Appendix A

Recommendations from the 2021-22 Audit Findings Report

Risk Level	Issue and Audit Recommendation	Initial Management Response	Progress to date	Closed Y/N
High	**Valuation of Property Plant and Equipment including Other Land and Buildings and Council dwellings** In our work in reviewing the asset valuations the following issues were noted: • BCIS data was used at various dates for different assets leading to changes in the valuation vs if the correct BCIS data was used. • The Council values most of the assets as at the 31st December given the overall portfolio size this creates a possibility of material changes in the asset values in the following 3 months. 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. Our work this year has identified in relation to this point a £10.65m understatement in Other Land and buildings and a £8.46m overstatement in Council houses. In addition, the BCIS data being used indicates a £1.26m variance than if the figures at the appropriate valuation date were used. Although these along with other variances in our valuation work net of to 5.2m in this financial year if there are more significant changes in the data then it is likely to be material given the size of the Councils asset base. Therefore, the current arrangements we consider to create a high risk of material misstatement. **Recommendation**	Year-end valuations for our significant investment asset portfolio is done at 31st March and all other assets are currently valued at 31 December. We will review current processes with the aim of moving as much, if not all, of the asset base to a 31st March valuation. It is possible that due to the exceptionally large asset base at Southwark, particularly the number of HRA dwellings this may impact on the timeliness of the closing process therefore an approach will be taken to balance the risk of late closing against the risk of misstatement due to an earlier valuation date.	We have commissioned the valuers to prepare all asset valuations for 2023-24 accounts at 31st March 2024. This has resulted in valuation work for valuers and accountants having to be done in a shorter time-frame exacerbated by the fact that the valuations are being done by an external firm for the first time. It is one of a number of factors which have caused some delay to the publication of the draft 2023-24 accounts but we expect that this pressure will reduce in future years if more time can be spent on preparation work during the year.	Y

	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			
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. **Recommendation** We recommend the Council reviews its processes and instructions for officers to ensure sufficient records are maintained to support journals posted.	The council's journals protocol requires a robust process for storage of working papers and evidence of journal authorisation. The protocol will be updated and communicated to relevant staff with a focus on keeping accessible records that can be quickly provided to auditors on demand.	Guidance to accountants for 2023-24 closing included a renewed emphasis on record keeping for journals. A comprehensive review of journal processes is currently underway as part of the preparations for replacement of the council's finance system. We expect to utilise the functionality of a modern system to ensure journal processes are robust including audit trails and working documents being available within the system.	Y
Medium	**Records to support Investment property valuations** In our review of Investment properties and in some instances other property valuations we found the following issues: Calculation sheets did not always have clear formulas to support them. It was not always clear what supporting evidence or comparable data was used to produce the year end valuation for assets. The record keeping of evidence used to support the valuations was not well maintained following a key staff member leaving the Council. This created a number of challenges to the audit team and the internal valuation team who had to do a significant amount of work to reperform and identify appropriate evidence to support the year end valuations. **Recommendation** We recommend the Council reviews its working paper requirements used to support the year end property valuations. Including having	The valuation team have been instructed to implement this recommendation in full. The 2023-24 valuation has been outsourced to an external firm who will be required to provide comprehensive working papers for all valuations as a requirement of the contract.	Property valuations for 2023-24 have been outsourced to the external firm Cluttons. The arrangement with Cluttons includes a requirement to provide all working papers to back up the valuations. Once received these will be stored in a common folder accessible to the wider property team.	Y

	shared folders for key evidence used for each asset type as the valuation is performed.			
Medium	**Canada Water** As has been highlighted in the 2020-21 Audit Findings report the Canada Water site has a number of complexities to consider. Although we are satisfied the accounting judgements made in the previous year are appropriate there are a number of future events that could result in changes to the current treatment: • The accounting for the Leisure Centre the Council is having built as part of the arrangement. • Future lease receivables and contractual payments the Council may be due depending on options exercised within the agreement. • Any future changes in the arrangements that may require a reassessment of the Councils accounting for the matter. In addition to this the impact on future capital commitments. The Council currently at the year-end does not prepare a detailed paper reviewing and assessing its accounting treatment of the matter. Given the complexity of the matter we deem it to create a risk that the preparation of this key paper is not part of the Council's year end closedown procedures **Recommendation** We recommend the Council performs a detailed annual review of this matter and clearly documents this in a paper each year	Agreed. A paper on the accounting treatment of the Canada Water development will be prepared ahead of future audits.	The auditors focused on the Canada Water development agreement with British Land PLC because of the council’s complex option rights to invest in individual development schemes for a return. In theory there is a value to these options which is very difficult to quantify. To date the council has not exercised these options on current developments and due to limits on capital resources it is unlikely to do so in the future. Therefore it is now deemed unnecessary to prepare an accounting paper on the potential value of options which do not have any material value. This matter will be kept under review in future years and in the event of the council taking up an option to invest in a plot development, the accounting treatment will be set out in a paper for the auditors	Not yet
Medium	**Review of Contingent Assets and Disposals** In our testing of PPE disposals we identified a number of the gains on disposal related to complex arrangements where the Council had previously sold assets in which there were future conditions that could result in further payments being made, although these were contingent on specific future events taking place. In our view these gains reflect largely Contingent Assets. We note this has not been previously disclosed in the Council's accounts. **Recommendation**	An annual review of development agreements and similar arrangements will be undertaken to check whether additional payments from prior year asset disposals require disclosure as contingents assets in the statement of accounts	A review of all development agreements is carried out as part of the year end process to identify any potential receipts. A contingent assets note has been added to the statement of accounts. This includes narrative regarding the potential receipt of overage from disposal of land in prior years. Its not possible to quantify the value of such receipts at the current time but the accounts will be updated when reasonable estimates can be made.	Y

	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.			
Medium	**Related Parties** As part of our audit procedures, we undertake checks to Companies House for interests declared by members. As part of these checks, we identified 3 members had undeclared interests based on the Companies House records. Although none of these 3 bodies had transactions in the year with the Council they were based in the local area. This creates the risk that related parties are not appropriately identified and disclosed as required by IAS 24. **Recommendation** 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 matter will be communicated to all members and we will implement additional checks against Companies House records as part of our year-end processes.	There is an existing process to remind members to disclose all relevant interests. A comprehensive check of all members names is also now carried out annually against companies house records as part of the accounts closing process. In 2023-24 the checks revealed five cases of undisclosed declarations of members interests. All have now been updated on the register of member's interests.	Y
Medium	**Review of Capital Records** During our audit procedures relating to the Capital areas, we identified the following issues : £2.3m of impairments that had been misclassified as a loss on disposal. The Council had incorrectly capitalised £58k of demolition and spoil costs and £12k of costs relating to security guards. Although the extrapolated misstatement was £860k below our reporting limit we note both items do not meet the IAS 16 definitions of being capital spend. We identified that a number of assets sitting in Surplus assets that required reclassifying. Although it was noted at the time it was appropriate to move these assets to these headings, we noted that there had not been sufficient review over this judgement as part of the year end closedown procedures.	Year-end procedures will be reviewed against capital accounting regulations and updated accordingly, and training will be provided to relevant accountancy staff to minimise the risk of errors.	For the 2023-24 additional checks were incorporated and additional officer resource was allocated to the capital closing process to minimise the risk of errors. This included direct liaison with numerous individual projects officers for capital schemes as well as with accountancy colleagues. Due to the size and complexity of the council's capital programme it is challenging task to ensure spend is coded to the correct assets, and keeping abreast of various disposals and change in use of assets. In addition the Chief Accountant held a capital training session for all capital accountants which included refreshers on various aspects of capital accounting.	In progress

	In our view the above matters represent deficiencies in the year end capital closedown process and increase the risk of misstatement in the financial statements **Recommendation** 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.		A capital accounting working group will be set up to improve capital accounting across the council and as a forum for communication between the corporate finance team and capital accountants in the service areas. A major update of the RAM fixed asset system is underway to improve the quality of records and timeliness of reporting The improvements are still a work in progress and it cannot be guaranteed that some errors or omissions will surface in the 2023-24 audit. It is planned to add more officer resource to the corporate capital accounting function during 2025-25 to continue the journey of improvement	
Low	**Internal Audit review of Home Care overpayments** We note per internal audit reviews it has been that for BUPA there had been duplicate overpayments made of the MOSAIC system in the 2021-22 FY This resulted in a cumulative overpayment to BUPA of £453k of which £345k has been clawed back. The Internal Audit Report identified control weaknesses that lead to these overpayments. We have therefore raised this as a deficiency in the year end controls. Due to the value of the issue, we have raised this as a low risk rating due to this having a low likelihood in resulting in a material misstatement in the Financial Statements and to reflect this has been previously reported to members. **Recommendation** 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 majority of recommendations from the internal audit review have been implemented, and work is in progress to fully implement the remainder which include further technical changes to the Mosaic system. Additional controls have also been put in place to mitigate risk of overpayment	This matter has been resolved going forward with the process improvements implemented in 2022-23.	Y

Low	**Pooled budgets** The Council's Pooled Budget arrangement was signed on 17 May 2022, meaning the agreement for 2021-22 was not signed off until after year end. This creates a risk that if there are disputes around the arrangement there is no signed contract by both parties **Recommendation** 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	This was a one off error and contracts/agreements are signed within appropriate time periods	Y

Recommendations from the 2022-23 Audit Findings Report

Risk Level	Issue and Audit Recommendation	Initial Management Response	Progress to date	Closed Y/N
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. **Recommendation** We recommend the Council ensures the Fixed asset register and general ledger maintain consistency, rather than manual Journals being used to make corrections.	We have implemented more rigorous reconciliation checks between the Fixed Asset Register and the General Ledger during the processes for posting fixed asset transactions to the general ledger	This finding was not properly explained by the auditors and should have been corrected before finalising the audit findings report. This error resulted from the omission of a final reconciliation between the Fixed Asset Register (FAR) and the valuation report. The FAR and general ledger were consistent but both incorrect due to the double-counting which was first picked up the council officers and reported to the auditors. The reconciliation between the FAR and the General Ledger has been enhanced including a review by an officer independent of the capital accountants.	Y
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, 35m 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	We have allocated additional resources to support the fixed asset processes including detailed review of AUC and surplus assets and impairment reviews. This will allow us to make additional enquiries of capital project managers to ensure the Fixed Asset Register reflects the most up to date information	The principal cause of the misclassification of assets was due to problems in the corporate finance team in keeping abreast of changes in the use of assets e.g., a number of assets were purchased on the Old Kent Road for future development which has not yet materialised and therefore there is some uncertainty on their classification. As noted in the Capital records item in the 2021-22 audit additional resource has been allocated to the capital closing process so that further checks and review of assets can be carried out prior to completion of accounts. This also includes an impairment review of assets under construction particularly focusing on the HRA where projects in progress have been checked against the Southwark	In progress

	Construction held by the council of £680.8m. There were also assets sitting in Assets Under construction with the wrong valuation method i.e. held at cost not depreciated. The above creates risks around inaccurate classification/valuation of Property Plant and equipment. **Recommendation** 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.		construction database for evidence of on-going viability.	
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). **Recommendation** We recommend the Council ensures the Fixed asset register and general ledger maintain consistency, rather than manual Journals being used to make corrections.	We have implemented more rigorous reconciliation checks between the Fixed Asset Register and the General Ledger during the processes for posting fixed asset transactions to the general ledger.	The additional checks should reduce the probability of these type of errors even if they are relatively minor in relation to the Southwark asset base.	Y