

<b>Meeting Name:</b>	Audit, governance and standards committee
<b>Date:</b>	5 September 2024
<b>Report title:</b>	Progress report on implementation of recommendations from external audit action plan
<b>Ward(s) or groups affected:</b>	All
<b>Classification:</b>	Open
<b>Reason for lateness (if applicable):</b>	N/A
<b>From:</b>	Strategic Director of Finance

## **RECOMMENDATION**

1. That the Committee notes the progress on implementation of recommendations from external audit reports for 2021-22 and 2022-23

## **BACKGROUND INFORMATION**

2. The council's auditors for the statement of accounts for 2021-22 and 2022-23 (Grant Thornton) presented their audit findings to the audit, governance and standards committee at their meetings on 5 February 2024 and 25 April 2024 respectively. At those meetings it was agreed that the Strategic Director of Finance would present a progress report on the implementation of the audit recommendations detailed in the action plan to a future meeting of the committee.
3. The list of recommendations is reproduced in Appendix A of this report together with the management responses and commentary on progress to date for each recommendation. Below is a summary of the key issues resulting from the work to date.

## **KEY ISSUES FOR CONSIDERATION**

4. The audits of both the 2021-22 and 2022-23 statements of accounts provided clean, unqualified opinions and Southwark's audits are all up to date. It should be noted that significant audit delays exist elsewhere in the local authority sector and central government is proposing legislation for mandatory backstop deadlines for audits which will result in many local authorities without full audit opinions for prior year accounts.
5. The most significant area of audit concern highlighted in the audit findings reports related to processes around the valuations of property and our records of fixed assets. This is a common area of audit scrutiny in local government audits and a major cause of audit delays at many local authorities. The auditing standards to which local authorities are subjected

require rigorous scrutiny of property valuation as both auditing and accounting standards are based on the accounts of commercial companies where balance sheet valuations are key information required by key readers of the accounts such as shareholders and lenders.

6. It should be noted that variations in property valuation do not impact the financial standing of local authorities as the accounting adjustments have no budgetary impact. They also do not impact the ability of local authorities to lend money for capital investment from the Public Works Loans Board. Valuations for local authorities are very specialised in some areas such as schools and not linked to any potential commercial use of the assets.
7. That said a number of actions have been undertaken to improve the quality and timeliness of property valuations and address the concerns raised in the audit findings reports including:
  - All valuations will be done as at 31 March each year which significantly reduces any uncertainty in valuation changes within the year
  - Outsourcing of valuations to an external firm (Cluttons) with specialist expertise including support with audit queries
  - A dedicated officer within the Property service has been given specific responsibility for all valuation work related to the statement of accounts and as client point of contact with the external valuers
  - The storage of valuations working papers in shared electronic folders reducing reliance on individual officers for access
  - An additional officer has been added to the corporate accounting team whose responsibilities include increased checking of accounting records and liaison with officers involved in construction and management of property across the council to improve data quality such as asset categorisation
  - A major upgrade of the fixed asset accounting system (MRI software) is underway including a data cleanse, creation of a new database environment and improved reporting functionality
  - A capital working group has been established within the Finance service which shares relevant information on capital developments and use of property across the council and has been given training on capital accounting
8. It is expected the above actions will improve the quality and timeliness of valuations, the accounting for fixed assets, and in the responses to audit enquiries going forward. As some of these actions were still work in progress during the production of the 2023-24 accounts the full impact of improvements is likely to benefit the 2024-25 statement of accounts.

9. With respect to recommendation not related to fixed assets or valuations, these have been implemented e.g., journal processes have been updated and additional checks implemented on members register of interests.

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

#### **Community impact statement**

10. This report and the accompanying accounts are not considered to have a direct impact on local people and communities. However, good financial management and reporting arrangements are important to the delivery of local services and to the achievement of outcomes.

#### **Equalities (including socio-economic) impact statement**

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

#### **Health impact statement**

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

### **Climate change implications**

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

### **Resource implications**

14. There are no direct resource implications in this report.

### **Consultation**

15. None required

### **SUPPLEMENTARY ADVICE FROM OTHER OFFICERS**

16. None required.

### **BACKGROUND DOCUMENTS**

<b>Background Papers</b>	<b>Held At</b>	<b>Contact</b>
Department of Finance files	Finance Department, Second Floor, Tooley Street	Amarjit Uppal 0207 525 4578

## APPENDICES

No.	Title
Appendix A	Recommendations from the 2021-22 and 2022-23 Audit Findings Reports

## AUDIT TRAIL

<b>Lead Officer</b>	Clive Palfreyman, Strategic Director of Finance	
<b>Report Author</b>	Amarjit Uppal, Chief Accountant	
<b>Version</b>	Final	
<b>Dated</b>	22 August 2024	
<b>Key Decision?</b>	No	
<b>CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER</b>		
<b>Officer Title</b>	<b>Comments Sought</b>	<b>Comments included</b>
Assistant Chief Executive, Governance and Assurance	No	N/A
Strategic Director of Finance	N/A	N/A
<b>Cabinet Member</b>	N/A	N/A
<b>Date final report sent to Constitutional Team</b>	22 August 2024	