76	11
Revenue and Reserves	72	72	72	72
External Contributions	11	16	16	10
Funded by Borrowing	276	474	338	210
Total Financing	**441**	**759**	**559**	**329**

Estimates of Capital Financing Requirement

3. The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose.

4. The CFR is forecast to rise over the next three years as capital expenditure financed by debt is outweighed by resources put aside for debt repayment.

Capital Financing Requirement	2021-22 Estimate £m	2022-23 Estimate £m	2022-23 Estimate £m	2022-23 Estimate £m
General Fund	820	941	970	971
HRA	670	1017	1,315	1,514
Total CFR	**1,490**	**1,958**	**2,285**	**2,485**

Gross Debt and the Capital Financing Requirement

5. In order to ensure that over the medium term debt will only be for a capital purpose, the Authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence. Actual external borrowing is expected to remain well under this value.

Debt	31-03-22 Estimate £m	31-03-23 Estimate £m	31-03-24 Estimate £m	31-03-25 Estimate £m
External Borrowing	1,158	1,627	1,951	2,153
Other Long Term Liabilities	81	76	71	65
Total Debt	**1,239**	**1,703**	**2,022**	**2,218**

6. Total debt is expected to remain below the CFR during the forecast period.

Operational Boundary for External Debt

7. The operational boundary is based on the Authority's estimate of the most likely (i.e. significantly prudent but not worst case) scenario for external debt. It links directly to the Authority's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Authority's debt.

Operational Boundary	2020-21 £m	2021-22 £m	2022-23 £m	2023-24 £m
Borrowing	1,200	1,700	2,000	2,200
Other Long-Term Liabilities	81	76	71	65
Total Debt	**1,281**	**1,776**	**2,071**	**2,265**

Authorised Limit for External Debt:

8. The authorised limit is the affordable borrowing limit determined in compliance with the [Local Government Act 2003 / Local Government Finance Act (Northern Ireland) 2011]. It is the maximum amount of debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

Authorised Limit	**2021-22 £m**	**2022-23 £m**	**2023-24 £m**	**2024-25 £m**
Borrowing	1,400	1,900	2,200	2,400
Other Long-Term Liabilities	120	120	120	120
Total Debt	**1,520**	**2,020**	**2,320**	**2,520**

Ratio of Financing Costs to Net Revenue Stream

9. This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	**2021-22 Estimate**	**2022-23 Estimate**	**2023-24 Estimate**	**2024-25 Estimate**
General Fund	4%	5%	6%	7%
HRA	11%	14%	16%	17%

Debt Limits

10. There are three debt related treasury activity limits. The purpose of these is to manage the overall risk for the authority and limit the exposure to any adverse movement in interest rates. Debt shall be subject to the following limits:

Debt limits	
Upper limits on fixed interest rates	100%
Upper limits on variable interest rates	20%

Debt maturity profile limits	**Lower Limit**	**Upper Limit**
Under 12 months	0%	35%
12 months and within 24 months	0%	35%
24 months and within 5 years	0%	50%
5 years and within 10 years	0%	75%

10 years and above	25%	100%

Adoption of the CIPFA Treasury Management Code

11. The Authority has adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2011 Edition*. It fully complies with the Code's recommendations.

MUNICIPAL YEAR 2021-22

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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