

Audit Findings for Southwark Council

Financial Year ended 31 March 2022

Southwark Council

[INTERIM AFR SUBJECT TO
CONCLUSION OF O/S ITEMS AS
SET OUT IN THIS REPORT]

October 2023



Contents



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This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management and Audit, Governance and Standards Committee. This is an interim AFR as at October 2023 recognising the 2021/22 audit is ongoing and planned to conclude in December 2023. This captures all matters identified from the audit to date and the outstanding work to be undertaken.

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

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Southwark Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2022 for those charged with governance.

Financial Statements

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

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

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

Our audit work was scheduled to be completed from October 2022 to January 2023. Due to the following factors the work was not completed in this timeframe:

- At the time there had been considerable level of staff turnover within the Council since the previous audit. This also meant that finance staff in post had less involvement in the preparation of the 2021-22 financial statements.
- The timing in which queries were responded to with a number being received after the end of the audit booking to our sample/audit queries.
- Challenges in receiving timely and detailed responses from the property valuation team.
- We faced some challenges in accessing data via the remote desktop access that we were required to use.
- National challenges around the audit backlog and accounting issues such as infrastructure assets. These are noted in more detail in our Progress report/Sector Update.

This resulted in us extending the teams booking were possible into February and March before we turned our attention to our health audit portfolio. We have since recommenced the audit from mid-October 2023. Due to the passage of time, there have been internal changes to the staff meaning the Key Audit Partner and Senior Manager have changed. Where possible though we have ensured continuity in other parts of the audit team. Due to the above matters, there is still some work left to complete the 2021-22 audit, which we have noted below:

- Completion of additional file reviews required by changes in engagement team.
- Work on Collection Fund.
- Additional procedures required on HRA, employee costs.
- Closure of queries relating to property valuations.
- Audit procedures on triennial review and updated IAS 19 report.
- Samples relating to completeness of expenditure, outstanding Journal samples, Creditors and PPE Addition samples.
- Review of subsequent events including the potential impact of the RAAC issue on the Council.
- receipt of management representation letter.
- review of the final set of financial statements.

Based on our work to date our anticipated audit opinion is unmodified in relation to the financial statements, subject to the items listed above being concluded. We also to date have not identified any issues with the other information to be published with the financial statements. However, we will need management to consider if there are any post Balance sheet events that require disclosure in the Other information to the financial statements.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

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

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in Appendix F to this report. We expect to issue our Auditor's Annual Report following the completion of our financial statements audit. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified a risk in respect of the delivery of the planned financial performance in 2021-22, along with the future plans of the Authority in 2022-23 and beyond, in particular in relation to the Housing Revenue Account.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, which will be reported in our Annual Auditor's report.

Significant Matters

We identified the following significant matters during our audit:

- Challenges in obtaining timely responses from the Council's property valuers.
- Delays in responsiveness to Audit sample queries along with changes to key finance officers, resulting in the finance team having in some instances to facilitate the audit of a financial statements that pre-dated them joining the Council. We appreciate this is also challenging for the finance team and thank them for their support during the audit.
- Additional work required in relation to an objection received from an elector.
- Reviewing the Canada Water Development treatment in the 2021-22 financial statements.
- Additional work coming out of the triennial pension valuation which resulted in a material positive adjustment to the Council's Pension liability of £36.5m

These matters have all lead to extended time and cost on the audit that were outside the scope of work set out in our Audit plan. This has led to the fee variation proposed in Appendix D of this report.

2. Financial Statements

Overview of the scope of our audit

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

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

Audit approach

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

- An evaluation of the Council's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.
- The Materiality set for the audit is £17.9m, Performance materiality at £11.6m, this remains unchanged from the levels communicated in our Audit Plan in July 2022. This was based on 1.4% of your gross expenditure for the year. We report to the Audit, Governance and Standards Committee any misstatements or matters identified above triviality which has been set at £900k.

There have been a number of national issues that came to light during the audit period, including:

- The need to consider the impact of RAAC on asset valuations held at Public sector bodies.
- Issues around Infrastructure assets that lead to a temporary adjustment to the CIPFA Code as set out in CIPFA Bulletin 12- Accounting for Infrastructure Assets.
- As well as the need to consider updated triennial Pension Valuations which is as a result of the triennial information being available before the 2021-22 financial statements were complete. This has led to a 36.5m positive adjustment to the Councils Pension liability at the year end.

Conclusion

We are working towards the completion of your financial statements audit providing the points set out on page 3 of this pack are satisfactorily resolved we will then anticipate we will issue an unmodified audit opinion.

We are working towards completing the audit by the end of the 2023 calendar year.

Acknowledgements

As noted there have been specific challenges on this audit including some issues around the way the audit progressed. We do note some of this was outside of the finance teams' control, resulting from inevitable staff turnover, with this issue being exacerbated by the overall Audit backlogs, meaning new officers were having to facilitate the audit of a historical financial statements. We also appreciate that our own turnover of staff has impacted the timeframe it will take to complete the audit and thank the finance team for their patience as we work through this process.

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff and for their patience as we have worked through these issues.

2. Financial Statements - Significant risks

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

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

Risks identified in our Audit Plan

Commentary

Management override of controls

Under ISA (UK) 240, there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.

We therefore identified management override of control, in particular journals, management estimates, and transactions outside the course of business as a significant risk for the Council, which was one of the most significant assessed risks of material misstatement.

We undertook the following procedures:

- evaluated the design effectiveness of management controls over journals
- analysed the journals listing and determined the criteria for selecting high risk unusual journals
- identified and tested journals we considered to have the greatest risk of material misstatement or from our data analytics Journals that were identified to be unusual. We then tested these Journals for appropriateness and corroboration
- gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness

Our work is near completion. However, our testing on Journals has taken significantly longer than we would expect which is in part as a result of staff turnover. Consequently, there were a number of Journals relating to the 2021-22 financial statements that officers struggled to provide explanations regarding. We are performing further work with management to identify if there is a risk of management override of controls regarding these Journals. Based on our current discussions it appears more likely that the issue noted is a result of staff turnover and the record keeping to support the Journals than indicators of management override of Controls. Once we complete our work on this area we will determine if there are any control findings to add to our Audit Action plan log.



2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Improper revenue recognition

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.

In the Audit Plan, we reported that having considered the risk factors set out in ISA240 and the nature of the Authority, we had 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 Authority's, mean that all forms of fraud are seen as unacceptable.

There have been no changes to our assessment as reported in the Audit Plan.

Improper Expenditure recognition

In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period.

Based on our risk assessment we do not consider there to be a significant risk of fraud or management manipulation of such balances. We did identify the completeness of other expenditure as an Other risk but given its value and the nature of the stream we did not determine this to be a significant risk in our audit strategy.

There have been no changes to our assessment as reported in the Audit Plan.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Valuation of land and buildings and Council Dwellings

The Council revalue its land and buildings on a rolling five-yearly basis. Council Dwellings are valued on a Beacon basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£4.494 billion) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council's financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used

We therefore identified valuation of land and buildings and Council Dwellings particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.

Commentary

During the audit, we have undertaken the following work:

- Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work.
- Evaluate the competence, capabilities and objectivity of the valuation expert.
- Discussed with and wrote to the relevant valuer to confirm the basis on which the valuation was carried out.
- Engaged our own valuer expert to provide commentary on: the instruction process in comparison to requirements from CIPFA/IFRS/RICS; and the guidance regarding the valuation of council dwellings and social housing.
- Reviewed and tested a number of assets back to market data for properties in that area.
- Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding.
- Recalculated the valuations, testing key inputs including BCIS rates, floor areas, obsolescence rates and other key assumptions used in both DRC and EUV valuations. We also considered the appropriateness of the basis of each method for determining the assets valuation.
- Reviewed a sample of assets to test the appropriateness of the Beacon applied as well as undertaking existence testing of a sample of assets.
- Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding.
- Evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

Due to delays in receiving responses from the Valuer our work on property valuations is ongoing and we have been unable to complete full reviews of the work.

- It is worth noting the Council has one of the largest housing stocks nationally, 2nd only to Birmingham City Council's Housing Revenue stock. This means the 3.539 billion valuation of Council Dwellings is extremely sensitive to material changes, with a sensitivity of 0.5% change in value leading to a material change. Therefore, we will need to consider a number of factors including any post Balance sheet events that could impact the valuation of the asset in our audit work.
- We will also for the OLB and Council Dwellings need to consider if there is any impact on asset valuations coming out of the Council's review regarding RAAC.

We will report the findings of this work once it is complete in the finalised version of the Audit Findings report, but to date we have not identified any material adjustments.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of Investment Properties

The Council revalues its Investment Properties on an annual basis to ensure that these assets are held at Fair Value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£338 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

During the audit, we have undertaken the following work:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work
- evaluated the competence, capabilities and objectivity of the valuation expert
- written to the valuer to confirm the basis on which the valuations were carried out
- tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Council's asset register
- Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding.
- Recalculated the valuations, testing key inputs including yields applied, rental information used, and all other key assumptions applied in the valuers' calculations behind the asset's valuation.
- Assess the value of a sample of assets in relation to market rates for comparable properties.

Our work on Investment Properties was delayed due to the pace and quality of the responses we received from the Council's valuers. We will report the findings of this work once it is complete in the finalised version of the Audit Findings report, but to date we have not identified any material adjustments.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of pension fund net liability

The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity to change due to changes in market conditions (£371.3 million in the Council's balance sheet PY 687.6m).

The Council has two material pension schemes the London Pension Fund Authority and the London Borough of Southwark Pension Fund, with both requiring review.

We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.

- Gained an understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls.
- Evaluated the instructions issued by management to their management expert (actuary) for this estimate and the scope of the actuary's work.
- Assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation and the actuary who undertook the valuation of the unfunded Police Pension Liability.
- Assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability.
- Tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary.
- Undertook 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.

The Council is part of the London Borough of Southwark Pension Fund. The latest triennial valuation for the London Borough of Southwark Pension Fund has recently been published. This valuation, which is at 31 March 2022, provides updated information for the net pension liability on the Council's balance sheet, particularly in respect of membership data and demographic assumptions.

As a result, we requested that management obtain a revised report from their actuary, detailing what impact this updated information had on its net pension liability disclosures at 31 March 2022. This revised report showed that the impact was material and so management have adjusted the financial statements accordingly. As a result, the Council's net Pension liability has favourably moved by £36.5m therefore reducing the liability from 407.8m to £371.3m in the updated financial statements. Material changes were also identified to the corresponding Pension disclosure notes.

Additional audit work is required in respect of this issue, resulting in an increase to the audit fee (see Appendix D). This included obtaining assurance in respect of updated membership data, considering the reasonableness of revised assumptions and estimates and checking the accuracy of management's adjustments to the financial statements is currently in the process of being reviewed by the audit team.

As noted above a material change has been identified following this process of £36.5m and we can confirm this ties back to the updated IAS 19 report. However, our work auditing this updated report is still ongoing and we will note any further findings in our final Audit Findings report.

2. Financial Statements - other communication requirements

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

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

2. Financial Statements - other communication requirements



Our responsibility

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

Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"> the nature of the Council and the environment in which it operates the Council's financial reporting framework the Council's system of internal control for identifying events or conditions relevant to going concern management's going concern assessment. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> a material uncertainty related to going concern has not been identified management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement and Narrative, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified to date, but we require management to consider if any post balance sheet events require these disclosures to be updated.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported a significant weakness. <p>We have nothing to date to report on these matters.</p>



2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the specified group reporting threshold of £2 billion, we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <p>We will complete this work following the completion of our financial statements work.</p>
Certification of the closure of the audit	<p>To certify the audit, we are required to ensure the following work is complete:</p> <ul style="list-style-type: none"> • WGA Audit procedures- as noted above there remains procedures to be completed. • Review of objections work- this is complete, and we have issued our Statement of Reasons on this matter. • Value for Money work – this work remains in progress as noted in this report. • Financial statement audit work – this work remains in progress as noted in this report. <p>In the final version of this report on the closure of our financial statements opinion we will note if we have been able to complete the above steps and are able to certify the audit.</p>

3. Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office issued its 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 the three specified reporting criteria.



Improving economy, efficiency and effectiveness

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



Financial Sustainability

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



Governance

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

Potential types of recommendations

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



Statutory recommendation

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



Key recommendation

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



Improvement recommendation

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

3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix F to this report. We expect to issue our Auditor's Annual Report by the 31st March 2023. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We identified a risk in respect of the delivery of the planned financial performance in 2021-22, along with the future plans of the Authority in 2022-23 and beyond, in particular in relation to the Housing Revenue Account.

We will ensure we report our Value for Money findings within 3 months of the date we sign the audit opinion as required by the NAO.

4. Independence and ethics

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

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

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

Details of fees charged are detailed in Appendix D.

Transparency

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

Appendices

A. Action plan – Audit of Financial Statements

As noted previously the Key Audit Partner and Senior Manager have recently changed as of October 2023. There is the requirement for the team to rereview the audit work and we will then report all Action points in our final Audit Findings Report.

We will provide detailed findings in the final version of our Audit Findings report. Below is a brief summary of key points identified to date.

- Management maintaining appropriate records to support Journal postings after staff leave the Council. There were multiple Journals where management have struggled to provide sufficient explanations regarding Journal postings due to staff turnover.
- Responsiveness and quality of responses received from the Council's property valuation experts.
- The Council's Pooled Budget arrangement was signed on the 17th May 2022, meaning the agreement for the 2021-22 was not signed until after the year end.

Controls

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

B. Follow up of prior year recommendations

The Final Audit findings report was presented to management for 2020-21 in April 2023.

We note there are 3 recommendations that were reported in our 2020/21 Audit Findings report, one of which will be reviewed in our Annual Auditors report as it relates to a Value for Money finding. The other 2 are noted below and we note one finding remains and the other we are still completing our work on.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>Self-Authorisation of Journals</p> <p>During our detailed journals testing in 2019/20, we identified two users who had posted and authorised their own journals. We subsequently undertook further testing on the journals posted by these two users, which identified further self-authorised journals by one of the users. This finding was also identified in the 2020-21 financial statements audit.</p> <p>Whilst we were content with the sufficiency and appropriateness of the journals selected, this gap in the control environment does increase the potential for inappropriate journals to be posted without this being picked up. We understand the potential challenges over the practicality of implementing a control in this area, but the Council needs to weigh up the risks of what could occur without a control of this type.</p> <p>We recommend that there are appropriate controls in place to prevent the self-authorisation of journals to reduce the risk of inappropriate journals being posted. If journal specific controls cannot be introduced, higher level controls should be considered to provide some assurance in this area.</p>	<p>Management have introduced manual authorisation in year with Journals being sent to an officer via the “approval hierarchy” and then officers maintaining backups of approvals for Journal postings. Although we note this has improved the process overall for a Council of your size, we would expect there to be an automated Journal authorisaiton system to be in place. This is because manual processes such as this are reliant on staff following the process rather than being enforced.</p> <p>We note all journal authorisations were provided in year and therefore this issue did not occur in the 2021-22 financial statements audit. But we do still consider there to be a risk that this could occur in future years.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

B. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	<p>Incomplete Income and Expenditure Balances at year end</p> <p>As mentioned in the 2020-21 Audit Findings Report, our cut-off testing on both income and expenditure identified a number of issues which resulted in a considerable level of additional testing to determine the full impact of the errors identified. Whilst we recognise the speed at which the Accounts were produced for audit, the Council need to strike a balance between this speed and ensuring that the Accounts are materially complete and include all relevant transactions relating to the financial year.</p> <p><i>Recommendations</i></p> <p>Management should revisit the closedown timetable to ensure sufficient time is allowed to ensure that all relevant income and expenditure items are included in the Accounts where applicable.</p>	<p>Our work on completeness testing as noted earlier is still in progress and therefore we are unable to conclude at this stage on this matter.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

C. Audit Adjustments – Main Statements

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2022.

As noted previously the Key Audit Partner and Senior Manager have recently changed as of October 2023. Therefore, there is the requirement for them to review the work and financial statements. Therefore, in this paper we have set out all material changes to the financial statements we have identified and agreed with management. Our Final version of the Audit Findings report will set out all adjusted, unadjusted and disclosure adjustments above our trivial threshold.

Detail	Comprehensive Income and Expenditure Statement £m	Statement of Financial Position £m	Impact on total net Assets £m
<p>Triennial Pension Valuation</p> <p>The Council is part of the London Borough of Southwark Pension Fund. The latest triennial valuation for the London Borough of Southwark Pension Fund has recently been published. This valuation, which is at 31 March 2022, provides updated information for the net pension liability on the Council's balance sheet, particularly in respect of membership data and demographic assumptions.</p> <p>This resulted in a 36.5m upward movement to the liability. Note this change has no impact on the Council's General Fund balance and is treated through Unusable Reserves.</p>	Remeasurement of the net defined benefit liability CR 36.5m	DR – 36.5m Net Pension Liability	£36.5m
Overall impact	CR £36.5m	DR £36.5m	£36.5m– Unusable reserves

C. Audit Adjustments - Misclassification and disclosure changes

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

As noted on the last page due to changes in the engagement team we have only identified material changes agreed with management. In our Final Audit findings report all trivial disclosure misstatements will be set out.

Disclosure omission (draft account numbering)	Auditor recommendations	Adjusted?
Infrastructure Assets Property Plant and Equipment– note 13	The Council has updated the Property Plant and Equipment note to take into account the CIPFA Bulletin 12- Accounting for Infrastructure Assets. In doing so they have take the option to report on the balance on a net basis.	Yes
Triennial Pension Valuation MIRS, Pension Reserve note 23 and Note 37 Defined Benefit	The pension schemes note relating to the LGPS scheme required updating due to the triennial pension review. This note was fairly stated in the draft accounts but due to more up to date information becoming available during the course of the audit management updated the figures to reflect the material changes in the net pension liability, gross liability and gross asset's valuation along with the changes to the MIRS.	Yes

D. Fees

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

Audit fees	2020-21- Agreed with management	2021-22
Fee Per Audit Plan	£257,718	£252,718
Objections Work	£25,000	£28,000
Canada Water Additional work	£30,000	TBC
Additional VFM work	£50,000	TBC
Other Additional Audit work	£20,000	30,000
Interim Fee for 2021-22	N/A final fee below	£310,718
Total audit fees (excluding VAT)	£382,718	TBC

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services		
Certification of Pooling of Housing Capital Receipts	7,500	TBC
Certification of Teachers Pension Return	8,000	TBC
Certification of Housing Benefit Claim	63,000	63,000
Certification of GLA Compliance Return	5,000	TBC
Non-Audit Services		
CFO Insights subscription	10,000	10,000
Total non-audit fees (excluding VAT)	£93,500	TBC

D. Fees

The table below provides a reconciliation between the Scale Fee agreed by PSAA and the fee per the Audit plan as well as our interim fee proposal. Note the final fee for the 2020-21 audit was £382,718.

Category	Final fee (£)
Scale Fee	182,718
Additional audit procedures arising from a lower materiality	£6,575
Enhanced audit procedures for Property, Plant and Equipment – estimate of cost charged to external expert	£2,630
Additional work on Value for Money (VfM) under new NAO Code	£20,000
Increased audit requirements of revised ISAs 540, ISA 315	£11,000
Enhanced audit procedures on journals testing (not included in the Scale Fee)	£3,000
Additional procedures to address other local risk factors	£22,500
FRC response – enhanced audit procedures	£4,295
Fee Per Audit Plan	£252,718
Other Costs arising during the Audit period	
Statutory Powers – Work on an Objection	28,000
Enhanced procedures relating to HRA/GF ring fenced Accounting	£7,500
Costs associated with staff Turnover, delayed responses from Valuer and pace/quality of responses to audit sample queries and work associated with Triennial Pension review	22,500
Financial statements Additional risks	TBC
VFM Additional Risks	TBC
Interim Audit fee	£310,718
Final Audit Fee	TBC

Status of the audit and opinion

Appendix E - Audit opinion

Our anticipated audit report opinion will be unmodified dependent on the satisfactory resolution of the matters noted in this report and no matters coming to our attention that would materially impact the Financial Statements.

F. Audit letter in respect of delayed VFM work

Chair of Audit, Governance and Standards Committee
Southwark Council
160 Tooley Street
London
SE1 2QH
October 2023

Dear Cllr Barrie Hargrove, Chair of the Audit, Governance and Standards Committee, as TCWG

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

As a result of the pandemic, and the impact it has had on both preparers and auditors of accounts for 2021/22 and 2022/23 to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money.

We now expect to publish our report no later than the 31st March 2023.

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

Yours faithfully

Joanne Brown
Key Audit Partner



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