

# Governance and Audit Committee



SOUTH  
KESTEVEN  
DISTRICT  
COUNCIL

Thursday, 13 February 2025 at 2.00 pm  
Council Chamber - Council Offices, St. Peter's Hill,  
Grantham. NG31 6PZ

**Committee** Councillor Tim Harrison (Chairman)  
**Members:** Councillor Helen Crawford (Vice-Chairman)

Councillor Bridget Ley, Councillor Charmaine Morgan, Councillor Rob Shorrock,  
Councillor Peter Stephens, Councillor Paul Stokes, Councillor Mark Whittington,  
Councillor Sue Woolley and Alan Bowling (external co-opted member)

## Agenda

This meeting can be watched as a live stream, or at a later date, [via the SKDC Public-I Channel](#)

- 1. Apologies for absence**
- 2. Disclosure of interests**  
Members are asked to disclose any interests in matters for consideration at the meeting.
- 3. Minutes of the meeting held on 22 January 2025** (Pages 3 - 10)
- 4. ISA 260 Report** (Pages 11 - 47)  
Report by the Council's External Auditors outlining the key findings arising from the statutory audit of South Kesteven District Council.
- 5. Statement of Accounts and Annual Governance Statement (To Follow)  
2023/24**  
The Statement of Accounts 2023/24 is presented to the Governance and Audit Committee for approval. This report covers the revised 'Statement of Accounts Commentary' based on the outcome of the audit of the Statement of Accounts.

6. **Proposed Amendments to the Council's Constitution** (To Follow)  
To consider potential amendments to the Council's Constitution.
7. **Work Programme 2024 - 2025** (Pages 49 - 50)  
To consider the Committee's Work Programme for 2024 – 2025.
8. **Any other business, which the chairman, by reasons of special circumstances, decides is urgent.**

**Meeting of the  
Governance and Audit  
Committee**  
**Wednesday, 22 January 2025,  
10.00 am**



**SOUTH  
KESTEVEN  
DISTRICT  
COUNCIL**

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<b>Committee Members present</b>	<b>Cabinet Members present</b>
Councillor Tim Harrison (Chairman)	Councillor Ashley Baxter
Councillor Helen Crawford (Vice-Chairman)	Councillor Philip Knowles
Councillor Bridget Ley	
Councillor Charmaine Morgan	
Councillor Mark Whittington	
Councillor Sue Woolley	
Councillor Phil Gadd	
Councillor Graham Jeal	
Councillor Ashley Baxter	
Councillor Philip Knowles	
Alan Bowling (external co-opted member)	
<b>Officers</b>	<b>Other Members present</b>
Karen Bradford, Chief Executive	Councillor Rhea Rayside
Richard Wyles, Deputy Chief Executive and Section 151 Officer	
Paul Sutton, Assistant Director of Finance/Deputy Section 151 Officer	
Graham Watts, Assistant Director (Governance and Public Protection) and Monitoring Officer	
Tracey Elliott, Governance & Risk Officer	
Joshua Mann, Democratic Services Officer	
Younis Salma, External Auditor	
Paul Akanbi, Internal Auditor	
Janine Combrinck, Internal Auditor	

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**53. Apologies for absence**

An apology for absence was received from Councillor Paul Stokes, substituted by Councillor Phil Gadd.

An apology for absence was received from Councillor Peter Stephens, substituted by Councillor Graham Jeal.

An apology for absence was received from Councillor Rob Shorrock.

#### **54. Disclosure of interests**

A Member suggested that Councillor Tim Harrison should relinquish his role as Chairman of the Governance and Audit Committee until such a time that they had completed further training as recommended by a recent Standards Committee hearing. The Member outlined sanctions agreed by the Hearing Review Panel. (Please see post-meeting note at Annex A).

Councillor Harrison stated he had already attended training but intended to conform to the sanctions agreed at the Hearing Review Panel. Taking into account the suggestion of the Member, Councillor Harrison voluntarily called for a vote to ascertain the views of the Committee.

The vote indicated support for the suggestion made. Councillor Harrison therefore voluntarily stood down from presiding over this meeting as Chairman at this stage of proceedings.

Councillor Helen Crawford, Vice-Chairman of the Governance and Audit Committee, took the chair.

Alan Bowling was welcomed to his first meeting of the Governance and Audit Committee as the Committee's External Co-opted Member further to his successful appointment in December.

#### **55. Minutes of the meeting held on 27 November 2024**

The minutes of the meeting held on 27 November 2024 were proposed, seconded and AGREED as an accurate record.

#### **56. Updates from previous meeting**

The Monitoring Officer confirmed that the Democratic Services Team was engaging with its counterparts at Lincolnshire County Council to identify and ensure that District Councillors could access the same external training opportunities as County Councillors. The outcome would be reported to the next meeting of the Councillor Development Group.

#### **57. Value for Money Conclusion - KPMG**

The item was presented by the external auditor from KPMG who clarified that the report brought before the Committee was the Value for Money Risk Assessment rather than the Conclusion.

It was summarised that the risk assessment had been evaluated by examining the three following domains: financial sustainability, governance, improving economy, efficiency and effectiveness.

For each of these, the report highlighted the particular plans, processes and performance indicators that had been examined in evaluating the level of risk. There were no significant risks identified within any of these domains.

As part of the value for money risk assessment procedures, the external auditors, KPMG, raised six recommendations relating to the following areas:

- Management response to Value for Money,
- Reporting on financial savings,
- Leisure SK Ltd,
- St Martin's Park Stamford land acquisition,
- Implementation of new finance system,
- Accounts preparation.

For each of these a management response was provided, identifying the responsible officer and an action date.

The Value for Money Risk Assessment was noted by the Committee.

## **58. Internal Audit Progress Report**

The Internal Audit Progress Report was presented by the internal auditors, BDO, who clarified that, of eight audits commissioned, the audit brought before the Committee was regarding Council Tax and Business Rates.

It was noted that the next audit would be regarding Data Protection and Freedom of Information and would be presented to the Committee at the March 2025 meeting.

During discussions, Members commented on the following:

- How SKDC compared to other authorities regarding the quantity and frequency of written off debt. The internal auditors confirmed that SKDC had comprehensive revenue collection policies and an effective debt recovery process. Regarding write-offs, the report named an area of strength within the service area to be the separation of duties for writing off aged council tax and national non-domestic rate debts, with different staff proposing, authorizing and actioning write-offs.
- It was queried when the last audit of the financial management system was completed given the postponement of the recent audit. The Section 151 Officer confirmed that, following consultation with KPMG, the postponement of the financial management plan audit had occurred due to the upcoming overhaul of the current system. Therefore, it was

more effective to hold the audit when the new system had been implemented.

- The value of the debt shown on the balance sheet was queried. This was confirmed to represent SKDC's proportionate share of the debt.

The Internal Audit Progress Report was noted by the Committee.

## **59. Indicative Internal Audit Plan 2025/26**

The Indicative Internal Audit Plan 2025/26 was presented by the BDO internal auditor.

The Indicative Internal Audit Plan 2025/26 outlined ten proposed audits and mapping of the strategic risk register. This had been drafted in consultation with the Section 151 Officer and following discussions with SKDC's Corporate Management Team.

It was clarified that a final plan containing an updated Charter would be brought to the March meeting of the Governance & Audit Committee. This would reflect the updated requirements from the global internal audit standards which were to be effective from 1 April 2025.

The Indicative Internal Audit Plan 2025/26 was noted by the Committee.

## **60. 2025/26 Treasury Management Strategy Statement**

The 2025/26 Treasury Management Strategy Statement was presented by the Leader of the Council.

The Treasury Management Strategy Statement detailed the investment and borrowing policies that SKDC would follow during 2025/26.

The Chartered Institute of Public Finance and Accountancy (CIPFA) code and the Ministry of Housing, Communities and Local Government (MHCLG) statutory guidance also required SKDC to have a policy on non-treasury investments which was included in the Capital Strategy which was to be considered by Council on 27 February 2025.

Within the Treasury Management Strategy Statement was clarification regarding the counterparties that SKDC considered investing with and the limits for doing so with each counterparty.

The Leader of the Council confirmed that SKDC's investments were performing better than expected due to market conditions.

During discussions, Members commented on the following:

- The Section 151 Officer confirmed their desire to adhere to the Environmental, Social and Governance (ESG) statement given that it was a CIPFA initiative which had been endorsed by Full Council.

- Training was requested for Members of the Governance & Audit Committee regarding the up-to-date requirements within the CIPFA code. This was acknowledged by the Section 151 Officer and the Leader of the Council referred Members to their Councillor Personal Development Plans.
- The reporting responsibilities of the Section 151 Officer were queried if the Officer had to exercise their emergency powers. It was confirmed that an Officer Delegation Report would be published, and the Governance & Audit Committee would be notified at their next meeting.

Following discussions, it was proposed, seconded and AGREED to recommend to Full Council that the 2025/26 Treasury Management Strategy Statement was approved.

## **61. Proposed amendments to the Council's Constitution**

The report was presented by the Cabinet Member for Corporate Governance and Licensing.

The report was broken down into three recommendations relating to amending the constitutional procedures of the following areas:

- Overview and Scrutiny Procedure Rules,
- Recorded vote for adoption of the Local Plan,
- Letting of land and property – delegated authority.

### Overview and Scrutiny Procedure Rules

The Cabinet Member explained that the purpose of this amendment was to place more onus on the Member making the request to liaise with the relevant Cabinet Member and Officer and undertake some research themselves in relation to a particular item. The Committee could then determine whether it wished to include the item on the work programme for a future meeting. The amendment also sought to ensure that the Member who made the initial request for the item had to be in attendance during its consideration at a meeting.

The Cabinet Member noted that this procedure was similar to that in place at Lincolnshire County Council which seemed to work well based on feedback received from those District Councillors who were also County Councillors.

During discussion, Members commented on the following:

- It was confirmed that the number of items on an agenda would be determined by the Committee, dependent upon their urgency, as part of considering its work programme. Subsequent management of the work programme would take place by the Chairman and Vice-Chairman outside of formal meetings of the respective committee via agenda

setting meetings in liaison with the relevant Cabinet Member and lead officer.

- The point was made that there were occasions where Members requested information or updates rather than a full report. It would be up to each Committee or Chairman and Vice-Chairman to manage this when considering and managing the work programme.

Following discussion, it was proposed, seconded and AGREED to recommend to Full Council that the Overview and Scrutiny Procedure Rules at Part 4 (Rules of Procedure) of the Council's Constitution be amended, as set out in paragraph 3.6 of the report.

*At 10.46 AM Councillor Phil Gadd left the Chamber and Councillor Charmaine Morgan joined the Chamber.*

*At 10.49 AM the meeting was adjourned due to a technical issue. The meeting resumed at 11.06 AM.*

#### Recorded vote for adoption of the Local Plan

The Cabinet Member explained that this amendment was being proposed to ensure that a recorded vote be held for any vote regarding the adoption of the Local Plan at Full Council.

During discussion, Members commented on the following:

- Why this provision was necessary. The Cabinet Member clarified that this would give greater clarity and transparency to the public regarding one of the most fundamental documents in shaping South Kesteven as a district. Several Members expressed their support for this sentiment.

Following discussion, it was proposed, seconded and AGREED to recommend to Full Council that the following new sub-paragraph be added to paragraph 15 of the Council Procedure Rules:

***15.7 A recorded vote will be taken in respect of any decision to adopt the Local Plan.***

#### Letting of land and property – delegated authority

The Cabinet Member confirmed this proposal as an extension of the delegated authority of certain officers, including the Section 151 Officer regarding the letting of land and property. Namely, the proposal was to add the following sub-paragraph under section paragraph 26 (Property, including land) of Part 3(c) of the Council's Constitution:

***h) Any Lease, agreement or letting where the total value over the period exceeds £100,000 must be supported by an independent valuation and undertaken in consultation with the Cabinet Member for Property.***

During discussion, Members commented on the following:

- The Section 151 Officer confirmed that they did not currently set any rentals or lease agreements themselves, independently, and these were always set in consultation with external advisors.
- A Member expressed their view that greater consideration should be given to residents when leases were awarded to commercial units located underneath residential premises. The Section 151 Officer reported that terms of a commercial lease would be clearly set out to ensure that they acted without any detrimental impact to residents living nearby – especially in relation to health and safety.
- It was queried whether consideration had been given to changing the numerical figure in the proposal and a Member noted the issue of including a fixed numerical figure could require regular review due to inflation. The Section 151 Officer reminded Members that the purpose of the value in the delegation was a level in which the Cabinet Member and an independent valuation would become involved in the process.

Following discussions, it was proposed, seconded and AGREED to recommend to Full Council Part 3(c) (Responsibility for Functions – Delegated Powers to Officers) of the Council's Constitution be amended under section 26 (Property, including land), as set out in paragraph 3.11 of the report.

## **62. Risk Management Annual Report 2023-24 including Risk Management Framework 2025-27**

The Risk Management Annual Report 2023-24 including Risk Management Framework 2025-27 was presented by the Cabinet Member for Corporate Governance and Licensing.

The Cabinet Member outlined the following changes to the report since the publication of the last draft framework in 2021:

- Risk Management Policy Statement had been separated into the component parts.
- Risk Management Strategy now included aims in addition to objectives.
- Risk Management Governance Framework (Appendix B) and Roles and Responsibilities (Appendix C) had been updated to ensure they reflected the current structure of the Council.
- Risk Management Process (Appendix D) had been consolidated and included the new risk matrix as approved by Governance and Audit Committee in November 2023.
- Strategic Risk Management Approach (Appendix E) was a new appendix specifically around the approach to strategic risk.

- Council's Risk Register Layout (Appendix F) was a new appendix to ensure consistency in recording risks.

During discussions, Members commented on the following:

- Praised the comprehensiveness of the report.
- It was queried whether there was a risk appetite statement adopted by SKDC. It was confirmed that this was alluded to in Appendix A of the report. The current risk register did not establish the individual risk levels, but this could be considered for incorporating into the new risk register being produced for the March meeting of the Governance & Audit Committee. The Section 151 Officer did note that the risk appetite would vary depending on the issues which may not lend itself to an overarching statement. Instead, in consultation with RSM International, a risk radar was being considered to identify long-term, external risks.

Following discussions, it was proposed, seconded and AGREED to approve the Risk Management Annual Report 2023-24, and the draft Risk Management Framework 2025-27 included in Appendix A.

### **63. Work Programme 2024 - 2025**

The Democratic Services Officer noted that item entitled "External Audit Finding 23/24" within the Work Programme for the 13 February 2025 meeting was a duplicate and would be removed.

A Member queried whether the 2023/24 Statement of Accounts had been agreed by the auditors. It was noted that discussions were ongoing between Officers and the auditors prior to the statutory deadline of 28 February 2025.

It was noted that the Risk Register item included on the Work Programme for the 19 March 2025 would encompass the Risk Management Statements.

A request was made for an update regarding the Access to Information Working Group to be added to the Work Programme. The Monitoring Officer requested that this be included on the work programme for the March meeting of the Committee given that the next meeting of the Working Group was scheduled to be held in February.

### **64. Any other business, which the chairman, by reasons of special circumstances, decides is urgent.**

There was none.

*The meeting concluded at 11:32 AM.*

# Year End Report to the Governance and Audit Committee

South Kesteven District Council

Year end report for the year ended 31 March 2024

DRAFT

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 solely on the procedures necessary for our audit.

## Purpose of this report

This Report has been prepared in connection with our audit of the consolidated financial statements of South Kesteven District Council (the 'Council') prepared in accordance with International Financial Reporting Standards ('IFRSs') as adapted 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 Governance and Audit Committee, a committee 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.

## Limitations on work performed

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

Yours sincerely,

[Personal signature]

Salma Younis  
Director KPMG LLP  
February 2025

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 not yet complete and matters communicated in this Report may change pending signature of our audit report. We will provide an oral update on the status. Page 3 'Our Audit Findings' outlines the outstanding matters in relation to the audit. Our conclusions will be discussed with you before our audit report is signed.

## Restrictions on distribution

The report is provided for the information of the Governance and Audit Committee; 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 5-16	Uncorrected Audit Misstatements	Page 30	Number of Control deficiencies	Page 31
Significant audit risks	Our findings	Understatement/ (overstatement)	£m	Understatement/ (overstatement)	
Fraud risk – expenditure recognition	Our testing over expenditure completeness is ongoing however we have not identified any issues from our work so far.	Revenues	0	Significant control deficiencies	0
Management override of controls	From our testing we have not identified any instances of management override of control.	Surplus for the year	0	Other control deficiencies	5
Valuation of land and buildings	We critically assessed the key underlying assumptions underpinning the valuation on which the carrying value of land and buildings is based. We have concluded that the assumptions used in the valuation of land and buildings are balanced.	Total assets	0	Prior year control deficiencies remediated	0
Valuation of investment property	We critically assessed the key underlying assumptions underpinning the valuation on which the carrying value of investment properties is based. We have concluded that the assumptions used in the valuation of investment properties are balanced.	Total taxpayers' equity	0		
Valuation of post retirement benefit obligations	No issues identified from the testing over the valuation. KPMG actuaries have assessed the assumptions used and concluded these are within expected range.	Misstatements in respect of Disclosures	Page 30		
<b>Key accounting estimates</b>	<b>Page 17</b>	<b>Misstatement in respect of Disclosures</b>			
Valuation of land and building	We assessed as balanced the assumptions underpinning the valuation of land and buildings.	LGPS			
Valuation of Investment properties	We assessed as balanced the assumptions underpinning the valuation of investment properties.	<ul style="list-style-type: none"> <li>Include narrative on Virgin Media court case</li> <li>Update Presentation of Unfunded DBO and Asset ceiling</li> <li>Add reconciliation and treatment of asset ceiling.</li> </ul>			
Valuation of Pension Assets	We involved KPMG actuarial specialists in reviewing the actuarial assumptions. Assumptions were found to be balanced.				

## Outstanding matters

Our audit is substantially complete except for the following outstanding matters

- Remaining balance sheet samples for the Collection Fund;
- Manager and Director file review;
- Review of updated accounts
- Finalisation processes;
- Management representation letter; and
- Finalise audit report and sign

# Key changes to our audit plan

We have not made any changes to our audit plan as communicated to you, other than as follows:

## Materiality

At the time of the audit plan we had calculated materiality based on the 2022/23 expenditure of £76.9m, the presumed benchmark. This has been revised at the year-end and the 2023/24 expenditure of £86m has been used instead.

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## Entity Materiality

Entity
Materiality for the financial statements as a whole
<b>£1.8m</b> (Audit Plan: £1.6m)
Procedure designed to detect individual errors at this level
<b>£1.17m</b> (Audit Plan: £1.04m)
Misstatements reported to the Audit Committee
<b>£0.09m</b> (Audit Plan: £0.08m)



# 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.

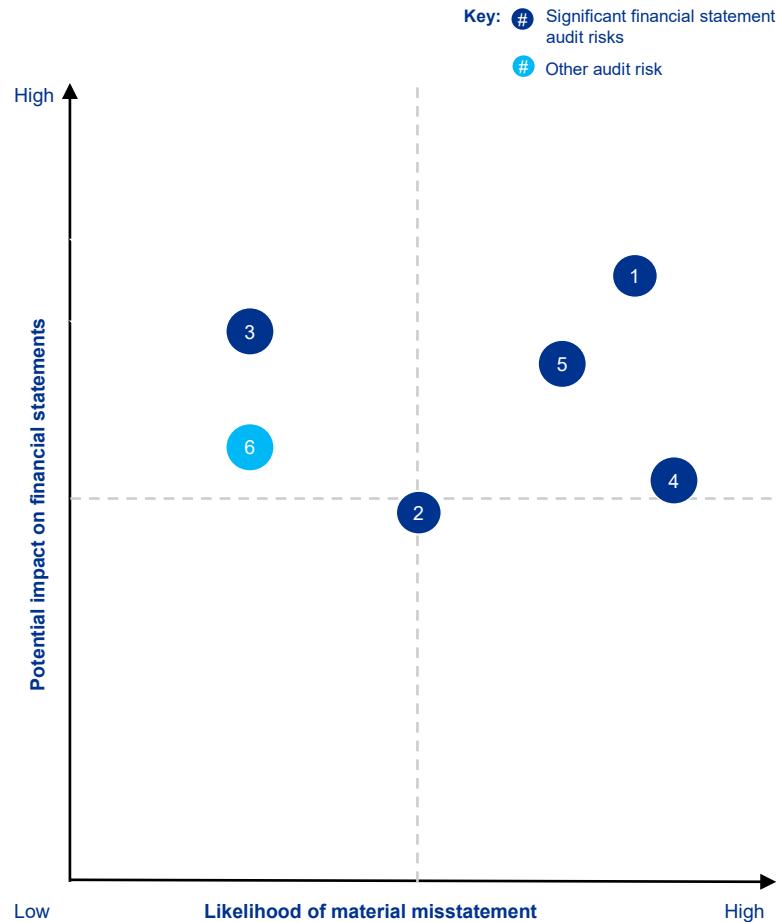
We also use our regular meetings with senior management to update our understanding and take input from local audit teams and internal audit reports.

**Significant risks**

1. Valuation of land and buildings
2. Valuation of investment property
3. Management override of controls
4. Valuation of post retirement benefit obligations
5. Expenditure recognition

**Other audit risks**

6. Revenue expenditure is inappropriately recognised as capital expenditure



# Audit risks and our audit approach



1

## Valuation of land and buildings

The carrying amount of revalued Land & Buildings differs materially from the fair value



### Significant audit risk

The Council own Council Dwellings with a value of £329m as at 31 March 2024 (22/23, £325m) Other Land and Buildings of £66m (22/23, £66m).

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 Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle, with land and buildings outside the full revaluation subject to a desktop review.

This creates a risk that the carrying value of assets not revalued in year differs materially from the year end current value.

A further risk is presented for those assets that are revalued in the year, which involves significant judgement and estimation on behalf of the District Valuer.



### Our response

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

- We critically assessed the independence, objectivity and expertise of the District Valuer, the valuers used in developing the valuation of the Council's properties at 31 March 2024;
- We inspected the instructions issued to the valuers for the valuation of land and buildings to verify they are appropriate to produce a valuation consistent with the requirements of the CIPFA Code;
- We compared the accuracy of the data provided to the valuers for the development of the valuation to underlying information;
- We reviewed 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 land and buildings; including any material movements from the previous revaluations. We challenged key assumptions within the valuation as part of our judgement;
- We agreed the calculations performed of the movements in value of land and buildings and verify that these have been accurately accounted for in line with the requirements of the CIPFA Code;
- We critically challenged the Council's judgements why the assets not revalued in year are still carried at fair value at 31 March 2024; and
- 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 land and buildings (cont.)

The carrying amount of revalued Land & Buildings differs materially from the fair value



#### Significant audit risk

The Council own Council Dwellings with a value of £329m as at 31 March 2024 (22/23, £325m) Other Land and Buildings of £66m (22/23, £66m).

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 Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle, with land and buildings outside the full revaluation subject to a desktop review.

This creates a risk that the carrying value of assets not revalued in year differs materially from the year end current value.

A further risk is presented for those assets that are revalued in the year, which involves significant judgement and estimation on behalf of the District Valuer.



#### Our response

We critically assessed the key underlying assumptions underpinning the valuation on which the carrying value of land and buildings is based. We have concluded that the assumptions used in the valuation of land and buildings are balanced.

We critically assessed the key underlying assumptions underpinning the valuation on which the carrying value of Council dwellings is based. We have concluded that the assumptions used in the valuation of Council dwellings are balanced.

We did not identify any issues in relation to accounting treatment of the valuation movements.

We did not identify any issues in relation to the related disclosures.

Auditing Standards requires auditors to identify a management review control (MRC) where there is a significant audit risk. There is a significant threshold that needs to be met in order to have a satisfactory MRC in place – particularly around the precision of the control. We note that although the Council has processes in place to help ensure that the valuation of land and buildings is based on best estimate, supported by reasonable assumptions, these processes do not meet the required threshold of an MRC. See Appendix 5 for our recommendation.

# Audit risks and our audit approach (cont.)



2

## Valuation of investment property

The carrying amount of revalued investment property differs materially from the fair value



### Significant audit risk

The Code defines an investment property as one that is used solely to earn rentals or for capital appreciation or both. Property that is used to facilitate the delivery of services or production of goods as well as to earn rentals or for capital appreciation does not meet the definition of an investment property. As at March 2024, the value of investment properties was £12m (22/23, £5m).

There is a risk that investment properties are not being held at fair value, as is required by the Code. At each reporting period, the valuation of the investment property must reflect market conditions. Significant judgement is required to assess fair value and management experts are often engaged to undertake the valuations.



### Our response

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

- We critically assessed the independence, objectivity and expertise of the valuer used in developing the valuation of the Council's investment property at 31 March 2024;
- We inspected the instructions issued to the valuers to verify they are appropriate to produce a valuation consistent with the requirements of the CIPFA Code;
- We compared the accuracy of the data provided to the valuers for the development of the valuation to underlying information;
- 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; including any material movements from the previous revaluations. We challenged key assumptions within the valuation as part of our judgement;
- We agreed the calculations performed of the movements and verify that these have been accurately accounted for in line with the requirements of the CIPFA Code;
- 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.)



2

## Valuation of investment property (cont.)

The carrying amount of revalued investment property differs materially from the fair value



### Significant audit risk

The Code defines an investment property as one that is used solely to earn rentals or for capital appreciation or both. Property that is used to facilitate the delivery of services or production of goods as well as to earn rentals or for capital appreciation does not meet the definition of an investment property. As at March 2024, the value of investment properties was £12m (22/23, £5m).

There is a risk that investment properties are not being held at fair value, as is required by the Code. At each reporting period, the valuation of the investment property must reflect market conditions. Significant judgement is required to assess fair value and management experts are often engaged to undertake the valuations



### Our findings

We critically assessed the key underlying assumptions underpinning the valuation on which the carrying value of investment properties is based. We have concluded that the assumptions used in the valuation of land and buildings are balanced.

We did not identify any issues in relation to accounting treatment of the valuation movements.

We did not identify any issues in relation to the related disclosures.

Auditing Standards requires auditors to identify a management review control (MRC) where there is a significant audit risk. There is a significant threshold that needs to be met in order to have a satisfactory MRC in place – particularly around the precision of the control. We note that although the Council has processes in place to help ensure that the valuation of investment property is based on best estimate, supported by reasonable assumptions, these processes do not meet the required threshold of an MRC. See Appendix 5 for our recommendation.

# Audit risks and our audit approach (cont.)

3

## Management override of controls<sup>(a)</sup>

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 not identified any specific additional risks of management override relating to this audit



### Our response

Our audit methodology incorporates the risk of management override as a default significant risk.

- Assessed accounting estimates for biases by evaluating whether judgements and decisions in making accounting estimates, even if individually reasonable, indicate a possible bias.
- Evaluated the selection and application of accounting policies.
- In line with our methodology, evaluated the design and implementation of controls over journal entries and post closing adjustments.
- Assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates.
- Assessed the business rationale and the appropriateness of the accounting for significant transactions that are outside the entity's normal course of business, or are otherwise unusual.
- We analyses all journals through the year and focus our testing on those with a higher risk, for example any journals posted by senior officers.

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

# Audit risks and our audit approach (cont.)

## 3

### Management override of controls<sup>(a)</sup> (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 not identified any specific additional risks of management override relating to this audit

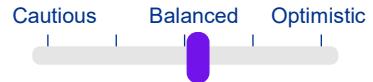


#### Our findings

- We have not identified any issues in relation to the Council's accounting policies and accounting estimates
- We identified 14 journal entries and other adjustments meeting our high-risk criteria – our examination did not identify unauthorised, unsupported or inappropriate entries.
- We evaluated accounting estimates and did not identify any indicators of management bias – see page 17.
- Our procedures did not identify any significant unusual transactions.
- Auditing Standards requires auditors to identify a management review control (MRC) where there is a significant audit risk and we identified a control deficiency in relation to journal posting. There is no approval process within the finance team and so any person with access to the ledger system (though this is limited to a subset of the finance team) can create and post journals to the ledger without the review of any other member within the team. This creates the opportunity for fraudulent expenditure to be posted to the ledger. See Appendix 5 for the recommendation raised.

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

# Audit risks and our audit approach (cont.)



4

## Valuation of post retirement benefit obligations

An inappropriate amount is estimated and recorded for the defined benefit obligation



### 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.
- 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 following pension scheme memberships: Local Government Pension Scheme
- Also, recent changes to market conditions have meant that more councils are finding themselves moving into surplus in their Local Government Pension Scheme (or surpluses have grown and have become material). The requirements of the accounting standards on recognition of these surpluses are complicated and requires actuarial involvement.



### Our response

We performed the following procedures:

- Understood the processes the Council have in place to set the assumptions used in the valuation;
- Evaluated the competency, objectivity of the Fund actuaries to confirm their qualifications and the basis for their calculations;
- Performed inquiries of the Fund 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 Fund 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 are 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 surplus to these assumptions; and
- Assessed the level of surplus that should be recognised by the entity.

# Audit risks and our audit approach (cont.)



4

## Valuation of post retirement benefit obligations (cont.)

An inappropriate amount is estimated and recorded for the defined benefit obligation



### 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.
- 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 following pension scheme memberships: Local Government Pension Scheme
- Also, recent changes to market conditions have meant that more councils are finding themselves moving into surplus in their Local Government Pension Scheme (or surpluses have grown and have become material). The requirements of the accounting standards on recognition of these surpluses are complicated and requires actuarial involvement.



### Our findings

- We evaluated the competency and objectivity of the Scheme actuaries, to confirm their qualifications and the basis for their calculations with no issues noted.
- We agreed the data provided by the audited entity to the scheme administrator for use within the calculation of the scheme valuation with no issues noted.
- Auditing standards require auditors to identify a management control where there is a significant audit risk. In the case of the LGPS pension valuation we have not been able to identify a suitable and formal management control. We recommend that should management wish to meet this requirement they will need to carry out a predictive review of the methodology and assumptions that are being proposed to calculate the pension provisions held by the Council. See Appendix 5 for recommendation raised.
- Given that the selection of actuarial assumptions is inherently subjective, we engaged KPMG Actuarial specialists to review the actuarial assumptions and compare them to industry medians. The overall assumptions are considered to be balanced in relation KPMG's central rates and within reasonable range.
- Following the Court of Appeal's dismissal of the Virgin Media appeal, we are recommending that the Council makes appropriate narrative disclosure that it is currently not clear if there is any impact on the benefits in LGPS Funds, therefore it is not possible for employers to quantify the DBO impact, if any.
- Recommendations on the disclosures which included adding narrative on VM case, updating presentation for unfunded obligations and asset ceiling along with other presentational points.

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

# Audit risks and our audit approach (cont.)

## 5

## Fraud risk from expenditure recognition

Liabilities and related expenses for purchases of goods or services are not completely identified and recorded



### Significant audit risk

Practice Note 10 states that the risk of material misstatement due to fraudulent financial reporting may arise from the manipulation of expenditure recognition is required to be considered.

The Council has a statutory duty to balance their annual budget. Where a Council does not meet its budget this creates pressure on the Council's usable reserves and this in turn provides a pressure on the following year's budget. This is not a desirable outcome for management.

For the 2023/24 reporting period, management are reliant on utilising earmarked reserves to achieve a breakeven position and this creates a pressure on management to reduce expenditure in year.

We consider this would be most likely to occur through understating accruals, for example to push back expenditure to 2024/25 to mitigate financial pressures.



### 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 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 expenditure, in the period around 31 March 2024, to determine whether expenditure has been recognised in the correct accounting period and whether accruals are complete;
- We selected a sample of year end accruals and inspect evidence of the actual amount paid after year end in order to assess whether the accruals have been accurately recorded;
- We inspected journals posted as part of the year end close procedures 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; and
- We performed a retrospective review of prior year accruals in order to assess the completeness with which accruals had been recorded at 31 March 2023 and consider the impact on our assessment of the accruals at 31 March 2024. We compared the items that were accrued at 31 March 2023 to those accrued at 31 March 2024 in order to assess whether any items of expenditure not accrued for as at 31 March 2024 have been done so appropriately.

# Audit risks and our audit approach (cont.)

## 5

## Fraud risk from expenditure recognition (cont.)

Liabilities and related expenses for purchases of goods or services are not completely identified and recorded



### Significant audit risk

Practice Note 10 states that the risk of material misstatement due to fraudulent financial reporting may arise from the manipulation of expenditure recognition is required to be considered.

The Council has a statutory duty to balance their annual budget. Where a Council does not meet its budget this creates pressure on the Council's usable reserves and this in turn provides a pressure on the following year's budget. This is not a desirable outcome for management.

For the 2023/24 reporting period, management are reliant on utilising earmarked reserves to achieve a breakeven position and this creates a pressure on management to reduce expenditure in year.

We consider this would be most likely to occur through understating accruals, for example to push back expenditure to 2024-25 to mitigate financial pressures.



### Our findings

From our review of the accruals recorded at March 2024, and comparison to those recorded in March 2023 we did not identify any issues over the completeness of expenditure.

We did not identify any issues in relation to our sample testing of year-end manual accruals

We did not identify any issues in relation to expenditure cut-off.

Auditing Standards requires auditors to identify a management review control (MRC) where there is a significant audit risk. There is a significant threshold that needs to be met in order to have a satisfactory MRC in place – particularly around the precision of the control. We note that although the Council has processes in place to help ensure that the accruals recorded at year-end are appropriate and complete, these processes do not meet the required threshold of an MRC. See Appendix 5 for the recommendation raised.

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

# Audit risks and our audit approach (cont.)

6

## Revenue expenditure is inappropriately recognised as capital expenditure

Revenue expenditure is inappropriately recognised as capital expenditure



### Other audit risk

Given the size of the Council's capital programme we have identified an Other Audit Risk regarding the revenue expenditure being inappropriately recognised as capital expenditure.



### Our response

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

- We reviewed the design and implementation of controls for classifying expenditure as capital;
- We reviewed the capital programme for schemes which indicate they are of a revenue nature; and
- We tested capital expenditure incurred by the Council to ensure it is correctly capitalised.

Our findings:

- Based on the sample testing performed, we did not identify any instances where expenditure had been incorrectly capitalised.

# 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.

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	
<b>Valuation of Land and Buildings</b>				<b>65.6m</b>	<b>(0.1m)</b>				No issues identified from our testing, the assumptions used by the Council's valuer were considered balanced.
<b>Valuation of Council Dwellings</b>				<b>339.5m</b>	<b>14.4m</b>				No issues identified from our testing, the assumptions used by the Council's valuer were considered balanced.
<b>Valuation of Investment Property</b>				<b>12.7m</b>	<b>7.7m</b>				No issues identified from our testing, the assumptions used by the Council's valuer were considered balanced. The year on year change is driven by the transfer of St Martin's Park from assets under construction to investment properties.
<b>LGPS Net Liability</b>				<b>(0.2m)</b>	<b>(0m)</b>				No issues identified from our testing, the assumptions used by the actuary were within KPMG acceptable range. See page 18 for further detail on assumptions.

# South Kesteven District Council – LGPS participation - IAS 19 as at 31 March 2024

Level of prudence compared to KPMG central assumptions



Audit misstatement

Cautious

Balanced

Optimistic

Audit misstatement

Reasonable range

Overall assessment of assumptions for audit consideration						 Balanced		
Underlying assessment of individual assumptions		Methodology	Consistent methodology to prior year?	Compliant methodology with accounting standard?	Employer	KPMG central	Assessment	Significant assumption
Discount rate		AA yield curve			4.90%	4.81%		
CPI inflation		Deduction to inflation curve			2.95%	2.85%		
Pension increases		In line with CPI			2.95%	3.02%		
Salary increases		Employer best estimate			CPI plus 1%	In line with long-term remuneration policy		
Mortality	Base tables	In line with most recent Fund valuation			130%/120% of SAPS S3 tables for Males/Females	In line with best-estimate Fund experience		
	Future improvements	In line with most recent Fund valuation, updated to use latest available CMI model			CMI 2022, 1.25% long-term trend rate and default other parameters	CMI 2022, 1.25% long-term trend rate and default other parameters		
Other demographics		In line with most recent Fund valuation			In line with most recent Fund valuation	In line with Scheme experience		

# Group audit scope

The table below details the group components and level of audit work performed to support the group audit opinion.

Group	Full audit / Audit of Balances
South Kesteven District Council (Parent)	Full audit
LeisureSK Limited	<p>Our group risk assessment procedures did not identify a significant risk attached to the account balances related to this subsidiary.</p> <p>Thus our audit procedures focused on risk assessment including a review of the trial balance, testing of cash and agreeing the consolidation of the subsidiary into the Group accounts.</p>

# 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 Governance and Audit 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; 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 South Kesteven District Council, the threshold at which detailed testing is required has not been exceeded. We have therefore completed our work on the Whole of Government Accounts and have no issues to report to the Governance and Audit Committee.

We will submit an updated assurance statement on completion of the audit and following review the final financial statements.

We are aware that we will not be able to issue the Audit Completion certificate until the WGA has been signed by the National Audit Office so this will continue to be outstanding.

## 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 £151,000 plus VAT (£79,751 in 2022/23).

We have agreed a scope variation in relation to ISA315R of £11,790 plus VAT. *A further fee variation in relation to the delays in the VFM and audit work is being discussed with management.*

We have also completed non audit work at the Council during the year on Housing Benefit Grants and Pooling Audits and have included in Appendix 3 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 not identified any risk of a significant weakness in the Council's arrangements to secure value for money.

We have no recommendations to report. We have followed up the prior year recommendation raised by your predecessor auditor, overleaf.

## Performance improvement observations

As part of our VfM risk assessment work we have identified a number of Performance Improvement Observations, which are suggestions for improvement. These were communicated separately to the Governance and Audit Committee in January 2025.

## 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	No significant risks identified	No significant weaknesses identified
Governance	No significant risks identified	No significant weaknesses identified
Improving economy, efficiency and effectiveness	No significant risks identified	No significant weaknesses identified

Further detail will be set out in our Auditor's Annual Report.

# Value for money - prior year auditor findings

## Significant weaknesses followed up from the prior year

In the predecessor auditor's Annual Auditor's Report for the financial year 2022/23 it was reported that the Council had a significant weakness in arrangements over improving economy, efficiency and effectiveness surrounding extensive use of Non-Disclosure Agreements. As required by the Code of Audit Practice we have revisited this issue and set out in the table below an update in regards to the arrangements in this area.

#	Recommendation	Management Response	Current status
1	The Council should ensure that it reviews the processes and controls in place that are to be followed before arriving at the decision to use a Non-Disclosure Agreement (NDA). This should include a review of the guidance in place regarding when the use of an NDA may be appropriate, and what alternatives should be considered and ruled out; and consideration of whether any improvements can be made to the documentation of that process going forward.	A business case is now produced every time an NDA is put in place and each Statutory Officer is required to provide their comments before a final decision is taken. This process has been improved now whereby each case is considered at a meeting of the Statutory Officer Group where the business case is considered and discussed, in person, before a final decision is taken on the appropriate use of an NDA.	We have reviewed the use of NDAs in 2023/24 and noted a significant decline in the number of NDA's used and the associated costs to the Council.

# Appendices

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## Appendix1

# Required communications

Type	Response
Our draft management representation letter	<input checked="" type="checkbox"/> 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	<input checked="" type="checkbox"/> There were no adjusted audit differences. See Appendix 4.
Unadjusted audit differences	<input checked="" type="checkbox"/> The aggregated surplus impact of unadjusted audit differences would be £0m. 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 Appendix 4.
Related parties	<input checked="" type="checkbox"/> 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	<input checked="" type="checkbox"/> 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	<input checked="" type="checkbox"/> 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 that had not previously been communicated in writing.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	<input checked="" type="checkbox"/> No actual or suspected fraud involving Council management, employees with significant roles in group-wide internal control, or where fraud results in a material misstatement in the financial statements identified during the audit.
Make a referral to the regulator	<input checked="" type="checkbox"/> 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	<input checked="" type="checkbox"/> 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	<input checked="" type="checkbox"/> No significant difficulties were encountered during the audit.
Modifications to auditor's report	<input checked="" type="checkbox"/> None.
Disagreements with management or scope limitations	<input checked="" type="checkbox"/> The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	<input checked="" type="checkbox"/> No material inconsistencies were identified related to other information in the annual report, Strategic and Directors' reports. The Strategic report is fair, balanced and comprehensive, and complies with the law.
Breaches of independence	<input checked="" type="checkbox"/> No matters to report. The engagement team have complied with relevant ethical requirements regarding independence.
Accounting practices	<input checked="" type="checkbox"/> Over the course of our audit, we have evaluated the appropriateness of the Group'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	<input checked="" type="checkbox"/> There were no significant matters identified.
Certify the audit as complete	<input checked="" type="checkbox"/> x We will not be able to issue the Audit Completion certificate until the WGA has been signed by the National Audit Office so this will continue to be outstanding.
Provide a statement to the NAO on your consolidation schedule	<input checked="" type="checkbox"/> There are no other issues delaying this being issued.
	<input checked="" type="checkbox"/> We will issue our report to the National Audit Office following the signing of the annual report and accounts. No issues noted.

## Appendix 2

# 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.

Entity	2023/24 (£'000)	2022/23 (£'000) Note (a)
Statutory audit	151	79
ISA315r	12	-
Fee variations for financial statements audit	6	-
<b>TOTAL</b>	<b>169</b>	79

Note: (a) Fee for your predecessor auditor, as per the PSAA scale Fees communication for 2022/23.

## 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 ISA315 revised (risk of material misstatement); or ISA 240 (auditor's responsibilities relating to fraud).
- Additional fees will be subject to the fees variation process as outlined by the PSAA.

# 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 Director and audit staff is not impaired.

## To the Governance and Audit Committee members

### Assessment of our objectivity and independence as auditor of South Kesteven District Council

Professional ethical standards require us to provide to you at the planning 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.

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 £m	Value of Services Committed but not yet delivered £m
1	Housing benefit grant certification	Management Self review Self interest	<ul style="list-style-type: none"> <li>Standard language on non-assumption of management responsibilities is included in our engagement letter.</li> <li>The engagement contract makes clear that we will not perform any management functions.</li> <li>The work is performed after the audit is completed and the work is not relied on within the audit file.</li> <li>Our work does not involve judgement and are statements of fact based on agreed upon procedures.</li> </ul>	Fixed	£0	£26,950.
2	Pooling of Local Authority Housing Receipts audit	Management Self review Self interest	<ul style="list-style-type: none"> <li>Standard language on non-assumption of management responsibilities is included in our engagement letter.</li> <li>The engagement contract makes clear that we will not perform any management functions.</li> <li>The work is performed after the audit is completed and the work is not relied on within the audit file.</li> <li>Our work does not involve judgement and are statements of fact based on agreed upon procedures.</li> </ul>	Fixed	£0	£6,000

## Appendix 3

# Confirmation of Independence (cont.)

## Summary of fees

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

## Fee ratio

The ratio of non-audit fees to audit fees for the year is anticipated to be 0.2:1. 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.

	2023/24
	£'000
Statutory audit	151
ISA315	12
Agreed fee variations	TBC
Other Assurance Services	33
<b>Total Fees</b>	<b>196</b>

## 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.

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.

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 and Risk 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 and Risk Committee of the Group 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*

# Audit misstatements - team to update

## Uncorrected audit misstatements

Under UK auditing standards (ISA (UK) 260) we are required to provide the Governance and Audit 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 Governance and Audit Committee, details of all adjustments greater than £90K will be reported.

There were no uncorrected audit misstatements.

## Corrected audit misstatements

Under UK auditing standards (ISA (UK) 260) we are required to provide the Governance and Audit Committee with a summary of corrected audit differences (including disclosures) identified during the course of our audit.

There were no corrected audit differences.

## Disclosure misstatements

Management made the following changes to the disclosures following our audit:

- Local Government Pension Scheme – management updated narrative on the impact of the Virgin Media case, presentation for unfunded obligations and asset ceiling along with other presentational points.
- Exit Packages – the amount for one individual was updated to reflect the amount per their severance agreement.
- Housing Revenue Account – the Property, Plant and Equipment note was updated to correct a negative figure within the Net Book Value column.
- Gravtias Housing reserves – audit team to confirm

## Appendix 5

# Control Deficiencies

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

Priority rating for recommendations			
#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
1	2	<p><b>Journals postings – Segregation of duties</b></p> <p>There is no approval process within the finance team and so any person with access to the ledger system (though this limited to a subset of the finance team) can create and post journals to the ledger without the review of any other member within the team. This creates the opportunity for fraudulent expenditure to be posted to the ledger.</p> <p>We recommend management explore ways to implement checks to ensure journals posted and approved by the same individual are reviewed.</p>	<p>As agreed with the Council's previous external auditors, the approval process was removed in order to create efficient working in the team. Any inappropriate journals posted would likely be identified as part of regular budget monitoring and this helps to mitigate the risk of material misstatement to an acceptable level. Management has agreed to revisit this working practice as part the implementation of the new finance ledger system.</p> <p>Officer: s151 Officer</p> <p>Due Date: September 2025</p>
2	3	<p><b>Review of bank reconciliations</b></p> <p>We have performed a walkthrough of the bank reconciliation process and have identified that the monthly reconciliation is performed by the Senior Systems Accountant within the exchequer team. Given his seniority within the team, there is no appropriate personnel within the team to review the reconciliation he has performed. The reconciliation was therefore reviewed by the deputy director of Finance when necessary and therefore the review is not performed each month.</p> <p>We recommend that reconciliations are reviewed each month by an appropriately senior reviewer.</p>	<p>Management accept this recommendation and will ensure all monthly bank reconciliations will be reviewed and approved by a senior officer.</p> <p>Officer: s151 Officer</p> <p>Due Date: March 2025</p>

## Appendix 5

# Control Deficiencies

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

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
3	2	<p><b>Management review of Valuation of Land and Buildings and Investment Properties</b></p> <p>Auditing Standards requires auditors to identify a management review control (MRC) where there is a significant audit risk. There is a significant threshold that needs to be met in order to have a satisfactory MRC in place – particularly around the precision of the control. We note that although the Council has processes in place to help ensure that the valuation of land and buildings is based on best estimate, supported by reasonable assumptions, these processes do not meet the required threshold of an MRC.</p> <p>We recommend that should management wish to meet this requirement they will need to carry out a predictive review of the methodology and assumptions that are being proposed to calculate the valuation held by the Council.</p>	<p>Management have confirmed that they are comfortable with the current arrangements of employing an external expert, the District Valuer, to provide their valuations and rely on their specialist expertise and skills to provide an accurate valuation.</p> <p>Officer: s151 Officer Due Date: N/A</p>
4	2	<p><b>Management review of Actuarial Assumptions</b></p> <p>Auditing standards require auditors to identify a management control where there is a significant audit risk. In the case of the LGPS pension provisions we have not been able to identify a suitable and formal management control.</p> <p>We recommend that should management wish to meet this requirement they will need to carry out a predictive review of the methodology and assumptions that are being proposed to calculate the pension provisions held by the Council.</p>	<p>Management have confirmed that they are comfortable with the current arrangements of employing an independent actuary and rely on their specialist expertise and skills to provide an accurate actuarial information.</p> <p>Officer: s151 Officer Due Date: N/A</p>
5	2	<p><b>Management review of Manual Accruals</b></p> <p>Auditing Standards requires auditors to identify a management review control (MRC) where there is a significant audit risk. There is a significant threshold that needs to be met in order to have a satisfactory MRC in place – particularly around the precision of the control. We note that although the Council has processes in place to help ensure that the accruals recorded at year-end are appropriate and complete, these processes do not meet the required threshold of an MRC.</p> <p>We recommend that should management wish to meet this requirement they will need document a formal review of all manual accruals, explaining year on year movements.</p>	<p>As per recommendation 1), inappropriate accruals posted would likely be identified as part of regular budget monitoring and this helps to mitigate the risk of material misstatement to an acceptable level. Management has agreed to revisit this working practice as part the implementation of the new finance ledger system.</p> <p>Officer: s151 Officer Due Date: September 2025</p>

# Control Deficiencies (cont.)

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

Total number of recommendations	Number of recommendations implemented	Number outstanding (repeated below):
3	3	3

# SA (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

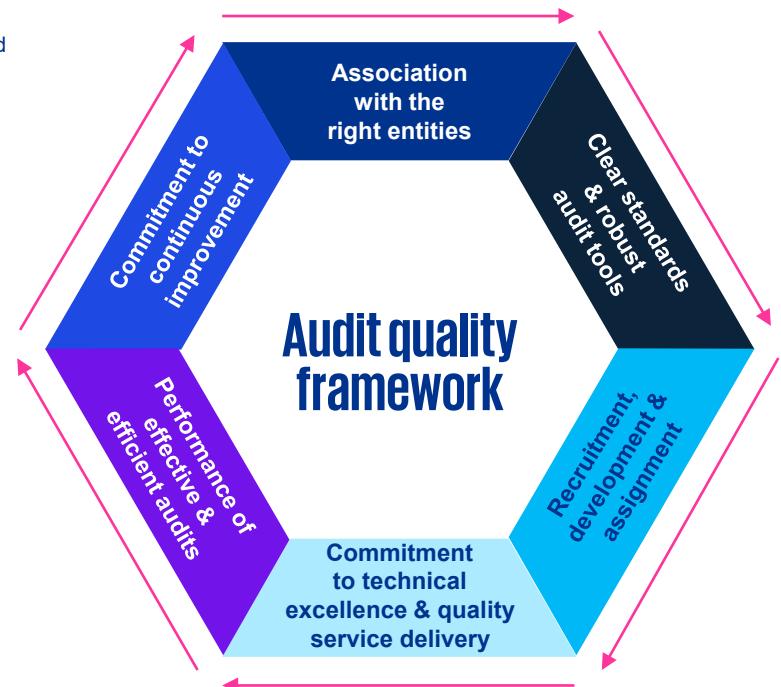
- Comprehensive effective monitoring processes
- Significant investment in technology to achieve consistency and enhance audits
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

## ■ 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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# Governance and Audit Committee Work Plan 2024-2025

Committee Membership:

Chairman: Councillor Tim Harrison

Vice-Chairman: Councillor Helen Crawford

Item	Current Issues/Status	Outcome Sought
	<b>13 February 2025</b>	
ISA 260 Report	Report by the Council's External Auditors outlining the key findings arising from the statutory audit of South Kesteven District Council.	To review and note the contents of the report.
Statement of Accounts 2023/2024	To be approved each year by the statutory deadline.	To approve the 2023/2024 Statement of Accounts and their publication on the Council's website.
Constitutional Amendments	To consider recommending constitutional amendments to Full Council	To recommend amendments to Full Council.
<b>19 March 2025</b>		
Internal Audit Progress Report	Update from the Council's Internal Auditors	To review and note the contents of the report
Annual Report on Grants and Returns	To review activity from grants and returns for the year.	To review and note the contents of the report.
Indicative Internal Audit Plan 2025/2026	Internal Audit to present the indicative Internal Audit Plan for 2025/2026.	To agree the Plan for 25/26
Statement of Accounting Policies	Annual report prior to the preparation of the Statement of Accounts to ensure that the policies are up to date and in line with the CIPFA Code of Practice.	To consider approving the Statement of Accounting Policies.

Item	Current Issues/Status	Outcome Sought
Strategic Risk Register	The Strategic Risk Register is presented to the Committee bi-annually as part of the monitoring and review of the risk management arrangements.	To review and consider approving the Strategic Risk Register.
Review of RIPA Programme	Annual review of RIPA activity	To review and note the contents of the report.
Access to Information Working Group Update	To report on the latest activities of the Working Group	For noting
Appointment of LSK Directors	To consider appointments of directors.	To appoint any Directors, as appropriate
<b>Items to be allocated as and when required</b>		
Financial Regulations		
Constitutional Amendments		
Code of Corporate Governance		
Code of Conduct		
Contract Procedure Rules		
Risk Management Framework		
Committee Members Meeting with Auditors		
Counter Fraud Framework		
Review of Subject Access Requests		