Grant Thornton

Audit Findings for Southwark Council

Year ended 31 March 2023

DRAFT SUBJECT TO CONCLUSION OF THE AUDIT

Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the 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.

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 2032 for those charged with governance.

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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 income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

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

Our audit work was completed in a hybrid manner with a mixture of remote and on site working from October to March. Our work is nearing completion, but we do have a number of key audit queries we require concluding prior to us being able to complete our work. As is mentioned on page 5 this work is being undertaken in the backdrop of expected national deadlines and therefore resolving the remaining queries at pace is essential to ensuring we finalise the audit.

Our findings are summarised on pages 6 to 19. We have identified 5 key adjustments to the financial statements that have resulted in reducing the Balance sheet of the Council by 284m. Although this is clearly a significant adjustment they reflect remeasurement of property and Pension balances, rather than amounts that reflect inaccuracies around the way management have reported the cost of services to the General Fund. We have also raised recommendations for management as a result of our audit work. These are set out in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our work is nearing completion and subject to management making the agreed changes set out in Appendix . We are not aware of any matters which would require us to modify our audit opinion. However the following matters still require resolution:

- Completion of final file reviews.
- Final checks to finalised accounts.
- Receipt of management representation letter.
- Finalisation of Pension Fund audit.

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

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 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 undertaken our Value for Money work for the 2022-23 year. However, this work is not complete as we have not finalised our work on an objection raised to the 2021-22 accounts. We therefore are required to consider this in our Annual Auditors report. The Annual Auditors report will be provided within 3 months of us signing the financial statements audit and by that point we expect to have finalised our work on the objection. In assessing the significant risk identified in our audit plan around the financial sustainability of the Housing Revenue Account we have identified a significant weakness in the Council's arrangements. These will be more fully reported in our Final Annual Auditors report. However, as per the Code requirements we are required to report to Those Charged with Governance and in our audit opinion these matters when identified. The key recommendations identified to date follow on from the recommendations identified in the prior year work. These key recommendations will be reported in our audit opinion. Our Audit certificate will not be issues until we have finalised our work on the 2021-22 objection and issues our final Annual Auditors report which considers the findings from that objection work in it. This will be issued within 3 months of the audit opinion being provided as required. We have also shared with management our findings to date in relation to our Value for Money work.
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.

1. Headlines

National context – audit backlog and consultation on backstop date

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November. There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions. Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see About time? (grantthornton.co.uk)

In light of these issues a national consultation was undertaken which begun on the 8th February and closed on the 7th March Addressing the local audit backlog in England: Consultation - GOV.UK (www.gov.uk)

This consultation sets out plans to effectively disclaim incomplete audits by a backstop date. This will ensure entering into the new contract all audits are up to date and then sets out expectations that deadlines will be met for future years. Given this pressure both ourselves and the Council have been working towards ensuring the audit is complete by the end of March. We appreciate that given we have been working on two open year audits in this process this has places pressure on the finance team and those who help support the audit process. We have sought to manage the risk of this by keeping the finance team updated on key risks impacted the audit delivery, we have also escalated issues to senior officers were appropriate.

In this backdrop we would like to thank everyone at the Council for their support in working with us. The audit has been undertaken in a constructive spirit and finance officers have engaged with us in a positive manner to understand audit issues and resolve them in a prompt manner were possible. It is also a particular challenge working whilst multiple year audits are open as there are requirements for us to consider findings identified in this year to the prior year to and ensure the consistency between the accounts. Given these challenges we are pleased the audit is nearing its completion.

National context – level of borrowing

All Councils are operating in an increasingly challenging national context. With inflationary pressures placing increasing demands on Council budgets, there are concerns as Councils look to alternative ways to generate income. We have seen an increasing number of councils look to ways of utilising investment property portfolios as sources of recurrent income. Whilst there have been some successful ventures and some prudently funded by councils' existing resources, we have also seen some councils take excessive risks by borrowing sums well in excess of their revenue budgets to finance these investment schemes.

The impact of these huge debts on Councils, the risk of potential bad debt write offs and the implications of the poor governance behind some of these decisions are all issues which now have to be considered by auditors across local authority audits. Please find in our Annual Auditor Report for details of our review around Southwark's arrangements in this area.

1. Headlines – Significant Matters

Newly constructed Council dwellings not revalued at EUV-SH as required for Council dwellings- £26m The Council values its non-Investment property assets at the 31st December. This meant £51,539k of Council houses were not revalued due to coming into use after the valuation date. This meant on transfer to Council dwellings they were recongised at Cost. This is not Code compliant as Council houses should be held at the Existing use value with the social housing discount applied. We therefore requested the Council to assess the value of these assets given their size.	The Councils valuer has assessed these assets and their value at the 31st March 2023 if they were valued as an Existing use value asset. On this valuation basis the assets would have a value of £102,725k, however following the Social housing discount of 25% this value sits at £25,681k. This resulted in a downward revaluation movement to be recongised as an impairment in the CIES cost of services of £25,858k. From our own review we are satisfied the updated valuation is appropriate having reviewed the method and comparable used to determine the valuation. We have noted this as a significant matter to the audit given it has resulted in a material downward movement of the Council dwellings by £25,858k.
Valuation Date Indices review- £106.4m As noted above the Council values both Council dwellings and Other Land and Buildings at the 31st December. Given the respective value of both balances circa £4 billion this creates a risk that market fluctuations would cause the valuation to be materially different if performed at the year end.	Based on our discussions and challenges of the valuer we have determined the indices movement for Other land and buildings would not be material in this 3-month period. However, for Council dwellings it was identified that there had been a downward movement of 3% in this period. From this review it was identified the likely movement would be £106.4m downwards. Management have agreed to update the financial statements for this change given it is material. From our and our own valuers experts review of this indices adjustment we are satisfied this has been appropriately applied.
Double Counted assets – 125m In our review of the Councils financial statements, we identified there were assets with a Gross book value of £128,974k that had not been revalued in year within Council dwellings. Upon investigation it was identified that these were in fact double counted assets and should be removed from the Fixed Asset register.	It was identified in the year end closedown process the Council had double counted assets. This was after decommissioning some of the components the Council previously split Council dwellings between to simplify the process. However, in doing so the Council failed to write out some of the old components which resulted an overstatement of Council dwelling valuations by £125,288k NBV. The impact of this on a GBV level was to overstate the Property plant and equipment note gross cost by£128,974k and Accumulated depreciation by £3,664k. The net impact of this was to mean Council dwellings were overstated by £125,288k. Although we consider the attempt to simplify the process appropriate, we note the application was not correctly applied. We also note the Council should review unusual valuation movements and ensure the Fixed asset register reconciles back to the Valuation report as part of the year end checks to prepare the financial statements.

1. Headlines – Significant Matters

Significant matters- Assets reclassification From discussions with management, it was identified that for a number of prior year assets that they had been incorrectly classified as surplus assets. We also identified similarly for a prior year asset that it had been incorrectly classified as an Asset under construction. Both of these issues were corrected in the open 2021-22 financial statements. In addition there was an asset classification issue around a reclassification in year of a primary school to Assets Under construction.	This matter required a prior period adjustment in the 2021-22 financial statements. This is noted in our 2021-22 Audit findings report. The impact on the draft 2022-23 accounts involved reclassifying £76,031k of surplus assets in 2022-23 to Other land and buildings. A further amendment was identified that required updating in the open 2021-22 financial statements. This related to regeneration assets the council had purchased and moved to AUC due to plans to regenerate the sites. However, the previous purpose of these assets was still operational and the assets are both in use. From our discussions management are of the view these assets should be reclassified to surplus assets. The value of this amendment is £34,500k. There is an issue regarding this asset that it had not been considered for revaluation reviews due to being held in surplus assets. Based on discussions with the Council's valuer and given the fact it was purchased at the end of the 2020-21 financial year at a market rate we are satisfied this does not create a risk of material misstatement. In the 2022-23 year from discussions with the Council we identified that the school should have been classified as an Other Land and building. This is an 16,459k adjustment from AUC to Other Land and buildings. Given the significance of these amendments we have raised a finding in our action plan on this matter.
IFRIC 14 Application- £27m For a number of Council's this was the first year since IFRS was adopted that they had to consider the potential impact of IFRIC 14 - IAS 19 -the limit on a defined benefit asset. For Southwark council they are a significant member of both the LPFA and LGPS Pension Fund with both being in a surplus position. In the draft FS the LGPS scheme was in a 99.8m surplus and the LPFA fund had a surplus of £27m. Although the Pension balance may be in surplus IFRIC 14 is applied to account for the fact these funds are not liquid.	From our review of the application of IFRIC 14 we have reperformed our own high-level calculation of its application and reviewed the actuary report. In doing so we concur and are satisfied that the LGPS scheme has appropriately applied the asset ceiling and none of the Surplus can be recongised in the Council's financial statements. On review of the LPFA actuaries' response the following was identified: • The actuary had not fully considered IFRIC 14 and the full surplus had been recongised in the Councils financial statements. • The surplus in the draft accounts was being shown in Non-current liabilities whereas it should have been shown as an asset. • The Council had not appropriately set out the accounting policies and impact of IFRIC 14 in the accounts. From the Councils review it was identified in 2021-22 the surplus had been overstated for the LPFA scheme by £14,848k which will be amended in both open year accounts. For 2022-23 it was identified that the surplus was overstated by £26,645k. The Council has obtained an updated actuary report for 2022-23 which has now appropriately considered IFRIC 14. We are satisfied these changes have now been appropriately accounted for but have highlighted this as a significant matter given the impact on the statement of accounts.

1. Headlines – Significant Matters

Dual years audits open/active Whilst undertaking the audit we have worked across the 2021-22 and 2022-23 accounts. This was done to ensure the expected backlog deadlines are met.	This process creates challenges for both ourselves and the Councils team. As the 2021-22 accounts had not been finalised all changes identified in those accounts have to be considered in the 2022-23 audit. This means at the end of the audit we have to recheck opening balances. In addition to this issues identified in the 2022-23 audit must also be then considered in relation to the open years audit work. This process was complicated further by material adjustments being posted in the Pension Fund accounts in 2021-22 after the 2022-23 accounts were published which also impacted the Council financial statements. Details of the findings in 2021-22 can be found in the 2021-22 AFR and we can confirm the consistency of the two accounts and all matters identified in 2021-22 have been addressed in 2022-23. However, for both sides this has created additional pressure and work. We would like to thank the finance team for their support in these challenging circumstances and ensuring the changes identified have been appropriately adjusted for in both years accounts.
Key Staff members leaving involved in Property valuations During the audit the Councils key valuation officer who prepared the majority of the valuations retired. 3 of our significant risks relate to property valuations and this issue did create further work for both ourselves and the Council staff.	We would like to thank the Council's property team for stepping in to support our valuation queries in what we're challenging circumstances. However, the retirement of the main valuer did delay the pace we were provided sample responses back on valuations which is a key part of our audit work. This combined with a number of adjustments identified in the valuations work has acted to elongate the time taken on the audit. The Council has taken action to move resource around to ensure our audit queries are answered. We have raised some recommendations in Appendix B regarding this process.

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 £19.5m. This was based on 1.5% of your gross expenditure for the year. We report to the Audit, Governance and Standards Committee any misstatements or matters identified above our reporting threshold which has been set at £975k.

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.

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 City Fund 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 City Fund, which was one of the most significant assessed risks of material misstatement. There have been no changes to our assessment as reported in the Audit Plan.	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 to evidence. • Gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness Our work on management override of controls is complete. We identified a number of Journals that we tested that we could not obtain formal evidence to demonstrate the Journal was approved. This was in part due to this not being an automated process and staff not keeping sufficient records to support all Journal approvals. We have nothing further to bring to the attention of those charged with governance and management.
The revenue cycle includes fraudulent transactions (rebutted) Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. In the Audit Plan, 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. To gain assurance over revenue, we: • Documented our understanding of the revenue business process. • Tested a sample of revenue to gain assurance over the accuracy and occurrence of revenue recorded during the financial year. • Performed testing over post year-end receipts to assess completeness of revenue and receivables recognition. No issues have been identified from our work.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of Investment Property Investment properties have been identified as a significant weakness due to their value and the fact property valuations have a higher level of uncertainty and potential for movements from year to year. The Council in the draft financial statements held Investment properties valued at £313.2m.	We undertook the following procedures: • 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 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 valuation methodology and approach, resulting assumptions adopted and any other relevant points. • 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. • Tested revaluations made during the year to see if they have been input correctly to the Council's asset register. • Assessed the value of a sample of assets in relation to market rates for comparable properties. • Assessed the classification of assets to ensure they were held in the right asset category. In part due to the audit backlog the Councils key valuer had retired. This meant other officers in the valuation team had to help collate evidence and respond to our audit queries on this area. In relation to this there were some challenges for those involved due to the way the evidence was saved, meaning it was more challenging to locate the workings than ideally would be the case. We have raised a control point around ensuring the Council maintains a clear log and the calculations behind the audit valuations to help support the audit of these assets. We noted in our review of assets the Council has a large property portfolio, with a number of plans regarding assets containing some uncertainty. We note management should seek to ensure a consistent approach is applied across its portfolio of property assets in relation to their classification. We have also in our Letter of representation requested specific representations around the classification of assets. We note the classification of assets is driven by management intent for the assets. Given the Council has a number of capital plans that are under review and a large complex asset portfolio we require this representation in addition to our own audit procedures on this area. We note that judgments around classification of assets can impact asset valuations due to different assets having different valuation requirements under the Code. In our testing of Investment properties, we did encounter some challenges due to the retirement of one of the Councils valuation officers. It was also identified in the testing that one asset had been incorrectly valued, due to the wrong asset being valued. This resulted in a misstatement of £1.3m. We are satisfied from our other testing that this would not lead to a material error but indicates a possible understatement of Investment properties of £1.3m. Management have also assured us that this is a one off error and due to the similarity of two property assets in the area that is unique to this case. No other issues have been identified and our work on this area is complete.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings The Council revalue 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 924m 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 revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	During the audit, we have undertaken the following work: • Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work. • 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. • 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. • 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. In part due to the audit backlog the Councils key valuer had retired. This meant other officers in the valuation team had to help collate evidence and respond to our audit queries on this area. In relation to this there were some challenges for those involved due to the way the evidence was saved, meaning it was more challenging to locate the workings than ideally would be the case. We have raised a control point around ensuring the Council maintains a clear log and the calculations behind the audit valuations to help support the audit of these assets. From our work the following matters were noted. The valuation for Other Land and Buildings is performed with a valuation date of the 31st December, 3 months prior to the year end. This creates a high risk that market fluctuations will result in adjustments to the Year-end value. Given the size of the Council's asset portfolio this approach combined with uncertainties around non revalued assets creates a risk of potential changes in the asset values. As noted in the prior year we consider this to be a significant control deficiency, we do note though that management was provided this finding after the date this years accounts were produced. In our work we identified that the Council had failed to impair two assets that had been identified by the valuer for impairment. This meant the assets were overstated by £1,958k. It was also identified that £2,888k of additions on a school asset had not been considered in the valuation process. This resulted in a potential understatement of the school asset that had been enhanced in year. The net impact of these two errors indicates a possible understatement of Other Land and Buildings of £930k This is below our triviality levels when netted off. We also identified that two assets were misclassified in Other land and budlings that should have been on Investment properties, the value of these was below our reporting threshold. The above matters were all identified in our reconciliation of the Fixed Asset register to the valuation report and this should have been identified in the preparation of the financial statements.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of Council Dwellings The Council revalue its Council Dwellings on a Beacon basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved £3.7 billion. We therefore identified valuation of Council Dwellings particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	We undertook the following procedures: • 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 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. • 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. • Conducted impairment reviews including visiting asset sites to check sites where impairments have been applied and non-impaired assets to check for completeness. • Reviewed issues around RAAC and made enquires around this to ensure the Councils assets were not significantly impacted by this issue. From our work performed the following significant matters were identified: • £51m of Assets Under construction were held at Cost. This was because they were complete after the valuation date of December 31st. We requested the valuer to assess if they were held at EUV-SH valuation what the impact would be this identified a £25.9m overstatement of Housing Assets. This issue links to a significant control deficiency noted in our AFR presented in February 2024 that the valuation date should be the same as the Year end date. • It was identified £125.3m of Housing assets were double counted. This was due to changes in the way assets were componentised and was picked up in our reconciliation of the valuer's report to the SOA. This issue meant the assets were overstated by £125.3m, we have raised this as a significant control deficiency in our control findings. • It was also identified for those assets revalued that the changes in the property market indicated a drop in property valuations from December 31st to March 31st. Following this managements valuer has reassessed the movement and identified the change should be 105.3m This is considered another significant matter in our AFR. The above changes indicate a £256.5m overstatement in the Council dwellings at the Year end. Management has agreed to amend the accounts on this basis. We have identified no further issues in our work on this area but note the above findings indicate there is a requirement going forwards for management to consider the year end valuations procedures to ensure the accuracy of the financial statements, particular given the Council has one of the largest Council dwelling asset bases nationally. The Council valuer has provided us with an updated valuation certificate to reflect these adjustments and materially changed valuation. No other issues have been identified and our work on this area is complete.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of pension fund net Surplus The Council's pension fund net surplus, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net surplus is considered a significant estimate due to the size of the numbers involved (£26.8m in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions. Note the fair value of the Plan assets in the draft financial statements is £1,898m and the plan assets are at £1,871m) The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability.	The Councils Pension surplus consists of nil balance from the LGPS scheme due to the asset ceiling being applied. The overall surplus is circa £100m of the LGPS fund. For the LPFA no asset ceiling was applied in the draft accounts with a £26.8m asset being recongised. We undertook the following procedures: • Gained an understanding of the processes and controls put in place by management to ensure that the Councils 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 LPFA. • 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. • Documented the scope of the actuary's work for the triennial valuation • Performed audit procedures in respect of the triennial valuation data submitted by the actuary. • Tested individual member data used by the actuary in their triennial valuation calculations against independent records. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). The source data used by the actuaries to produce the IAS 19 estimates is provided by administering Authority's and employers. We verified that this source data was accurate. Our work is nearing completion, but the following significant matters were identified: • The Surplus if being accounted for correctly should be shown in Long term assets not netted of against Long term liabilities. • The actuary of the LPFA scheme had not considered IFRIC 14. A new report has been issued reducing the overall asset to £139k from the £26,783k balance previously stated. • In our Pension Fund accounts an increase of the LGPS assets has been identified of 43m. The Council has a 96% share of these assets and this requires updating in the Pensions note. However, this matter does not impact the Balance sheet as the LGPS scheme has had the asset ceiling fully applied, this does require restatements of the Pensions note to note this increased asset value. • We identified due to the significance of IFRIC 14 in the Councils accounts the Council should note the policy in their financial statements and details of the impact on the Statement of accounts. Our work on the valuation of the pension fund liability is complete. We have nothing further to bring to the attention of those charged with governance and management.

2. Financial Statements: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

			ITGC control area rating				
IT application	Level of assessment performed	Overall ITGC rating	Security management	Technology acquisition, development and maintenance	Technology infrastructure	Additional work performed	Findings
SAP	ITGC assessment (design and implementation effectiveness only)	🔴	🔴	🔴	🟡	Our It team consider the issues identified to be a red rating. However, upon review of the users we noted none of the users with the relevant deficiencies posted Journals. Therefore, we have revised the ratings grade to reflect this.	See Appendix C for findings.
NEC	ITGC assessment (design, implementation and operating effectiveness)	🔴	🔴	🔴	🔴	Our It team consider the issues identified to be a red rating. However, upon review of the users we noted none of the users with the relevant deficiencies posted Journals. Therefore, we have revised the ratings grade to reflect this.	See Appendix C for findings.

Assessment

- 🔴 Significant deficiencies identified in IT controls relevant to the audit of financial statements
- 🟡 Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- 🟢 IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- ⚫ Not in scope for testing

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. We will make specific representations on the following matters: • That all post balance sheet events have been made aware to us as part of our audit procedures. • There are no known RAAC issues which would impact the valuations of property assets. • The Council has no liabilities in relation to equal pay liabilities. • All impairment events that are known of regarding assets have been appropriately accounted for. • The classification of Council assets are appropriate and has been consistently applied.

2. Financial Statements: other communication requirements

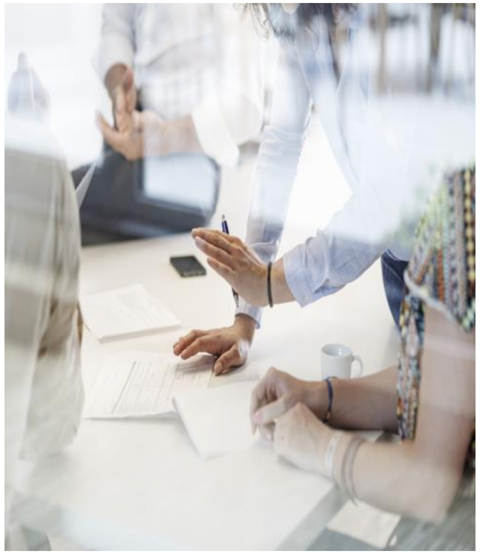
Our responsibility

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

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

2. Financial Statements: other responsibilities under the Code

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



2. Financial Statements: other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. • Note that work is not required as the Council does not exceed the threshold;
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2022/23 audit of Southwark Council in the audit report, due to us having an outstanding objection raised in the 2021-22 audit that requires resolving.

3. Value for Money arrangements (VFM)

Approach to Value for Money work for 2022/23

The National Audit Office issued its guidance for auditors in April 2020. The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

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

Financial Sustainability

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

Governance

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

Potential types of recommendations

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

Statutory recommendation

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

Key recommendation

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

Improvement recommendation

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

3. VFM: our procedures and conclusions

We have undertaken our Value for Money work for the 2022-23 year. However, this work is not complete as we have not finalised our work on an objection raised to the 2021-22 accounts. We therefore are required to consider this in our Annual Auditors report. The Annual Auditors report will be provided within 3 months of us signing the financial statements audit and by that point we expect to have finalised our work on the objection.

In assessing the significant risk identified in our audit plan around the financial sustainability of the Housing Revenue Account we have identified a significant weakness in the Council's arrangements. These will be more fully reported in our Final Annual Auditors report. However, as per the Code requirements we are required to report to Those Charged with Governance and in our audit opinion these matters when identified. The key recommendations identified to date follow on from the recommendations identified in the prior year work and are noted on the next two slides. These matters will be noted in our final audit opinion.

3. VFM: our procedures and conclusions

Key recommendations from 2021-22 Report – Follow up

Our 2021-22 annual audit report (presented January 2024) highlighted a number of significant weaknesses in relation to the Council's housing service. The concerns related to the Asset Management Strategy (AMS). The 2016 AMS identified a funding requirement (in 2015 terms) of £796.5 million to deliver improvements to the Council's housing stock to bring the homes up to the required standard and this gave rise to the Quality Homes Improvement programme (QHIP). The AMS is now in the process of being updated as we note below. Our concerns also related to the completeness of up-to-date stock condition information which we referenced in our 2020/21 Auditor's Annual Report. In particular, we were concerned that under current projections, the Council did not have access to sufficient funds to ensure the affordability of its capital programme impacting on the Housing Revenue Account (HRA). This was especially the case given the competing priorities of building new homes, responding to the net zero agenda and meeting new building and fire safety regulations post Grenfell. We made 4 key recommendations in the report and our 2022-23 audit has followed up with key senior Finance and Housing staff on how the Council has addressed these recommendations.

It is important to note that these issues came to our attention during our work on VfM for the financial year 2021/22 and continued to apply in 2022/23. This report primarily relates to financial year 2022/23 and therefore for that period, we consider it appropriate that the significant weaknesses previously identified and the corresponding key recommendations still apply to that year. However, we do note that progress has been made, particularly in the current year 2023/24 and we are pleased to recognise this in our commentary against each of the four key recommendations set out below.

Key recommendation 1: We recommended that the Council introduce arrangements to refresh its AMS at least every 3-5 years. This would be supported by an annual review process which assesses delivery against the programme and carries out re-profiling and forecasting of costs.

The Council has just agreed a 2-year capital programme commencing April 2024 which in effect is a replacement for the QHIP programme. This includes decency standard and building safety requirements so will be up to date in terms of statutory requirements. The stock condition reset is starting imminently with the work currently out to tender. The expectation is that it will be complete within 18 to 24 months in time to inform a 3-5 year Asset plan from that point forwards. This will then be a 5-year rolling programme which will feed the Council's asset database. Contracts will be awarded through existing partnering contractors and the use of new contractors through updated frameworks. The Housing Recovery Board has been set up to ensure refreshed costs are aligned to the Council's budget to deliver the asset management programme. The outcome provided the 2 year capital programme to inform the Council's budget planning. There is also an annual review of costs with cost consultants to look at the inflationary pressure on the programme.

Key recommendation 2: We recommended that the Council carries out a refresh of the costings for all housing capital expenditure (including the QHIP programme) and establishes how the resulting re-profiled programme might be funded. We noted that the Council had started the process to address this (e.g. by commissioning a new stock condition survey from Savills). We note that Officers are communicating with members accordingly.

The Council is working with cost consultants and partners to manage the programme within the Council's current budget. It has already made revisions to the original budget in the QHIP programme and we are satisfied that the current programme is based on a more realistic estimate of the costs. The Council acknowledges that there is further work to do to further strengthen the Council's understanding of projected costs. The financing of the programme will draw from the major repairs reserve (£50m), revenue contributions to capital outlay (RCCO - £20m) with the remainder to be funded from increased borrowing (c. £30m) together with the pausing of schemes within the new build programme providing savings in interest costs that would have impacted the revenue account. In the longer term, the intention is that the repayment of borrowing will be partially met by selling off surplus properties. The Council acknowledges that this will need to be closely monitored as it will be impacted by economic conditions and market values.

With reference to the SCS the Council has now received approval at Gateway 1 and can proceed to Gateway 2. Data collection is expected in the 18-24 month period to inform the future AMS. The current building safety programme is informing the Council of its stock condition but is limited to high rise blocks. The SCS will capture the traditional data on decency combined with building safety data.

3. VFM: our procedures and conclusions

Key recommendations from 2021-22 Report – Follow up (continued)

Key recommendation 3: We recommended that the Council, as an immediate priority and a matter of urgency, uploads the recently collected data on stock condition into its new database.

The Council has been working hard to update the stock condition survey data, taking into account the requirements of new legislation in areas such as fire safety and damp and mould. The refreshed data will ultimately help inform revisions to the asset management strategy. Although the government has been recommending 100% stock condition surveys this is likely to be beyond the capability of the Council to deliver in the short term and the focus is therefore on priority areas under the new regulations and in delivering sufficient coverage of stock to allow maintenance demands to be extrapolated with a reasonable degree of accuracy. The priority for the Council is the high-rise buildings as that is what the legislation specifically references. Low rise buildings will come after these have been surveyed in terms of priority. The Council has started its stock condition data collection for high rise building safety and that will be combined with other key elements of decent homes standards across the Council's housing stock. It is highly likely that this process will identify additional cost pressures and the Council is setting aside contingencies to mitigate this risk within the new funding solution.

The database to capture asset component information is Apex. The Apex system is deemed compliant and the quality of the data input is being managed by the Council. A new database is to be introduced called 'True Compliance' which will capture building safety, decency and compliance information and integrates with the housing management system. This will in time replace Apex.

Key recommendation 4: We recommended that the Council addresses the issue of how it will fund the commitment it has to all its tenants to meet the decent homes standard. We note that the Council has started the process to address this and is communicating with members accordingly

Historically the Council has had a £50m budget reserve for housing stock which they have supplemented by the use of revenue contributions from the HRA. Now that budget has been increased to £100m+ to take account of the additional work likely to be required. This has been funded via borrowing which the Council is planning to pay back via capital receipts by selling off void properties. It is unusual for the Council to borrow for asset management rather than for new homes but it has been necessary and payback plans are in place so the borrowing is just to get the Council over the spike in activity they're seeing at the moment arising from building safety and fire safety regulations with the plan to return back to a slightly more sustainable budget as soon as possible.

Conclusion

In summary, having discussed progress against each of our four key recommendations from 2021-22 we are pleased to note that the Council has made good progress in addressing all the issues. The imminent start of the stock condition survey which is expected to take up to 18-24 months is welcome as this will ultimately provide the necessary data to both update the Council's asset management system and at the same time feed into the 3-5 year asset strategy. It is clear the Council is taking the recommendations seriously and putting in the required effort to rectify its stock condition data and build a credible asset strategy and this is to be commended. As 2022/23 represents the last year of our appointment as auditors to the Council it will be a matter for your new auditor to consider the status of these issues and the full implementation of the key recommendations in their assessment of VfM in 2023/24. Council is aware of long time frame but as they are looking at high priority areas first they hope to mitigate highest areas of risk early in the process (eg fire safety) and then to expedite the remainder of the programme to bring forward that time frame.

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 and consider that an objective reasonable and informed third party would take the same view. 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 F.

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 Grant Thornton International Transparency report 2023.

4. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. In relation to the fees noted this includes all fees that were billed/paid or entered into from the 1st April 2022 to the present date. The following non-audit services were identified.

Service	Fees £	Year relates to	Threats identified	Safeguards
Audit related				
Certification of Pooling of Housing Capital Receipts 2022-23	20,000	2022-23	Self Interest (because this is a recurring fee) Self review Management	This engagement is for the provision of a report of factual findings in respect of the client's Pooling of Housing Capital Receipts return. There is no direct impact on the value of receipts and expenditure reflected in the financial statements and there is a low risk of the work leading to any need for restatement of the accounts. The Pooling of Housing Capital Receipts review does not impact on our independence, objectivity or integrity in respect of the audit of the financial statements of the entity. The fee is not significant in relation to the audit fee or in relation to the firm's overall turnover. We consider that there is a low risk of material accounting entries which are subject to judgement being significantly affected by our work on this engagement
Teachers Pensions Return Certification 2022-23	20,000	2022-23	Self Interest (because this is a recurring fee) Self review Management	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £20,000 in comparison to the total fee for the audit set out in Appendix D and relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived threats to an acceptable level. We have not prepared the form which we will be reviewing. The factual accuracy of our report, including representations from management, will be agreed with informed management, however, we will not be performing any management functions as a result of this work. We consider that there is a low risk of material accounting entries which are subject to judgement being significantly affected by our work on this engagement. We are satisfied that there is sufficient safeguards in place to mitigate the threats.
Greater London Authority Checklist 2022-23	30,000	2022-23	Self Interest (because this is a recurring fee) Self review Management	This is a regulatory annual return that the Council have to prepare and provide an audited certificate to the relevant Government department. Management will be the key liaison points for detailed queries and have been so for a number of years and would, therefore, be aware of our role. Summary outcomes of the work are reported to TCWG in the council and they are aware of the Firm and have the role of overseeing work of external audit. Again, we are satisfied they would be of the view that this is work that external auditors would undertake and they are appropriately informed. Therefore, we are satisfied independence and safeguards appropriate. We are satisfied given there are no auditor judgements involved in the work that there is no risk around undertaking this work.

4. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. In relation to the fees noted this includes all fees that were billed/paid or entered into from the 1st April 2022 to the present date. The following non-audit services were identified.

Service	Fees £	Year relates to	Threats identified	Safeguards
Audit related				
Certification of Housing Benefit Grant Claim 2022-23	77,625	2022-23	Self Interest (because this is a recurring fee) Self review Management	This is a regulatory annual return that the Council have to prepare and provide an audited certificate to the relevant Government department. Management will be the key liaison points for detailed queries and have done so for a number of years. The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £77,625 in comparison to the total fee for the audit set out in Appendix D and relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self interest threat to an acceptable level. We have not prepared the form which we will be reviewing. The factual accuracy of our report, including representations from management, will be agreed with informed management, however, we will not be performing any management functions as a result of this work. We consider that there is a low risk of material accounting entries which are subject to judgement being significantly affected by our work on this engagement. We are satisfied that there is sufficient safeguards in place to mitigate the threats.
CFO Insights Subscription 2022-23	10,000	2022-23	Self Interest (because this is a recurring fee) Self review Management	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £10,000 in comparison to the total fee for the audit set out in Appendix D. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. In addition the service nor the fee have no impact on any balances in the Financial statements.
Greater London Authority Checklist 2021-22	7,500	2021-22	Self Interest (because this is a recurring fee) Self review Management	This is a regulatory annual return that the Council have to prepare and provide an audited certificate to the relevant Government department. Management will be the key liaison points for detailed queries and have been so for a number of years and would, therefore, be aware of our role. Summary outcomes of the work are reported to TCWG in the council and they are aware of the Firm and have the role of overseeing work of external audit. Again, we are satisfied they would be of the view that this is work that external auditors would undertake and they are appropriately informed. Therefore, we are satisfied independence and safeguards appropriate. We are satisfied given there are no auditor judgements involved in the work that there is no risk around undertaking this work.
Certification of Housing Benefit Grant Claim 2021-22	63,000	2021-22	Self Interest (because this is a recurring fee) Self review Management	This is a regulatory annual return that the Council have to prepare and provide an audited certificate to the relevant Government department. Management will be the key liaison points for detailed queries and have done so for a number of years. The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £63,000 in comparison to the total fee for the audit set out in Appendix D and relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self interest threat to an acceptable level. We have not prepared the form which we will be reviewing. The factual accuracy of our report, including representations from management, will be agreed with informed management, however, we will not be performing any management functions as a result of this work. We consider that there is a low risk of material accounting entries which are subject to judgement being significantly affected by our work on this engagement. We are satisfied that there is sufficient safeguards in place to mitigate the threats.

4. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. In relation to the fees noted this includes all fees that were billed/paid or entered into from the 1st April 2022 to the present date. The following non-audit services were identified.

Service	Fees £	Year relates to	Threats identified	Safeguards
Audit related				
Teachers Pensions Return Certification 2021-22	8,000	2021-22	Self Interest (because this is a recurring fee) Self review Management	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £8,000 in comparison to the total fee for the audit set out in Appendix D and relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self interest threat to an acceptable level. We have not prepared the form which we will be reviewing. The factual accuracy of our report, including representations from management, will be agreed with informed management, however, we will not be performing any management functions as a result of this work. We consider that there is a low risk of material accounting entries which are subject to judgement being significantly affected by our work on this engagement. We are satisfied that there is sufficient safeguards in place to mitigate the threats.
Certification of Pooling of Housing Capital Receipts 2021-22	7,500	2021-22	Self Interest (because this is a recurring fee) Self review Management	This engagement is for the provision of a report of factual findings in respect of the client's Pooling of Housing Capital Receipts return. There is no direct impact on the value of receipts and expenditure reflected in the financial statements and there is a low risk of the work leading to any need for restatement of the accounts. The Pooling of Housing Capital Receipts review does not impact on our independence, objectivity or integrity in respect of the audit of the financial statements of the entity. The fee is not significant in relation to the audit fee or in relation to the firm's overall turnover. We consider that there is a low risk of material accounting entries which are subject to judgement being significantly affected by our work on this engagement
CFO Insights Subscription 2021-22	10,000	2021-22	Self Interest (because this is a recurring fee) Self review Management	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £10,000 in comparison to the total fee for the audit set out in Appendix D. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. In addition the service nor the fee have no impact on any balances in the Financial statements.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Governance and Standards Committee.

4. Independence and ethics

Audit and non-audit services

The below non audit fees relate to work undertaken outside the 2021-22 and 2022-23 financial year. This either relates to fees we are required to bring to your attention due to the billing or payment taking place in the financial year or audit period or the fact we have begun our take on procedures for the work that relates to the 2023-24 financial year grant work.

Please see details of this work below.

Service	Fees £	Year relates to	ES5	Threats identified	Safeguards
Non audit related- Update of financial model for 2023-24	15,000	2023-24	34566	Self Interest (because this is a recurring fee) Self review Management	Our engagement is with Veolia to assist them with a model to set out the impact of various scenarios around contract length etc on the financial outturn of the district heat network in Southwark. Our engagement is only with Veolia; all inputs into the model and the outputs from it are the sole responsibility of Veolia; we will use the standard model release letter which makes clear our and their responsibilities in respect of the model; and we will take no part in any negotiations between Veolia and our audit client Information barriers can be put into place between the audit and advisory teams if required, but there is no overlap in personnel between the teams. Although the service is likely to be performed while we are still the auditors of Southwark Council, the impact of contract negotiations between our audit client and Veolia would affect the financial period (year ending 31 March 2024 and subsequent) after we cease to be auditors of the Council.
CFO Insights Subscription 2023-24	10,000	2023-24	40375	Self Interest (because this is a recurring fee) Self review Management	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £10,000 in comparison to the total fee for the audit set out in Appendix D. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. In addition the service nor the fee have no impact on any balances in the Financial statements.
CFO Insights Subscription 2024-25	10,000	2024-25	40375	Self Interest (because this is a recurring fee) Self review Management	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £10,000 in comparison to the total fee for the audit set out in Appendix D. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. In addition the service nor the fee have no impact on any balances in the Financial statements.
Certification of Pooling of Housing Capital Receipts 2020-21	7,000	2020-21	28348	Self Interest (because this is a recurring fee) Self review Management	This engagement is for the provision of a report of factual findings in respect of the client's Pooling of Housing Capital Receipts return. There is no direct impact on the value of receipts and expenditure reflected in the financial statements and there is a low risk of the work leading to any need for restatement of the accounts. The Pooling of Housing Capital Receipts review does not impact on our independence, objectivity or integrity in respect of the audit of the financial statements of the entity. The fee is not significant in relation to the audit fee or in relation to the firm's overall turnover. We consider that there is a low risk of material accounting entries which are subject to judgement being significantly affected by our work on this engagement

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Governance and Standards Committee.

4. Independence and ethics

Audit and non-audit services

The below non audit fees relate to work undertaken outside the 2021-22 and 2022-23 financial year. This either relates to fees we are required to bring to your attention due to the billing or payment taking place in the financial year or audit period or the fact we have begun our take on procedures for the work that relates to the 2023-24 financial year grant work.

Please see details of this work below.

Service	Fees £	Year relates to	ES5	Threats identified	Safeguards
Certification of Pooling of Housing Capital Receipts 2019-20	6,000	2019-20	20875	Self Interest (because this is a recurring fee) Self review Management	This engagement is for the provision of a report of factual findings in respect of the client's Pooling of Housing Capital Receipts return. There is no direct impact on the value of receipts and expenditure reflected in the financial statements and there is a low risk of the work leading to any need for restatement of the accounts. The Pooling of Housing Capital Receipts review does not impact on our independence, objectivity or integrity in respect of the audit of the financial statements of the entity. The fee is not significant in relation to the audit fee or in relation to the firm's overall turnover. We consider that there is a low risk of material accounting entries which are subject to judgement being significantly affected by our work on this engagement
Certification of Housing Benefit Grant Claim 2020-21	46,000	2020-21	23168	Self Interest (because this is a recurring fee) Self review Management	This is a regulatory annual return that the Council have to prepare and provide an audited certificate to the relevant Government department. Management will be the key liaison points for detailed queries and have done so for a number of years. The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £46,000 in comparison to the total fee for the audit set out in Appendix D and relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self interest threat to an acceptable level. We have not prepared the form which we will be reviewing. The factual accuracy of our report, including representations from management, will be agreed with informed management, however, we will not be performing any management functions as a result of this work. We consider that there is a low risk of material accounting entries which are subject to judgement being significantly affected by our work on this engagement. We are satisfied that there is sufficient safeguards in place to mitigate the threats.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Governance and Standards Committee.

4. Independence and ethics

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Company that may reasonably be thought to bear on our integrity, independence and objectivity.
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Group or investments in the Group held by individuals.
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Group as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Group.
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided.
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Group's board, senior management or staff that would exceed the threshold set in the Ethical Standard.

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 and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person and network firms have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements

Following this consideration we can confirm that we are independent and are able to express an objective opinion on the financial statements. In making the above judgement, we have also been mindful of the quantum of non-audit fees compared to audit fees disclosed in the financial statements and estimated for the current year.

Appendices

A. Communication of audit matters to those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

B. Follow up of prior year recommendations

Assessment	Risk level	Issue and risk previously communicated	Update on actions taken to address the issue
X	● High	**Valuation Date of December 31st** We consider the Council not revaluing assets at the YE date but at December 31st as posting a significant risk of creating material misstatements in the financial statements. We recommend the Council uses the year end date as the valuation date in all valuations and ensures the appropriate BCIS figures are used in the Year end valuations.	This issue was reported to the Council after the 2022-23 accounts were produced so there was no opportunity for it be considered. There have been a number of material adjustments to the property valuations in the 2022-23 accounts, which highlights why we have raised this as a high level risk.
✓	● Medium	**Maintenance of Records to support Journals posted** Due to a number of changes in the finance team in the time between the preparation of the financial statements and the completion of the audit there were challenges obtaining backing for 6 Journals posted. For these 6 Journals although there was no evidence of management override of Controls, we noted that management had failed to maintain appropriate support for these postings. We recommend the Council reviews its processes and instructions for officers to ensure sufficient records are maintained to support Journals posted.	This issue was not identified in the 2022-23 audit. However, we did identify that the Adult social care services accruals are not monitored post year end to identify the actual performance on them. We note that we would expect year end accruals to be monitored for performance to monitor and improve the accuracy of financial reporting.
X	● Medium	**Records to support Investment property valuations** We recommend the Council reviews its working paper requirements used to support the year end property valuations. Including having shared folders for key evidence used for each asset type as the valuation is performed.	This issue was reported to the Council after the 2022-23 accounts were produced so there was no opportunity for it be considered. There were again challenges in the 2022-23 year following the valuer having retired in obtaining timely replies to audit queries on this area.
X	● Medium	**Canada Water** We recommend the Council performs a detailed annual review of this matter and clearly documents this in a paper each year	This issue was reported to the Council after the 2022-23 accounts were produced so there was no opportunity for it be considered.
X	● Medium	**Review of Contingent Assets and Disposals** We recommend management review Contingent assets and ensure they are appropriately captured in the financial statements. We note the capturing of this information will also ensure this is appropriately monitored and audited to ensure its accuracy.	This issue was reported to the Council after the 2022-23 accounts were prepared. In the 2022-23 audit we identified a number of similar cash receipts relating to this matter and this supports our prior year recommendation that management should consider how this data can be captured going forwards. We note given the timing of the recommendation management did not have sufficient time to implement this in the 2022-23 accounts preparation process.

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations

Assessment	Risk level	Issue and risk previously communicated	Update on actions taken to address the issue
X	Medium	**Related Parties** We recommend the Council remind Members of their responsibilities to fully disclose their interests in the relevant declarations. In addition the Council should consider periodic checks on the declarations made.	This issue has not been resolved for the 2022-23 financial period. We recommend the measures outlined in our Audit Findings Report for the year ended 31 March 2022.
X	Medium	**Review of Capital Records** We recommend the Council reviews the year end capital procedures to ensure sufficient review of capital spend, disposals and the classification of assets takes place.	This issue has not been resolved for the 2022-23 financial period. We recommend the measures outlined in our Audit Findings Report for the year ended 31 March 2022.
✓	Low	**Internal Audit review of Home Care overpayments** The Council should implement the key findings made in the Internal audit review. This includes providing a training module to staff regarding this area of work, ensuring the finance service division monitors the financial information within Mosaic at the appropriate level of detail and that the recommendations around Purchase orders are implemented.	The Council have confirmed all significant recommendations have been addressed in year.
✓	Low	**Pooled budgets** The Council's Pooled Budget arrangement was signed on the 17th May 2022, meaning the agreement for 2021-22 was not signed until after the year end. This creates a risk that if there are disputes around the agreement there is no signed contract by both parties. We recommend the Council ensure all key contracts/agreements are signed in an appropriate time period.	No such issues were identified in our 2022-23 audit.

Assessment

✓ Action completed

X Not yet addressed

B. Action plan – audit of financial statements

Assessment	Issue and risk	Recommendations
● High	**Review procedures following Valuation input into the Fixed Asset Register** It was identified in our reconciliation of the fixed asset register to the valuation report that £125m of assets had been double counted. This resulted from the Council simplifying the componentisation process for Council dwellings. However, these assets were shown as being held at cost and not revalued in year despite the fact the valuer at the valuation date had revalued all Council dwellings.	We recommend the Council ensures the Fixed asset register and general ledger maintain consistency, rather than manual Journals being used to make corrections. **Management response** Management note the findings and will provide a verbal update at the committee meeting.
● High	**Review of Reclassifications and Assets Under Construction Balances** In our testing of reclassifications, the following issues were identified: • Surplus assets required a 76m adjustment to Investment properties following further reviews prompted by audit queries, this adjustment was put through in the prior year. • We identified £17m of OLB assets that had been incorrectly transferred to Assets Under construction. • In addition, 35mk of assets that have been identified as surplus assets were incorrectly classified as Assets Under construction, this adjustment was put through in the prior year. We also noted on review of the Asset Under construction balance that management does not perform an annual impairment review of these ongoing projects. We note that although Assets Under construction are held at cost on large capital risks there is the possibility of costs being impaired. And management should ensure they are reviewed for the risk of impairment under IAS 36. This is particularly relevant given the large balance of Assets Under Construction held by the council of £680.8m. There were also assets sitting in Assets Under construction with the wrong valuation method ie held at Cost not depreciated. The above creates risks around inaccurate classification/valuation of Property Plant and equipment assets.	Management should ensure annually assets in all classes are reviewed formally for reclassification and the risk of impairment. We note assets held as surplus assets and Assets Under construction require particular attention in relation to these reviews. **Management response** Management note the findings and will provide a verbal update at the committee meeting.

B. Action plan – audit of financial statements

Assessment	Issue and risk	Recommendations
● Medium	**Variances between the Fixed Asset Register to the Statement of Accounts** We identified two reconciling issues between the General Ledger and Fixed Asset register: 1) We have identified a reconciling difference in the amount of £2,062k between the GL/FAR and the note in the Other Land and Building (OLB) and Assets Under Construction (AUC) category due to the Bellenden Primary school revaluation adjustment, which has been incorrectly accounted for as an AUC. While the figure in the accounts is correct, the FAR/TB position will need to be adjusted accordingly. 2) We also identified another reconciling difference between FAR and the Accounts in the AUC category in the amount of £1,231k. This difference accounts for the depreciation which was recorded in the FAR but not in the Accounts (which is the correct treatment).	We recommend the Council ensures the Fixed asset register and general ledger maintain consistency, rather than manual Journals being used to make corrections. **Management response** Management note the findings and will provide a verbal update at the committee meeting.

C. IT general controls assessment findings

Assessment	Issue and risk	Recommendations
●	**Business users with conflicting access in SAP** We identified 40 business users with critical access to transactions/ tables/ profiles on SAP. We further noted the following: • 8 business users had access to SM30 and SM31 - Call View_Table Maintenance • 32 business users had access to SM37 - Monitor Batch Job, SM36 - Schedule Background Job. **Risks** A combination of administration and financial privileges creates a risk that system-enforced internal controls can be bypassed. This could lead to unauthorised changes being made to system parameters, creation of unauthorised accounts, unauthorised updates to their own account privileges and deletion of audit logs or disabling logging mechanisms.	Access should be based on the principle of least privilege and commensurate with job responsibilities. Management should define segregation of duty policies and processes and ensure that there is an understanding or roles, privileges assigned to those roles and where incompatible duties exist. It may be helpful to create matrices to provide an overview of the privileges assigned to roles. If incompatible business functions are granted to users due to organisational size constraints, management should ensure that there are review procedures in place to monitor activities. **Management response** The Findings of the IT report are being discussed/finalised with the IT auditors and IT team.
●	**Users with inappropriate debug access in the production environment on SAP** Our audit procedures identified 18 Dialog (A) user accounts that were assigned debug access in the production environment. Risks Having access to the debugger ("/H") in SAP, could provide the users the capability of circumventing authorisation checks and allowing access to data or modification of data.	Management should restrict or remove access to the debugger within the production environment of SAP. **Management response** The Findings of the IT report are being discussed/finalised with the IT auditors and IT team.

Assessment
- ● Significant deficiency – ineffective control/s creating risk of significant misstatement within financial statements and / or directly impact on the planned financial audit approach.
- ● Deficiency – ineffective control/s creating risk of inconsequential misstatement within financial statements and not directly impacting on the planned financial audit approach
- ● Improvement opportunity – improvement to control, minimal risk of misstatement within financial statements and no direct impact on the planned financial audit approach

C. IT general controls assessment findings

Assessment	Issue and risk	Recommendations
●	**Oversight on account with access to all SAP authorisations** Our audit procedures identified four (4) Dialog user accounts that were assigned access to SAP_NEW and SAP_ALL profiles during the audit period. *(Refer to Appendix 3 for the identified accounts)*. We also noted that that there was no evidence to confirm that access to the profile was formally requested or approved. **Risk** The SAP_ALL and SAP_NEW authorisation profile contains full system rights and should not be used with any dialogue type accounts within the production environment. The profile provides access to all IT functions within SAP as well as business transactions and if misused can cause operational stability and financial misstatements	Management should ensure that access to the SAP_ALL and SAP_NEW profile is removed from all accessible SAP user accounts. The SAP_ALL and SAP_NEW profiles should be reserved for use within an emergency or firefighter type ID that can be locked immediately when not in use, as most day-to-day administrative activities do not require such wide-ranging access as provided by SAP_ALL and SAP_NEW. Where access to this account / level of privileged is required, a process should be put in place for it to be requested, approved, and then disabled as soon as the requirement is completed. **Management response** The Findings of the IT report are being discussed/finalised with the IT auditors and IT team.
●	**Segregation of duties conflict as users have ability to configure and delete audit logs in production on SAP** We performed a comparison of all users with the ability to configure audit logs within production via SM19 with those with the ability to re-organise or delete them in production using SM18. We identified nine (9) user accounts with both access rights. **Risks** Users with access to SM19 and SM18 have the ability to configure and delete audit logs on SAP. Hence, inappropriate and anomalous activity may not be detected and resolved in a timely manner.	Management should segregate a user's ability to configure(SM19) and delete(SM18) user security event logs within production. If for operational reasons access cannot be fully segregated, alternative options to mitigate the risk could include usage of Firefighter accounts with a set validity period based on formal approvals. **Management response** The Findings of the IT report are being discussed/finalised with the IT auditors and IT team.

Assessment

- ● Significant deficiency – ineffective control/s creating risk of significant misstatement within financial statements and / or directly impact on the planned financial audit approach.
- ● Deficiency – ineffective control/s creating risk of inconsequential misstatement within financial statements and not directly impacting on the planned financial audit approach
- ● Improvement opportunity – improvement to control, minimal risk of misstatement within financial statements and no direct impact on the planned financial audit approach

C. IT general controls assessment findings

Assessment	Issue and risk	Recommendations
● (red)	**Segregation of Duties Conflict on the NEC application** Our review identified that the below three users from the non-IT team have administrative access to Ci Anywhere: • Housing Solutions Review Officer • Policy and Change Manager • Housing Choice and Supply Manager We also further observed that the Housing Choice and Supply Manager performs both financial duties and development work for the application. Risk A combination of administration and financial privileges creates a risk that system-enforced internal controls can be bypassed. This could lead to • unauthorised changes being made to system parameters • creation of unauthorised accounts, • unauthorised updates to their own account privileges • deletion of audit logs or disabling logging mechanisms.	Access should be based on the principle of least privilege and commensurate with job responsibilities. Management should define segregation of duty policies and processes and ensure that there is an understanding or roles, privileges assigned to those roles and where incompatible duties exist. It may be helpful to create matrices to provide an overview of the privileges assigned to roles. Management should adopt a risk-based approach to reassess the segregation of duty matrices on a periodic basis. This should consider whether the matrices continue to be appropriate or required updating to reflect changes within the business. If incompatible business functions are granted to users due to organisational size constraints, management should ensure that there are review procedures in place to monitor activities [e.g. reviewing system reports of detailed transactions; selecting transactions for review of supporting documents; overseeing periodic counts of physical inventory, equipment or other assets and comparing them with accounting records; and reviewing reconciliations of account balances or performing them independently] **Management response** The Findings of the IT report are being discussed/finalised with the IT auditors and IT team.

Assessment

- Significant deficiency – ineffective control/s creating risk of significant misstatement within financial statements and / or directly impact on the planned financial audit approach.
- Deficiency – ineffective control/s creating risk of inconsequential misstatement within financial statements and not directly impacting on the planned financial audit approach
- Improvement opportunity – improvement to control, minimal risk of misstatement within financial statements and no direct impact on the planned financial audit approach

C. IT general controls assessment findings

Assessment	Issue and risk	Recommendations
●	**User access within the Southwark Exchequer System is not appropriately revoked for terminated employees on NEC** It was observed, through comparison, that there were 78 leavers with active accounts on NEC application within the Southwark Exchequer System. Although Line Managers are required to complete an amendment/deletion request form, it was noted that the Line Managers did not always submit a leavers' form to IT department on the users' last day. **Risks** Where system access for leavers is not disabled in a timely manner, there is a risk that former employees will continue to have access and can process erroneous or unauthorised access transactions.	Management should ensure that a comprehensive user administration procedures are in place to revoke application and AD access in a timely manner. For a user administration process to be effective, IT must be provided with timely notifications from HR and/ or line managers Management should consider performing user access reviews on all terminated accounts to ensure all accounts have been disabled in a timely manner. **Management response** The Findings of the IT report are being discussed/finalised with the IT auditors and IT team.

Assessment

- ● Significant deficiency – ineffective control/s creating risk of significant misstatement within financial statements and / or directly impact on the planned financial audit approach.
- ● Deficiency – ineffective control/s creating risk of inconsequential misstatement within financial statements and not directly impacting on the planned financial audit approach
- ● Improvement opportunity – improvement to control, minimal risk of misstatement within financial statements and no direct impact on the planned financial audit approach

D. Audit adjustments – adjusted misstatements

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2023.

Detail	Comprehensive Income and Expenditure Statement £000	Statement of Financial Position £000	Impact on total net expenditure £000
Properties transferred from Assets Under Construction to Council Dwellings not revalued at the year end The Council between the December 31st Valuation date completed a significant number of council dwellings (169) that were not revalued as under construction at the valuation date. This meant that the assets were transferred across on a cost basis and not valued on an Existing Use-Social housing basis, as required by the Code. Upon reviewing the value, it was identified that the valuation at EUV-SH which contains a 25% discount to an EUV valuation it was identified these assets should be written down from a cost of £51,539k to an EUV-SH value of £25,681k. Resulting in an impairment of £25,858k, to be charged to the cost of services given these assets had a nil revaluation reserve. This change impacted a number of note and required changes to the MIRS, Cash Flow statement, note 1, note 5, note 7, note 11, note 23, note 24, HRA main statement and other related HRA notes.	Dr Cost of services HRA 25,858k	Cr Property Plant and Equipment 25,858k	Dr 25,858k
Double Counting Council Dwelling assets in the Fixed Asset Register It was identified in the year end closedown process the Council had double counted assets. This was after decommissioning some of the components the Council previously split Council dwellings between to simplify the process. However, in doing so the Council failed to write out some of the old components which resulted an overstatement of Council dwelling valuations by £125,288k. This change impacted a number of note and required changes to the MIRS, Cash Flow statement, note 1, note 5, note 7, note 11, note 23, note 24, HRA main statement and other related HRA notes.	DR Revaluation Reserve 125,288k	CR PPE 125,288k	DR 125,288k
Movements between Valuation date and year end data for Council dwellings In our review of the valuation work undertaken we challenged management regarding whether changes in the market from December 31st to March 31st would lead to material differences in the valuation of Council dwellings. Upon reviewing this a change of 3% was noted and has been amended using indices resulting in in Council dwellings reducing in value by £106.4m This change impacted a number of note and required changes to the MIRS, Cash Flow statement, note 1, note 5, note 7, note 11, note 23, note 24, HRA main statement and other related HRA notes.	Dr Surplus on the Revaluation of PPE 106,383k	Cr PPE 106,383k	Dr 106,383k

D. Audit adjustments – adjusted misstatements

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2023.

Detail	Comprehensive Income and Expenditure Statement £000	Statement of Financial Position £000	Impact on total net expenditure £000
Application of IFRIC 14 From our discussions with management and their actuary it was identified that on the LPFA pension scheme IFRIC 14 had not been considered. This meant the Pension asset within the accounts was reduced to £138k from £26,783k. The Council had previously shown the surplus incorrectly in the long-term liabilities line when it should have been held as long term assets, due to the surplus position. This change therefore has increased the Councils long term liabilities by £26,645k. This change also impacts the MIRS, note 23 Unusable reserves and Note 38 Pensions note.	DR Remeasurement of Pension liability 26,645k	CR Pension Liability 26,645k	DR 26,645k
Overall impact	284,174k	284,174k	284,174k

D. Audit adjustments – misclassification and disclosure

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the 2022-23 audit which have been made in the final set of financial statements.

Area of the accounts	Auditor recommendation	Adjusted?
CIES	Management has made changes to the service line reporting headings to reflect changes in year around the way internal reporting takes place. On review of this we identified that the way costs had been allocated between headings year on year were inconsistent, particularly for the Housing General Fund service line. Management has updated the note to ensure consistency between the years.	Yes
CIES, EFA and Note 17 Debtors	The following notes due to changes in the corporate structures reporting and changes year on year on the presentation of the note included prior period changes. Per IAS 1:41 when such changes are made there is a requirement for the body to: • Clearly disclose on a line-by-line basis the changes made. • Explain in detail the reasons and basis for the changes made. Presently it is our view that neither the draft or final Statement of accounts is presented in a way that fully complies with IAS1:41.	No
Note 2.14	We identified this note could be enhanced by making it clear that the earmarked reserves are part of the General Fund.	TBC
Note 4 – Critical Judgements	It was agreed that this note could be made more concise to specifically focus on the Critical judgement, rather than supplementary narrative around Canada Water.	Yes
Note 6- Events After the Balance Sheet Date	In our review of the narrative report and wider value for money work we noted the Council have decided to bring leisure services back in house. We consider this to be a non adjusting post balance sheet event. The Council has agreed to amend the note to reflect this.	Yes
Note 13 Property Plant and equipment – reclassifications	It was identified that £17mof Other Land and buildings had been incorrectly reclassified to Assets Under Construction from Other Land and Buildings that should have been held as Other Land and Buildings. As noted in our significant matters slide a number of amendments to the prior year financial statements were also identified regarding similar issues.	TBC
Note 13 Property Plant and equipment – Capital commitments	The Capital commitments note was identified as missing prior year comparators as is required by IAS1.	Yes
Note 13 Property Plant and equipment – Accounting policies	We identified on reviewing useful lives that the equipment useful life applied was 5 years. However, the accounting policies had a Useful economic life of 7-15 years for this category (per the relevant note in the accounts). The Council noted the life was stated as such incorrectly.	TBC

D. Audit adjustments – misclassification and disclosure

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the 2022-23 audit which have been made in the final set of financial statements.

Area of the accounts	Auditor recommendation	Adjusted?
Note 17 Debtors	The Council this year has added to fully comply with the CIPFA standards a note summarising Local taxation debtors that are not subject to IFRS 9. The requirement for this note is to show the net value of these debtors for those debtors that are overdue. The Council had presented this note on a gross basis and not considered if the debtors were overdue or not in the initial preparation of this note.	No
Note 19 Provisions	We identified that the provisions note had not been updated for the latest insurance report and the Insurance provision and Appeals provision have not been presented showing the utilisation of the provision in year. We also identified that the Council should consider disclosing potential contingent liabilities around RAAC, although no liabilities have been identified to date given the size of the property portfolio balance we note this could be considered a possible Contingent liability.	No
Note 20- Dedicated schools grant	Presentational improvements were identified in the Dedicated schools Grant note to more clearly show the surplus/deficit line in the note.	Yes
Note 30 Senior Officers pay	The note was updated for consistency purposes to include all the Public health officer in 2022-23 whilst removing officers who were not senior officers in 2021-22 but were in 2022-23.	Yes
Note 32- Related Parties	The Council currently does not disclose the names of related parties in the note.	No
Note 33- Capital Financing requirement	We identified this note could be enhanced by the Council splitting out the CFR balance between the HRA and the General Fund.	No
Note 38 Pension Note	We identified a number of key changes to the Pensions note: • The note required updating to reflect material increases in the Pension Fund accounts and the impact on the gross assets disclosed in the note under the LGPS scheme. • The note required adjusting to reflect the application of IFRIC 14 on the LPFA pension scheme. • We identified the note should disclose that IFRIC 14 has been applied in year and details of this application. • We identified presentational changes to more clearly show the current surplus position in the two Pension Funds and the application of the asset ceiling under IFRIC 14.	Yes

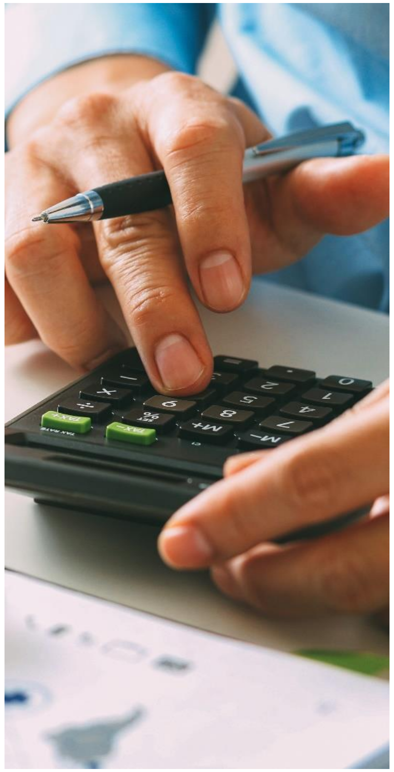
D. Audit adjustments – misclassification and disclosure

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the 2022-23 audit which have been made in the final set of financial statements.

Area of the accounts	Auditor recommendation	Adjusted?
Note 38 Pensions	We note the Council makes changes in regulations around the Pensions service act in this note. Upon our review we deem the current wording misleading as it implies changes to the Final Benefit scheme.	No
Note 41- Fair value assets and Liabilities	Upon review this note contains insufficient detail on how the asset and liability valuations have been calculated as required by the Code.	No
Collection Fund note 1	We identified challenges reconciling the note back to the actual property data provided by the VOA. We note the formal cabinet report presented should have a clear reconciliation of the discounted value of Council dwellings after reliefs to the actual number of properties held.	No
Narrative report	We identified that this note could be more clearly presented in relation to the Budget data within the report. Currently the report implies that the budget shows total spend in year when it is actually shown on a net basis.	Yes
Minor presentational points throughout	We identified a number of minor presentational changes to the accounts and have communicated these to management.	Yes

D. Audit adjustments – unadjusted misstatements



Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2022-23 audit which have not been made within the final set of financial statements. The Audit and Risk Management Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £000	Statement of Financial Position £m	Impact on total net expenditure £m
We identified uncertainties around the Provisions note. In doing so the following was identified: • The Insurance provision had not been updated to reflect the latest insurance report with the latest provision being based on the report as of the 31st March 2021. Compared to the year end insurance report as of the 31st March 2023 this would indicate the provision may be overstated by £3,207k. • The Public health provision identified does not meet IAS 37 requirements of a provision. It relates to a provision for a future event and instead would be more appropriately described as an earmarked reserve. The value of this is 1,476k. • Of the Appeals provision we noted that following our post balance sheet review the provision utilised was at a higher rate than set in the estimate. The Council note that the amounts settled post year end are likely the riskier cases in the provision. However to satisfy ourselves this higher rate of settlement did not indicate a potential material misstatement we applied this rate on the remaining appeals and identified a potential understatement of £8,330k. The above two uncertainties net of to equal £3,656k. We have reported this as an unadjusted error but note this is an estimation uncertainty rather than a factual misstatement.	DR Cost of services £3,656k	CR Provisions £3,656k	DR Net expenditure £3,656k
Overall impact	DR £3,656k	CR £3,656k	DR £3,656k

E. Fees and non-audit services

Audit fees	2020-21- Agreed with management	2021-22 Proposed	2022-23 Proposed
Fee Per Audit Plan	£257,718	£252,718	£272,423
Additional work	£125,000	£28,000	£61,370
Total audit fees (excluding VAT)	**£382,718**	**£332,918**	**£334,793**

The fees reconcile to the financial statements.

Non-audit fees for other services	2021-22 Fee	2022-23 Fees
Audit Related Services Grant claims billed during the audit period ie 1st April 2022- to present date	£86,000	£147,625
Other CFOI Insight	£10,000	£10,000
Total non-audit fees (excluding VAT)	**£96,000**	**£157,625**

None of the above services were provided on a contingent fee basis. This covers all services provided by us and our network to the Council, its directors and senior manager and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence.

The above fees reconcile to the financial statements.

Note the following fees have not been included in the financial statements. £59,000 of non audit fees relating to prior year grant work that was billed since the 1st April 2022 to the present date. And in addition £35,000 of fees that relate to future financial years. These fees have been recongised in the appropriate financial year.

E. Fees and non-audit services

We confirm below our final fees charged for the audit are non audit fees can be found on the next slide.

Audit fees	Proposed fee
New PSAA Scale fee	**£196,468**
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 - additional review, EQCR or hot review	£1,500
Enhanced procedures relating to HRA	£7,500
Enhanced audit procedures for Collection Fund- reliefs testing	£750
Increased audit requirements of revised ISAs 315/ 240	£500
Audit Fee per Plan	**£272,423**
Additional work to review accounting for IFRIC 14 and changes to the Pension Fund accounts	£10,800
Challenges obtaining information from valuation queries in part due to the key personnel having left the Valuation team	£8,200
Follow up work on Journals due to additional ITGC findings	£3,470
Additional VFM work	£12,500
Technical issues relating to a number of material adjustments in Property Plant and Equipment and Investment Properties	£27,400
Total audit fees (excluding VAT)	**£334,793**

These fees are subject to PSAA approval, we have proposed the final fee for the 2021-22 audit as £332,218.

F. Auditing developments

Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'
This impacts audits of financial statement for periods commencing on or after 15 December 2021.
ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'
ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: • the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures • the identification and extent of work effort needed for indirect and direct controls in the system of internal control • the controls for which design and implementation needs to be assess and how that impacts sampling • the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: • increased emphasis on the exercise of professional judgement and professional scepticism • an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence • increased guidance on management and auditor bias • additional focus on the authenticity of information used as audit evidence • a focus on response to inquiries that appear implausible
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. • Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: • clarification of the requirements relating to understanding fraud risk factors • additional communications with management or those charged with governance
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

G. Audit opinion

We anticipate that we will provide the Authority with an unmodified audit report.

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