Open Agenda

Audit, Governance and Standards Committee

Monday 18 July 2022
7.00 pm
Ground Floor Meeting Room G01A - 160 Tooley Street, London SE1 2QH

Supplemental Agenda No. 1

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Contact

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Date: 12 July 2022

Item No. 8.	Classification: Open	Date: 18 July 2022	Meeting Name: Audit, governance and standards committee
Report title:		2021/22 External audit plan	
Ward(s) or groups affected:		All	
From:		Strategic Director of Finance and Governance	

RECOMMENDATIONS

1. That the audit, governance and standards committee note the external audit plan, as attached at Appendix A, and the external pension fund audit plan as attached at Appendix B.

BACKGROUND INFORMATION

2. The purpose of this report is to provide an overview of the planned scope and timing of the statutory audit of Southwark Council and of Southwark Pension Fund for those charged with governance.

Policy implications

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

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

Community impact statement

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

Equalities (including socio-economic) impact statement

5. This report is not considered to contain any proposals that would have a significant equalities impact.

Health impact statement

6. This report is not considered to contain any proposals that would have a significant health impact.

Climate change implications

7. This report is not considered to contain any proposals that would have a significant impact on climate change.

Resource implications

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

Consultation

9. There has been no consultation on this report.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

10. None required.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
None		

APPENDICES

No.	Title
Appendix A	External audit plan – London Borough of Southwark 2021-22
Appendix B	External audit plan – London Borough of Southwark Pension Fund 2021-22

AUDIT TRAIL

<table>
<tr><th>Lead Officer</th><td colspan="2">Duncan Whitfield, Strategic Director of Finance and Governance</td></tr>
<tr><th>Report Author</th><td colspan="2">Ciaran McLaughlin, Matt Dean; Grant Thornton UK LLP</td></tr>
<tr><th>Version</th><td colspan="2">Final</td></tr>
<tr><th>Dated</th><td colspan="2">12 July 2022</td></tr>
<tr><th>Key Decision?</th><td colspan="2">No</td></tr>
<tr><th colspan="3">CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER</th></tr>
<tr><th>Officer Title</th><th>Comments sought</th><th>Comments included</th></tr>
<tr><td>Director of Law and Governance</td><td>No</td><td>N/A</td></tr>
<tr><td>Strategic Director of Finance and Governance</td><td>No</td><td>N/A</td></tr>
<tr><th>Cabinet Member</th><td>No</td><td>No</td></tr>
<tr><th colspan="2">Date final report sent to Constitutional Team</th><td>12 July 2022</td></tr>
</table>

Grant Thornton

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.
This draft has been created from the template dated DD MMM YYYY

External Audit Plan

Southwark Council

Year ending 31 March 2022

18 July 2022

Contents

Your key Grant Thornton team members are:

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Key matters

Factors	Our response
Canada Water Development In 2018 the Council signed an agreement with British Land for the redevelopment of Canada Water under the Canada Water Master Development Agreement (MDA). In May 2020 planning consent for the MDA was granted, and following the dismissal of a claim for Judicial Review in November 2020 the scheme has since commenced. The headlease combines the Council's Land with the assets held by British Land to facilitate the MDA. At each stage of the MDA the Council has a range of options available to it in terms of investment, which will need to be managed carefully as the MDA progresses.	• We will review the accounting for the Council's involvement in the MDA during this year's Accounts Audit and ensure that adequate disclosures are provided. • We will also consider the decision making around the Council's involvement as part of our Value for Money work.
Change in Management During the course of 2022, the Council's long-service Chief Executive, Eleanor Kelly, retired, to be replaced by Althea Loderick, who joined the Council from the London Borough of Newham. We will look to liaise closely with Althea to understand her plans for the Council and how this may shape how the Council operates moving forward.	• We will liaise with the Chief Executive as part of our routine audit liaison.
Infrastructure Assets Since the start of 2022, issues have been raised over the valuation of Infrastructure Assets included within all Local Authorities Accounts, particularly relating to how assets are written out when they reach the end of their useful life and are replaced. Whilst most Local Authorities, including Southwark, have a policy for depreciating these assets over their useful life, there is often no policy on the formal write out of these assets at the end of that useful life. What this leads to is an overstatement of the gross book value of these assets in the Accounts, which could potentially have an impact on our audit opinions where material. As a result of these challenges, CIPFA has launched a consultation on potential changes to the Code to simplify the reporting requirements in this area to help reduce the risk of potential qualifications to audit opinions. This consultation is currently reaching a conclusion and we are hopeful that some updated guidance will be issued to allow us to both bring the 2020-21 Audit to a close along with considering the issue for the 2021-22 Accounts.	• We will monitor the progress of the CIPFA consultation and the potential impacts on the 2020-21 and 2021-22 Accounts. We will also look to work with Management to understand these impacts and ensure these are correctly reflected in the final Accounts.

Introduction and headlines

Purpose

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

Respective responsibilities

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

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council [and group]'s financial statements that have been prepared by management with the oversight of those charged with governance (the Audit, Governance and Standards Committee); and we consider whether there are sufficient arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently to maximise the outcomes that can be achieved.

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

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

Significant risks

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

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

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

Materiality

We have determined planning materiality to be £17.9m (PY £18m) for the Council, which equates to approximately 1.4% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £900k (PY £900k].

Value for Money arrangements

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

- Delivery of the planned financial performance in 2020-21, along with the future plans of the Council in 2021-22 and beyond
- Managing the continued impact of Covid-19 on the Council's Service Delivery and Governance Arrangements
- What arrangements the Council is looking to implement post Pandemic to build on some of the changes which have taken place over the course of the past 18 months

Audit logistics

Our interim visit took place in April 2022 and our final visit will take place between September and November 2022. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our fee for the audit will be £252,718 (PY: £257,718] for the Council, subject to the Council delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Significant risks identified

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

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	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.	
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 Authority, we have determined that no separate significant risk relating to expenditure recognition is necessary, as the same rebuttal factors listed above relating to revenue recognition apply. We consider that the risk relating to expenditure recognition would relate primarily to period-end journals and accruals which are considered as part of the standard audit tests mentioned and our testing in relation to the significant risk of Management Over-ride of Controls as mentioned on page 6.	We will: • obtain an understanding of the design effectiveness of controls relating to operating expenditure. • perform testing over post-year end transactions to assess completeness of expenditure recognition. • test a sample of operating expenditure to gain assurance in respect of the accuracy of expenditure recorded during the financial year.

Significant risks identified

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

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	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.	We will: • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals made during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.
Valuation of Land and Buildings	The Authority revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£5.329 billion) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • discuss with the valuer the basis on which the valuation was carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding. We will engage our own valuer to assess the instructions to the Authority's valuer, the Authority's valuer's report and the assumptions that underpin the valuation. • test revaluations made during the year to see if they had been input correctly into the Authority's asset register • evaluating the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

Significant risks identified

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

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the Pension Fund Net Liability	The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£688 million in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.
Valuation of Investment Properties	The Authority revalues its Investment Properties on an annual basis to ensure that these assets are held at Fair Value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£329 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 2022. We therefore identified valuation of Investment Properties, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuations were carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding, which will include engaging our own valuer to assess the instructions to the Authority's valuer, the Authority's valuer's report and the assumptions that underpin the valuation. • test, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authority's asset register • evaluate the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.

Other risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Value of Infrastructure assets and the presentation of the gross cost and accumulated depreciation in the PPE note	Infrastructure assets includes roads, highways, streetlighting and coastal assets. Each year the Council spends circa £31 million on Infrastructure capital additions. As at 31 March 2021, the net book value of infrastructure assets was £316 million which is over 17 times materiality. In accordance with the LG Code, Infrastructure assets are measured using the historical cost basis, and carried at depreciated historical cost. With respect to the financial statements, there are two risks which we plan to address The risk that the value of infrastructure assets is materially misstated as a result of applying an inappropriate Useful Economic Life (UEL) to components of infrastructure assets. The risk that the presentation of the PPE note is materially misstated insofar as the gross cost and accumulated depreciation of Infrastructure assets is overstated. It will be overstated if management do not derecognise components of Infrastructure when they are replaced. For the avoidance of any doubt, these two risks have not been assessed as a significant risk at this stage, but we have assessed that there is some risk of material misstatement that requires an audit response.	We will: • Reconcile the Fixed Asset Register to the Financial statements • Using our own point estimate, consider the reasonableness of depreciation charge to Infrastructure assets • Obtain assurance that the UEL applied to Infrastructure assets is reasonable • Document our understanding of management's process for derecognising Infrastructure assets on replacement and obtain assurances that the disclosure in the PPE note is not materially misstated

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

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Accounting estimates and related disclosures

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

Introduction

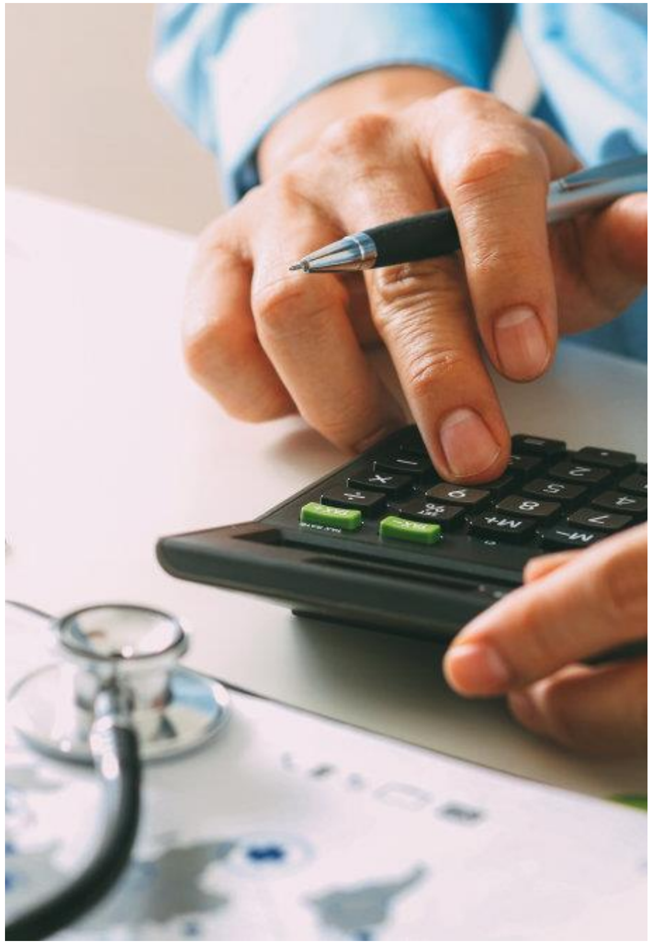
Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

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

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

Specifically do Audit, Governance and Standards Committee members:

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



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Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2022.

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

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

The Council's Information systems

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

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

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

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

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

Estimation uncertainty

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

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

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

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

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

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

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

Planning enquiries

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

Further information

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

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

Other matters

Other work

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

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2021/22 financial statements, consider and decide upon any objections received in relation to the 2021/22financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
  - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

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

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Materiality

The concept of materiality

Materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

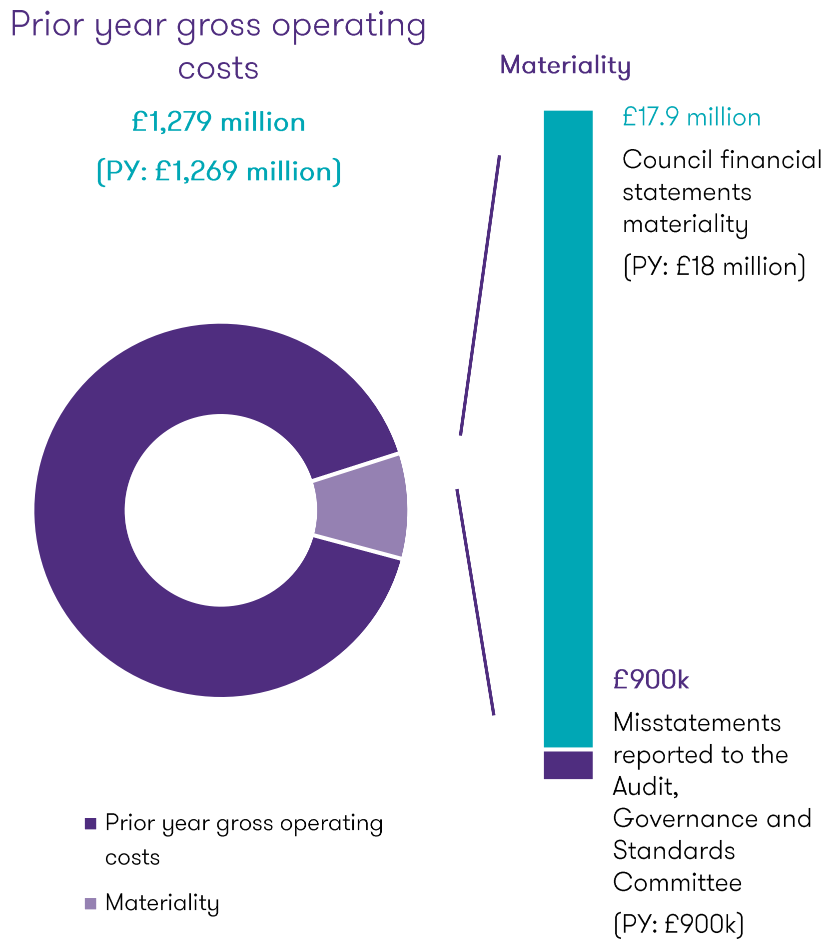
Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £17.9 million (PY £18 million) for the Council, which equates to approximately 1.4% of your forecast gross expenditure for the year. We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £900k (PY £900k).

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



IT Audit Strategy

In accordance with ISA (UK) 315, we are required to obtain an understanding of the information systems relevant to financial reporting to identify and assess the risks of material misstatement. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design of ITGCs related to security management; technology acquisition, development and maintenance; and technology infrastructure. Based on the level of assurance required for each IT system the assessment may focus on evaluating key risk areas ('streamlined assessment') or be more in depth ('detailed assessment').

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
SAP (General Ledger)	Financial reporting	• Detailed ITGC assessment (design and operating effectiveness)
NEC (formerly Northgate)	Council Tax and NNDR	• Detailed ITGC assessment (design and operating effectiveness)

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Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office(NAO) issued updated guidance for auditors in April 2020. The Code requires auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources . When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out in the boxes on this page.

Improving economy, efficiency and effectiveness

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

Financial Sustainability

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

Governance

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

Risks of significant VFM weaknesses

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

Key areas of focus

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

- Delivery of the planned financial performance in 2021-22, along with the future plans of the Authority in 2022-23 and beyond.

Potential types of recommendations

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

Statutory recommendation

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

Key recommendation

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

Improvement recommendation

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

Audit logistics and team

Ciaran McLaughlin, Key Audit Partner

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

Matt Dean, Audit Manager

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

Ibby Oluwasegun, Assistant Manager

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

Audited body responsibilities

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

Our requirements

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

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

Audit fees

In 2018, PSAA awarded a contract of audit for Southwark Council to begin with effect from 2018/19. The fee agreed in the contract was £182,718. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2021/22 audit.

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as detailed on page 9 in relation to the updated ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. We have engaged an audit expert to improve the level of assurance we require for our work on the Council's property valuations estimates, which has been included in our proposed audit fee. Our proposed work and fee for 2021/22, as set out below, is detailed overleaf and has been agreed with the Strategic Director of Finance and Governance.

	Actual Fee 2019/20	Proposed Fee 2020/21	Proposed fee 2021/22
Main Accounts Audit	£246,926	£257,718	£252,718
Total audit fees (excluding VAT)	**£246,926**	**£257,718**	**£252,718**

Our fee for 2020/21 has yet to be finalised as we are still drawing to a close our work on this audit, and we will provide an update to Management and the Audit, Governance and Standards Committee once this fee has been finalised.

Assumptions

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

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

Relevant professional standards

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

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Independence and non-audit services

Auditor independence

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

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

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

Other services

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

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

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing Capital Receipts Grant	8,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £8,000 in comparison to the total fee for the audit of £252,718 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of the Teachers Pensions Return	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 £252,718 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

Independence and non-audit services (cont.)

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing Benefit Subsidy Return	46,000	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 £46,000 in comparison to the total fee for the audit of £252,718 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
CFO Insights subscription	10,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £10,000 in comparison to the total fee for the audit of £252,718 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.

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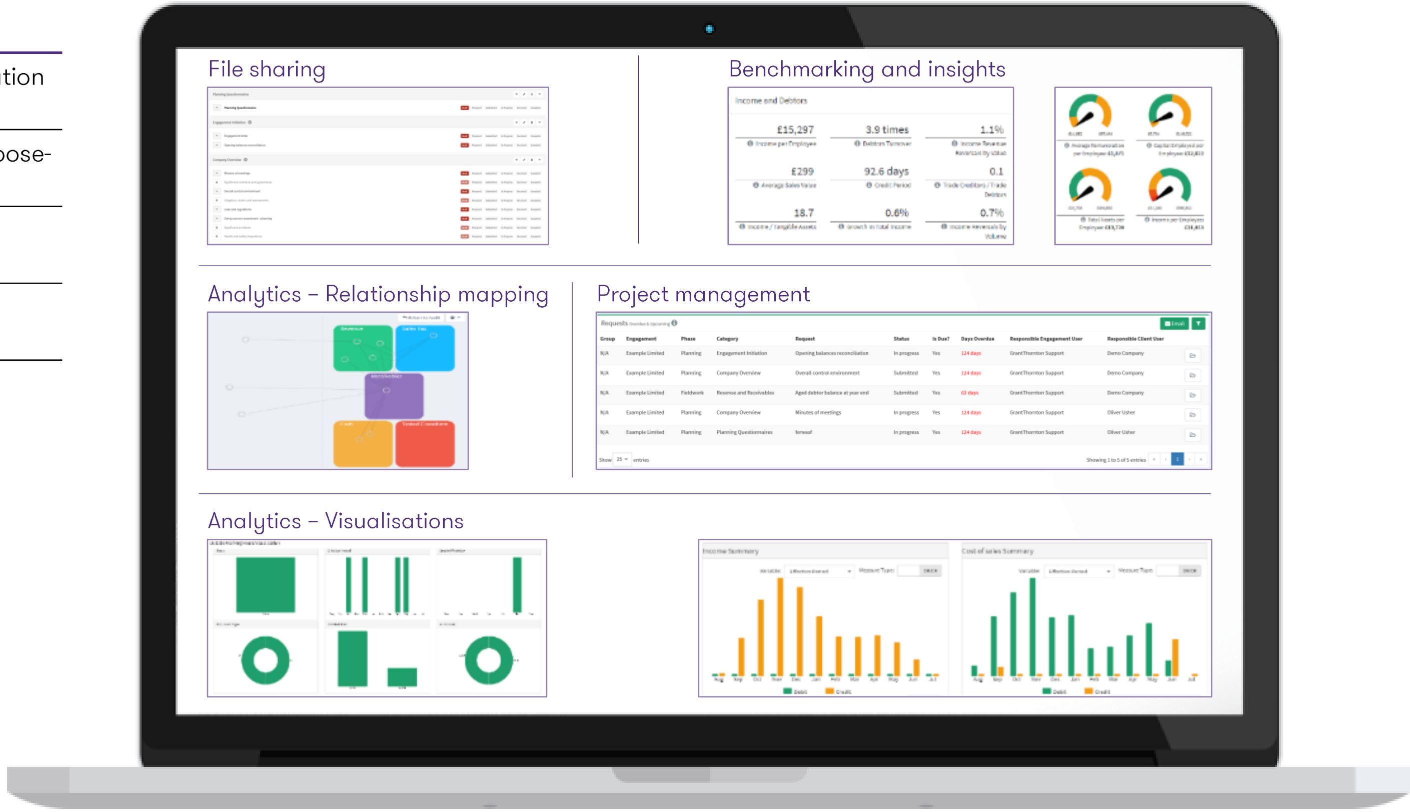
Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:

Function	Benefits for you
Data extraction	Providing us with your financial information is made easier
File sharing	An easy-to-use, ISO 27001 certified, purpose-built file sharing tool
Project management	Effective management and oversight of requests and responsibilities
Data analytics	Enhanced assurance from access to complete data populations



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Grant Thornton's Analytics solution is supported by Inflo Software technology

Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:

Data extraction

- Real-time access to data
- Easy step-by-step guides to support you upload your data

File sharing

- Task-based ISO 27001 certified file sharing space, ensuring requests for each task are easy to follow
- Ability to communicate in the tool, ensuring all team members have visibility on discussions about your audit, reducing duplication of work

Project management

- Facilitates oversight of requests
- Access to a live request list at all times

Data analytics

- Relationship mapping, allowing understanding of whole cycles to be obtained quickly
- Visualisation of transactions, allowing easy identification of trends and anomalies

How will analytics add value to your audit?

Analytics will add value to your audit in a number of ways. We see the key benefits of extensive use of data analytics within the audit process to be the following:

Improved fraud procedures using powerful anomaly detection

Being able to analyse every accounting transaction across your business enhances our fraud procedures. We can immediately identify high risk transactions, focusing our work on these to provide greater assurance to you, and other stakeholders.

Examples of anomaly detection include analysis of user activity, which may highlight inappropriate access permissions, and reviewing seldom used accounts, which could identify efficiencies through reducing unnecessary codes and therefore unnecessary internal maintenance.

Another product of this is identification of issues that are not specific to individual postings, such as training requirements being identified for members of staff with high error rates, or who are relying on use of suspense accounts.

More time for you to perform the day job

Providing all this additional value does not require additional input from you or your team. In fact, less of your time is required to prepare information for the audit and to provide supporting information to us.

Complete extracts from your general ledger will be obtained from the data provided to us and requests will therefore be reduced.

We provide transparent project management, allowing us to seamlessly collaborate with each other to complete the audit on time and around other commitments.

We will both have access to a dashboard which provides a real-time overview of audit progress, down to individual information items we need from each other. Tasks can easily be allocated across your team to ensure roles and responsibilities are well defined.

Using filters, you and your team will quickly be able to identify actions required, meaning any delays can be flagged earlier in the process. Accessible through any browser, the audit status is always available on any device providing you with the information to work flexibly around your other commitments.

Grant Thornton

grantthornton.co.uk

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.
This draft has been created from the template dated DD MMM YYYY

External Audit Plan

London Borough of Southwark Pension Fund

Year ending 31 March 2022

18 July 2022

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.

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Key matters

Factors	Our Response
Pension Fund developments The Pension Fund has continued to perform strongly over the 2021/22 financial year with increases in asset value and funding level. At Month 9 2021-22, the value of the Fund had risen to £2,139m, which is an increase of £190m of from the value of £1,949m at 31 March 2021.	• We will monitor the financial performance of the Pension Fund over the remainder of the year as part of our Audit of the Accounts.
New Pensions Administration System A new pensions administration software (Civica UPM) was procured to replace the current system (Altair). The new system is due to provide much improved Member and Employer Self-Service Portals, allowing members to log in securely and check/update basic member data. Employers will be able to submit monthly returns through the secure portal and see any outstanding tasks, such as outstanding leaver forms or requests for data. Forms will be able to be completed 'online' rather than paper-based which is hoped will further improve employer compliance via increased convenience. We are aware that the system is yet to go-live however, implementation is planned for later on in the year 2022.	• We will monitor the implementation of the new Administration System during the course of this year's audit to see if there is any impact on the 2021-22 Accounts. However we anticipate the main impact will be on the 2022-23 Accounts when the change actually takes place.
Responsible Investment Like a lot of Pension Funds, the London Borough of Southwark Pension Fund is looking to investment more responsibly moving forward, for example moving away from holdings in companies which generate Fossil Fuels. The September 2021 Carbon Footprint Assessment report shows that the Pension Fund was at the forefront of environmentally ethical investments, showing a 49.8% reduction in the Fund's carbon footprint since September 2017.	• We will monitor the Fund's Investments during the course of our audit work to identify any changes which may occur as part of the move to a low-carbon approach to investing.
War in Ukraine Following the Russian invasion of Ukraine that has led to the UK Government sanctions Local Government Pension Scheme funds are being advised to consider the implications for their investment portfolios and discuss with their pools and asset managers what action should prudently be taken. The Moscow Stock Exchange closed on February 28 2022 and an apparent ban on western companies from selling Russian investments was imposed by prime minister has compounded investors' liquidity problems, with markets for Russian stocks and government bonds drying up. Members as the Funds Trustees are expected to uphold their fiduciary duties, prioritising scheme returns and the proper payment of pensions. However, Members are allowed to consider ethical factors concerning investments, and can divest from problematic assets provided that this does not prove materially detrimental to the scheme. The Pensions Regulator has asked all schemes to ensure that their investments are aligned with the UK government's sanctions on Russia.	• We will review your level of pension fund exposure in Russian and Belarus including the balances of valuation to ensure they are not materially misstated. • As part of our valuation of year end investments we will consider the impact of the conflict on global markets.

Introduction and headlines

Purpose

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

Respective responsibilities

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

Scope of our audit

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

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

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

Significant risks

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

- Presumed risk of fraud in revenue recognition (rebutted)
- Expenditure includes fraudulent transactions (rebutted)
- Management over-ride of controls
- The valuation of Private Equity and Infrastructure Assets (Level 3)
- The valuation of direct property investments (Level 3)

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

Materiality

We have determined planning materiality to be £19.5m (PY £16m) for the Pension Fund, which equates to 1% of your prior year net assets as at 31/03/21. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £1m (PY £800k).

Audit logistics

Our planning visit took place in March 2022 and our final visit will take place between September and November 2022. Our key deliverables are this Audit Plan and our Audit Findings Report.

Our fee for the audit will be £36,770 (PY: £36,170) for the Pension Fund, subject to the Council delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the Pension Fund financial statements..

Significant risks identified

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

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Presumed risk of fraud in revenue recognition (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 London Borough of Southwark 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 the Pension Fund, 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.	Having considered the risk factors set out in ISA(UK&I)240 and the nature of the revenue streams at the London Borough of Southwark Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • The nature of the Pension Fund's revenue is in many respects relatively predictable and does not generally involve cash transactions. • Revenue contributions are made by direct bank transfers from admitted / scheduled bodies and are supported by separately sent schedules and are directly attributable to gross pay making any improper recognition unlikely. • Transfers into the pension scheme are all supported by an independent actuarial valuation of the amount which should be transferred and which is subject to agreement between the transferring and receiving funds. • Historically, the split of responsibilities between the Pension Fund, the Custodian and its Fund Managers provide a very strong separation of duties reducing the risk around investment income.

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Significant risks identified (continued)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride 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.	We will: • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals made during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to supporting evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.
Fraud in Expenditure Recognition	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 an entity is required to meet financial targets. Having considered the risk factors relevant to Surrey County Council and Surrey Pension fund and the nature of the expenditure at the Council and Fund, we have determined that no separate significant risk relating to expenditure recognition is necessary, as the same rebuttal factors listed on page 7 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 below and our testing in relation to the significant risk of Management Override of Controls as set out on page 7.	We will: • 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 expenses to gain assurance in respect of the accuracy of expenditure recorded during the financial year.

Significant risks identified (continued)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The valuation of Private Equity and Infrastructure Assets	By their nature level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in the key assumptions. Many of these assets are only revalued annually and not always with a year end co-terminus with the Pension Fund. Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. Management utilise the services of investment managers as valuation experts to estimate the fair values of these assets. We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter.	We will : - evaluate management's processes for valuing Level 3 investments. - review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investment to ensure the requirements of the code are met. - independently request year end confirmations from investment managers, with an additional focus on ensuring use of appropriate International Private Equity and Venture Capital Valuation (IPEV) (or equivalent) methodology in their valuation books, updated for most recent available guidance. - for a sample of investments, test the reliability of the valuations provided by comparing audited valuations (per financial statements) to investor statements at the same date. Gain assurance over post audit movements with reference to indexation data, gaining corroboratory evidence from management for above threshold variances from expectation identified. - where we are unable to obtain audited financial statements, consider the competence and capabilities of the Investment Manager as a valuations expert and review Service Auditor Reports to gain assurance over design effectiveness of internal controls. - complete sample testing of purchases and sales to prime documentation across the period to support our reconciliation of the opening and closing balances. - analyse the funds holdings by sector, applying an additional layer of professional scepticism and challenge in relation to any assets with potential exposure to the pandemic or other significant economic risks;

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Significant risks identified (continued)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The valuation of Direct Property investments (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 (£187 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 2022. 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.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • independently request year-end confirmations from investment managers and custodian, and assess their responses as part of our work. • engage our own valuer to assess the instructions to the Fund's valuer, the Fund valuer's report and the methodology and assumptions that underpin the valuation; • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuations were carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding. We will also engage our own valuer to assess the instructions to the Fund's valuer, the Fund's valuer's report and the assumptions that underpin the valuation. • test, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Fund's asset register/financial records • where available review investment manager service auditor report on design effectiveness of internal controls.

Other risks identified (cont.)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Actuarial Present Value of Promised Retirement Benefits	Pension Fund	The Fund discloses the Actuarial Present Value of Promised Retirement Benefits within its Notes to the Accounts. This represents a significant estimate in the financial statements. The Actuarial Present Value of Promised Retirement Benefits is considered a significant estimate due to the size of the numbers involved (£8.0 billion as at 31 March 2021) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Fund's Actuarial Present Value of Promised Retirement Benefits as a risk of material misstatement.	We will: • update our understanding of the processes and controls put in place by management to ensure that the Fund's Actuarial Present Value of Promised Retirement Benefits is not materially misstated and evaluate the design of the associated controls. • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work. • assess the competence, capabilities and objectivity of the actuary who carried out the Fund's valuation. • assess the accuracy and completeness of the information provided by the Fund to the actuary to estimate the liability. • test the consistency of disclosures with the actuarial report from the actuary. • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.

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

Other risks identified (cont.)

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Level 2 Investments	Pension Fund	While level 2 investments do not carry the same level of inherent risks associated with level 3 investments, there is still an element of judgement involved in their valuation as their very nature is such that they cannot be valued directly. We therefore identified the valuation of the Fund's Level 2 investments as a risk of material misstatement.	We will: • gain an understanding of the Fund's process for valuing Level 2 investments and evaluate the design of the associated controls. • review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments. • review the reconciliation of information provided by the individual fund manager's custodian and the Pension Scheme's own records and seek explanations for variances. • independently request year-end confirmations from investment managers and custodian. • review investment manager service auditor report on design effectiveness of internal controls.
Contributions	Pension Fund	Contributions from employers and employees' represents a significant percentage of the Fund's revenue. We therefore identified the completeness and accuracy of the transfer of contributions as a risk of material misstatement.	We will: • evaluate the Fund's accounting policy for recognition of contributions for appropriateness. • gain an understanding of the Fund's system for accounting for contribution income and evaluate the design effectiveness of the associated controls. • agree changes in Admitted/Scheduled bodies to supporting documentation and agree total contributions for each employer to employer contributions reports. • test a sample of contributions to source data to gain assurance over their accuracy and occurrence. • test relevant member data to gain assurance over management information to support a predictive analytical review with reference to changes in member body payrolls and the number of contributing employees to ensure that any unusual trends are satisfactorily explained.
Pension Benefits Payable	Pension Fund	Pension benefits payable represents a significant percentage of the Fund's expenditure. We therefore identified the completeness, accuracy and occurrence of the transfer of pension benefits payable as a risk of material misstatement.	We will: • evaluate the Fund's accounting policy for recognition of pension benefits expenditure for appropriateness. • gain an understanding of the Fund's system for accounting for pension benefits expenditure and evaluate the design of the associated controls. • test a sample of lump sums and associated individual pensions in payment by reference to member files. • test relevant member data to gain assurance over management information to support a predictive analytical review with reference to changes in pensioner numbers and increases applied in year to ensure that any unusual trends are satisfactorily explained.

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

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Accounting estimates and related disclosures

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

Introduction

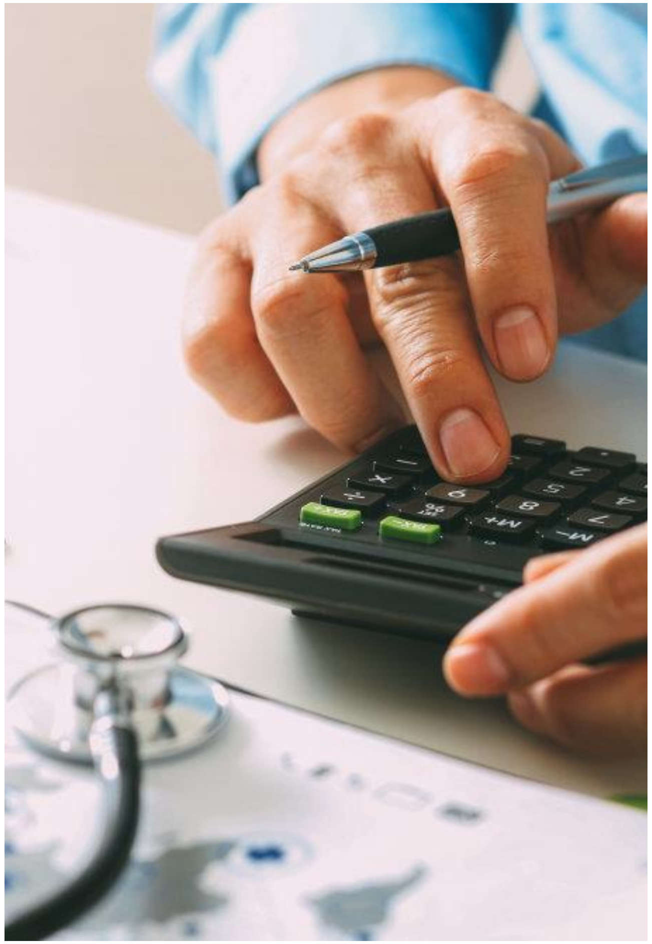
Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

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

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

Specifically do Audit, Governance and Standards Committee members:

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



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Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2022.

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

- Valuations of directly held property
- Valuation of level 2 and level 3 investments

The Pension Fund's Information systems

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

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

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

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

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

Estimation uncertainty

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

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

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

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

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

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

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

Planning enquiries

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

Further information

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

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

Other matters

Other work

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

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

- We read any other information published alongside the Council's financial statements to check that it is consistent with the Pension Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority.
- We consider our other duties under legislation and the Code, as and when required, including:
    - Giving electors the opportunity to raise questions about your 2021/22 financial statements, consider and decide upon any objections received in relation to the 2021/22 financial statements;
    - Issue of a report in the public interest or written recommendations to the Fund under section 24 of the Act, copied to the Secretary of State.
    - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
    - Issuing an advisory notice under Section 29 of the Act.
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts.

Other material balances and transactions

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

Progress against prior year audit recommendations

We identified the issue below in the 2020/21 audit of the Pension Fund's financial statements:

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
In Progress	Issues over 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 2017-18, 2018-19, 2019-20, and 2020-21 hence why this area was carried forward to 2021-22.	The Pension Fund has procured new pensions administration software to replace its current system. This is a phased project and as part of the implementation process a full data quality check will be undertaken. The new system provides for much improved Member and Employer Self-Service Portals, allowing members to log in securely and check/update basic member data. Employers will be able to submit monthly returns through the secure portal and see any outstanding tasks, such as outstanding leaver forms or requests for data. Forms will be able to be completed 'online' rather than paper-based which is hoped will further improve employer compliance via increased convenience. The fund is acutely aware of the increased scrutiny on LGPS data by The Pension Regulator and has taken measures to ensure member data is as accurate as it can be. We will perform testing on the Member Data as part of our work during the Final Accounts Visit and will provide an update after this testing as to whether any further issues have been identified.

Materiality

The concept of materiality

Materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

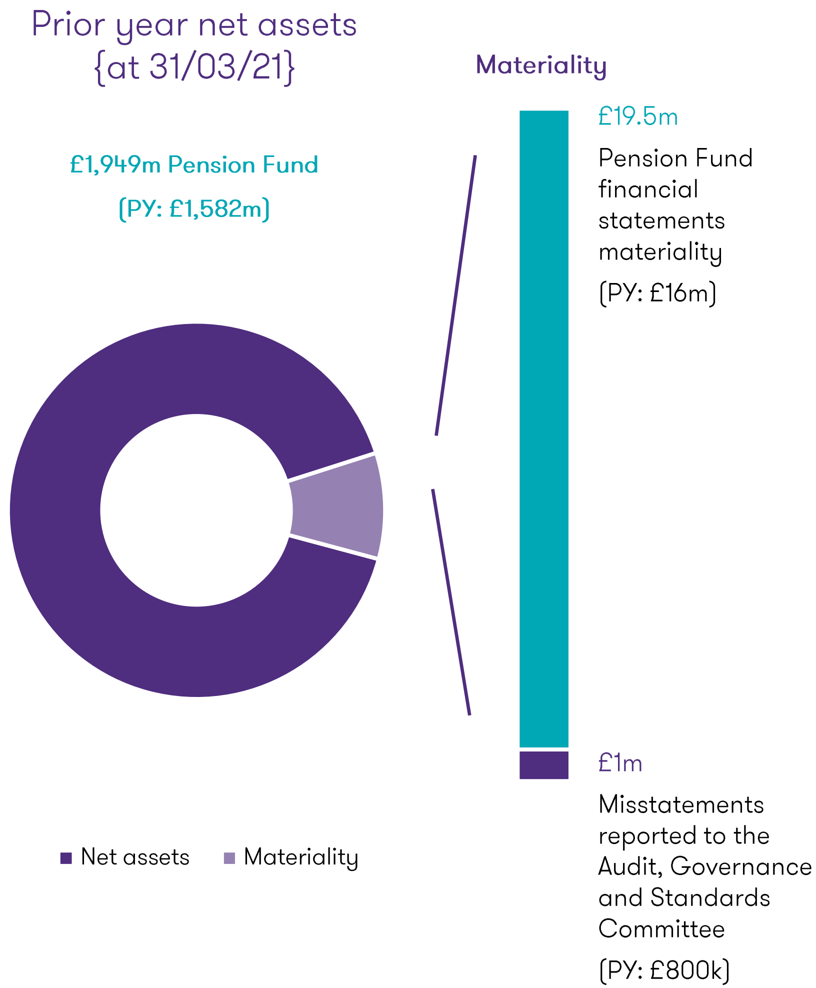
We have determined financial statement materiality based on a proportion of the net assets of the Pension Fund. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £19.5m (PY £16m), which equates to 1% of your prior year net assets [as at 31/03/21].

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

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1m (PY £800k).

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



IT audit strategy

In accordance with ISA (UK) 315, we are required to obtain an understanding of the information systems relevant to financial reporting to identify and assess the risks of material misstatement. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design of ITGCs related to security management; technology acquisition, development and maintenance; and technology infrastructure. Based on the level of assurance required for each IT system the assessment may focus on evaluating key risk areas ('streamlined assessment') or be more in depth ('detailed assessment').

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
SAP	**Financial reporting**	• Detailed ITGC assessment (design effectiveness)

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Audit logistics and team

Audit, Governance and Standard Committee
18 July 2022

Audit, Governance and Standard Committee
7 September 2022

Year end audit
September to November 2022

Audit, Governance and Standard Committee
November 2022

Audit, Governance and Standard Committee
To be determined

Planning and risk assessment

Audit Plan

Audit Findings Report

Audit Opinion

Ciaran McLaughlin, Key Audit Partner

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

Matt Dean, Senior Audit Manager

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

Sabrina Hisham, Assistant Manager

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

Audited body responsibilities

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

Our requirements

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

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

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Audit fees

In 2018, PSAA awarded a contract of audit for London Borough of Southwark Pension Fund to begin with effect from 2018/19. The fee agreed in the contract was £16,170. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2021/22 audit.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as detailed on page 11 in relation to the updated ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. We have engaged an audit expert to improve the level of assurance we require for the audit of pension fund investments, this will be reflected in our proposed audit fee. Our proposed fee for 2021/22, as set out below, has not yet been finalised. We will discuss this with management in due course.

	Actual Fee 2019/20	**Actual Fee 2020/21**	**Proposed fee 2021/22**
Pension Fund Audit	£32,396	£36,170	£36,770
Total audit fees (excluding VAT)	£32,396	£36,170	£36,770

Assumptions

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

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

Relevant professional standards

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

Independence and non-audit services

Auditor independence

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

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

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

Other services

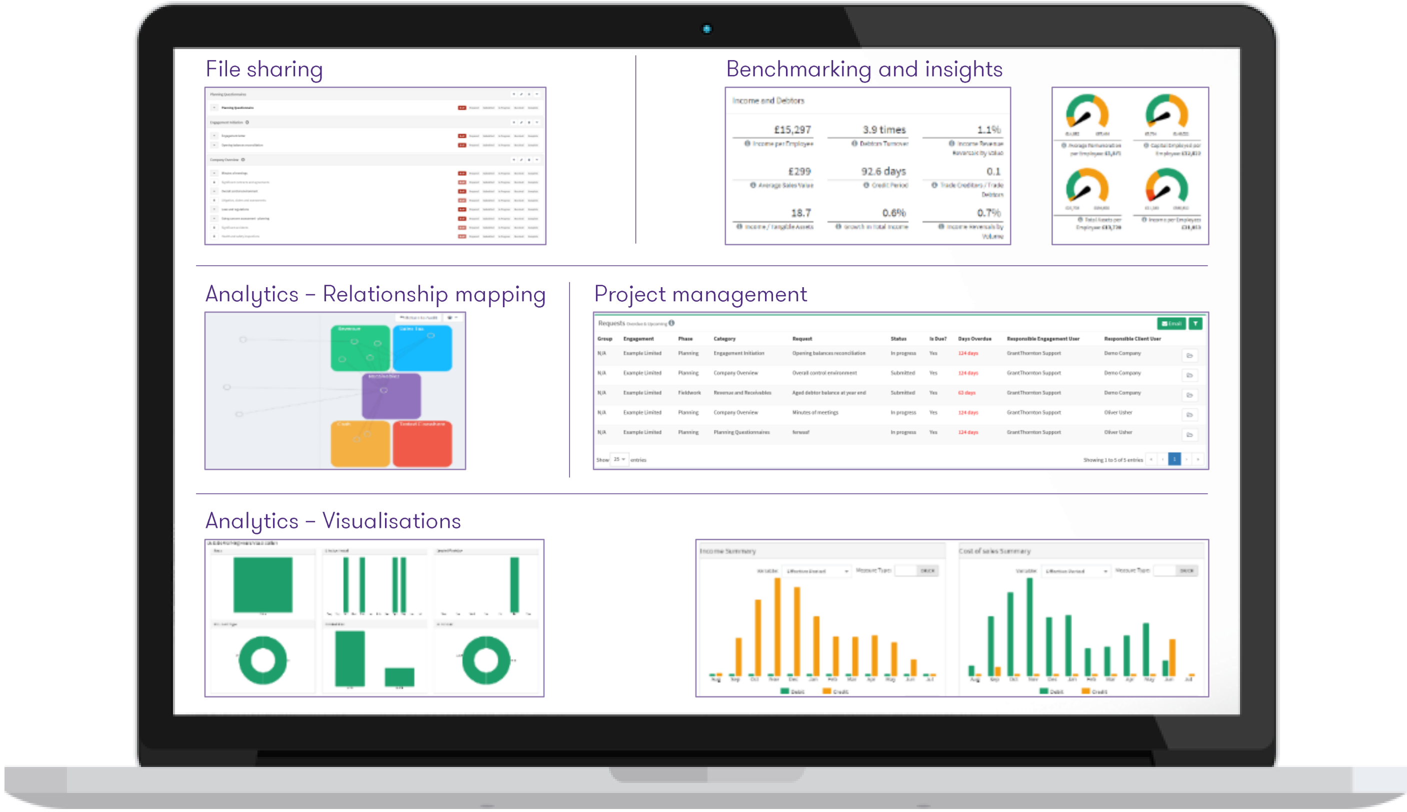
No other services provided by Grant Thornton were identified.

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

Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:

Function	Benefits for you
Data extraction	Providing us with your financial information is made easier
File sharing	An easy-to-use, ISO 27001 certified, purpose-built file sharing tool
Project management	Effective management and oversight of requests and responsibilities
Data analytics	Enhanced assurance from access to complete data populations



Grant Thornton's Analytics solution is supported by Inflo Software technology

Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:

Data extraction

- Real-time access to data
- Easy step-by-step guides to support you upload your data

File sharing

- Task-based ISO 27001 certified file sharing space, ensuring requests for each task are easy to follow
- Ability to communicate in the tool, ensuring all team members have visibility on discussions about your audit, reducing duplication of work

Project management

- Facilitates oversight of requests
- Access to a live request list at all times

Data analytics

- Relationship mapping, allowing understanding of whole cycles to be obtained quickly
- Visualisation of transactions, allowing easy identification of trends and anomalies

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How will analytics add value to your audit?

Analytics will add value to your audit in a number of ways. We see the key benefits of extensive use of data analytics within the audit process to be the following:

Improved fraud procedures using powerful anomaly detection

Being able to analyse every accounting transaction across your business enhances our fraud procedures. We can immediately identify high risk transactions, focusing our work on these to provide greater assurance to you, and other stakeholders.

Examples of anomaly detection include analysis of user activity, which may highlight inappropriate access permissions, and reviewing seldom used accounts, which could identify efficiencies through reducing unnecessary codes and therefore unnecessary internal maintenance.

Another product of this is identification of issues that are not specific to individual postings, such as training requirements being identified for members of staff with high error rates, or who are relying on use of suspense accounts.

More time for you to perform the day job

Providing all this additional value does not require additional input from you or your team. In fact, less of your time is required to prepare information for the audit and to provide supporting information to us.

Complete extracts from your general ledger will be obtained from the data provided to us and requests will therefore be reduced.

We provide transparent project management, allowing us to seamlessly collaborate with each other to complete the audit on time and around other commitments.

We will both have access to a dashboard which provides a real-time overview of audit progress, down to individual information items we need from each other. Tasks can easily be allocated across your team to ensure roles and responsibilities are well defined.

Using filters, you and your team will quickly be able to identify actions required, meaning any delays can be flagged earlier in the process. Accessible through any browser, the audit status is always available on any device providing you with the information to work flexibly around your other commitments.

Grant Thornton

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Item No. 9.	Classification: Open	Date: 18 July 2022	Meeting Name: Audit, governance and standards committee
Report title:		Auditor’s annual report on Southwark Council 2020-21	
Ward(s) or groups affected:		All	
From:		Strategic Director of Finance and Governance	

RECOMMENDATIONS

1. That the audit, governance and standards committee note the external auditor’s annual report for 2020-21, as attached at Appendix A.

BACKGROUND INFORMATION

2. The purpose of this report is to provide an overview of the external auditor’s opinion on Southwark Council’s financial sustainability, governance, and arrangements for improving economy, efficiency and effectiveness in 2020-21.

Policy implications

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

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

Community impact statement

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

Equalities (including socio-economic) impact statement

5. This report is not considered to contain any proposals that would have a significant equalities impact.

Health impact statement

6. This report is not considered to contain any proposals that would have a significant health impact.

Climate change implications

7. This report is not considered to contain any proposals that would have a

significant impact on climate change.

Resource implications

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

Consultation

9. There has been no consultation on this report.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

10. None required.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
None		

APPENDICES

No.	Title
Appendix A	Auditor's Annual Report on Southwark Council 2020-21

AUDIT TRAIL

<table>
<tr><th>Lead Officer</th><td colspan="2">Duncan Whitfield, Strategic Director of Finance and Governance</td></tr>
<tr><th>Report Author</th><td colspan="2">Ciaran McLaughlin, Matt Dean; Grant Thornton UK LLP</td></tr>
<tr><th>Version</th><td colspan="2">Final</td></tr>
<tr><th>Dated</th><td colspan="2">12 July 2022</td></tr>
<tr><th>Key Decision?</th><td colspan="2">No</td></tr>
<tr><th colspan="3">CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER</th></tr>
<tr><th>Officer Title</th><th>Comments sought</th><th>Comments included</th></tr>
<tr><td>Director of Law and Governance</td><td>No</td><td>N/A</td></tr>
<tr><td>Strategic Director of Finance and Governance</td><td>No</td><td>N/A</td></tr>
<tr><th>Cabinet Member</th><td>No</td><td>No</td></tr>
<tr><th colspan="2">Date final report sent to Constitutional Team</th><td>12 July 2022</td></tr>
</table>

Grant Thornton

Auditor’s Annual Report on Southwark Council

2020-21

July 2022

Contents

We are required under s 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) in 2020 requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. 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.

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

Executive summary

Value for money arrangements and key recommendations

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The auditor is no longer required to give a binary qualified / unqualified VFM conclusion. Instead, auditors report in more detail on the Authority'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 Authority's arrangements under specified criteria. As part of our work, we considered whether there were any risks of significant weakness in the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified risks in respect of:

- Financial sustainability
- Governance
- Improving economy, efficiency and effectiveness

Criteria	Risk assessment	Conclusion
Financial sustainability	No risks of significant weaknesses identified	No significant weaknesses in arrangements identified, but improvement recommendation made
Governance	No risks of significant weaknesses identified	No significant weaknesses in arrangements identified
Improving economy, efficiency and effectiveness	Follow up on potential risk areas in the Housing Service.	No significant weaknesses in arrangements identified, but improvement recommendation made

Financial sustainability

The Authority is operating in an increasingly uncertain financial environment. For the second successive year, the Comprehensive Spending Review was a single year spending review. Southwark as with all local authorities, will need to continue to plan with little certainty over funding in the medium term. Despite this uncertainty, and the challenges posed by COVID-19, the Authority maintained a healthy financial position in 2020/21. The Authority was also able to put forward a balanced budget for 2021/22 and 2022/23 and maintain a healthy level of reserves. Overall, we are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its financial sustainability. We have not identified any significant weaknesses in arrangements, however members will need to be vigilant in the light of current challenges and we have identified a number of opportunities for improvement in the presentation of medium term financial planning, the need to reduce the call on reserves to balance the budget and the need to fully implement the DSG deficit recovery plan.

Further details can be seen on pages 6-11 of this report.

Governance

Our work this year has focussed on developing a detailed understanding of the governance arrangements in place at the Authority and the changes instigated as a response to the pandemic. Our work on both business as usual governance and adapted structures has not identified any significant weaknesses in arrangements or improvement recommendations in relation to governance.

Further details can be seen on pages 12-13 of this report.

Improving economy, efficiency and effectiveness

The Authority has demonstrated a clear understanding of its role in securing economy, efficiency and effectiveness in is use of resources. We found no significant weaknesses in arrangements and made one Improvement recommendation in regard to procurement.

As part of our rolling programme of VfM work, for 2020/21 we undertook additional work to review a number of potential risk areas in the Housing Services regarding the repairs and maintenance service and management arrangements for the New Build programme for council house development. We also followed up on the fire risk assessment process in the wake of Lakanal House and Grenfell Tower. Our findings are summarised here, but a more detailed report will be provided in due course. We found no evidence of significant weakness in the areas under review but have made a number of Improvement Recommendations.

Further details can be seen on pages 14-25 of this report.

Covid-19 Arrangements

The Council has maintained a good oversight of its COVID-19 related costs and income losses. These were identified early on and subject to detailed monitoring and scrutiny. Our work has not identified any significant weaknesses in arrangements or improvement recommendations in relation to managing the Covid-19 pandemic.

Further details can be seen on page 26 of this report.

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Opinion on the financial statements

We have substantially completed our audit of the Council's financial statements and plan to issue an unqualified audit opinion following the resolution of the challenges around the Infrastructure Assets issue, which is preventing us signing any opinions for any Local Government Audit Clients with a material Infrastructure balance at this current time. Once we receive guidance on how to progress the Infrastructure Assets issue we will look to close the audit off in a timely manner.

Commentary on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources

All Councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:

Financial sustainability

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

Improving economy, efficiency and effectiveness

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

Our commentary on each of these three areas, as well as the impact of Covid-19, is set out on pages x to x. Further detail on how we approached our work is included in Appendix B.

Financial sustainability

We considered how the Council:

- identifies all the significant financial pressures it is facing and builds these into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

Managing financial pressures in 2020/21

The Council has continued to demonstrate effective financial management during 2020/21 under challenging circumstances. In assessing the Council's financial sustainability, it is important to recognise the financial journey that the Council has been on. In the decade following the government's spending review in 2010 in response to the banking crisis, Southwark had to make substantial reductions in the cost of services in order to meet the available funding envelope. That this was done with minimal impact on front line services as experienced by the population of Southwark represents a significant achievement. This period of funding 'austerity' officially ended in 2019/20 when the government announced a real term investment in local government and this was preceded by a shift in government policy towards multi-year funding settlements that made it much easier for the Council to plan finances for the medium to long term. During this period, Southwark took the opportunity to eliminate structural deficits in the funding of services and move towards longer term financial sustainability. Unfortunately 2020/21 and 2021/22 heralded the unprecedented need to manage the COVID-19 pandemic at its peak, and the inflow of substantial amounts of emergency grant to cover the additional cost has somewhat obscured the financial position. Unprecedented levels of uncertainty around cost inflation in areas such as social care and the return to one year funding settlements has made it very difficult for the Council to plan its finances for the medium term.

Southwark has historically performed well in managing its finances, with a record of strong financial and budgetary management. Despite the challenging environment in which it is operating, the Council was able to effectively track its underlying cost and income baseline position separately from COVID-19 cost pressures and grant during 2020/21. The 2020/21 outturn position, prior to accounting for the impact of COVID-19, resulted in break-even for the General Fund and a £5.4m net favourable variance for the HRA. The impact of COVID-19, which added a further £43.5m of costs and income losses, was offset by emergency funding made available by central government. During the year the Council was also able to make a significant contribution to reserves in line with the financial plan. The building up of reserves to meet future financial challenges was a key part of the Councils financial strategy.

In July 2020, the Council began to plan ahead for the next financial year and set out the baseline financial assumptions that would for the basis for the 2021/22 budget and the medium term outlook up to 2023/24 (referred to as the Financial Remit). This included the results of financial modelling across a range of scenarios that projected a funding gap of between £12.8 and £46.8, settling on £26.2 for 2021/22 rising to £47.9 by 2023/24. In our view this reflects a robust approach to managing financial pressures and the additional uncertainty caused by the COVID-19 pandemic. Further updates were presented to Cabinet in December and January 2021 before the 2021/22 budget was finalised in February 2021.

We note that the Council has maintained a firm grip on the 2021/22 financial position and financial management arrangements have withstood significant challenges faced in the year in the context of COVID-19 and other economic pressures. As a t March 2022, the Council is currently forecasting a relatively small £1.9m overspend for the year 2021/22, after application of the Government's Emergency COVID-19 Funding and contingency budget of £4.0m. This is driven by overspends in Children's services, Corporate Services and Housing in particular where homelessness temporary accommodation costs are significantly above budget, primarily due to ongoing COVID-19 related demand pressures. We further note that a balanced budget has been set for 2022/23 alongside a refreshed Fairer Futures Medium Term Financial Strategy for the period 2022/23 to 2026/27. Overall we consider the Council's arrangements for managing financial pressures to be robust but we will continue to monitor the financial position closely as part of our 2021/22 VfM audit.

Medium Term Financial Planning

We note that although the Council clearly uses medium term financial analysis to feed into the annual budget setting process, the published Medium Term Financial Strategy document provides a financial policy narrative, rather than a clear high level financial plan for the medium term.

We understand the Council's view that the current the current level of uncertainty makes it very difficult to plan beyond the next financial year, however this is out of step with generally accepted practice. The risk is that this reduces the visibility of the Council's strategy for managing finances in the medium term and hence the opportunity for scrutiny by members and the public.

Improvement Recommendation

We recommend that a high level MTFS projection is included either in the Policy and Resources Strategy paper that accompanies the budget in the February report to Cabinet, or in the Medium Term Financial Strategy document. This should outline the base case financial projection over a 3-5 year horizon and the key funding and cost assumptions. It should also demonstrate how longer term efficiency programmes can contribute to reducing projected deficits in future years. And the extent to which the risk can be mitigated through reserves and other measures.

DSG Deficit

At the end of 2020/21 the Council had accumulated a **£20.5m** cumulative overspend against the Dedicated Schools Grant (DSG) with the accumulated deficit increasing by £2m in 2020/21 from £18.5m in the prior year. This was mainly due to the level of available funding from the Department of Education (DfE) continuing to be in-sufficient to cover the cost of delivering Education and Health and Care Plans (EHCP's) to support high needs services.

The Government has recognised this as a challenge for many councils and has allowed DSG deficit to be carried forward as long as a recovery plan is put in place to reduce the deficit over time. We note that for 2021/22 onwards the Council's recovery plan has seen the DSG budget brought back in line with budget so it is no longer increasing.

The Council's focus is now on addressing the backlog from the deficit that has accrued over the last few years. The Council is currently in dialogue with the Department of Education (DfE) to agree a plan to address the historic deficit and keep future years in balance, which will be a challenge if additional government funding is not forthcoming.

The plan is currently being implemented and is expected to be highly challenging if substantial cuts to the service are to be avoided, however we note that this issue is partly structural and Southwark are one of a large number of top tier Councils facing similar challenges. It is important that members continue to monitor progress in the delivery of the plan.

Improvement Recommendation

The Council should closely monitor progress in delivering a sustainable plan for reducing the DCG deficit.

Bridging the funding gap with sustainable savings

The Government funding settlement for 2020/21 resulted in an adverse impact for Council contributing to a £8.7m deficit of planned cost over the available funding, representing just under 2.4% of budgeted net expenditure. In February 2020 the Council The Council identified a strategy for closing the gap through £8m of efficiency savings and increased income, with no reliance on the use of reserves to balance the budget.

In the February 2021 Policy and Resources Strategy paper, the Council identified a plan for closing a funding gap of £14.3m through further efficiency savings, after the use of reserves of £5.8m to help balance the budget. These savings were set following protracted budget challenge discussions in June/July 2020 through to the Autumn and were then agreed and removed from budgets at the start of the 2021/22 financial year.

In both years, service budgets were then monitored throughout the year as part of the financial monitoring process to make sure that there was a corresponding reduction in actual cost based on the forecast outturn. The overall financial breakeven position achieved at the end of 2020/21 and 2021/22 indicated that that the financial arrangements to plan and deliver sustainable savings are effective.

We note that the 2021/22 budget was balanced through the use of reserves, and the most recent budget for 2022/23 included a £2.1m contribution from reserves. Although these amounts have been risk assessed and the contributions are relatively small in proportion to the net cost of services, this does reflect an erosion of the Council's ability to manage financial risk in the future.

Improvement Recommendation

The Council should develop sufficient headroom in its savings and efficiency plans to eliminate the need to use reserves to balance the budget and plans to replenish reserves used to balance the budget in 2021/22 and 2022/23 should be implemented with progress to be closely monitored by members.

Financial Planning

The financial plans appear to be robust and there is a rigorous budget setting and challenge process which runs from mid summer to Autumn before the budget is finalised and presented to the Overview and Scrutiny Committee and Cabinet in December/January each year. All the assumptions are fully tested and challenged throughout that process. There is an element of short term planning due to the ongoing pandemic and the Council's response to that. There is a clear focus on the medium term while accepting that the situation is volatile and planning needs to be agile and flexible.

The Borough Plan clearly sets out corporate strategic priorities, which are referenced within the Council's financial planning. This planning aims to provide a framework to invest in the Plan's broader ambitions and long term priorities, as well as the recovery from COVID-19.

The capital programme supports the Council's corporate priorities. Its budget is mainly focused on the key aim of improving housing stock and the availability of social housing. The Council's actual capital spend was £333m in 2020/21, the largest portion of which (£215m) was on the Housing investment programme. We are satisfied there is a clear linkage between the Policy & Resources Strategy (ie. The council's Medium Term Financial Strategy) and the priorities set out in the Borough Plan.

Managing risks to financial resilience

The Council has incorporated uncertainty into its planning and based the Policy and Resources Strategy on a mid-range scenario., having modelling three different scenarios of additional growth pressures. Based on this, the initial funding gap was estimated at £26.2m for 2021/22 and plans were developed to close this gap for the 2021/22 budget over the latter part of 2020/21.

As noted, the majority of this was managed by planned savings of £14.3m and £5.8m of reserves were earmarked to manage the funding gap in 2021/22 with the plan that these will be replenished in future years. The £14.3m of savings options reflected those that were able to be delivered during 2020/21 and taken out of the 2021/22 budget on a recurrent basis. The majority of savings related to reductions in FTE posts and improved processes. The use of reserves was needed to mitigate the shortfall of savings initiatives that could not be developed and delivered by 1st April 2021. Review of subsequent budget monitor reports and the directorate narratives supporting them indicate that although the were pressures in year that had to be mitigated by underspends and short term measures, in general these did not relate to the non-delivery of the agreed savings plans.

Generally, we find the Council to be well managed and there is a high level of understanding of its budgetary position, budgetary pressures and any savings required. There is an established process by which the budget is reviewed regularly, and issues are reported on a timely basis to those charged with governance.

The Council was able to set balanced budgets for both 2021/22 and 2022/23 and significant work has been undertaken by the Council to identify savings opportunities. The medium term financial planning undertaken demonstrates a prudent approach, with a recognition that future funding levels remain uncertain.

Reserves and other contingencies

The Council starts from a relatively strong reserves position (general fund and earmarked reserves, excluding Schools and HRA) with £172.2m reported in the 2020/21 accounts up from £168.1m 2019/20. We note that in addition, the 2021/22 year end reserve position was also boosted by £54.4m of specific COVID-19 funding which was able to be carried forward from 2020/21 to be defrayed against future COVID related pressures in 2021/22 (and future years).

We note that the combined effect of the use of reserves to balance the budget (£5.8m in 2021/22 and a further £2.1m in 2022/23), the depletion of remaining COVID-19 reserves and the need to absorb any net overspend in 2021/22 will serve to reduce the reserves available to manage pressures in future years. Although the Council should be able to maintain a viable reserves position after these deductions, the ability to manage future financial uncertainties and risks will be diminished and will need to be closely monitored by members (see our earlier recommendation).

Only reserves already earmarked for managing short term budgetary constraints have been utilised to support 2021/22 and 2022/23. Reserves management is seen by the Council as critical and it has been seen that members understand reserves are not available to be spent to 'balance the books'. There is an objective to maintain this reserves position, not to regularly or permanently reduce them (other than those earmarked to finance the Council's specific capital programmes).

The Council also operates a £4m budgeted contingency, which helps protects reserves from in year budget fluctuations and if unused can be used to rebuild reserves.

Conclusion

Overall, we are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its financial sustainability. We have not identified any risks of significant weaknesses, however members will need to be vigilant in the light of current challenges and we have identified a number of opportunities for improvement in the presentation of medium term financial planning, the need to reduce the call on reserves to balance the budget and the need to fully implement the DSG deficit recovery plan.

Improvement recommendation 1

Financial Sustainability

Recommendation 1	We recommend that a high level MTFS projection is included either in the Policy and Resources Strategy paper that accompanies the budget in the February report to Cabinet, or in the Medium Term Financial Strategy document. This should outline the base case financial projection over a 3-5 year horizon and the key funding and cost assumptions. It should also demonstrate how longer term efficiency programmes can contribute to reducing projected deficits in future years. And the extent to which the risk can be mitigated through reserves and other measures.
Why/impact	We understand the Council's view that the current the current level of uncertainty makes it very difficult to plan beyond the next financial year, however this is out of step with generally accepted practice. The risk is that this reduces the visibility of the Council's strategy for managing finances in the medium term and hence the opportunity for scrutiny by members and the public.
Auditor judgement	This is an issue of presentation and transparency, as we can see that the Council does use scenarios to help plan its financial position. This is therefore an improvement recommendation and does not reflect a significant weakness.
Summary findings	We note that although the Council clearly uses medium term financial analysis to feed into the annual budget setting process, the published Medium Term Financial Strategy document provides a financial policy narrative, rather than a clear high level financial plan for he medium term.
Management comment	

The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendation 2

Financial Sustainability

Recommendation 2	The Council should closely monitor progress in delivering a sustainable plan for reducing the DCG deficit.
Why/impact	The plan is currently being implemented and is expected to be highly challenging if substantial cuts to the service are to be avoided, however we note that this issue is partly structural and Southwark are one of a large number of top tier Councils facing similar challenges. It is important that members continue to monitor progress in the delivery of the plan.
Auditor judgement	The Council is implementing a plan to reduce the deficit and therefore there is no significant weakness. This improvement recommendation is to draw attention to the importance of implementing the plan alongside other financial challenges.
Summary findings	At the end of 2020/21 the Council had accumulated a £20.5m cumulative overspend against the Dedicated Schools Grant (DSG) with the accumulated deficit increasing by £2m in 2020/21 from £18.5m in the prior year. This was mainly due to the level of available funding from the Department of Education (DfE) continuing to be in-sufficient to cover the cost of delivering Education and Health and Care Plans (EHCP's) to support high needs services. The Government has recognised this as a challenge for many councils and has allowed DSG deficit to be carried forward as long as a recovery plan is put in place to reduce the deficit over time. We note that for 2021/22 onwards the Council's recovery plan has seen the DSG budget brought back in line with budget so it is no longer increasing. The Council's focus is now on addressing the backlog from the deficit that has accrued over the last few years. The Council is currently in dialogue with the Department of Education (DfE) to agree a plan to address the historic deficit and keep future years in balance, which will be a challenge if additional government funding is not forthcoming.
Management comment	

The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendation 3

Financial Sustainability

Recommendation 3	The Council should develop sufficient headroom in its savings and efficiency plans to eliminate the need to use reserves to balance the budget and plans to replenish reserves used to balance the budget in 2021/22 and 2022/23 should be implemented with progress to be closely monitored by members.
Why/impact	We note that the 2021/22 budget was balanced through the use of reserves, and the most recent budget for 2022/23 included a £2.1m contribution from reserves. Although these amounts have been risk assessed and the contributions are relatively small in proportion to the net cost of services, this does reflect an erosion of the Council's ability to manage financial risk in the future.
Auditor judgement	The Council's financial management arrangements have protected its financial sustainability in the period since March 2021, and there is no immediate significant risk. However, the ongoing reliance on reserves to balance the budget is a concern and we therefor make an improvement recommendation.
Summary findings	In the February 2021 Policy and Resources Strategy paper, the Council identified a plan for closing a funding gap of £14.3m through further efficiency savings, after the use of reserves of £5.8m to help balance the budget. These savings were set following protracted budget challenge discussions in June/July 2020 through to the Autumn and were then agreed and removed from budgets at the start of the 2021/22 financial year.
Management comment	

The range of recommendations that external auditors can make is explained in Appendix B.

Governance

We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effectiveness processes and systems are in place to ensure budgetary control
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards.

Monitoring and assessing risk

The Council has an effective risk management process with each departmental management team producing its own risk register. This is then reported to their Strategic Director to discuss at departmental meetings. Challenge is provided by the Overview and Scrutiny Committee focusing on those risks that are scored highest to ensure that they are mitigated against as much as possible. This corporate risk register and the overall process is reviewed by the Audit, Governance and Standards Committee. The Cabinet is consulted on the key corporate level risks.

Robust business continuity management arrangements are in place, with all critical services having business continuity plans in place. The Council's understanding of and planning for risks appears sound, and does not demonstrate a risk of a serious weakness.

The Council has an established Internal Audit service that provides a good level of coverage and has ben able to continue to deliver reviews despite working under pandemic conditions. We note that there were several audits deferred from 2020-21 to 2021-22, including the schools internal audit programme. Overall, the head of internal audit opinion for 2020/21 gave moderate assurance and it was shown there is a sound system of internal control, designed to meet the Council's objectives and that controls have been applied consistently. In respect of the design of the controls, an opinion of moderate assurance was provided for 23 out of the 34 assurance audits where reports have been issued, substantial assurance was provided in eight areas and limited assurance opinions in three areas. In respect of the operational effectiveness of the controls, an opinion of moderate assurance was provided for 22 of the 34 assurance audits where reports have been issued, substantial assurance was provided in two areas and limited assurance in ten. These figures are consistent with previous years and management have issued action plans to implement any recommendations. We have reviewed the limited assurance reports arising in the year and conclude that these do not reflect a significant VfM risk in their own right or collectively.

The payment of COVID grants to businesses, together with the urgency with which these grants were required to be paid, presented a new risk during the year. Payments were approved under emergency powers to ensure businesses in need were given immediate assistance. There appears to have been an appreciation of the risk posed by this situation, with internal audit involved from the start and all payments made using emergency powers subsequently reported to the ASC. We are satisfied the Council put in place procedures to review these payments.

Senior Leadership Transition

The past 12-18 months has seen some significant changes in the leadership of the Council both in terms of a new Leader and the announcement of the retirement of the CEO. Inevitably, with changes at this level of the organisation there can be a destabilising effect and the council needs to be alive to the risks of the ensuing loss of corporate knowledge. Our work has not detected any specific issues at this point. We will continue to monitor progress as the new team is established and make sure that the Council leadership team keeps the transition firmly in view and is alive to the potential risks this can bring and ensure that the "tone from the top" remains strong in terms of prudent governance and financial management.

Budgetary Setting Process

We found that the budget-setting process is multi-layered and thorough, with several stages starting in June/July, moving through a robust challenge process in the Autumn before being presented to the Overview and Scrutiny Committee ahead of being presented to cabinet in January with additional papers presented to Cabinet to approve the budget in February.

The budget and Policy & Resources Strategy are considered concurrently. The published MTFS is primarily a financial policy narrative rather than a conventional forward projection, but the longer-term projections and any risks to the medium term are incorporated into the reports accompanying the budgetary information considered by Cabinet, primarily at the outset of the budget setting process in June/ July. We have made a recommendation under Financial Sustainability regarding the way the MTFS is presented to members and the public.

This high level of scrutiny together with the Council's track record of achieving its planned savings and balancing its budget confirm the strength and validity of the budget setting processes in place.

Budgetary control

There are good systems in place for oversight of the budget, including a regular review of budget to outturn position by Cabinet. The Finance Department engages at least monthly with budget holders via Departmental Finance managers who support the service departments. Budget reports are formally submitted to and considered by cabinet in months 4, 8 and 11, These can be viewed either at a summary (high) level or at a detailed level. There is stringent in year oversight of the budget at a high level, with Overview and Scrutiny Committee and Senior leadership Team reviewing and assessing the actual outturn and future risks to the budget. The budget monitoring reports detail variances by department (and service lines within departments) demonstrating a regular identification of in-year variances. Actions being taken or to be taken by departments in response to such variances are set out. We not that the in year monitoring reports are action focused and demonstrate a proactive approach to managing budget variances.

Leadership and committee effectiveness/decision making

The Council operates a Leader and Cabinet form of executive arrangements and appropriate leadership and high level governance arrangements are in place.

The work of the Council's committees is governed by the Council Constitution. The Constitution is regularly reviewed and updated annually. It is shared with all staff members on joining and is openly available on the Council's website. The Annual Governance Statement is intended to be read alongside the Council's constitution, which sets out how the Council operates, how decisions are made and the policies which are followed to ensure that these are efficient, transparent and accountable to local people.

There is a suite of policies in place, covering anti-fraud and corruption, and the Council has an established antifraud culture.

Monitoring and ensuring appropriate standards

The annual governance statement is compliant with the CIPFA code. An appropriate level of care is taken to ensure the Council's policies and procedures comply with all relevant codes and legislative frameworks.

Conclusion

Overall, we found no evidence of significant weaknesses in the Council's arrangements for ensuring that it makes informed decisions and properly manages its risks.

Improving economy, efficiency and effectiveness

We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve
- ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.

Performance review, monitoring and assessment

The Council has a Performance Monitoring Board which monitors corporate performance on a regular basis. They manage the performance challenge process by liaising with departments in order to gather data on their performance. This data is then collated to create a master spreadsheet which is then used in their quarterly meetings with Cabinet. This spreadsheet helps to indicate if a department is on track to deliver its commitments and highlights any issues to discuss at these meetings. Each meeting is conducted by one Cabinet member and any action points are then picked up during the next round of meetings. Our review of committee papers indicates that the level of information produced for scrutiny should be adequate to facilitate effective scrutiny.

Cabinet receives a comprehensive report of performance against the Borough Plan provided at July 2021 Cabinet meeting. It aligns each performance measure to the Borough Plan and tracks progress each quarter. This report is compiled from the periodic monitoring reports which are submitted to the Performance Monitoring Board.

The Council has purchased access to the GT CFOi benchmarking tool. We held discussions with key service heads about high unit cost spend in a number of services (Childrens, Environment, Highways and Cultural services) and found that all had a good appreciation of the reasons for such high unit costs. In childrens the council have undertaken some of their own local benchmarking outside of the CFOi tool and this has shown them to be efficient in their spend. In some areas, however, the staff did not appear to have been aware of these high unit costs ahead of our discussions and a potential improvement recommendation is for the council to make more use of their access to the CFOi tool available. GT can provide some additional training on interpretation of the tool if that is helpful

The Borough Plan is an aspirational tool setting out a strategic vision for Southwark. The work underpinning this plan is rigorous, as is the scrutiny and oversight of its delivery. The Council are clear that the strategies in this Plan must remain relevant to its communities and as such, it is reviewed regularly to ensure it remains current and demonstrates that the Council have listened to and responded to its communities.

The Council has insourced a number of its services and only a limited number remain outsourced e.g. waste, leisure centres, shared ICT service which reduces the overall exposure to risk from reliance on third parties. These services are performance managed within the directorates, and performance issues are reported to Cabinet by exception.

Partnership working

One area which is worthy of note is in Childrens and Adults Social care where the emerging partnership with the ICS is being developed. This is expected to start in July 2021 though the final details are currently being finalised.

Southwark is the host authority for Adopt London South (a 9 council partnership, about to extend to 10) and this has been at the forefront of leading VFM work across the region moving from a funding approach based on historic spend which has proved to be inherently unreliable, to develop a demand based funding model based on use while enabling councils to, as best as possible, anticipate demand and manage fluctuations. A considered and detailed piece of work, it is now being subject to final agreement to move to years 2 and 3 of a full implementation of demand based funding.

Southwark Council also joined the Commissioning Alliance, a Dynamic Purchasing vehicle (DPV) with 14 councils on the framework (incl. Southwark) in two specific areas for Children's Residential Care and Independent Fostering Agencies. The Alliance utilises its buying powers to drive improved quality and costs for local authorities. It has also very well developed and strong relationships with its providers of Childrens services in particular and is working closely with them to build a new Chilldren's Home in the borough. We will continue to monitor the Council's progress in realising financial benefits from this arrangement.

Southwark is in a strong position as it owns a lot of the buildings in its borough so is able to support providers and work with them and this is ensuring they are getting good value for money both in terms of maximising the VAT benefits and through the Southwark Ethical care charter, where the council have designed in resilience to the partnership arrangements. The local providers are receiving a steady flow of work through the charter and due to this they are happy to operate at lower profit margins (2-5%) than is typical, thus ensuring the council is getting excellent value for money.

Other factors which have contributed to the securing good value for money have been the use of a Budget Recovery Board to carry out regular forensic analysis of spend and the fact that the council owns a number of its care homes and this means that providers feel the council has a real commitment to the partnership and is "putting its shoulder to the wheel" to ensure it works.

Benchmarking

As Southwark is the host authority for Adopt South London there is a very close working relationship with all members. Benchmarking on services between the member authorities is carried out regularly to gauge relative service performance. For example in the case of costing in house services for the proposed Children's home. Southwark was successful in securing DfE capital funding to build a Children's home in the borough. As part of this work various procurement options have been considered including in house provision and partnership with other local authorities. Greenwich was very helpful in providing data on their own costings for the children's home. Also as part of the Adopt London South funding calculations extensive work was done on comparing KPIs between member councils. This was done in terms of calculating the membership of the new borough joining as well as developing a demand based funding model going forward.

We reviewed baseline benchmarking for Council services based on financial returns provided to central government by Councils on an annual basis, using the CFOI benchmarking tool of which the Council is also a subscriber. This indicated some areas of high spend in areas such as placements for Looked After Children (LAC) within Children's Services which were well known to the relevant Council departments. However, overall this did not indicate any significant issues with the cost efficiency of services and the total net spend per head of population was low in comparison to other London Borough Councils.

Procurement

The Council has an extensive and detailed procurement strategy, called the Fairer Future Procurement Framework (FFPF). This has been developed over the past 6 years and now incorporates social value, climate change and Equality. Procurement in the council is devolved to individual Directors so it is important that there is a level of support for Directors in ensuring value for money in procurement. The recent cabinet update on the FFPF has highlighted the additional training that is being implemented around social value and contract management. Also a contract management toolkit has been developed to support Directors and a Contracts register has been set up to support this process.

It will be important moving forward that this is monitored and reported on a regular basis so that the council can keep track of how it is ensuring value for money on an ongoing basis. It will be helpful as part of this process to develop ways of reporting on the value for money obtained through its contracts.

Improvement Recommendation

The council should continue to develop its procurement toolkit for managers and in particular develop a way of centrally reporting on value for money gained via its contracts register.

Conclusion

Overall, we are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its oversight in ensuring economy, efficiency and effectiveness in its use of resources. We have identified an opportunity for improvement.

Improvement recommendation

Improving economy, efficiency and effectiveness

Recommendation	The Council should continue to develop its procurement toolkit for managers and in particular develop a way of centrally reporting on value for money gained via its contracts. Via its contracts register
Why/impact	Central reporting of value for money from contracts via the Contracts register will demonstrate the value of the FFPF. This will help in ensuring that the council is getting the most out of its Fairer Funding procurement Framework (FFPF).
Auditor judgement	This is an improvement recommendation to help the Council optimise the opportunities presented by FFPF and does not reflect a significant risk.
Summary findings	Central reporting of value for money from Southwark contracts should be introduced
Management comment	

The range of recommendations that external auditors can make is explained in Appendix B.

Improving economy, efficiency and effectiveness – Housing Review

Housing Maintenance

Southwark Council owns and manages some 55,000 homes at an annual revenue cost of £233 million. As such this is a significant area of corporate expenditure. We have carried out a 'deep dive' to test that spend on repairs and maintenance has been subject to the appropriate checks and controls.

Areas where things are working well

- Governance – we reviewed the full set of gateway reports (GW0 – GW3) for seven workstreams finding them to demonstrate high levels of transparency and accountability.
- Procurement – Contract award, variation and extensions were dealt with in accordance with the Council's procedures, which reflected legal requirements and good procurement practice.
- Contract management – ongoing performance and financial monitoring of contractors (including formal annual performance reviews (APR's) except for when provided by DLO.
- Controls – our testing of the comprehensive system of checks, authorisation and verification supports the view that the Council's Contract Standing Orders and financial regulations are being complied with on a consistent basis.

Opportunities for Improvement

We noted that the quality and accuracy of existing stock condition survey data could be improved, as team members do not have confidence in the data. As well as verification of existing data, processes for updating stock condition data could be improved. We have raised recommendations in respect of these two distinct issues.

The strategy of moving from a single contractor to two contractors seems to have served the Council well in terms of value for money outcomes. However, we note that in terms of the main repairs and maintenance contract, the Council's approach has moved in the opposite direction. The Councils wholly owned Direct Labour Organisation (DLO], Southwark Building Services now provides the service for the whole of the Borough, where before half of the work was carried out by an external contractor. We recommend that the new arrangements are reviewed to ensure that this arrangement is delivering value for money.

Within our wider remit as external auditors we conducted work in response to an elector's objection to the Council's 2019/20 accounts relating to the management and procurement of minor housing repair works. We have considered these findings and conclude that they do not amount to a significant risk in the wider scope of the Value for Money audit and we concluded that there was no evidence of unlawful activity or material financial loss

However, the work did highlight a number of weaknesses in arrangements and opportunities for improvement in the Housing Maintenance Service. These findings are reported to the Council separately, in our formal response to the objection, alongside a number of Improvement Recommendations. We do not propose to reproduce our detailed findings or recommendations in this report but would like to draw your attention to the following opportunities for improvement that were identified:

- The Council should monitor the allocation of small value works to different providers to ensure that works are allocated in a fair and independent manner and this is reported to an appropriate governance forum to ensure appropriate oversight of the process.
- The Council should review of the quality of works carried out by all contractors to ensure that work meets appropriate quality standards. This should form a part of the Council's Contract Management activity with suppliers.
- Where the cumulative spend with a single supplier is substantial (e.g. above £100k) within the year, the Council considers the best way to formalise the contractual position. This should include arrangements to monitor the performance against quality standards.
- A catch-up report on smaller repairs and maintenance should be presented to Corporate Contract Review Boards (CCRB) and regular updates should be reported thereafter in accordance with the Council' Contract Standing Orders.
- The Council's vendor records should be updated to show the full legal name to ensure information published is accurate.
- Where the Council appoints legal advisors who are not on the approved Solicitors' Panel that this is approved by the Monitoring Officer and a formal record is retained.
- If the Council regularly requires specific legal advice which is not available from the solicitors on is approved Solicitor's Panel, it should consider whether they need to appoint additional expertise to the panel and carry out an appropriate procurement exercise.

Fire Safety

Carrying out Fire Risk Assessments has always been an important duty for landlords. High rise blocks and those with certain types of cladding carry additional risks. Tragedies such as the fires at Lakanal House and Grenfell Tower have brought fire risk assessments into even sharper focus.

Areas where things are working well

- Policies and procedures – the Council has put in place clear policies and procedures
- Risk based approach – the Council has adopted a four-category approach to fire risk assessment, depending on the number of storeys that the building has. The overall risk ratings are shown in the context of a five – by - five risk matrix, plotting the likelihood of fire against the consequences of fire.
- Fire risk assessment reporting – we reviewed a sample of ten fire risk assessments. The reports inspired confidence showing many good practice features. The reports were comprehensive, followed a standard format and were well supported by photographic evidence. Reports were generally of consistent quality.
- COVID – the programme of fire risk assessment (of communal areas only) continued, with safeguards for staff, during COVID. We understand that the latest round of assessments involves gaining access to individual dwellings.

Opportunities for Improvement

Although the fire risk assessment reports were of a consistently high quality, we have noted some observations from our review where we feel that the reports could be further enhanced:

- Inclusion of an executive summary containing certain standard information.
- Consideration should be given to setting a target FRA rating for each block., the cost and other resources required to increase the rating to target (and intermediate status if applicable) should be identified where possible.
- Inclusion of a brief commentary on actions outstanding from previous inspection, by exception.

New Build programme

Southwark Council is aiming to deliver 11,000 new council homes by 2043.

The Council is investing significant resources to enable it to deliver this ambitious programme following the value for money principles of economy, efficiency and effectiveness.

The Council is on a journey to achieve this, with the investment in the PAMWIN project appraisal/management software being key to this.

Areas where things are working well

- Governance and reporting – Delivery Programme Board, Strategy, regular standard and exception reports
- Risk Management – tracked at scheme and programme level and monitored by Delivery Programme Board
- Financial appraisal – expected set of assumptions, discounted cashflows, Net Present Value decision rule.
- Options appraisal – optimal delivery model for individual schemes.

Opportunities for Improvement

Southwark is on a journey to attain the standards of economy, efficiency and effectiveness achieved by the best developing registered providers.

The Council must ensure that full benefits of the investment in the PAMWIN project appraisal/management software are realised. For example, we have recommended exporting projected cashflows from PAMWIN to the Council's cash management tool.

We have also recommended that data is shared with asset management eg component replacement costs and cycles.

Conclusion

We found no evidence of significant weakness in the areas under review but have made six Improvement Recommendations. These are set out in the following pages.

Improvement recommendation Repairs and maintenance

Improving economy, efficiency and effectiveness

Recommendation	We recommend that a comprehensive exercise is undertaken to improve the quality of stock condition survey data, beyond that which is currently seen as the standard within the sector. The Council could consider revising arrangements so that when team members visit homes, they are involved in validating existing records and updating stock condition data as this will give rise to a sense of ownership and increase confidence in the stock condition survey data amongst team members.
Why/impact	Complete and accurate stock condition survey data is required in order to plan future capital programmes, cashflows and establish probable future maintenance commitments. Control over the cost of component replacement is particularly important in the current inflationary environment.
Auditor judgement	This issue is not of sufficient magnitude to reflect a significant risk, however it is important to action this as an Improvement Recommendation in order to mitigate risks in future. This needs to be supported by appropriate technology.
Summary findings	Discussions with various officers revealed that stock condition survey data is not as accurate as it might be. It appears that there is a widespread lack of confidence in the quality and reliability of stock condition data.
Management Comments	

The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendation Repairs and maintenance

Improving economy, efficiency and effectiveness

Recommendation	We recommend that resources are put in place to ensure that stock condition survey data is kept up to date. If all team members visiting homes are involved in validating existing records and updating stock condition data this will give rise to a sense of ownership and increase confidence in the stock condition survey data amongst team members.
Why/impact	Complete and accurate stock condition survey data is required in order to plan future capital programmes, cashflows and to establish probable future maintenance commitments. Control over the cost of component replacement is particularly important in the current inflationary environment.
Auditor judgement	This issue is not of sufficient magnitude to reflect a significant risk, however it is important to action this as an Improvement Recommendation in order to mitigate risks in future. This needs to be supported by appropriate technology.
Summary findings	Discussions with various officers revealed that the process for updating stock condition survey data electronically is cumbersome and not always done on a timely basis
Management Comments	

The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendations Repairs and maintenance

Improving economy, efficiency and effectiveness

Recommendation	We recommend that a review is carried out to ascertain whether Southwark is achieving value for money from relying on a single contractor for the delivery of its main repairs and maintenance contract. We recommend that the client carries out an annual performance review of the DLO as would be the case for external contractors.
Why/impact	Achieving best value for money ensures a good service for tenants at an advantageous cost. Control over the cost of repairs and maintenance is particularly important in the current inflationary environment. Having to ration non essential repairs due to cost considerations can impact adversely on tenant satisfaction.
Auditor judgement	This issue is not of sufficient magnitude to reflect a significant risk, however it is important to action this as an Improvement Recommendation in order to mitigate risks in future.
Summary findings	We note that over the past few years, Southwark has moved away from using single contractors to provide services such as lift maintenance, heating and water etc. This has assisted the Council in obtaining value for money, security of supply, access to innovations and best practice. However, the opposite strategy has been adopted for the main repairs and maintenance contract, where the delivery has been brought entirely in-house. Annual Performance Reviews are not carried out for the DLO as they are for external contractors.
Management Comments	

The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendation
Fire risk assessments (FRA)

Improving economy, efficiency and effectiveness

Recommendation

We recommend that consideration is given to our observations in terms of how individual fire risk assessment reports might be improved further:

- Inclusion of an executive summary containing certain standard information.
- A brief commentary on actions outstanding from previous inspection, by exception.

Why/impact

The recommendations in terms of the content and presentation would make the key points of the assessment easier to read 'at a glance'. They would also make the reports more action orientated and easier to follow up.

Auditor judgement

This issue is not of sufficient magnitude to reflect a significant risk, however it is important to action this as an Improvement Recommendation in order to mitigate risks in future.

Summary findings

Although the fire risk assessment reports were of a consistently high quality, we have noted some observations from our review where we feel that the reports could be further enhanced. We will share our detailed observations with management in a separate report.

Management Comments

The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendations Fire risk assessments (FRA)

Improving economy, efficiency and effectiveness

Recommendation	We recommend that the actions identified to bring blocks up to target are costed and identified in the stock condition survey.
Why/impact	Complete and accurate stock condition survey data is required in order to plan and prioritise (especially FRA related works) future capital programmes, manage cashflows and to establish probable future maintenance commitments.
Auditor judgement	This issue is not of sufficient magnitude to reflect a significant risk, however it is important to action this as an Improvement Recommendation in order to mitigate risks in future.
Summary findings	Some of the FRA's described what actions needed to be taken to improve the risk rating. Eg from high moderate to low moderate to tolerable. This is good practice and should be replicated across all future FRA reports. Consideration should be given to setting a target FRA rating for each block., the cost and other resources required to increase the rating to target (and intermediate status if applicable) should be identified where possible.
Management Comments	

The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendation
New build programme

Improving economy, efficiency and effectiveness

Recommendation	We recommend that an electronic file of consolidated development cashflows from the new PAMWIN system is uploaded to the cashflow module of the finance system on a monthly basis as part of the regular period end routine.
Why/impact	This will ensure that cash flow is managed effectively, avoiding 'surprise' drawdowns or maintain excessive cash balances. Borrowing requirements to fund capital expenditure can then be identified at an early stage and planned accordingly.
Auditor judgement	This issue is not of sufficient magnitude to reflect a significant risk, however it is important to action this as an Improvement Recommendation in order to mitigate risks in future.
Summary findings	A new project appraisal/ management tool (PAMWIN) is being rolled out for new projects coming on stream. Project managers will be able to ensure that project cashflows are updated for the latest estimates of income and expenditure. It is intended that actual expenditure will be uploaded from the finance system and ultimately that cashflow estimates can be exported to the finance system.
Management Comments	

The range of recommendations that external auditors can make is explained in Appendix B.

Improvement recommendation New build programme

Improving economy, efficiency and effectiveness

Recommendation	We recommend that when new build properties are ready to be handed over to housing management to be let, that a process is put in place to ensure that the stock condition survey is updated to include the new units. Individual component lives should be noted, ideally with the current costs of replacement.
Why/impact	This will ensure the completeness and accuracy of stock condition data. In turn this will assist the Council in estimating the cost of future capital programmes required to maintain the stock of council housing at the desired standard.
Auditor judgement	This issue is not of sufficient magnitude to reflect a significant risk, however it is important to action this as an Improvement Recommendation in order to mitigate risks in future.
Summary findings	The changes in processes to allow the proper management of the Council's extensive new build programme is an opportunity to integrate best practices for developing landlords.
Management Comments	

The range of recommendations that external auditors can make is explained in Appendix B.

COVID-19 arrangements

Since March 2020 COVID-19 has had a significant impact on the population as a whole and how local government services are delivered.

We have considered how the Council's arrangements have adapted to respond to the new risks they are facing.

Financial sustainability

The impact of COVID-19 has cut across the Council, impacting both its income in the collection rates of housing rents, Council Tax and Business Rates, and expenditure which has seen additional pressures, most notably on adult social care.

The Council has maintained a good oversight of its COVID-19 related costs and income losses. These were identified early on and subject to detailed monitoring and scrutiny. The Policy & Resources strategy was reviewed and updated during the year, and detailed quarterly reporting against the budget to cabinet was maintained throughout the year. Additional costs and lost income due to the pandemic amounted to £43.5m which has been met by emergency funding support (including sales, fees and charges compensation).

In 2020-21 the council has also had to implement national Covid-19 support schemes such as the business grant support schemes; the council tax hardship support schemes; test and trace payments; the winter support payments scheme; infection control schemes; and contain outbreak management schemes as well as dealing with and implementing a range of supplier relief schemes and addressing increased demand for support to vulnerable households whilst accommodating new ways of working in response to the pandemic

Despite the 'cushion' of Covid grants the Council expects these financial pressures to be ongoing. Whilst it has set a balanced budget for 2021/22, with savings and efficiencies built in, the Council will undoubtedly need to maintain its high level of monitoring and scrutiny over its finances in order to achieve this budget.

Governance

While the Council generally maintained a business-as-usual approach to its governance arrangements during the pandemic, some adjustments were required. As a result of the lockdown restrictions announced on the 16th March 2020, the Council adjusted some of its internal control processes to support effective governance throughout the pandemic. As soon as these were lawful, the Council started holding members' meetings online.

Internal audit have acted in an advisory capacity throughout, where processes and systems have had to adapt to changed circumstances. Internal audit also demonstrated it can offer a responsive service, adapting its annual plan to accommodate new reviews required as a result of changed circumstances.

All office-based staff were provided with the necessary equipment to work from home, enabling a smooth transition to remote working where this was possible. Home-based working has continued throughout the pandemic and there has been a good level of continuity of service. Enabling staff to work from home also supported the Council in protecting its frontline staff and residents by reducing the risk of virus transmission. PPE was also sourced and provided to all Council staff where this was deemed necessary.

Improving economy, efficiency and effectiveness

The Council has been mindful of the impact on the pandemic on its most important resource, its staff. Actions have been put in place to support staff wellbeing and supporting staff remains a key priority for the Council. In aiming to maintain staff wellbeing, the Council has been able to maintain an efficient and effective delivery of its statutory services.

The Council has maintained its quarterly reporting of performance against the targets in the Borough Plan throughout the year.

Conclusion

Our review has not identified any significant weaknesses in the council's VFM arrangements for responding to the Covid-19 pandemic.

Appendices

Appendix A - Responsibilities of the Council

Role of the Chief Financial Officer (or equivalent):

- Preparation of the statement of accounts
- Assessing the Council's ability to continue to operate as a going concern

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

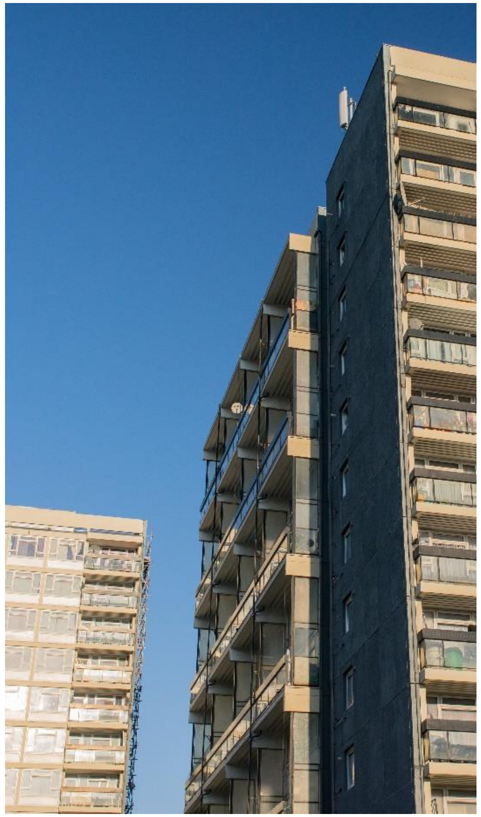
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) or equivalent is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council is responsible for putting in place proper arrangements to secure 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.



Appendix B - An explanatory note on recommendations

A range of different recommendations can be raised by the Council's auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Council to discuss and respond publicly to the report.	No	NA
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	No	NA
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.	Yes	9,10,11,16,18,19,20 21,22,23

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MUNICIPAL YEAR 2022-23

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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