

Item No. 7.	Classification: Open	Date: 20 October 2020	Meeting Name: Audit, governance and standards committee
Report title:		2019-20 Statement of Accounts for Southwark Council and Audit findings report (ISA 260) - including Pension Fund: Southwark Council Audit Findings Report 2019-20 and Pension Fund Audit Findings Report 2019-20	
Ward(s) or groups affected:		All	
From:		Strategic Director of Finance and Governance	

RECOMMENDATION

1. That the audit, governance and standards committee:
 - a) consider the matters raised in Grant Thornton's audit findings report for 2019-20 (appendix A) before approval of the council's main accounts
 - b) note the adjustments to the main accounts as set out in page 21 of the audit findings report
 - c) approve the council's letter of representation set out at appendix B
 - d) consider the matters raised in the Pension Fund audit findings report 2019-20 (appendix C) prior to approval of the Pension Fund accounts
 - e) note the adjustments to the Pension Fund accounts as set out in page 14 of the pension fund audit findings report
 - f) approve the Pension Fund letter of representation set out at appendix D
 - g) approve the Statement of Accounts 2019-20 (appendix E), subject to any final changes required by the conclusion of the audit being delegated to the Strategic Director of Finance and Governance in consultation with the chair of Audit, Governance and Standards Committee.

BACKGROUND INFORMATION

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

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

KEY ISSUES FOR CONSIDERATION

Audit opinion

8. The auditor expects to give unqualified opinions on both council's accounts and Pension Fund accounts prior to the statutory deadline of 30 November 2020.
9. The purpose of Grant Thornton's Audit Findings Report (AFR) is to detail their findings and matters arising during the course of auditing the financial statements. The report of the main accounts is attached at appendix A and includes key audit issues and value for money conclusions. The Auditors will make an oral presentation of their findings to the Committee.
10. There are two material adjusted misstatements:
 - International Accounting Standard (IAS) 19 Pensions. Each year the council commissions an actuary to estimate the value of pension liabilities which the council is required to pay in the future, offset by the value of assets invested in the Pension Fund. In order to produce draft accounts by 31 May, the actuary uses indices to estimate asset returns for the final quarter of the financial year, which in normal circumstances gives a materially accurate value.

However Covid-19 had a significant impact on asset values at 31 March 2020, hence the need for an updated valuation in July 2020 based on actual investment returns. The impact of this updated valuation was to reduce the value of the assets held by the pension scheme by £22.1 million, thus increasing the Net Liability position by the same value. However this has no impact on the Council's General Fund Balance due to

the way the Net Liability is treated on the Balance Sheet.

- Removal of duplicate asset. During 2019-20 we identified that there was a duplicate asset in the fixed asset register and we removed it in year. The asset should have been removed in 2018-19. We have amended the accounts to reflect this adjustment in the correct period.
11. Grant Thornton have commented on the high quality of the pre-audit statement of accounts 2019-20 including the Pension Fund, which the council were able to deliver by the original deadline on 31 May 2020. The audit has been complicated this year due to remote working and it is testament to the excellent working relationship between Grant Thornton and the council that a successful audit conclusion is expected in advance of the statutory deadline for publication of the audited set of accounts.
 12. Two audit findings to note have been raised mainly focused on the control environment covering journals approvals and frequency of budget monitoring reports publication. Management responses are included within the Audit Findings Report.
 13. There are currently no areas of dispute between the council and the auditors and no unadjusted misstatements, subject to the resolution of the public inspection of accounts objection. There will also be a further quality assurance review of the accounts by Corporate Finance before publication of the audited statement of accounts 2019-20 on the council's website; in view of the ongoing audit completing very close to the AGS agenda deadline.
 14. An objection to the accounts was received at the end of the public inspection of accounts period on 10 July 2020. The matter has been thoroughly investigated by the council and information requested by our auditors has been provided in full. There are no other considerations for the council at this particular time until the auditor reaches their conclusions with the objector in due course. Until the objection is resolved, the council will not be able to issue a notice of conclusion of the audit nor will the audit certificate be released until there is resolution of the case.

Letters of representation

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

Community impact statement

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

Resource implications

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

Consultation

18. Consultation on the accounts is carried out through public inspection. The accounts were open for public inspection from 1 June 2020 until 10 July 2020.

The audit findings reports are key documents in assessing the council's progress and plans for the future, such as through the council's policy and resources strategy. The final report will be published on the council's website.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

19. None required.

Reasons for lateness

20. The audit of the accounts is ongoing up to the date of receipt of the audit opinion. The Audit Findings Reports were received close to the deadline for the dispatch of the audit, governance and standards committee agenda.

Reasons for urgency

21. The Accounts and Audit Regulations 2015 require the council to approve the accounts by 31 July each year. However, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 revised the statutory deadline to 30 November for 2019-20. The audit findings report and audited statement of accounts 2019-20 must be issued for committee consideration prior to the audit opinion being released.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Statement of accounts files	Finance and Governance, Second Floor, Tooley Street	Jade Cheung 020 7525 0614

APPENDICES

No.	Title
Appendix A	Grant Thornton - Council Audit Findings Report 2019-20
Appendix B	Letter of Representation – Council
Appendix C	Grant Thornton - Pension Fund Audit Findings Report 2019-20
Appendix D	Letter of Representation – Pension Fund
Appendix E	Statement of Accounts 2019-20

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report Author	Jade Cheung / Rob Woollatt	
Version	Final	
Dated	16 October 2020	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments sought	Comments included
Director of Law and Democracy	No	N/A
Strategic Director of Finance and Governance	N/A	N/A
Cabinet Member	N/A	N/A
Date final report sent to Constitutional Team	16 October 2020	