

Southwark Council

Report to the Audit, Governance and Standards
Committee

Audit progress update for the year ending 31 March 2024

5 September 2024

Introduction

To the Audit, Governance and Standards Committee of Southwark Council

We are pleased to have the opportunity to meet with you on 5 September 2024 to provide an update on our audit of the financial statements of Southwark Council (the Council), as at and for the year ending 31 March 2024.

We have been appointed as your auditors by Public Sector Audit Appointments Ltd. The audit is governed by the provisions of the Local Audit and Accountability Act 2014 and in compliance with the NAO Code of Audit Practice.

This report outlines our progress to date on your audit, and key updates to our planned audit approach following our review of the predecessor auditor's files.

We provide this report to you in advance of the meeting to allow you sufficient time to consider the key matters and formulate your questions.

How we deliver audit quality

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. We consider risks to the quality of our audit in our engagement risk assessment and planning discussions.

We define 'audit quality' as being the outcome when audits are:

- Executed consistently, in line with the requirements and intent of applicable professional standards within a strong system of quality controls; and
- All of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

We depend on well planned timing of our audit work to avoid compromising the quality of the audit. This is also heavily dependent on receiving information from management and those charged with governance in a timely manner.

The audit undertaken in the current year is dependent on the finalisation of the previous auditor's work over historical financial statements.

We aim to complete all audit work no later than 2 days before audit signing. As you are aware, we will not issue our audit opinion until we have completed all relevant procedures, including audit documentation.



Our progress so far and updates to audit risks



Our progress so far

We have made substantial progress in our audit work to date. So far, we have:

- Finalised our risk assessment procedures, including reviewing the work performed by the predecessor auditor on the financial statements.
- Reviewing the draft financial statements, sharing our feedback with officers.
- Commenced our audit procedures over taxation income, HRA rental income, fees and charges income, Council (as opposed to school) payroll, and non-pay expenditure.
- Started inspecting the Council's valuation of land and buildings – we have selected a sample of assets to investigate in further detail.

Over the coming weeks we will issue further samples and complete our work over key areas of the financial statements.

Value for Money

We plan to perform further procedures over Value for Money upon the conclusion of the prior period work by the predecessor auditor. This is to ensure we have a complete and final picture of the brought forward position of the Council (in terms of both historical trends in financial sustainability and any issues arising across all the domains of Value for Money) when we perform our work.

Updates to audit risks

We outline below where, in our previously communicated audit risks and response, where we have revised our risk assessment.

Risk	Changes
Valuation of land and buildings	We have focused our significant risk on Council Dwellings as opposed to all land and buildings. This reflects that the Council Dwellings make up the largest part of the balance, and the valuation approach used means that should an error in valuing a small number of beacons arise, it can have an outsized impact on the valuation as a whole.
Fraud risk related to expenditure recognition	We have removed the element of the risk relating to incorrect capitalisation of expenditure on account of there being limited opportunity to do so due to the nature of the capital financing regime.

Updates to materiality

Our materiality levels

We updated materiality based on the figures in the draft financial statements but have not changed the basis upon which it was calculated.

We determined materiality for the Council's financial statements at a level which could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. We used a benchmark of total expenditure which we consider to be appropriate given the sector in which the entity operates, its ownership and financing structure, and the focus of users.

We considered qualitative factors such as stability of legislation, lack of borrowing, and lack of shareholders when determining materiality for the financial statements as a whole.

To respond to aggregation risk from individually immaterial misstatements, we design our procedures to detect misstatements at a lower level of materiality £10.4m / 65% of materiality driven by our increased assessed level of risk of undetected misstatements as we learn more about the Council's systems and processes, as well as on account of deficiencies in the configuration of the SAP system.

We will report misstatements to the Audit, Governance and Standards Committee including:

- Corrected and uncorrected audit misstatements above £805,000.
- Errors and omissions in disclosure (corrected and uncorrected) and the effect that they, individually and in aggregate, may have on our opinion.
- Other misstatements we include due to the nature of the item.

Control environment

The impact of the control environment on our audit is reflected in our planned audit procedures. Our planned audit procedures reflect findings raised in the previous year and management's response to those findings.

- Other than for cash, we are not anticipating placing reliance on the Council's internal controls as part of our audit work.

Materiality

Materiality for the financial statements as a whole

£16.1m

1.0% of total expenses
Previously £13.9m

Procedures designed to detect individual errors at this level

£10.4m

65% of materiality
Previously £9.03m

Misstatements reported to the Audit, Governance and Standards Committee

£805k

Previously £695k



Updates to our timetable



Our schedule

Key:

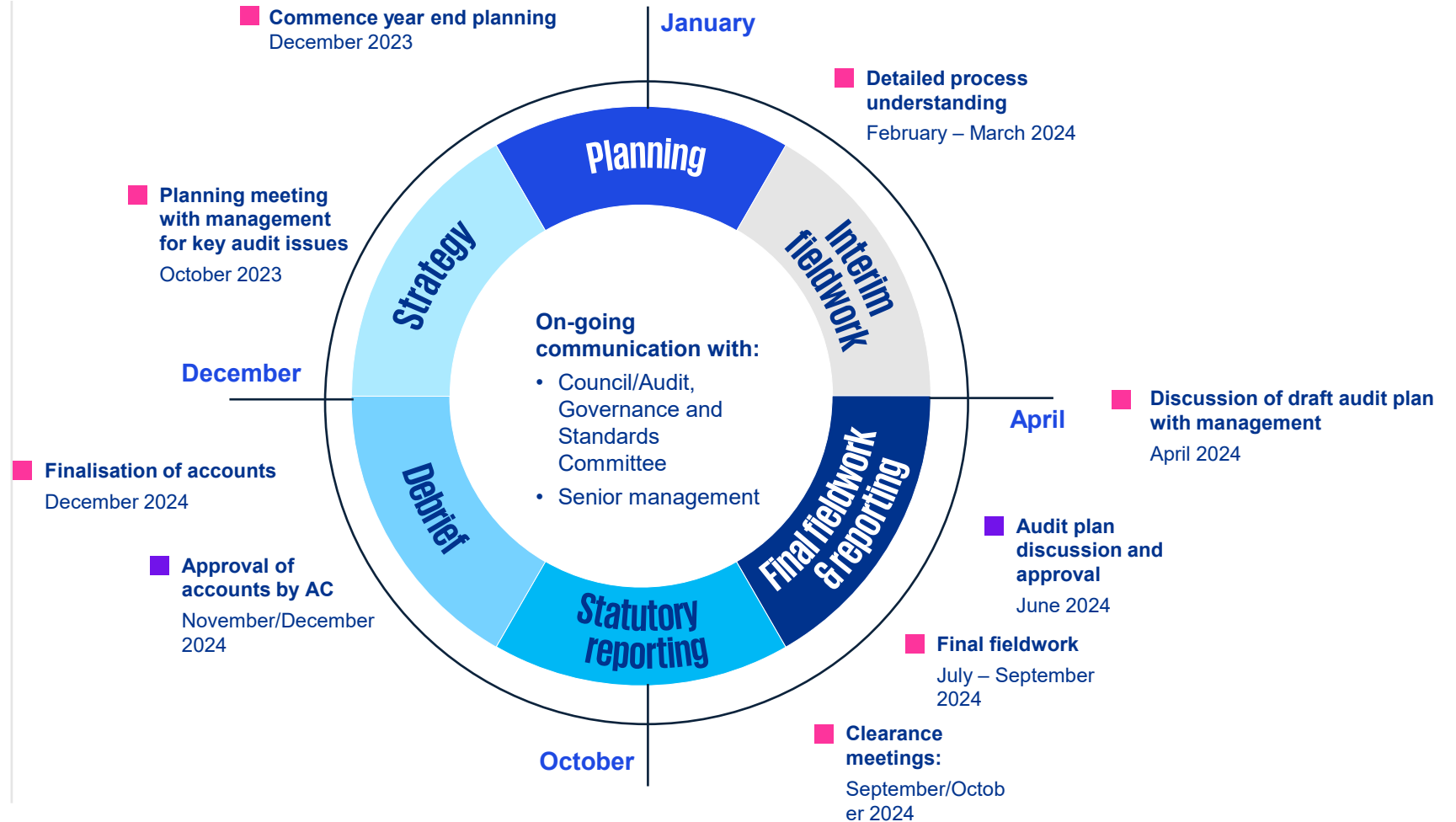
- Timing of AC communications
- Key events

We have worked with management to generate our understanding of the processes and controls in place at the Council in its preparation of the Statement of Accounts.

We have agreed with management an audit cycle and timetable that reflects our aim to sign our audit report during December 2024.

This being the first year of KPMG as auditor we have undertaken greater activities to understand the Council at the planning stage. This level of input may not be required in future years and may change our audit timings.

Given the large amount of consultation happening in regard to the scope and timing of local government this audit schedule may be subject to change.





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