Year End Report to the Audit, Governance and Standards Committee

Southwark Council

Year end report for the year ended 31 March 2024

—

10 February 2025

Important notice

This report is presented under the terms of our audit under Public Sector Audit Appointments (PSAA) contract.

The content of this report is based solelyon the procedures necessary for our audit.

Purpose of this report

This Report has been prepared in connection with our audit of the financial statements of Southwark Council (the ‘Council’), prepared in accordance with International Financial Reporting Standards (‘IFRSs’) as adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24, as at and for the year ended 31 March 2024.

This Report has been prepared for the Council's Audit, Governance and Standards Committee, a sub-group of those charged with governance, in order to communicate matters that are significant to the responsibility of those charged with oversight of the financial reporting process as required by ISAs (UK), and other matters coming to our attention during our audit work that we consider might be of interest, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this Report, or for the opinions we have formed in respect of this Report.

This report summarises the key issues identified during our audit but does not repeat matters we have previously communicated to you by written communication in September and November 2024.

Limitations on work performed

This Report is separate from our audit report and does not providean additional opinion on the Council’s financial statements, nor does it add to or extend or alter our duties and responsibilities as auditors.

Yours sincerely,

Fleur Nieboer
Partner, KPMG LLP

We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report.

The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

Status of our audit

Our audit is complete.

Restrictions on distribution

The report is provided for the information of the Audit, Governance and Standards Committee of the Council; that it will not be quoted or referred to, in whole or in part, without our prior written consent; and that we accept no responsibility to any third party in relation to it.

Our audit findings

Significant audit risks	Page 5 – 12
Significant audit risks	**Our findings**
Valuation of council dwellings	We are satisfied that the valuation of Council Dwellings is cautious but, in all material respects, acceptable. An adjustment to the accounts was made to align the value of dwellings with the valuers' report.
Management override of controls	We have not identified any evidence of management override of controls.
Valuation of post retirement benefit obligations	The results of our testing were satisfactory. We have not identified any issues in relation to the significant assumptions used within the valuation of the LGPS gross pension liability.
Fraud risk over HRA expenditure recognition	We did not identify any evidence of inappropriate recognition of HRA expenditure.
Key accounting estimates	**Page 19 – 20**
Defined benefit obligations	We assessed as reasonable the assumptions underpinning the valuation.
Defined benefit assets	We assessed as reasonable the assumptions underpinning the valuation.
Investment properties	We assessed as cautious the assumptions underpinning the valuation and identified one asset whose valuation was understated by £9.5m.
Council dwellings	We assessed as cautious the assumptions underpinning the valuation. We believe that a more balanced valuation would be greater in value by £2m – £5m, however the valuation recorded is correct in all material respects.
Other land and buildings	We assessed as reasonable the assumptions underpinning the valuation.

Uncorrected Audit Misstatements		Page 22
Understatement/ (overstatement)	**£m**	**%**
Gross income (net cost of services)	-	-
Gross expenditure (net cost of services)	-	-
Deficit on the provision of services	(15)	(5.3)
Total assets	15	0.2
Total reserves	15	(0.3)

Misstatements in respect of Disclosures	Page 22
Our findings	
A sensitivity analysis has not been included for estimates which contain a significant degree of estimation uncertainty. The Council has included a disclosure saying it is impractical but the Council should look to include such an analysis in future periods.	

Number of Control deficiencies	Page 21
Understatement/ (overstatement)	
Significant control deficiencies	1
Other control deficiencies	13
Prior year control deficiencies remediated	7

Outstanding matters

Our audit is complete with no outstanding matters to report.

Significant risks and Other audit risks

We discussed the significant risks which had the greatest impact on our audit with you when we were planning our audit.

Our risk assessment draws upon our knowledge of the business, the industry and the wider economic environment in which the Council operates.

We also use our regular meetings with senior management to update our understanding and take input from local audit teams and internal audit reports.

See the following slides for the cross-referenced risks identified on this slide.

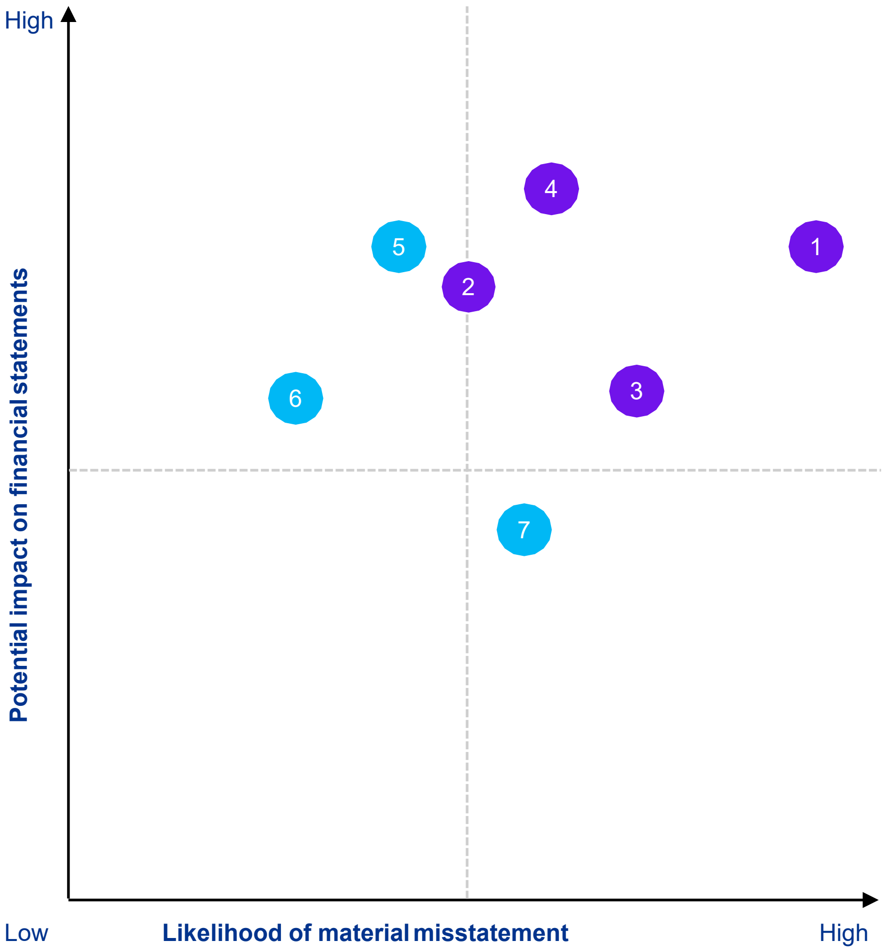
Significant risks	
1.	Valuation of council dwellings
2.	Management override of controls
3.	Valuation of post retirement benefit obligations
4.	Fraud risk over HRA expenditure recognition

Other audit risks	
5.	Valuation of investment property
6.	Accuracy and valuation of PFI liabilities
7.	Presentation of IFRS 16 pre-transition disclosures

Key: Significant financial statement audit risks

Other audit risk

Increasing or decreasing risk compared with planning



Audit risks and our audit approach

1 Valuation of Council Dwellings

Risk of error related to the incorrect calculation of valuation adjustments for housing dwellings

Cautious Neutral Optimistic

Significant audit risk

- The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate current value at that date. The Council is re-valuing all its dwellings this year on account of the appointment of a new external valuation firm. The value of the dwellings at 31/3/24 was £3.4bn.
- A risk is presented for those assets that are revalued in the year, which involves significant judgement and estimation on behalf of the engaged valuer. This is on account of the judgement involved in the selection of assumptions including, but not limited to identification of comparative properties when valuing individual beacons.
- Our identification of this risk 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.
- This risk was updated since presented in our audit plan as set out in our progress report dated September 2024.

Our response

We have performed the following procedures designed to specifically address the significant risk associated with the valuation:

- We critically assessed the independence, objectivity and expertise of Cluttons, the valuers used in developing the valuation of the Council's properties at 31 March 2024;
- We evaluated the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used;
- We challenged the appropriateness of the valuation of dwellings on a sample basis with reference to available market data for comparable assets in a similar location;
- We used our own valuation specialists to review the valuation report prepared by the Council's valuers to confirm the appropriateness of the methodology and assumptions utilised; and
- Disclosures: We considered the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation.

Audit risks and our audit approach (cont.)

1 Valuation of Council Dwellings (cont.)

Risk of error related to the incorrect calculation of valuation adjustments for housing dwellings

Cautious Neutral Optimistic

Significant audit risk

- The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate current value at that date. The Council is re-valuing all its dwellings this year on account of the appointment of a new external valuation firm. The value of the dwellings at 31/3/24 was £3.4bn.
- A risk is presented for those assets that are revalued in the year, which involves significant judgement and estimation on behalf of the engaged valuer. This is on account of the judgement involved in the selection of assumptions including, but not limited to identification of comparative properties when valuing individual beacons.
- Our identification of this risk 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.
- This risk was updated since presented in our audit plan as set out in our progress report dated September 2024.

Our findings

- We were content with the independence, objectivity and expertise of Cluttons and were satisfied that their work could be relied upon for audit purposes. This is the first year the Council has worked with an external specialist. Our queries were reviewed and discussed with us by the Council prior to being passed to the valuer as part of gaining familiarity with the process. However, in future we would anticipate that we have greater ability to interact directly with Cluttons, including private meetings (if required), notwithstanding the Council's responsibilities to oversee the process.
- We noted that there was regular communication between Council staff and the team at Clutton's in terms of reviewing data, discussing the approach and ultimately assessing the adequacy of the valuation reached. However, we could not identify an independent stand-back assessment of whether the valuation was in line with expectation. Auditing standards expect that individuals not involved in the valuation process would perform a review control that demonstrates how both the approach taken by the independent valuer and the outcome of their work is assessed and challenged. However, such a review would only be considered best practice and so the lack of that review did not affect our conclusions in respect of this risk however we have raised an associated recommendation on page 47.
- Our sample testing of individual beacon valuations identified one beacon where the valuation was not supported by available market data as some comparatives were not considered by Cluttons. Had they been considered, the valuation recorded would have been greater in value. Extrapolating that property across the entire beacon group would indicate that the valuation may be understated by a figure in the range of below triviality to £15m although we do not believe a figure at the top end of the range is realistic. We are therefore satisfied that the valuation is not materially misstated however considered it to be towards the more cautious side of neutral, but well within an acceptable range.
- We were satisfied with the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation. There was a discrepancy between the valuers report and the financial statements which has been corrected, caused by duplicating the value of capital additions.

Conclusion: We are satisfied that the valuation of council dwelling is reasonable.

Audit risks and our audit approach (cont.)

2 Management override of controls[a]

Fraud risk related to unpredictable way management override of controls may occur

Significant audit risk

- Professional standards require us to communicate the fraud risk from management override of controls as significant.
- Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
- We have also identified weaknesses in the control environment for journal entries, including over-privileged user access to the Council's general ledger system.

Note: (a) Significant risk that professional standards require us to assess in all cases.

Our response

- Our audit methodology incorporates the risk of management override as a default significant risk.
- We assessed accounting estimates for bias by evaluating whether judgements and decisions in making accounting estimates, even if individually reasonable, indicated a possible bias;
- We evaluated the selection and application of accounting policies;
- We evaluated the design and implementation of controls over journal entries and post closing adjustments;
- We evaluated the design and implementation of controls in place for the identification of related party relationships;
- We tested the completeness of the related parties identified and ensured any transactions arising with those parties were appropriately disclosed within the financial statements;
- We assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates;
- We assessed the business rationale and the appropriateness of the accounting for significant transactions that were outside the Council's normal course of business, or were otherwise unusual; and
- We analysed all journals through the year using data and analytics and focused our testing on those with a higher risk, such as journals which transfer expenditure out of the Housing Revenue Account and into the General Fund.

Audit risks and our audit approach (cont.)

2 Management override of controls[a] (cont.)

Fraud risk related to unpredictable way management override of controls may occur

Significant audit risk

- Professional standards require us to communicate the fraud risk from management override of controls as significant.
- Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
- We have also identified weaknesses in the control environment for journal entries, including over-privileged user access to the Council's general ledger system.

Note: (a) Significant risk that professional standards require us to assess in all cases.

Our findings

- We were satisfied that accounting estimates did not exhibit any trends or patterns which may be indicative of management bias, and we did not identify any inappropriate changes in preparing estimates since 22/23.
- We did not identify any inappropriate accounting policies. As part of this assessment we considered, and consulted with our technical department, on management's judgements and accounting policies in accounting for the Canada Water Joint Arrangement with British Land. We were satisfied with the accounting policies used.
- We did not identify effectively designed and implemented controls over journal entries because management do not enforce journal entry authorisation within SAP. Whilst there are authorisation logs for journal entries, there was no mechanism to stop a fraudulent entry being posted without being recorded on the journal entry log.
- Updates were made to the related party disclosures to include a missing transaction. In addition, a restatement to the related party transactions disclosure has been made to correct an error where in-year transactions with related parties were not correctly disclosed in 22/23. These adjustments indicate that improvements can be made to the Council's controls and procedures in relation to related parties.
- We did not identify any inappropriate accounting in relation to significant unusual transactions.
- We identified 61 (by Document Number) high risk journal entries as part of our journal entry analysis. Our work over those journal entries did not identify any instances of management overriding internal control.

Conclusion: We have not identified any evidence of management override of controls.

Audit risks and our audit approach (cont.)

3 Valuation of post retirement benefit obligations

Risk of error related to the incorrect valuation of defined benefit plan liabilities

Cautious | Neutral | Optimistic

Significant audit risk

- The valuation of the post retirement benefit obligations involves the selection of appropriate actuarial assumptions, most notably the discount rate applied to the scheme liabilities, inflation rates and mortality rates. The selection of these assumptions is inherently subjective and small changes in the assumptions and estimates used to value the Council's pension liability could have a significant effect on the financial position of the Council.
- In addition, the Council's pension memberships are in a net surplus position, leading to judgements being required as to the quantum of any asset ceiling which should be calculated, and hence whether an asset should be recognised on the balance sheet.
- The effect of these matters is that, as part of our risk assessment, we determined that post retirement benefits obligation has a high degree of estimation uncertainty. The financial statements disclose the assumptions used by the Council in completing the year end valuation of the pension deficit and the year on year movements.
- We have identified this in relation to the Southwark Local Government Pension Scheme. Due to the size of the liability for the London Pension Fund Authority membership being small compared to materiality, we have not identified this risk in relation to that membership.

Our response

We performed the following procedures:

- Understood the processes the Council has in place to set the assumptions used in the valuation;
- Evaluated the competency, objectivity of the actuaries to confirm their qualifications and the basis for their calculations;
- Performed inquiries of the accounting actuaries to assess the methodology and key assumptions made, including actual figures where estimates have been used by the actuaries, such as the rate of return on pension fund assets;
- Agreed the data provided by the audited entity to the Scheme Administrator for use within the calculation of the scheme valuation;
- Evaluated the design and implementation of controls in place for the Council to determine the appropriateness of the assumptions used by the actuaries in valuing the liability;
- Challenged, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate and mortality/life expectancy against externally derived data;
- Confirmed that the accounting treatment and entries applied by the Council was in line with IFRS and the CIPFA Code of Practice;
- Considered the adequacy of the Council's disclosures in respect of the sensitivity of the nil balance to these assumptions;
- Assessed the level of surplus that should be recognised by the Council; and
- Assessed the impact of a new triennial valuation model and/or any special events, where applicable.

Audit risks and our audit approach (cont.)

3 Valuation of post retirement benefit obligations (cont.)

Risk of error related to the incorrect valuation of defined benefit plan liabilities

Cautious | Neutral | Optimistic

Significant audit risk

- The valuation of the post retirement benefit obligations involves the selection of appropriate actuarial assumptions, most notably the discount rate applied to the scheme liabilities, inflation rates and mortality rates. The selection of these assumptions is inherently subjective and small changes in the assumptions and estimates used to value the Council's pension liability could have a significant effect on the financial position of the Council.
- In addition, the Council's pension memberships are in a net surplus position, leading to judgements being required as to the quantum of any asset ceiling which should be calculated, and hence whether an asset should be recognised on the balance sheet.
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Our findings

- In- line with International Auditing Standards, it is important for management to have ownership over the defined benefit pension valuation, even though this draws upon the expertise of actuarial experts engaged by the pension fund itself. While we are aware that management has discussed the assumptions to be used with the scheme actuary, this review and challenge by management has not been documented for our review in line with the requirements of auditing standards for an effective management review control.
- We assessed the competency and objectivity of the Scheme actuaries and did not identify any reportable findings.
- •Given this is a first-year audit, we have considered the impact of the 31 March 2022 valuation. An actuarial experience gain of £70,200k was allowed for in the 31 March 2022 IAS 19 results and hence within the accounting DBO. We have reviewed the actuarial calculations between thetriennial funding valuation position to the opening IAS 19 figures as at 31 March 2022. Our checks on the actuarial assumptions that feed into that reconciliation and they are within our acceptable tolerances.
- Our actuaries have performed inquiries of the actuaries and have reviewed the underlying assumptions behind the calculation of the estimate. We have concluded that the overall assumptions are balanced relative to our central rates. We have assessed the level of surplus recognised by the Council and did not identify any reportable findings. The minimum funding contributions are higher than the future service cost and therefore no surplus is recognised.
- We have conducted a review of the Council's contractual agreements related to the outsourcing of certain public services, which the Council is legally mandated to provide. As part of this outsourcing process, Council employees who previously delivered these services are transferred to a third-party corporate entity. During the contract period, the third-party corporate entity is responsible for any pension obligations associated with these employees. However, upon the conclusion of the contract, the overall pension obligations (and the associated pension assets) transfer back to the Council. Our evaluation of these 'pass-through arrangements' with third-party corporate entities indicates that the obligations arising from these arrangements fall within the scope of IFRS 9. However, the Council is currently accounting for these 'pass-through arrangements' under IAS 19 'Employee Benefits'. Based on consultations with our technical team, we have concluded that, provided the balance sheet difference is not material, the Council may continue to account for these 'pass-through arrangements' under IAS 19 'Employee Benefits'. Nevertheless, we recommend that the Council provide additional disclosures to explain these 'pass-through arrangements' in detail and conduct an annual assessment of these agreements at the balance sheet date.

Audit risks and our audit approach (cont.)

4 Fraud risk over expenditure recognition – HRA expenditure understatement[a]

Fraud risk related to the manipulation of housing revenue account expenditure

Significant audit risk

- Professional standards require us to rebuttably identify a significant risk of fraud related to expenditure recognition, reflecting the limited ability for public sector bodies to manipulate revenue whilst still being subject to financial performance targets.
- The Council's Housing Revenue Account (HRA) balance is experiencing financial sustainability pressure, particularly in the short to medium term. At 31 March 2023, the value of the HRA was £19.5m, which was a 27% reduction compared with the prior period. The Council has recently introduced a recovery plan to bring the HRA back into financial health.
- Councils are not permitted to deplete the HRA (or general fund) balance, and therefore the sustainability issues in the HRA, alongside a need to successfully implement the HRA recovery plan, may create pressure to fraudulently overstate the closing HRA balance through under-recognition of expenditure incurred. This would either be through inappropriately capitalising costs that should be expensed, or incompletely recognising liabilities for costs incurred in the year.
- Whilst we have not identified any actual or suspected fraud, we have identified the HRA as the area where the risk of financial reporting fraud is greatest.

Note: (a) Presumed risk that professional standards require us to assess in all cases and which can be rebutted if there is no entity-specific significant risk relating to expenditure recognition.

Our response

We performed the following procedures in order to respond to the significant risk identified:

- We evaluated the design and implementation of controls for developing manual HRA expenditure accruals at the end of the year to verify that they have been completely and accurately recorded;
- We inspected a sample of invoices of HRA expenditure, in the period just after 31 March 2024, to determine whether expenditure has been recognised in the correct accounting period; and
- We inspected journals posted as part of the year end close procedures affecting HRA expenditure that decrease the level of expenditure recorded in order to critically assess whether there was an appropriate basis for posting the journal and the value can be agreed to supporting evidence.

Our procedures in respect of this risk were updated following the issue of our initial audit planning document and as set out in our September 2024 progress report.

Audit risks and our audit approach (cont.)

4 Fraud risk over expenditure recognition – HRA expenditure understatement[a] (cont.)

Fraud risk related to the manipulation of housing revenue account expenditure

Significant audit risk

- Professional standards require us to rebuttably identify a significant risk of fraud related to expenditure recognition, reflecting the limited ability for public sector bodies to manipulate revenue whilst still being subject to financial performance targets.
- The Council's Housing Revenue Account (HRA) balance is experiencing financial sustainability pressure, particularly in the short to medium term. At 31 March 2023, the value of the HRA was £19.5m, which was a 27% reduction compared with the prior period. The Council has recently introduced a recovery plan to bring the HRA back into financial health.
- Councils are not permitted to deplete the HRA (or general fund) balance, and therefore the sustainability issues in the HRA, alongside a need to successfully implement the HRA recovery plan, may create pressure to fraudulently overstate the closing HRA balance through under-recognition of expenditure incurred. This would either be through inappropriately capitalising costs that should be expensed, or incompletely recognising liabilities for costs incurred in the year.
- Whilst we have not identified any actual or suspected fraud, we have identified the HRA as the area where the risk of financial reporting fraud is greatest.

Note: (a) Presumed risk that professional standards require us to assess in all cases and which can be rebutted if there is no entity-specific significant risk relating to expenditure recognition.

Our findings

- We were unable to conclude on the effective design and implementation of controls to develop manual HRA expenditure accruals as these controls would be dependent on the same journal entry controls which we found to be ineffective. See page 8. In addition, the review of performance against the HRA budget on an ongoing basis is not sufficiently precise to meet auditing standards, although we have separately assessed whether the arrangements for ensuring financial sustainability are sufficient as part of our Value for Money work. Refer to the Auditor's Annual Report for further details.
- Our sample testing of HRA expenditure recorded after year-end did not identify any expenditure which was recorded in the wrong accounting period.
- We identified 17 journal entries which either reclassified HRA expenditure into the General Fund, or transferred income into the HRA from the General Fund. We did not identify any indication of manipulation of the HRA outturn from these journal entries.

Conclusion: We did not identify any evidence of inappropriate recognition of HRA expenditure.

Audit risks and our audit approach (cont.)

5 Valuation of investment properties

Risk of error related to the incorrect valuation of investment properties

Cautious | Neutral | Optimistic

Other audit risk

- The Council's investment property portfolio of £343m includes a number of commercial rent units, including a large real estate scheme near the Council's offices in London Bridge.
- Under the Code these are considered 'Investment Properties' due to the intention of maximising rental values or capital appreciation. The standard requires this class of assets to be valued at each year end.
- The valuation is subject to movements based on current market conditions which contain a heightened degree of uncertainty, in particular for commercial offices.
- Also, dependent on the type of valuation undertaken, there are a number of assumptions used in the valuation of the assets which are subjective, and could impact the overall valuation at the year end and movement during the year.

Our response

We performed the following procedures:

- Reviewed the portfolio of investment properties, focussing on the accounting treatment and disclosure of these in the financial statements;
- Used KPMG valuation specialists to review the valuation of the Council's investment properties;
- Assessed the competence, experience, and independence of the Council's valuation firm;
- Considered the reasonableness of assumptions that have been made against benchmark data; and
- Verified the accuracy of underlying data, such as tenancies and property details.

Audit risks and our audit approach (cont.)

5 Valuation of investment properties (cont.)

Risk of error related to the incorrect valuation of investment properties

Cautious Neutral Optimistic

Other audit risk

- The Council’s investment property portfolio of £343m includes a number of commercial rent units, including a large real estate scheme near the Council’s offices in London Bridge.
- Under the Code these are considered ‘Investment Properties’ due to the intention of maximising rental values or capital appreciation. The standard requires this class of assets to be valued at each yearend.
- The valuation is subject to movements based on current market conditions which contain a heightened degree of uncertainty, in particular for commercial offices.
- Also, dependent on the type of valuation undertaken, there are a number of assumptions used in the valuation of the assets which are subjective, and could impact the overall valuation at the year end and movement during the year.

Our findings

- We were broadly satisfied with the accounting and disclosure of the valuation of investment properties.
- There was one investment property, being a land site, where the value of the site had diminished significantly year-on-year. We did not consider the valuation to be supported by available comparable data and considered the asset to be understated to the tune of approximately £9.48m and was therefore cautious. This has been adjusted by management.
- As none of the other assets we selected contained a similar error, we did not consider the matter to be systematic and therefore we were able to reach a conclusion that the valuation of investment properties was free from material error.
- We were content with the independence, objectivity and expertise of Cluttons and were satisfied that their work could be relied upon for audit purposes. This is the first year the Council has worked with an external specialist. Our queries were reviewed and discussed with us by the Council prior to being passed to the valuer as part of gaining familiarity with the process. However, in future we would anticipate that we have greater ability to interact directly with Cluttons, including private meetings (if required), notwithstanding the Council’s responsibilities to oversee the process.
- Our work to agree the underlying data behind the valuations to supporting records did not identify any exceptions.

Conclusion: We are satisfied that the valuation of investment properties, whilst cautious, is materially acceptable.

Audit risks and our audit approach (cont.)

6 Accuracy and valuation of PFI liabilities

Risk of error related to the incorrect recording of liabilities arising from assets funded through the private finance initiative

Other audit risk

- As at 31 March 2023 the Council has PFI liabilities totalling £76m and assets purchases through PFI totalling £79m.
- PFI schemes are based on complex financial models which, aside from needing to mirror the contractual terms, contain assumptions about future events – namely inflation.
- There is a risk, due to the complexity of the financial models, that the value of the PFI liabilities recognised in the financial statements are incorrect.

Our response, set out to the right, has been updated following further risk assessment.

Our response

We performed the following procedures:

- For a sample of PFI schemes, read the contract to ensure all pertinent contractual terms are included within the model;
- Re-calculated the model, testing the validity of the formulas inherent to the model and ensuring that the model correctly calculates the different types of charges and the closing liability each period; and
- Re-calculated the financial statement disclosures in reference to the tested models.

Audit risks and our audit approach (cont.)

6 Accuracy and valuation of PFI liabilities (cont.)

Risk of error related to the incorrect recording of liabilities arising from assets funded through the private finance initiative

Other audit risk

- As at 31 March 2023 the Council has PFI liabilities totalling £76m and assets purchases through PFI totalling £79m.
- PFI schemes are based on complex financial models which, aside from needing to mirror the contractual terms, contain assumptions about future events – namely inflation.
- There is a risk, due to the complexity of the financial models, that the value of the PFI liabilities recognised in the financial statements are incorrect.

Our findings

- We selected one school PFI, as the three school PFIs collectively made up the majority of the PFI liability. Our work to agree the inputs to the underlying contract identified no exceptions.
- We used our KPMG modelling specialists to assess the functionality of all of the Council's four PFI models. In respect of the functionality driving accounting entries, we were satisfied that the models worked correctly and correctly reflected the economics of the underlying contracts.
- We were satisfied that the accounting entries correctly reflected the PFI liabilities as at 31 March 2023 as calculated by the models.

Conclusion: We are satisfied that the accounting of the PFI liabilities is materially correct.

Audit risks and our audit approach (cont.)

7 Presentation of IFRS 16 pre-transition disclosures

Risk of error related to the incorrect presentation of disclosures related to the implementation of the IFRS 16 Leases standard

Other audit risk

- In accordance with the CIPFA Code, the Council is required to adopt IFRS 16 Leases from the 31 March 2025 year-end.
- The Code requires that the Council produces either quantitative or qualitative disclosures in the 31 March 2024 financial statements setting out the anticipated impact of the transition to IFRS 16.
- Under the new standard, the Council will be required to recognise right of use assets and lease liabilities relating to operating leases which are currently held off balance sheet. There are also changes to the accounting of finance leases but there is less impact compared to the operating leases because finance leases are already held on balance sheet.
- Whilst the value of the operating leases is small (at 31 March 2023, the future minimum lease payments were under £10m), the new disclosures related to the transition to the new standard are risky because:
- The Council has not previously been required to prepare this kind of disclosure before;
- There can be difficulties in establishing the completeness of the list of assets; and
- There are complexities in the identification of leases that are affected, including peppercorn leases.

Our response

We performed the following procedures:

- Inquired of management to understand whether the Council intended to prepare quantitative (and if so, the value) or qualitative disclosures;
- Inquired of management to understand how the Council planned to transition to IFRS 16, and assessed whether the transition plan was appropriate; and
- Assessed whether the disclosures made are in line with the CIPFA Code, our understanding of the Council, and the transition plan described to us by management.

Audit risks and our audit approach (cont.)

7 Presentation of IFRS 16 pre-transition disclosures (cont.)

Risk of error related to the incorrect presentation of disclosures related to the implementation of the IFRS 16 Leases standard

Other audit risk

- In accordance with the CIPFA Code, the Council is required to adopt IFRS 16 Leases from the 31 March 2025 year-end.
- The Code requires that the Council produces either quantitative or qualitative disclosures in the 31 March 2024 financial statements setting out the anticipated impact of the transition to IFRS 16.
- Under the new standard, the Council will be required to recognise right of use assets and lease liabilities relating to operating leases which are currently held off balance sheet. There are also changes to the accounting of finance leases but there is less impact compared to the operating leases because finance leases are already held on balance sheet.
- Whilst the value of the operating leases is small (at 31 March 2023, the future minimum lease payments were under £10m), the new disclosures related to the transition to the new standard are risky because:
- The Council has not previously been required to prepare this kind of disclosure before;
- There can be difficulties in establishing the completeness of the list of assets; and
- There are complexities in the identification of leases that are affected, including peppercorn leases.

Our findings

- The Council did not have a detailed plan for adoption of IFRS 16 when preparing the 31 March 2024 accounts. The Council did not know the exact impact of the adoption, although felt that the impact was not material.
- The Council prepared a qualitative disclosure setting out that work was ongoing to determine the impact of the implementation of IFRS16 and that it was not yet certain of the materiality of the impact. Based on our knowledge of the Council's leases and the work done to date we do not believe this is an unreasonable statement. The disclosure presented is compliant with the requirements of the CIPFA Code.

Conclusion: We are satisfied that the disclosures prepared in relation to IFRS 16 transition were, in all material respects, reasonable. However, the Council will need to ensure it develops a robust plan to adopt IFRS 16 ahead of publication of the 31 March 2025 accounts.

Key accounting estimates and management judgements – overview

Our view of management judgement

Our views on management judgments with respect to accounting estimates are based solely on the work performed in the context of our audit of the financial statements as a whole. We express no assurance on individual financial statement captions.

Cautious | Neutral | Optimistic

Asset/liability class	Our view of management judgement (Cautious / Neutral / Optimistic)	Balance (£'000s)	YoY change (£'000s)	Our view of disclosure of judgements & estimates (Needs improvement / Neutral / Best practice)	Further comments
Asset 1 Council dwellings		3,506,724	76,363		We believe the valuation was cautious as we found comparative data which contradicted the valuation recorded for one asset. The disclosure was acceptable but should include a more detailed sensitivity analysis to fully comply with the requirements of the Code. We have raised a recommendation to this effect.
Asset 2 Other land and buildings - specialised		1,209,180	157,827		We did not identify any issues with the assumptions underpinning the valuation. The disclosure was acceptable but should include a more detailed sensitivity analysis to fully comply with the requirements of the Code. We have raised a recommendation to this effect.
Asset 3 Other land and buildings – non-specialised					
Asset 4 Investment properties		281,457	(31,775)		We identified one property which we considered to be misstated because the reduction in asset value was not supported by available data. This has been amended. We were satisfied with the disclosures reached.

Key accounting estimates and management judgements – overview

Our view of management judgement (cont.)

Our views on management judgments with respect to accounting estimates are based solely on the work performed in the context of our audit of the financial statements as a whole. We express no assurance on individual financial statement captions.

Cautious Neutral Optimistic

Asset/liability class	Our view of management judgement	Balance (£m)	YoY change (£m)	Our view of disclosure of judgements & estimates	Further comments
	Cautious / Neutral / Optimistic			Needs improvement / Neutral / Best practice	
Asset 5 Defined benefit plan assets – LGPS		2,176,000	203,905		We did not identify any issues with the assumptions underpinning the valuation of either the asset or liability, or in determining the application of the asset ceiling which restricts the net pension asset to £nil. The disclosure was acceptable but we requested additional disclosures, in particular in relation to the treatment of pass-through arrangements with other parties.
Asset 6 LGPS asset ceiling		(347,800)	206,905		
Liability 1 Defined benefit plan obligations – LGPS		(1,828,200)	3,000		

Other significant matters

Control deficiencies

We obtain an understanding of internal control to design appropriate audit procedures, but not to express an opinion on the effectiveness of the Council's internal control.

To the right we have set out the red-rated recommendations and the highest priority amber-rated recommendations.

Full detail of recommendations raised can be found in the appendix and are summarised below.

Key:

Red	These are significant control deficiencies which increase the likelihood and potential magnitude of a material misstatement in the financial statements. We have identified 1 significant control deficiency in the current year.
Amber	These are matters of sufficient importance to note such as weaknesses which were subsequently corrected and matters that could be significant in the future if left unaddressed. We have identified 10 of such deficiencies in the current year.
Green	These are less significant weaknesses but which we considered to be of sufficient importance to merit management's attention. We have raised 2 related observations in the current year.

Journal authorisation

The Council has a process where journal entries require authorisation prior to posting in SAP. Whilst none of the journal entries we selected for testing lacked authorisation, we note that the system does not enforce authorisation meaning there is a risk that a journal could be posted without approval.

Document accessibility

The Council found it difficult to locate the audit evidence we required for several audit procedures. This may also impact on the efficiency of teams and in responding to FoI requests. We recommend that the Council investigates ways in which it can be made easier to locate documents, for instance using a document management system.

Related parties

The Council used old declarations of interest as part of identification of related parties, in some cases with the declarations dating back to 2016. In many cases we identified more recent declarations on the Council's website, although we acknowledge these may not have existed at the time of preparing the disclosure.

SAP Training

The configuration of the Council's SAP system is not in line with current best practice, such as in relation to security configuration. Discussions with the SAP team established that they may not have access to training and resources to ensure they remain abreast of best practice in SAP.

Prior year restatements

We identified prior year restatements in relation to two disclosures, as well as the presentation of investments on the balance sheet and cash flow statement. For more detail refer to page 43.

KPMG

Significant audit misstatements

Management has approved the correction of the audit misstatements detailed on page 40 and they are reflected in the draft financial statements. A summary of the uncorrected audit misstatements is detailed on page 39.

The misstatements identified, and their estimated financial impact on the deficit on the provision of services, are summarised in the table on the right.

In line with ISA (UK) 450 we request that you correct uncorrected misstatements.

- If the uncorrected factual audit misstatements were posted, they would decrease the deficit on the provision of services by £3m.
- For our views on management estimates – see Page 19 (Key accounting estimates)
- A detailed summary of corrected and uncorrected audit misstatements and omissions and errors in disclosure is included in the appendix.

Types of misstatement

- **Factual:** Misstatements about which there is no doubt
- **Projected:** Our best estimate of misstatements in the audited populations
- **Judgemental:** Differences arising from judgments of management that we consider unreasonable or inappropriate

Audit misstatements – Deficit on the provision of services

	Type	£'000s	Comment
Trial balance		**167,498**	
Corrected misstatements			
Investment properties	Judgemental	(9,480)	The reduction in value for one investment property could not be supported by market comparatives. We therefore believe the valuation of this investment property was incorrect. This has no general fund impact.
Property, plant and equipment	Factual	14,271	The valuation of some properties was recorded incorrectly because, for some properties, updated valuations were obtained after publication of the draft accounts and for others impairments which should have been recorded were omitted. This has no general fund impact.
Uncorrected misstatements			
Pensions	Judgemental	(15,000)	Where the Council has transferred staff to a third party and the staff are members of LGPS, the Council indemnifies those third parties against fluctuations in LGPS contribution rates. At the moment, the third parties pay higher contribution rates than the Council does, leading to a financial benefit. This has no general fund impact.
Our assessment		**157,289**	

Disclosure

Matter	IAS/IFRS ref	Comment
Estimation uncertainty	IAS 1.129	A sensitivity analysis has not been included for estimates which contain a significant degree of estimation uncertainty. For now the Council has included a disclosure saying it is impractical but the Council should look to include an analysis in the future.
Pass through arrangements	IAS 1.117	Additional narrative has been added to reflect the accounting of pass-through arrangements where the Council indemnifies third parties against fluctuations in contribution rates. Narrative has been updated to reflect how the LGPS assets are determined in a non-triennial valuation year.

Other matters

Narrative report

We have read the contents of the Narrative Report and checked compliance with the requirements of the Annual Report and financial statements with the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 ('the Code'). Based on the work performed:

- We have not identified any inconsistencies between the contents of the Narrative Report and the financial statements.
- We have not identified any material inconsistencies between the knowledge acquired during our audit and the statements of the Council.

As Audit and Governance Committee members you confirm that you consider that the Narrative Report and financial statements taken as a whole are fair, balanced and understandable and provides the information necessary for regulators and other stakeholders to assess the Council's performance, model and strategy.

Annual Governance Statement

We have reviewed the Council's 2023/24 Annual Governance Statement and confirmed that:

- It complies with Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE; and
- It is not misleading and is consistent with other information we are aware of from our audit of the financial statements.

Whole of Government Accounts

As required by the National Audit Office (NAO) we carry out specified procedures on the Whole of Government Accounts (WGA) consolidation pack.

We have confirmed that, for Southwark Council, the threshold at which detailed testing is required has not been exceeded.

Independence and Objectivity

ISA 260 also requires us to make an annual declaration that we are in a position of sufficient independence and objectivity to act as your auditors, which we completed at planning and no further work or matters have arisen since then.

Audit Fees

Our PSAA proscribed 2023/24 audit scale fee for the audit was £555,885 + VAT. We have also discussed fee variations with the Strategic Director of Finance in relation to the following matters. These will be subject to consideration and approval by PSAA:

We have also completed non audit work at the Council during the year on grants and returns and have included on page 37 confirmation of safeguards that have been put in place to preserve our independence.

Value for Money

Value for Money

We are required under the Audit Code of Practice to confirm whether we have identified any significant weaknesses in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

In discharging these responsibilities we include a statement within the opinion on your accounts to confirm whether we have identified any significant weaknesses. We also prepare a commentary on your arrangements that is included within our Auditor's Annual Report, which is required to be published on your website alongside your annual report and accounts.

Commentary on arrangements

We have prepared our Auditor's Annual Report and a copy of the report is included within the papers for the Committee alongside this report. The report is required to be published on your website alongside the publication of the annual report and accounts.

Response to risks of significant weaknesses in arrangements to secure value for money

As noted on the right, we have identified 3 risks of a significant weakness in the Council's arrangements to secure value for money. Within our Auditor's Annual Report we have set out our response to those risks.

Within our Auditor's Annual Report we have set out recommendations in response to those significant weaknesses.

Summary of findings

We have set out in the table below the outcomes from our procedures against each of the domains of value for money:

Domain	Risk assessment	Summary of arrangements
Financial sustainability	1 significant risk identified	Significant weaknesses identified
Governance	2 significant risks identified	Significant weaknesses identified
Improving economy, efficiency and effectiveness	No significant risks identified	Significant weaknesses identified (based on outcome of work in relation to governance risk)

We revised our planned procedures in relation to significant risks relating to Tenant Management Organisations (TMOs) and Major Works. We had planned to inspect arrangements on a sample of TMOs and Major Works projects. However as our procedures to understand the arrangements in place at the Council found them to not operate consistently, we concluded that it is unnecessary to inspect the operation of arrangements that we already determined to be ineffective.

Further detail is set out overleaf.

Performance improvement observations

As part of our work we have identified Performance Improvement Observations, which are suggestions for improvement but not responses to identified significant weaknesses. These are detailed from page 29.

Significant Value for Money Risk

1 Sustainability of Housing Revenue Account

Significant Value for Money risk linked to the domain of financial sustainability

Significant Value for Money Risk

Southwark's HRA has been experiencing financial pressures caused by (amongst other factors) inflation, new building safety obligations, below-inflation rent increase caps, and interest rates. The value of reserves in the HRA has been falling over time, which reduces the ability of the Council to respond to unexpected cost pressures. At 31 March 2024, the HRA reserve stood at £16.9m, a reduction of £2.5m since the prior period and £9.2m since 1 April 2022. The Council has developed a multi-year HRA Recovery Plan, taking effect from 2023/24 to restore the financial sustainability of the HRA.

During 2023/24, the HRA budget was overspent by £16.4m, driven primarily through increased costs in resident services and asset management. The Council met this overspend through increased borrowing to fund investment in homes (which otherwise would have been met through HRA surpluses and reserves). The interest charges from borrowing will increase the financial pressures as the plan commences.

The low value of the HRA reserve, combined with the overspend during 2023/24 raises the risk that there were no adequate arrangements in place in 2023/24 in relation to the financial sustainability of the HRA.

Our response

We performed the following procedures:

- Obtained and read the HRA Recovery Plan. Assessed whether the HRA Recovery Plan was subject to appropriate review, challenge, and approval prior to coming into force.
- Ensured the HRA Recovery Plan was plausible in reference to forecast inflation rates; new building safety regulations; and capital expenditure required in respect of stock condition and known capital commitments (e.g., for new homes).
- Evaluated the factors causing the HRA overspend during 2023/24, and assessed whether there was appropriate arrangements to monitor and control spending during the year.
- Assessed whether the impact of the HRA overspend during 2023/24 had been appropriately factored into the HRA Recovery Plan.

Our findings

The HRA recovery plan was developed as a management tool to inform reactive decision making over the HRA in 2023/24, and to set the budget for 2024/25 and future periods. On account of its “emergency” nature it was not subject to formal approval prior to its introduction but now underpins the budgets which are approved in accordance with the Council’s constitutional requirements.

The recovery plan is a live document and is regularly updated by management to respond to overspends, changes in economic factors, and capital investment decisions. The Council therefore can react to emerging issues as they arise. The plan was helpful at reducing the extent of HRA overspend in 2023/24 that otherwise would have arisen.

An external inspection of the Council’s housing function established that the Council does not have a clear picture of its stock condition. This means the plan may not accurately reflect the capital investment needed in homes, the borrowing required to fund that investment, and the interest which accrues to the HRA on account of that borrowing.

Significant Value for Money Risk

2 Management of Tenant Management Organisations

Significant Value for Money risk linked to the domain of governance

Significant Value for Money Risk

The 2022/23 Auditor's Annual Report makes reference to significant weaknesses in arrangements in relation to governance over the Fair Community Housing Services Tenant Management Organisation (TMO).

The Council has a role in overseeing the performance and effectiveness of TMOs in line with the contract each TMO has with the Council. This includes the ability of the Council to step in and direct the TMO if underperforming.

An internal audit review was issued during the financial year in relation to that significant weakness. We expect that the Council to have started implementing actions to respond to the issues raised, and to have an action plan for the remainder.

For 2023/24, we consider there to be a significant VFM risk because the issues identified at Fair Community Housing Services may have continued to exist during the year, and there is a risk that there may be similar governance weaknesses at other TMOs. If there are not proper governance arrangements over TMOs, there is a risk that Council funds may not be effectively spent, and that the Council may not be ensuring that TMOs provide a high quality of service to tenants.

Our response

We performed the following procedures:

- Assessed whether the Council had appropriate governance arrangements in place to monitor the effectiveness of TMOs during 2023/24.
- Read other Internal Audit reports raised during 2023/24 into other TMOs to assess whether the issues raised at Fair Community Housing are likely to exist at other TMOs.
- Assessed whether the Council has developed a reasonable action plan in response to the Internal Audit review in relation to Fair Community Housing.

Our findings

The Council received several other internal audit reviews as part of routine inspections of TMO arrangements over the course of the year. These reviews found weaknesses in arrangements at further TMOs, suggesting a pervasive weakness in the Council's governance arrangements.

The Council has also not yet implemented all the actions it committed to implementing per a January 2024 Internal Audit review, although there is evidence of progress having been made post year-end.

Furthermore, in November 2024 the Regulator of Social Housing published the results of an inspection into the Council's arrangements for managing social housing. This identified weaknesses in governance arrangements for three TMOs.

Whilst that inspection took place post year-end, the information gained, combined with knowledge brought forward from prior year audits and the in-year reviews indicates that arrangements were inadequate during 23/24.

Significant Value for Money Risk

3 Major works contract management

Significant Value for Money risk linked to the domain of governance

Significant Value for Money Risk

Allegations raised from media reports and other information received by us stated that multi-million pounds of money was paid by the Council to contractors without adequate controls to ensure money was well spent and that contractors were performing against contractual commitments. This included works at two estates, Devon Mansions and Canada Estate.

The allegations made cover two major works schemes which indicate a risk that the Council systematically does not have appropriate governance arrangements in relation to contract management, nor appropriate arrangement to ensure that capital investment is done in an economical, efficient, and effective manner.

Alternatively, if effective governance arrangements are in place over these contracts, there is a risk that the contracts do not allow the Council to efficiently and effectively discharge its major works responsibilities.

We have therefore identified a significant VFM risk that the Council may not have appropriate arrangements in place in relation to managing contracts of this nature.

Our response

We performed the following procedures:

- Evaluated the process by which the Council monitors the performance of contractors and consultants.
- Evaluated whether the Council had adequate controls in place to review works performed and progress to date prior to making payments to contractors.

Our findings

The Council's arrangements are heavily dependent on a single third party to monitor contractors, with the Council's own contract management arrangements appearing hands-off despite the Council having identified concerns with the consultant's work.

The Council did not physically inspect the quality of works being performed by contractors in relation to major works in order to ensure the works were being properly performed, and whether contractors can be held to account.

The Council makes payments to contractors when a valid certified application for payment is received from the contractors, after which the Council is legally obliged to make payment. Such a payment process is typical for the construction industry and is not considered unreasonable.

Value for Money: Performance improvement observations

The performance improvement observations raised as a result of our work in respect of identified or potential significant value for money risks in the current year are as follows:

Priority rating for observations		
❶ **Priority one:** Observations linked to issues where, if not rectified, these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	❷ **Priority two:** Observations linked to issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately, but the weakness remains in the system.	❸ **Priority three:** Observations linked to issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
1	❷	**Quality and performance monitoring** We identified that the Council has a performance monitoring arrangement, however the Council's performance against the KPIs it has determined are not subject to scrutiny by any public part of the governance structure. Furthermore, we could not tell if the Council took the views of external stakeholders when designing these KPIs. This scrutiny is important in ensuring the Council meets the commitment it makes to residents. If the KPIs are not aligned to the prioritises of service users, there is a risk that the KPIs do not measure the right thing. We recommend that the Council takes its KPI dashboard to Overview and Scrutiny Committee on a regular basis and takes feedback from members as to whether the KPIs are in line with constituent's views.	All performance improvement observations are agreed by management. An action plan with named responsible officers and due dates in the process of being developed and will be reported to the Audit, Governance and Standards Committee in the summer of 2025.

Value for Money: Performance improvement observations

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
2	2	**Risk management** The Council's annual risk paper, as presented to Audit, Governance and Standards Committee in February 2024, stated that the risk register is not formally reviewed by the Corporate Management Team. We also could not see evidence of the risk register being reviewed by Cabinet. We would expect both reviews to take place to ensure that risks are receiving appropriate scrutiny and mitigation, and that officers are held to account for adequately managing risks in their areas. We recommend that the risk register is reviewed by both the Corporate Management Team and Cabinet on a regular basis.	All performance improvement observations are agreed by management. An action plan with named responsible officers and due dates in the process of being developed and will be reported to the Audit, Governance and Standards Committee in the summer of 2025.
3	2	**Tender Waivers** The Council does not currently collate a single register of tender waivers, nor presents such a list for scrutiny by any part of the Council's governance structure. As tender waivers are an area where the Council is at greater risk of not receiving best value in services procured, it is important that waivers are subject to monitoring and oversight, with officers held to account should there be waivers which may indicate the Council is achieving poor value for money. We recommend that the Council centrally collect details on all waivers, and present them for review and challenge by the Audit, Governance and Standards Committee at each meeting.	All performance improvement observations are agreed by management. An action plan with named responsible officers and due dates in the process of being developed and will be reported to the Audit, Governance and Standards Committee in the summer of 2025.
4	2	**Leisure service performance monitoring** During 2023/24, the Council completed its in-sourcing of leisure services. As a consequence, the Council now operates a leisure service. The in-sourcing arose due to a view that the Council can provide a better quality service more cheaply than the private sector. As the in-sourcing arose due to the Council believing it can achieve superior economy, efficiency, and effectiveness in the leisure service, it is important that the Council has a mechanism to determine whether it is achieving all the benefits it anticipated when approving the business case. We recommend that the Council develop a suite of KPIs for monitoring the economy, efficiency, and effectiveness of the leisure service, consulting with service users to identify what is important to them.	All performance improvement observations are agreed by management. An action plan with named responsible officers and due dates in the process of being developed and will be reported to the Audit, Governance and Standards Committee in the summer of 2025.

Value for Money: Performance improvement observations

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
5	2	**Savings plans** The Council's medium term financial strategy is predicated on the achievement of efficiency plans and, to a lesser extent, income generation activities and changes to the nature of services provided. We could not see any examples of where the Council actively monitors the effectiveness of individual plans beyond the review of the revenue outturn on a regular basis. Whilst the Council is not strongly dependent on the success of savings plans, it is best practice for the Council to individually monitor plans to ensure that a) they are achieving the desired financial benefit, and b) there is no unacceptable reduction to the quality of services. We recommend that this review is built into the Cabinet's review of the revenue outturn reports.	All performance improvement observations are agreed by management. An action plan with named responsible officers and due dates in the process of being developed and will be reported to the Audit, Governance and Standards Committee in the summer of 2025.
6	3	**Service charges** The Council has received challenge from leaseholders as to the economy, efficiency, and effectiveness of the services they are required to pay for under leasehold law. Under that law, leaseholders are required to pay whatever a valid demand from the landlord (i.e. the Council) says, although they can challenge that demand at tribunal. Many landlords engage a firm of accountants or internal audit to perform procedures or an audit over service charge statements in order to confirm they are properly prepared in accordance with leases. As part of the Council's efforts to rebuild trust with leaseholders, we encourage the Council to consider whether such an exercise may be valuable.	All performance improvement observations are agreed by management. An action plan with named responsible officers and due dates in the process of being developed and will be reported to the Audit, Governance and Standards Committee in the summer of 2025.

Value for Money: Performance improvement observations

Below we have set out our findings from following up performance improvement observations raised in prior periods:

* As raised by the predecessor auditor, Grant Thornton.

#	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Update as of January 2025
1	We* recommend the Council undertakes its own analysis of its relative level of reserves and its policy towards earmarked reserves in comparison to peer councils, in order to test its reserves strategy.	We will undertake a comparison exercise of reserve levels with peer councils on an annual basis when updating our Medium Term Financial Strategy.	Not implemented. This was not part of the 2024-25 budget setting undertaken in February 2024. We will review whether this formed part of the 2025-26 budget setting when we prepare our next Auditor's Annual Report.
2	The Council should consider including an independent member with accounting experience to the Audit, Governance & Standards Committee.	This will be considered as part of the annual self-assessment exercise undertaken by Audit, Governance and Standards Committee members.	Not implemented.
3	The Council should prioritise the review of the procurement service including Contract Management to ensure it is fit for purpose and ready for the implementation of new procurement legislation in early 2024.	Refer to 2021-22 Auditor's Annual Report	Not implemented. Note the activation of the new Procurement Act has been pushed back later into 2025.
4	The Council should consider reviewing its process for and its reporting of tender waivers with a view to introducing them as soon as possible.	Refer to 2021-22 Auditor's Annual Report	Not implemented. See new observation 3.

Appendices

Required communications

Type		Response
Our draft management representation letter	OK	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2024.
Adjusted audit differences	OK	There were seven adjusted audit differences with nil net impact. See p40.
Unadjusted audit differences	OK	The aggregated deficit impact of unadjusted audit differences would be £15m, although this would be adjusted out of the general fund into unusable reserves. In line with ISA 450 we request that you adjust for these items. However, they will have no effect on the opinion in the auditor's report, individually or in aggregate. See p39.
Related parties	OK	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit Committee	OK	There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	OK	We communicated to management in writing all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified during the audit in this report.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	OK	No actual or suspected fraud involving management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements identified during the audit.
Make a referral to the regulator	OK	If we identify that potential unlawful expenditure might be incurred then we are required to make a referral to your regulator. We have not identified any such matters.
Issue a report in the public interest	OK	We are required to consider if we should issue a public interest report on any matters which come to our attention during the audit. We have not identified any such matters.

Type		Response
Significant difficulties	OK	No significant difficulties were encountered during the audit/OR explain any significant difficulties.
Modifications to auditor's report	OK	We are modifying our auditor's report in relation to the significant weaknesses identified in our value for money work. See page 25.
Disagreements with management or scope limitations	OK	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	OK	No material inconsistencies were identified related to other information in the narrative report. The narrative report is fair, balanced and comprehensive, and complies with the law.
Breaches of independence	OK	No matters to report. The engagement team and others in the firm, as appropriate, and the firm have complied with relevant ethical requirements regarding independence.
Accounting practices	OK	Over the course of our audit, we have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.
Significant matters discussed or subject to correspondence with management	OK	No significant matters from the audit were discussed, or subject to correspondence, with management.
Certify the audit as complete	OK	We are required to certify the audit as complete when we have fulfilled all of our responsibilities relating to the accounts and use of resources as well as those other matters highlighted above.
Provide a statement to the NAO on your consolidation schedule	OK	We will issue our report to the National Audit Office following the signing of the annual report and accounts.

Fees

Audit fee

Our fees for the year ending 31 March 2024 are set out in the PSAA Scale Fees communication and are shown below.

	2023/24 (£'000)	*2022/23 (£'000)*
Statutory audit	556	*196*[a]
ISA (UK) 315 (Revised)	16	*12*
ISA (UK) 240	TBC	
Other variations (see right)	TBC	*127*
TOTAL	**TBC**	*335*
Variations as % of scale fee	*TBC*	*71%*

The pension fund audit fee was £75,000. Full details are included in the Year End Report in respect of the Pension Fund Audit.

Note: (a) Fee charged by Grant Thornton – your predecessor auditor.

Billing arrangements

- Fees have been billed in accordance with the milestone completion phasing that has been communicated by the PSAA.
- As per PSAA's Scale Fees Consultation, the scale fees did not include new requirements of ISA (UK) 315 (Revised) (risk of material misstatement); or ISA (UK) 240 (auditor's responsibilities relating to fraud).
- Additional fees will be subject to the fees variation process as outlined by the PSAA.

Proposed fee variations

	Recurrent?	£
New auditing standards (ISA (UK) 315) not included in scale fee	Yes – now built into FY25 scale fee by PSAA	16,137
New auditing standards (ISA (UK) 240) not included in scale fee	Yes – now built into FY25 scale fee by PSAA	Pending discussion and agreement with management
Work in relation to cyber-security matters	No assuming cyber issues are rectified in FY25	
First year audit work on PFI schemes	No	
Technical consultations on prior year restatements	No	
Technical consultations on pensions accounting	No	
Additional work in relation to issues within valuation of land and buildings, and investment property	No	
Value for Money significant risks	Yes, if issues triggering risks are not resolved in FY25	

Confirmation of Independence

We confirm that, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and that the objectivity of the Partner and audit staff is not impaired.

To the Audit and Risk Committee members

Assessment of our objectivity and independence as auditor of Southwark Council

Professional ethical standards require us to provide to you at the completion stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners/directors and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard.

As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values.
- Communications.
- Internal accountability.
- Risk management.
- Independent reviews.

The conclusion of the audit engagement partner as to our compliance with the FRC Ethical Standard in relation to this audit engagement is subject to review by an engagement quality control reviewer, who is a partner not otherwise involved in your affairs.

We are satisfied that our general procedures support our independence and objectivity.

Independence and objectivity considerations relating to the provision of non-audit services

Summary of non-audit services

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out on the table overleaf.

Confirmation of Independence (cont.)

Disclosure	Description of scope of services	Principal threats to Independence	Safeguards Applied	Basis of fee	Value of Services Delivered in the year ended 31 March 2024 £'000s	Value of Services Committed but not yet delivered £'000s
Other Assurance Services	Agreed upon procedures in relation to the housing benefit subsidy return.	Self review Management	• The work is performed by a separate engagement team to the audit team, and the work is not relied on within the audit file. • Our work does not involve judgement and are statements of fact based on agreed upon procedures.	Fixed	-	50,000
	Agreed upon procedures in relation to the teachers pension scheme return.	Self review Management	• The work is performed by a separate engagement team to the audit team, and the work is not relied on within the audit file. • Our work does not involve judgement and are statements of fact based on agreed upon procedures.	Fixed	-	6,000
	Agreed upon procedures in relation to the pooling of housing capital receipts return.	Self review Management	• The work is performed by a separate engagement team to the audit team, and the work is not relied on within the audit file. • Our work does not involve judgement and are statements of fact based on agreed upon procedures.	Fixed	-	6,000

Confirmation of Independence (cont.)

Summary of fees

We have considered the fees charged by us to the Council and its affiliates for professional services provided by us during the reporting period.

	2023/24
	£'000
Statutory audit (including pension fund audit)	631
Other Assurance Services	62
Total Fees	**693**

Fee ratio

The anticipated ratio of non-audit fees to audit fees for the year was 0.1 : 1, or 11% which is compliant with Auditor Guidance Note 1 (AGN01). We do not consider that the total non-audit fees create a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

AGN 01 states that when the auditor provides non-audit services, the total fees for such services to the audited entity and its controlled entities in any one year should not exceed 70% of the total fee for all audit work carried out in respect of the audited entity and its controlled entities for that year.

Application of the FRC Ethical Standard 2019

Your previous auditors will have communicated to you the effect of the application of the FRC Ethical Standard 2019. That standard became effective for the first period commencing on or after 15 March 2020, except for the restrictions on non-audit and additional services that became effective immediately at that date, subject to grandfathering provisions.

We confirm that as at 15 March 2020 we were not providing any non-audit or additional services that required to be grandfathered.

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit, Governance and Standards Committee.

Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

This report is intended solely for the information of the Audit, Governance and Standards Committee of the Council and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

KPMG LLP

Uncorrected audit misstatements

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit, Governance and Standards Committee with a summary of uncorrected audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial', which are not reflected in the financial statements. In line with ISA (UK) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor's report, individually or in aggregate. As communicated previously with the Audit, Governance and Standards Committee, details of all adjustments greater than £805k shown below:

Uncorrected audit differences (£'000s)				
No.	**Detail**	**CIES Dr/(cr)**	**Balance Sheet Dr/(cr)**	**Comments**
1	Dr Financial Assets	-	15,000	Where the Council has transferred staff to a third party and the staff are members of LGPS, the Council indemnifies those third parties against fluctuations in LGPS contribution rates. At the moment, the third parties pay higher contribution rates than the Council does, leading to a financial asset. There is no impact on the pension balances because the net asset is restricted to nil. Our estimation is the benefit to the Council at 31 March 2024 is £15m, of which £3m of benefit was generated during 2023/24 and £12m of benefit was generated in prior periods (but is not material so is not restated). Our view is this benefit is not chargeable to Council Tax and therefore is adjusted to the Financial Instruments Adjustment Account.
	Cr Financing and Investment Income and Expenditure	(15,000)	-	
	Dr Adjustments between accounting and funding basis	15,000	-	
	Cr Financial Instruments Adjustment Account	-	(15,000)	
Total		**-**	**-**	

The following uncorrected matters in disclosures were identified:

- The Council has not included a sensitivity analysis for estimates with significant estimation uncertainty. The Council has indicated that it believes it is impractical to do so, which is an appropriate disclosure, but a sensitivity analysis should be prepared in the future.

Corrected audit misstatements

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit, Governance and Standards Committee with a summary of corrected audit differences (including disclosures) identified during the course of our audit. The adjustments below have been included in the financial statements.

Corrected audit differences (£'000s)				
No.	**Detail**	**CIES Dr/(cr)**	**Balance Sheet Dr/(cr)**	**Comments**
1	Dr Cash equivalents Cr Short term investments	- -	1,001 (1,001)	The entity's accounting policy is that cash-like investments with a maturity shorter than 3 months are presented as cash equivalents. However, deposits with the DMO, which have a maturity of c. 1 week, were incorrectly presented as investments. This was because the Council incorrectly applied its policy, on account of there being no option to withdraw the DMO deposits early.
2	Dr Cash Cr Bank overdraft	- -	3,006 (3,006)	The NatWest accounts are in a net overdraft position but this is presented net with surplus cash held at Lloyds and HSBC. As there is no ability to offset, the Lloyds/HSBC cash should be shown as an asset. We believe this to be due to a mistake.
3	Dr Trade receivables Cr Trade payables Dr Bank overdraft	- - -	2,533 (10,987) 8,454	The misstatement related to two reconciling items that related to cash timing. In one case cash was recognised when the Council was aware it would receive it, but it has not arrived yet; another was where cash was derecognised when a payment was made but the money had not yet left the account.
4	Dr Other specific revenue grants Cr Other operating expenses	1,579 (1,579)	- -	Revenue grants that comes with a condition to repay-back if unused is very rare for local authorities and only for emerging issues, such as this energy bill support scheme. There was an error made when returning the grant as there was a request to code it against revenue, but it was incorrectly booked against expenditure by the payments team.
5	Dr Investment properties Cr Financing and Investment Income and Expenditure Dr Adjustments between accounting and funding basis Cr Capital Adjustment Account	- (9,480) 9,480 -	9,480 - - (9,480)	The reduction in value for one investment property could not be supported by market comparatives. We therefore believe the valuation of this investment property was incorrect.
	Continued overleaf			

Corrected audit misstatements

Corrected audit differences (£'000s)				
No.	**Detail**	**CIES Dr/(cr)**	**Balance Sheet Dr/(cr)**	**Comments**
6	Cr Other land and buildings	-	(20,703)	Some low-value assets were re-valued by Cluttons, but due to timing pressures in publishing the draft financial statements the valuation was not posted into the ledger. As part of this, it was identified that hostels were incorrectly classified as dwellings.
	Cr Council Dwellings	-	(114,509)	
	Cr Investment Property	-	(761)	Also, additions to Council Dwellings made during 2023/24 were double counted within the closing balance of PPE, because the value of the additions was not netted against the fair value adjustment on the assets.
	Dr Deficit on revaluation of non current assets – CIES	13,510	-	
	Dr Deficit on revaluation of non current assets – OCI	121,701	-	Finally, impairments of assets on account of decanting unsafe properties were not recorded.
	Dr Income, expenditure and changes in the fair value of investment properties	761	-	
	Dr Adjustments between accounting and funding basis	(135,972)	-	
	Dr Capital Adjustment Account	-	14,272	
	Dr Revaluation Reserve	-	121,701	
7	Dr Net cost of services - Income	2,050	-	On occasion, one part of the Council sells a service to another part of the Council, for instance a school might pay for a parking ticket. Some of these intra-Council charges were not netted off, leading to an overstatement of both income and expenditure but with no impact on the net cost of services.
	Cr Net cost of services - Expenditure	(2,050)	-	
Total		**-**	**-**	

Corrected audit misstatements

Updates to disclosures have been made as follows:

- Note 2: An accounting policy for shared ownership properties has been added.
- Notes 25 and 26: The net movements in investments and borrowings have been re-stated as gross purchases and sales in accordance with IAS 7.22, which requires cash flows to be presented gross except in certain specific circumstances.
- Note 32: An omitted related party transaction in relation to one member has now been added.
- Note 38: Additional narrative has been added to reflect the accounting of pass-through arrangements where the Council indemnifies third parties against fluctuations in contribution rates. Narrative has been updated to reflect how the LGPS assets are determined in a non-triennial valuation year.
- Collection fund: Additional narrative has been added to explain the difference between the council tax split percentages and the value of the council tax surplus to be distributed.
- In addition, various updates to correct arithmetic errors and as a consequence of internal review.

Corrected prior period adjustment misstatements

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit, Governance and Standards Committee with a summary of corrected audit differences (including disclosures) identified during the course of our audit. The adjustments below have been included in the financial statements. These adjustments have necessitated a restatement of prior period comparatives because the impact to the prior period comparatives is, in our view, material to the users of the accounts.

Corrected audit differences – prior periods (£'000s)				
No.	**Detail**	**CIES Dr/(cr)**	**Balance Sheet Dr/(cr)**	**Comments**
1	Dr Cash equivalents Cr Short term investments	- -	30,010 (30,010)	The entity's accounting policy is that cash-like investments with a maturity shorter than 3 months are presented as cash equivalents. However, deposits with the DMO, which have a maturity of c. 1 week, were incorrectly presented as investments. This was because the Council incorrectly applied its policy, on account of there being no option to withdraw the DMO depositsearly.
Total		**-**	**-**	

In addition, the following adjustments to prior period comparatives in disclosures were made:

- Notes 25 and 26: Aside from consequential updates as a result of the above matter, the net movements in investments and borrowings have been re-stated as gross purchases and sales in accordance with IAS 7.22, which requires cash flows to be presented gross except in certain specific circumstances.
- Note 32: The value of prior period transactions was incorrect as the balances only reflected the amounts outstanding at the balance sheet date, and not the in-year income and expenditure. As a consequence of making this amendment, the number of councilors and officers for each class of transaction was updated.
- Note 39: The prior period figures for financial assets did not reconcile to the balance sheet.

Control Deficiencies

The recommendations raised as a result of our work in the current year are as follows:

Priority rating for recommendations		
❶ **Priority one:** issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	❷ **Priority two:** issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	❸ **Priority three:** issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
1	❶	**Journal authorisation** The Council has a process where journal entries require authorisation prior to posting in SAP. Whilst none of the journal entries we selected for testing lacked authorisation, we note that the system – as configured – does not enforce authorisation meaning there is a risk that a journal could be posted without approval. We understand the limitations the Council has identified in the current system meaning they do not believe an approval workflow will be useful. The Council should consider introducing an approval workflow in its replacement finance system.	All recommendations have been discussed with management and agreed in principle. Full responses are in the process of being developed along with timescales for implementation and will be reported to the Audit, Governance and Standards Committee in the summer of 2025.
2	❷	**Grant returns** We identified a misstatement in expenditure because the Council had recognised a returned grant as an expense and not as a reduction to income. It transpired that this arose because the cashiers department did not correctly follow the instructions for posting the CHAPS payment. We recommend that the Council finds ways to simplify the way in which information is provided to different teams for processing as we believe this would reduce the likelihood of error. This could be done, for instance, through standardised finance request forms.	All recommendations have been discussed with management and agreed in principle. Full responses are in the process of being developed along with timescales for implementation and will be reported to the Audit, Governance and Standards Committee in the summer of 2025.

Control Deficiencies

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
3	2	**IFRS 16** The Council did not have a clear transition plan or policy in place for the transition to IFRS 16. As IFRS 16 is in effect from March 2025 year-ends onwards, we recommend that the Council develops a clear plan for implementing IFRS 16 as soon as possible.	All recommendations have been discussed with management and agreed in principle. Full responses are in the process of being developed along with timescales for implementation and will be reported to the Audit, Governance and Standards Committee in the summer of 2025.
4	2	**Related parties** The Council used old declarations of interest as part of identification of related parties, in some cases with the declarations dating back to 2016. In many cases we identified more recent declarations on the Council's website, although we acknowledge these may not have existed at the time of preparing the disclosure. If outdated declarations are used, there is a risk the disclosure in the accounts will be incorrect. We recommend that the Council ensures it always uses the most up to date declaration, and chases members to provide declarations if not up to date during the accounts preparation process.	All recommendations have been discussed with management and agreed in principle. Full responses are in the process of being developed along with timescales for implementation and will be reported to the Audit, Governance and Standards Committee in the summer of 2025.
5	2	**Document accessibility** The Council found it difficult to locate the audit evidence we required for several audit procedures. This included fees and charges income where the Council found it hard to identify the information needed to evidence revenue recognition under IFRS 15. We appreciate that the Council is a large organisation which means there will always be an element of time to locate documentation. However, if the Council cannot easily locate information, this can generate inefficiencies within departments and make it difficult to comply with Freedom of Information requests in a timely manner. We recommend that the Council investigates ways in which it can be made easier to locate documents, for instance using a document management system.	All recommendations have been discussed with management and agreed in principle. Full responses are in the process of being developed along with timescales for implementation and will be reported to the Audit, Governance and Standards Committee in the summer of 2025.

Control Deficiencies

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
6	2	**Treasury accounting** We identified several misstatements relating to treasury accounting because the bank reconciliation process did not identify errors in the ledger where cash transactions were posted out of line with IFRS 9 requirements. In particular, a BACS payment requested but not cleared from the bank was not recorded as a creditor, as IFRS 9 requires. We recommend that the bank reconciliation process is reviewed to ensure that reconciling items which indicate journal posting out of line with IFRS 9 are identified and corrected, as opposed to closing simply by virtue of being a timing difference.	All recommendations have been discussed with management and agreed in principle. Full responses are in the process of being developed along with timescales for implementation and will be reported to the Audit, Governance and Standards Committee in the summer of 2025.
7	2	**SAP training** We identified that the configuration of the Council's SAP system is not in line with current best practice, such as in relation to security configuration. Discussions with the SAP team established that they may not have access to training and resources to ensure they remain abreast of best practice in SAP. We recommend that the Council identifies ways to up-skill the SAP team and ensure they have access to up to date resources and training.	All recommendations have been discussed with management and agreed in principle. Full responses are in the process of being developed along with timescales for implementation and will be reported to the Audit, Governance and Standards Committee in the summer of 2025.
8	2	**Valuation inspections** Very few of the Council's buildings were physically inspected by Cluttons as part of the valuations process. We understand that the valuations process was difficult on account of the amount of time available for the preparation of accounts, however inspections are important to ensure valuations correctly reflect the condition of buildings. We recommend that an inspection regime is introduced for future valuation cycles. Such a regime could involve inspecting a certain percentage of assets each year subject to documented risk criteria.	All recommendations have been discussed with management and agreed in principle. Full responses are in the process of being developed along with timescales for implementation and will be reported to the Audit, Governance and Standards Committee in the summer of 2025.

Control Deficiencies

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
9	2	**Beacons** We identified a cautious valuation in respect of HRA dwellings because we found contradictory evidence for the valuation of one property. It was difficult to determine the extent to which the finding would affect other properties because the beacon group had a very large number of properties in it, approximately 2,000 whereas most beacons have property numbers in the hundreds. We recommend the Council considers whether it has correctly defined its beacon groups and whether there is any merit in splitting beacon groups up to achieve a more precise valuation.	All recommendations have been discussed with management and agreed in principle. Full responses are in the process of being developed along with timescales for implementation and will be reported to the Audit, Governance and Standards Committee in the summer of 2025.
10	2	**Review of property valuation methodology** Our work over the PPE process did not identify a suitable control to be assessed as a management review control in line with the auditing standards. We did see evidence of review by the Council of individual property valuations however this process was not evidenced. We recommend that in the future, formal records are maintained and followed up with the valuer as valuations are received. We also recommend that ahead of the next revaluation, a paper should be approved by Cabinet or the appropriate Committee which covers the valuation approach. This can then feed into the instructions issued to the valuers and ensures that those charged with governance are aware of and satisfied with the approach.	All recommendations have been discussed with management and agreed in principle. Full responses are in the process of being developed along with timescales for implementation and will be reported to the Audit, Governance and Standards Committee in the summer of 2025.
11	2	**Review of pension valuation methodology** Auditing standards define a management review control to include independent assessment of underlying assumptions by management. As part of our risk assessment procedures, we carried out a walkthrough to obtain an understanding of the pension assumption review process. We identified that there is no criteria or threshold developed for investigation/identification of outliers for pension assumptions. Therefore, although they do review the output of the actuary, there is no evidence of the review. Thus, there is not sufficiently well-defined process in place for it to meet the criteria of an effective review control. We recommend that management document the outcome of their annual review, including taking this to a relevant committee, to demonstrate appropriate challenge of the assumptions underlying the valuation. This should include demonstrating their view of their own assumptions to compare to those provided by the management expert.	All recommendations have been discussed with management and agreed in principle. Full responses are in the process of being developed along with timescales for implementation and will be reported to the Audit, Governance and Standards Committee in the summer of 2025.

Control Deficiencies

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
12	3	**Expected credit loss (ECL) provisions** The Council has a wide number of ECL provisions reflecting the varying nature of the debt the Council has. We could not identify any central policies or oversight of the approach for setting ECLs. Whilst ECLs should be set in a methodology unique to each form of debt, it would be good practice for corporate finance to set expectations/policies for setting ECLs as part of the closedown guidance for teams.	All recommendations have been discussed with management and agreed in principle. Full responses are in the process of being developed along with timescales for implementation and will be reported to the Audit, Governance and Standards Committee in the summer of 2025.
13	3	**Sensitivity disclosures** The CIPFA Code and IFRS requires disclosure of sensitivities for estimates where there is a significant degree of estimation uncertainty. For Southwark, this would be linked to valuations. Sensitivity disclosures should show the impact of changing individual assumptions, such as obsolescence adjustments. We recommend that the Council works with its various valuers to identify ways in which sensitivity disclosures can be calculated and presented.	All recommendations have been discussed with management and agreed in principle. Full responses are in the process of being developed along with timescales for implementation and will be reported to the Audit, Governance and Standards Committee in the summer of 2025.
14	3	**Annual review of Pass through arrangements** Our evaluation of the 'pass-through arrangements' with third-party corporate entities indicates that the obligations arising from these arrangements fall within the scope of IFRS 9. However, the Council is currently accounting for these 'pass-through arrangements' under IAS 19 'Employee Benefits'. We have concluded that, provided the balance sheet difference is not material, the Council may continue to account for these 'pass-through arrangements' under IAS 19 'Employee Benefits'. We recommend that the Council provide additional disclosures to explain these 'pass-through arrangements' in detail and conduct an annual assessment of these agreements at the balance sheet date.	All recommendations have been discussed with management and agreed in principle. Full responses are in the process of being developed along with timescales for implementation and will be reported to the Audit, Governance and Standards Committee in the summer of 2025.
15	3	**Council Tax Surplus Calculation,** We noted from casting checks performed over the version 1 statement of accounts, that when calculating the monetary figures in Note 4 of the collection fund had been calculated based on rounded percept/council percentages rather than those approved at Council. We recommend that in future periods these percentages are not rounded, and an additional review of this disclosure is conducted by a senior member of the Financial Accounting team.	All recommendations have been discussed with management and agreed in principle. Full responses are in the process of being developed along with timescales for implementation and will be reported to the Audit, Governance and Standards Committee in the summer of 2025.

Control Deficiencies

We have also followed up the recommendations from the previous years audit, in summary:

* As raised by the predecessor auditor, Grant Thornton.

Total number of recommendations	Number of recommendations implemented	Number outstanding (repeated below):
9	8	1

#	Risk	Issue, Impact and Recommendation	Current Status (January 2025)
Matters raised prior to the 31 March 2023 audit			
1	1	**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.	**Implemented** The valuation date used is 31 March.
2	2	**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.	**Implemented** Obtaining evidence from the Council's new valuer was straightforward.
3	2	**Canada Water** We* recommend the Council performs a detailed annual review of this matter and clearly documents this in a paper each year.	**Implemented** A detailed paper was provided for the current year audit.
4	2	**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 it is appropriately monitored and audited to ensure its accuracy.	**Implemented** No issues were noted in respect of contingent assets and disposals.

Control Deficiencies

#	Risk	Issue, Impact and Recommendation	Current Status (January 2025)
5	2	**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.	**Not Implemented** See new recommendation #4.
6	2	**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.	**Implemented** No issues were noted in respect of capital transactions.
Matters raised during the 31 March 2023 audit			
7, 9	1 2	**Review procedures following valuation input into the fixed asset register (Priority 1)** **Variances between the Fixed Asset Register to the Statement of Accounts (Priority 2)** We* recommend the Council ensures the Fixed asset register and general ledger maintain consistency, rather than manual journals being used to make corrections.	**Implemented** No issues were noted in respect of reconciling the fixed asset register and general ledger, or in reconciling to the accounts.
8	1	**Review procedures following valuation input into the fixed asset register** 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.	**Implemented** No issues were noted in respect of the classification of AUC balances.

Control deficiencies arising in the current year in relation to IT systems, and follow-ups to prior year IT general controls assessment findings will be raised as part of a separate report.

ISA (UK) 240 Revised: changes embedded in our practices

Ongoing impact of the revisions to ISA (UK) 240

ISA (UK) 240 (revised May 2021, effective for periods commencing on or after 15 December 2021) The auditor's responsibilities relating to fraud in an audit of financial statements included revisions introduced to clarify the auditor's obligations with respect to fraud and enhance the quality of audit work performed in this area. These changes are embedded into our practices and we will continue to maintain an increased focus on applying professional scepticism in our audit approach and to plan and perform the audit in a manner that is not biased towards obtaining evidence that may be corroborative, or towards excluding evidence that may be contradictory.

We will communicate, unless prohibited by law or regulation, with those charged with governance any matters related to fraud that are, in our judgment, relevant to their responsibilities. In doing so, we will consider the matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud.

Matters related to fraud that are, in our judgement, relevant to the responsibilities of Those Charged with Governance

Our assessment of the risks of material misstatement due to fraud may be found on page 3. We also considered the following matters required by ISA (UK) 240 (revised May 2021, effective for periods commencing on or after 15 December 2021) *The auditor's responsibilities relating to fraud in an audit of financial statements*, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud:

- Concerns about the nature, extent and frequency of management's assessments of the controls in place to prevent and detect fraud and of the risk that the financial statements may be misstated.
- A failure by management to address appropriately the identified significant deficiencies in internal control, or to respond appropriately to an identified fraud.
- Our evaluation of the entity's control environment, including questions regarding the competence and integrity of management.
- Actions by management that may be indicative of fraudulent financial reporting, such as management's selection and application of accounting policies that may be indicative of management's effort to manage earnings in order to deceive financial statement users by influencing their perceptions as to the entity's performance and profitability.
- Concerns about the adequacy and completeness of the authorization of transactions that appear to be outside the normal course of business.

Based on our assessment, we have no matters to report to Those Charged with Governance.

ISA (UK) 315 Revised: changes embedded in our practices

Summary

In the prior period, ISA (UK) 315 Revised "Identifying and assessing the risks of material misstatement" was introduced and incorporated significant changes from the previous version of the ISA.

These were introduced to achieve a more rigorous risk identification and assessment process and thereby promote more specificity in the response to the identified risks. The revised ISA was effective for periods commencing on or after **15 December 2021**.

The revised standard expanded on concepts in the existing standards but also introduced new risk assessment process requirements – the changes had a significant impact on our audit methodology and therefore audit approach.

What impact did the revision have on audited entities?

With the changes in the environment, including financial reporting frameworks becoming more complex, technology being used to a greater extent and entities (and their governance structures) becoming more complicated, standard setters recognised that audits need to have a more robust and comprehensive risk identification and assessment mechanism.

The changes result in additional audit awareness and therefore clear and impactful communication to those charged with governance in relation to (i) promoting consistency in effective risk identification and assessment, (ii) modernising the standard by increasing the focus on IT, (iii) enhancing the standard's scalability through a principle based approach, and (iv) focusing auditor attention on exercising professional scepticism throughout risk assessment procedures.

Implementing year 1 findings into the subsequent audit plan

Entering the second year of the standard, the auditors will have demonstrated, and communicated their enhanced insight into their understanding of your wider control environment, notably within the area of IT.

In year 2 the audit team will apply their enhanced learning and insight into providing a targeted audit approach reflective of the specific scenarios of each entity's audit.

A key area of focus for the auditor will be understanding how the entity responded to the observations communicated to those charged with governance in the prior period.

Where an entity has responded to those observations a re-evaluation of the control environment will establish if the responses by entity management have been proportionate and successful in their implementation.

Where no response to the observations has been applied by entity, or the auditor deems the remediation has not been effective, the audit team will understand the context and respond with proportionate application of professional scepticism in planning and performance of the subsequent audit procedures.

What will this mean for our on-going audits?

To meet the on-going requirements of the standard, auditors will each year continue to focus on risk assessment process, including the detailed consideration of the IT environment.

Subsequent year auditor observations on whether entity actions to address any control observations are proportionate and have been successfully implemented will represent an on-going audit deliverable.

Each year the impact of the on-going standard on your audit will be dependent on a combination of prior period observations, changes in the entity control environment and developments during the period. This on-going focus is likely to result in the continuation of enhanced risk assessment procedures and appropriate involvement of technical specialists (particularly IT Audit professionals) in our audits which will, in turn, influence auditor remuneration.

KPMG's Audit quality framework

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.

To ensure that every engagement lead and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework. Responsibility for quality starts at the top through our governance structures as the UK Board is supported by the Audit Oversight Committee, and accountability is reinforced through the complete chain of command in all our teams.

Commitment to continuous improvement

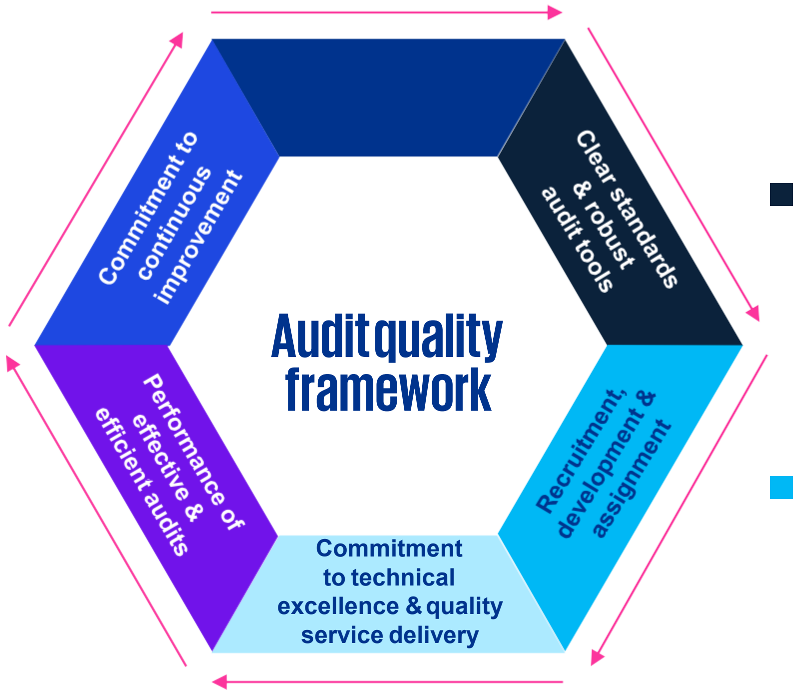
- Comprehensive effective monitoring processes
- Significant investment in technology to achieve consistency and enhance audits
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

Performance of effective & efficient audits

- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching, including the second line of defence model
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Insightful, open and honest two way communications

Commitment to technical excellence & quality service delivery

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights



Association with the right entities

- Select clients within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management

Clear standards & robust audit tools

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- KPMG Clara incorporating monitoring capabilities at engagement level
- Independence policies

Recruitment, development & assignment of appropriately qualified personnel

- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members employed KPMG specialists and specific team members

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