Grant Thornton

The Annual Audit Letter for Southwark Council

Year ended 31 March 2020

26 January 2021

Contents

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1. Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Southwark Council (the Council) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit, Governance and Standards Committee as those charged with governance in our Audit Findings Report on 20 October 2020.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £18,000,000, which is approximately 1.5% of the Council's gross cost of services.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 30 November 2020. We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Council's land and buildings and investment properties and the property assets of its pension fund given the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO. This work is still ongoing due to challenges with the system underlying the Return.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

1. Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 30 November 2020.
Certificate	We are unable to certify that we have completed the audit of the financial statements of Southwark Council until we resolve our work on the Council's Whole of Government Accounts (WGA) Return, as well as our work on the objection received to the Council's Accounts.

Working with the Council

The outbreak of the Covid-19 pandemic has had a significant impact on the normal operations of the Council. The Council has dealt with the administration of grants to businesses, getting PPE to frontline carers, for schools, building additional mortuary capacity, staff re-deployment, the provision of critical-only services during lockdown, and then the additional challenges of reopening services under new government guidelines.

We updated our audit risk assessment to consider the impact of the pandemic on our audit and we reported a financial statement risk in respect of Covid-19 and highlighted the impact on our VfM approach.

Restrictions for non-essential travel has meant both Council and audit staff have had to work remotely, including the remote accessing of financial systems, video calling, and verifying the completeness and accuracy of information produced by the entity through screensharing.

During the year we have also delivered a number of successful outcomes with you:

- An efficient audit – we were able to work flexibly with you to deliver the audit ahead of the deadline despite the challenges posed by the Pandemic. Both teams got up to speed with remote working in a prompt manner which enabled the audit to progress in a timely manner and led to smooth communication throughout the audit.
- Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness. We also delivered a bespoke piece of work as part of our value for money conclusion to give you a more detailed insight into your financial standing.
- Sharing our insight – we provided regular Audit, Governance and Standards Committee updates covering best practice. We also shared our thought leadership reports
- Providing training – we provided your teams with training on financial statements and annual reporting

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP

January 2021

2. Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council’s financial statements to be £18,000,000, which is approximately 1.5% of the Council’s gross cost of services. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

No specific other materiality levels were set during the course of our audit

We set a lower threshold of £900,000, above which we reported errors to the Audit, Governance and Standards Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

2. Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Covid-19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	As part of our audit work we have: • Worked with management to understand the implications the response to the Covid-19 pandemic has had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications on our audit approach. • Liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arise. • Evaluated the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic. • Evaluated whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely. • Evaluated whether sufficient audit evidence can be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances. • Evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment. • Discussed with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence.	From the work performed, we identified that there was a material uncertainty attached to the valuation of the Council's Property, Plant and Equipment and Investment Properties, due to the inherent uncertainty over the asset valuations at 31 March 2020. This was reflected within the Accounts in Note 5, and was reflected within our Audit Opinion as an Emphasis of Matter Paragraph, which is not a qualification. No other issues were identified from the work performed in this area.

2. Audit of the Financial Statements

Significant Audit Risks - continued

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
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 (£5.054 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.	As part of our audit work we have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work. • evaluated the competence, capabilities and objectivity of the valuation expert. • discussed with the valuer the basis on which the valuation was carried out. • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding. We have engaged our own valuer to assess the instructions to the Authority's valuer, the Authority's valuer's report and the assumptions that underpinned the valuation. • tested revaluations made during the year to see if they had been input correctly into the Authority's asset register. • evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these are not materially different to current value at year end.	From the work performed, we identified that there was a material uncertainty attached to the valuation of the Council's Property, Plant and Equipment, due to the inherent uncertainty over the asset valuations at 31 March 2020. This was reflected within the Accounts in Note 5, and was reflected within our Audit Opinion as an Emphasis of Matter Paragraph, which is not a qualification. No other issues were identified from the work performed in this area

2. Audit of the Financial Statements

Significant Audit Risks - continued

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of net pension 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 (£712 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.	As part of our audit work we have: • updated 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 evaluated the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.	From the work performed, we identified that the valuation of the net liability in the draft Accounts was based on December 2019 actuals, as opposed to March 2020 actuals. This was due to the Council preparing their accounts to the original 31 May 2020 deadline, which meant it would have been unable to obtain a figure using the March 2020 data in a timely manner for inclusion. However the impact of Covid-19 had a significant impact on Asset Values at 31 March 2020, hence the need for an updated valuation. 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. No other issues were identified from the work performed in this area.

2. Audit of the Financial Statements

Significant Audit Risks - continued

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of investment properties The Authority revalues its Investment Properties on an annual basis to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets) 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 (£335 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 2020. 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.	As part of our audit work we have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • written to the valuer to confirm the basis on which the valuations were carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, which included 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. • tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authority's asset register • evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.	From the work performed, we identified that there was a material uncertainty attached to the valuation of the Council's Investment Properties, due to the inherent uncertainty over the asset valuations at 31 March 2020. This was reflected within the Accounts in Note 5, and was reflected within our Audit Opinion as an Emphasis of Matter Paragraph, which is not a qualification. No other issues were identified from the work performed in this area.

2. Audit of the Financial Statements

Significant Audit Risks - continued

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Management override of internal 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.	As part of our audit work we have: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.	During our detailed journals testing, we identified two users who had posted and authorised their own journals. We subsequently undertook further testing on the journals posted by these two users, which identified further self-authorised journals by one of the users. 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. No other issues were identified from the work performed in this area.

2. Audit of the Financial Statements - Pension Fund

Pension Fund Significant Audit Risks

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work on the pension fund.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Covid-19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation, and the reliability of evidence we can obtain to corroborate management estimates For instruments classified as fair value through profit and loss there may be a need to review the Level 1-3 classification of the instruments if trading may have reduced to such an extent that. quoted prices are not readily and regularly available and therefore do not represent actual and regularly occurring market transactions. Whilst the nature of the Fund and its funding position (i.e. not in a winding up position or no cessation event) means the going concern basis of preparation remains appropriate management may need to consider whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	As part of our audit work we completed: • Worked with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications on our audit approach. • Liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arose. • Evaluated the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic, including management's assessment of the impact of Covid-19 on forecast cashflows. • Evaluated whether sufficient audit evidence using alternative approaches could be obtained for the purposes of our audit whilst working remotely. • Evaluated whether sufficient audit evidence could be obtained to corroborate management's fair value hierarchy disclosures. • Evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as Level 3 asset valuations, including direct property. • Discussed with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence.	From the work performed, we identified that there was a material uncertainty attached to the valuation of the Fund's Direct Property, due to the inherent uncertainty over the asset valuations at 31 March 2020. This was reflected within the Accounts in Note 5, and was reflected within our Audit Opinion as an Emphasis of Matter Paragraph, which is not a qualification. No other issues were identified from the work performed in this area

2. Audit of the Financial Statements - Pension Fund

Pension Fund Significant Audit Risks

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work on the pension fund.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Management override of internal 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.	As part of our audit work we completed: • evaluated the design effectiveness of management controls over journals. • analysed the journals listing and determined the criteria for selecting high risk unusual journals. • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration. • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence. • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.	Our audit work has not identified any significant issues in relation to the risk identified.

2. Audit of the Financial Statements - Pension Fund

Pension Fund Significant Audit Risks

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work on the pension fund.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of level 3 investments 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. Management have engaged the services of a valuer to estimate the current value as at 31 March 2020. 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.	As part of our audit work we have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • independently requested year-end confirmations from investment managers and custodian, and assessed their responses as part of our work. • evaluated the competence, capabilities and objectivity of the valuation expert • written to the valuer to confirm the basis on which the valuations were carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding. We also engaged our own Auditor's Expert to assess the instructions to the Fund's valuer, the Fund's valuer's report and the assumptions that underpin the valuation. • tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Fund's asset register/financial records • where available, reviewed investment manager service auditor report on design effectiveness of internal controls.	From the work performed, we identified that there was a material uncertainty attached to the valuation of the Fund's Direct Property, due to the inherent uncertainty over the asset valuations at 31 March 2020. This was reflected within the Accounts in Note 5, and was reflected within our Audit Opinion as an Emphasis of Matter Paragraph, which is not a qualification. No other issues were identified from the work performed in this area

2. Audit of the Financial Statements

Audit opinion
We gave an unqualified opinion on the Council's financial statements on 30 November 2020.

Preparation of the financial statements
The Council presented us with draft financial statements at the end of May 2020 in accordance with the agreed timescale, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the financial statements
We reported the key issues from our audit to the Council's Audit, Governance and Standards Committee on 20 October 2020.

Aside from the issues mentioned earlier in this Letter, covering the Emphasis of Matter Paragraph, the adjustment to the Net Pensions Liability, and the control deficiency relating to Journals, no other significant issues were identified from the work performed during the course of this year’s audit.

Annual Governance Statement and Narrative Report
We are also required to review the Council’s Annual Governance Statement and Narrative Report. It published them on its website alongside the draft Statement of Accounts in May 2020.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Pension fund accounts
We gave an unqualified opinion on the pension fund accounts of the London Borough of Southwark Pension Fund on 30 November 2020. We also reported the key issues from our audit of the pension fund accounts to the Council’s Audit, Governance and Standards Committee on 20 October 2020.

Aside from the issue mentioned earlier in this Letter, covering the Emphasis of Matter Paragraph, no other significant issues were identified from the work performed during the course of this year’s audit.

Whole of Government Accounts (WGA)
We carried out work in line with instructions provided by the NAO. Our work in this area is still in progress and we will provide an update to the Audit, Governance and Standards Committee once this work is complete.

Certificate of closure of the audit
We are unable to certify that we have completed the audit of the financial statements of Southwark Council until we resolve our work on the Council’s Whole of Government Accounts (WGA) Return, as well as our work on the objection received to the Council’s Accounts

3. Value for Money Conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings Report agreed with the Council in October 2020, we agreed a recommendation to address our findings, which is shown below, along with Management's Response to this finding.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

Action Plan

Assessment	Issue and risk	Recommendations
Medium	**Reporting of In-Year Budget Monitoring** During our Value for Money Work, we have identified the in-year reporting of the Council's Budget Monitoring has been irregular, with no consistent pattern of reports going to Cabinet or other Committees. Whilst there has been clear evidence of things strengthening in this area since the onset of Covid-19, the Council should look to ensure more regular report is maintained once things return to normal to enable issues to be challenged in a timely manner and remedial action to be put in place promptly.	Ensure that there is a clear timetable for reporting in-year financial performance to Cabinet and that this is done with sufficient regularity to allow Members to have a clear handle on the position during the course of the year. **Management response** The budget monitoring arrangements require each chief officer to produce a budget monitoring report monthly in accordance with a corporate timetable set by the Strategic Director of Finance and Governance. Formal monitoring to Cabinet is undertaken on a regular basis and included on the Forward Plan for the forthcoming year. Reporting is undertaken by exception and will be more frequent and regular where appropriate.

3. Value for Money Conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Ongoing financial performance The Council is continuing to face pressure on its Social Care Budgets, and other factors such as the demand for temporary accommodation and the impact of nil resource to public funds are putting the Council's finances under considerable strain. Therefore the Council needs to manage its resources carefully to ensure a sustainable future for the Borough ahead of the 2020 Funding Settlement. Brexit will also potentially add another unknown to these challenges and the Council will need to monitor developments close as the end of March approaches.	As part of our work we have: • reviewed the 2019-20 Outturn, including details of performance against both the Revenue and Capital Budgets; • reviewed progress against the 2020-21 financial plan up to the completion of our audit; and • obtained an update on the Council's Medium Term Financial Strategy, including progress on identifying the savings required in coming years including discussions with Management on progress to date. We have also considered the financial impact of any financial issues arising from Brexit. These may include changes in property values, adverse changes to investment and borrowing rates, changes to business rate income, and the impact on the Authority's workforce.	We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were: • The Council have managed to deliver a balanced budget in 2020-21, including the movement of **£10.1 million** to General Fund Reserves to help strengthen the overall financial position of the Council. This is the third year in a row that the Council has made a significant contribution to this area, which is helping to strengthen reserves which had been depleted in recent years. • The focus on Social Care has continued, leading to this area delivering a **£204k** overspend, which whilst an overspend, reflects well on the continued improvements in this area that have occurred in recent years. • However challenges in respect of the Dedicated Schools Grant (DSG) are continuing to increase, with a further overspend of **£7.0 million** being incurred in-year, bringing the cumulative deficit in this area to **£18.5 million**. • A balanced budget had been set for 2020-21 prior to the arrival of Covid-19, which has had a significant impact on the Council's Financial Position. As it stands the Council has a gap of **£13 million** in the planned 2020-21 outturn (per the October 2020 position), which it is likely will require the use of Reserves to help manage this gap by year end. Based on the work we performed to address the significant risk, we concluded that: • the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources. However as mentioned on the previous page, we have raised a couple of recommendations for the Council to consider, and we will monitor the progress in these areas over the course of the next 12 months ahead of next year's VfM Work.

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	10 February 2020
Audit Findings Report	20 October 2020
Annual Audit Letter	26 January 2021

Fees

	Planned £	Actual fees £	2018/19 fees £
Statutory audit	182,718	246,926	193,718
Audit of Pension Fund	16,170	32,396	19,170
Housing Benefit Grant Certification	24,000	TBC	21,717
Total fees	**266,888**	**TBC**	**234,605**

Audit fee variation

As outlined in our audit plan, the 2019-20 scale fees published by PSAA of £182,718 and £16,170 respectively assumes that the scope of the audits does not significantly change. There are a number of areas where the scope of the audits has changed, which has led to additional work. These are set out in the table on the following page.

Also given we only started our work on the Certification of the Council's Housing Benefit Return in December 2020, we are currently unable to confirm whether any additional fees will be charged in respect of this work. We are also still undertaking work in respect of an Objection received on the 2019-20 Accounts, and there will be a further charge to the Council once this work is finalised.

A. Reports issued and fees

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

2019-20 Audit Fee Variation – Detail – Main Accounts

Area	Reason	Fee proposed
Raising the Bar	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This required additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity. We also reduced the materiality level, reflecting the higher profile of local audit. This entailed increased scoping and sampling.	11,500
Pensions – valuation of net pensions liabilities under IAS 19	We have continued to increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.	4,000
PPE Valuation – work of experts	We engaged our own audit expert – Wilks, Head and Eve, to support us in this area, and also increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations.	9,500
Implementation of IFRS 16	Whilst the implementation of IFRS 16 was deferred for Local Government for another 12 months, this deferral was not made until March 2020, meaning work had already been done ahead of implementation.	3,000
Prior Period Adjustments	During the course of this year's audit a Prior Period Adjustment was identified relating to the Council's Property, Plant and Equipment Assets. This Adjustment required us to consult with our technical team to ensure this was actioned correctly within the Accounts, and thus generated additional costs.	4,000
Impact of Covid-19 Working	Due to the impact of the Covid-19 Pandemic and the move to remote working, it meant that completion of the audit procedures took more time and effort than would have been the case otherwise. As a result, there are additional costs incurred as part of completing the audit, which are reflected in the proposed additional fees mentioned.	32,208
Total		**64,208**

A. Reports issued and fees

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

2019-20 Audit Fee Variation – Detail – Pension Fund Accounts

Area	Reason	Fee proposed
Raising the Bar	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This required additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity. We also reduced the materiality level, reflecting the higher profile of local audit. This entailed increased scoping and sampling.	2,500
PPE Valuation – work of experts	We engaged our own audit expert – Wilks, Head and Eve, to support us in this area, and also increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin the valuations of the Direct Property held by the Pension Fund.	9,500
Impact of Covid-19 Working	Due to the impact of the Covid-19 Pandemic and the move to remote working, it meant that completion of the audit procedures took more time and effort than would have been the case otherwise. As a result, there are additional costs incurred as part of completing the audit, which are reflected in the proposed additional fees mentioned.	4,226
Total		**16,226**

A. Reports issued and fees continued

Fees for non-audit services

Service	Fees £
Audit related services	
• Certification of Housing Capital Receipts Grant	6,000
• Certification of Teachers Pensions Return	7,000
Non-Audit related services	
• CFO Insights Subscription	10,000

Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.