

# The Audit Findings for South Kesteven District Council

Year ended 31 March 2023

24 January 2024



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management and the Governance and Audit committee.

Laurelin Griffiths  
Grant Thornton UK LLP  
24 January 2024

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# 1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of South Kesteven District Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2023 for the attention of those charged with governance.

## Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the group and Council's financial statements give a true and fair view of the financial position of the group and Council and its income and expenditure for the year ended 31/03/2023; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Our audit work was completed during August 2023 to January 2024. Our findings are summarised on pages 6 to 19. To date, we have not identified any adjustments to the financial statements that would impact the Council's General Fund. We have noted two unadjusted misstatements which are detailed in Appendix D. We have also raised three recommendations for management as a result of our audit work. These are set out in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix C.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (Appendix H), subject to the following outstanding matters;

- Completion of work on the audit on the Council's group accounts, including reviewing work of the component auditor of Leisure SK Limited;
- Receipt and review of IAS19 assurances from the auditor of Lincolnshire Pension Fund;
- Receipt of a small number of items to complete our work on some transactional testing and disclosure-only elements of the accounts;
- Confirming a small number of disclosures within the narrative report and AGS;
- Final quality reviews by the Audit Manager and Engagement Lead;
- Receipt of management representation letter (see Appendix G); and
- Review of the final set of financial statements.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated financial statements audit report opinion will be unmodified.

We have identified one significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. A further explanation of the significant weakness we have identified in the Council's arrangements is detailed on page 20 of this report and in our Auditor's Annual Report (AAR).

# 1. Headlines

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## Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report. We identified a significant weakness in the Council's governance arrangements and so are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Our findings are set out in the value for money arrangements section of this report (Section 3).

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## Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

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## Significant matters

We did not encounter any significant difficulties during the performance of our audit.

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# 1. Headlines

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## National context – audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November. There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see [About time? \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/about-time/)

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## National context – level of borrowing

All Councils are operating in an increasingly challenging national context. With inflationary pressures placing increasing demands on Council budgets, there are concerns as Councils look to alternative ways to generate income. We have seen an increasing number of councils look to ways of utilising investment property portfolios as sources of recurrent income. Whilst there have been some successful ventures and some prudently funded by councils' existing resources, we have also seen some councils take excessive risks by borrowing sums well in excess of their revenue budgets to finance these investment schemes.

The impact of these huge debts on Councils, the risk of potential bad debt write offs and the implications of the poor governance behind some of these decisions are all issues which now have to be considered by auditors across local authority audits.

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# 2. Financial Statements

## Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management, and the Governance and Audit committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

## Audit approach

Our audit approach was based on a thorough understanding of the group's business and is risk based, and in particular included:

- An evaluation of the group's internal control environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined specified audit procedures for income and expenditure transactions for Leisure SK Limited was required, which was completed by Duncan and Toplis Ltd. We have also determined specified procedures for the material income and expenditure transactions for Gravitass Limited which was completed by our audit team.
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

## Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Governance and Audit Committee meeting on 24 January 2024 (Appendix H). These outstanding items are highlighted on page 3.

### Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff.

## 2. Financial Statements



### Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan which was presented to the Governance and Audit Committee in September 2023.

We set out in this table our determination of materiality for the Council and group.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,575,000	1,450,000	We have deemed these figures appropriate, as they have been based on gross expenditure; approximately 2.0% and 1.9% of gross expenditure, respectively.
Performance materiality	1,100,000	1,000,000	Our planning work has not identified any significant deficiencies in internal control to date.
Trivial matters	78,800	72,500	This has been taken as a proportion of the materiality threshold, in which we consider that any matters below this threshold would be clearly inconsequential, taken individually, or in aggregate.
Materiality for senior officer's remuneration	N/A	15,000	This is considered to be an area of specific interest to users of the financial statements, and it includes sensitive balances.

## 2. Financial Statements: Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
<p><b>Management override of controls</b></p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as significant risk, which was one of the most significant assessed risk of material misstatement.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• Evaluated the design effectiveness of management controls over journals</li> <li>• Analysed the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>• Tested unusual journals recorded during the year and after the draft accounts stage for appropriateness corroboration</li> <li>• Gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regards to corroborative evidence</li> <li>• Evaluated the rational for any changes in accounting policies, estimates or significant unusual transactions</li> <li>• Evaluated judgements and estimates made in the consolidation of the Group accounts.</li> <li>• Reviewed and tested transfers between the General Fund and HRA and inter group journals.</li> </ul> <p>We have reviewed the Council's material accounting estimates and have found these to be reasonable, with further details on pages 13 to 15.</p> <p>From our review of the journals control environment, we have identified that there is no formal journals authorisation process in place for the posting of transactions onto the ledger. We would expect for each journal to be reviewed by someone other than the poster to ensure that this has been appropriately authorised.</p> <p>The Council also has a number of super users who have the ability to post journals. From a practical point of view this is necessary as it allows them to assist with any issues that the user may be having but the risk is that activity performed by the superuser while acting as the user is not logged against the correct individual, which impedes the integrity of the audit trail. We continue to bring this to the attention of yourselves as those charged with governance as it represents a deficiency in the control environment.</p> <p>From our testing of 71 journals identified as being highest risk, we have not identified any instances of management override of control and all sampled items were appropriately processed, however the two control recommendations mentioned above are outlined in Appendix C.</p>

## 2. Financial Statements: Significant risks

### Risks identified in our Audit Plan

#### Valuation of Land, Buildings and Investment Properties

The authority revaluates its land and buildings on a rolling five yearly basis and investment properties are valued annually. The valuations represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.

Additionally, management will need to ensure the carrying value in the authority financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.

We therefore identified valuation of land and buildings and investment properties, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement

### Commentary

We have:

- evaluated the processes, controls and assumptions put in place by management to ensure that the valuation of land and buildings and investment properties are not materially misstated and evaluated the design of these and whether they are sufficient to mitigate the risk of material misstatement;
- assessed the competence, capabilities and objectivity of management's experts (valuers) who carried out your PPE and investment property valuations; evaluated the instructions issued by management to their management expert (a valuer) for this estimate and the scope of the valuer's work;
- communicated with the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the CIPFA code are met
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, particularly around obsolescence of assets, build costs, floor areas for DRC assets and yields and rents/market values for non-specialised properties.
- tested revaluations made during the year to ensure they are consistent with the valuer's report and input correctly into the Council's asset register
- evaluated the assumptions made by management for those assets not revalued during the year and how management have satisfied themselves that these are not materially different to current value

Based on the procedures performed, we selected a total of 38 assets across the different categories for testing.

For Council Dwellings, we have noted an error in relation to one beacon, leading to valuations being understated by £135k. This was also reported in our 2021/22 audit findings. This has been reported as an unadjusted misstatement in Appendix D.

We have not identified any material issues in respect of the valuation of other land, buildings and investment properties.

We have also considered the key judgements and estimates in relation to the valuations. Our findings can be found on pages 13 to 14.

## 2. Financial Statements: Significant risks

### Risks identified in our Audit Plan

### Commentary

#### Fraudulent revenue and expenditure recognition

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.

This presumption can be rebutted if the auditor concluded that there is no risk of material misstatement due to fraud relating to revenue recognition

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- There is little incentive to manipulate revenue recognition
- Opportunities to manipulate revenue recognition are very limited
- The culture and ethical frameworks of local authorities, including South Kesteven District Council mean that all forms of fraud are seen as unacceptable

Whilst not a presumed significant risk, we have had regard to Practice Note 10, which comments that for certain public bodies, the risk of manipulating expenditure may well be greater than that of income.

Having considered the risk of improper recognition of expenditure at South Kesteven District Council we are satisfied that this is not a significant risk for the same reasons set out above.

Notwithstanding that we have rebutted this risk, we have undertaken a significant level of work on the Council's revenue and expenditure streams, as they are material. We have:

#### Accounting policies and systems

- Evaluated the Council's accounting policies for recognition of income and expenditure for its various income streams and compliance with the CIPFA Code
- Updated our understanding of the Council's business processes associated with accounting for income

#### Fees, charges and other service income

- Agreed, on a sample basis, income and year end receivables from other income to invoices and cash payment or other supporting evidence.

#### Taxation and non-specific grant income

- Income for national non-domestic rates and council tax is predictable and therefore we have conducted substantive analytical procedures
- For other grants we have tested a sample items back to supporting information and subsequent receipt, considering accounting treatment where appropriate.

#### Expenditure

- Updated our understanding of the Council's business processes associated with accounting for expenditure
- Agreed, on a sample basis, expenditure and year end creditors to invoices and cash payment or other supporting evidence

We have also completed testing to address the risk that income and expenditure may have been misstated by not being recognised in the correct financial year.

No material issues have been noted, however we have identified one error within our testing of the Council's prepayments. The Council has recognised a prepayment in relation to housing benefit expenditure where the majority of the payment is in relation to the 2022/23 financial year and should therefore have been recognised as expenditure. Given that the Council receives a subsidy grant for its housing benefit spend we are satisfied that this has no impact on the net cost of services. For further information see the unadjusted misstatement in Appendix D.

Our work has not identified any matters that would indicate that our risk assessment was incorrect. There were no changes to our assessment as reported in the audit plan that we need to bring to your attention.

## 2. Financial Statements: Significant risks

### Risks identified in our Audit Plan

#### Valuation of the pension fund net liability

The pension fund net liability, as reflected in the balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.

The pension fund net liability is considered a significant estate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.

The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.

The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.

The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the inflation rates and life expectancy.

We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions, we have therefore identified valuation of the Authority's pension fund net liability as a significant risk.

### Commentary

We have:

- Updated our understanding of the process and controls in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls
- Evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work
- Assessed the completeness of the information provided by the authority to the actuary to estimate the liability
- Tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary
- Undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as the auditor's expert) and performing any additional procedures suggested within the report.
- Obtained assurances from the auditors of Lincolnshire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

At the time of writing this report, we have one query outstanding relating to the pension fund's rate of return on its assets for the year. We anticipate finalising this work by the end of January 2024.

The Council has recognised a pension fund net asset for their most recent valuation as at 31 March 2024. We are still working through the accounting treatment to understand if this is compliant with IFRIC14. To date, we have not identified any material issues with regards to the valuation of the pension fund net liability.

We have also considered the key judgements and estimates in relation to the valuations. Our findings can be found on page 15.

## 2. Financial Statements: Key findings arising from the group audit

Component	Component auditor	Findings	Group audit impact
Leisure SK Limited	Duncan & Toplis Ltd	<p>An unqualified audit opinion of Leisure SK Limited was issued by Duncan &amp; Toplis Ltd in December 2023.</p> <p>No issues were identified from the component auditors Audit Findings Report.</p>	We are yet to review the work completed by Leisure SK Limited.
Gravitas Ltd	None Specific procedures performed by GT	<p>We have focussed our testing on the material income and expenditure streams within the Gravitas Ltd financial statements, given that these are the only material transactions to the group within 31 March 2023.</p> <p>No issues have been identified from our testing.</p>	N/A
Consolidation procedures	N/A	<p>We are currently working through the Group accounts to check the consolidation procedures. We have identified some presentational issues relating to the group CIES, but no adjustments to the underlying financial records.</p> <p>As in the previous year, we have noted that the presentation of the group MIRS is not compliant with the requirements of the Code.</p>	<p>From our review of the group MIRS, we have noted that the statement is not fully compliant with the Code.</p> <p>We have reperformed the compilation of the statement from the underlying records and are satisfied that this is not materially misstated, however the statement should be updated to meet all requirements of the Code.</p> <p>The Council has not amended – this has been raised as a disclosure error in Appendix D.</p>

## 2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<p><b>Land, Building and Council Dwelling valuations – £390.83m</b></p>	<p>Other land and buildings comprises £65.7m of assets, a number of which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. There are also some assets which are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The remainder of other land and buildings are either additions in year or held at depreciated historic cost and therefore not subject to revaluation in 2022/23. The Council has engaged the Valuation Office Agency to complete the valuation of properties as at 31st March 2023 on a cyclical basis as part of the Council's rolling 5 year cycle.</p> <p>The total year end valuation of land and buildings was £66.307m, a net decrease of £1.751m from 2021/22 (£68.058m).</p> <p>The Council owns 5,848 dwellings and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged the Valuation Office Agency to complete the valuation of these properties.</p> <p>The year end net book value of Council Housing was £325.109m, a net increase due to revaluations of £16.885m from 2021/22 (£303.963m), with the remainder of the difference due to additions and disposals.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation expert and the scope of their work. This provided us with assurance over the completeness and accuracy of the underlying information used to determine the estimate</li> <li>evaluated the competence, capabilities and objectivity of the valuation expert</li> <li>written to the valuer to confirm the basis on which the valuations were carried out</li> <li>tested on a sample basis revaluations of the Council's land and buildings during the year to ensure they have been input correctly into the Council's asset register and financial statements</li> <li>considered the appropriateness of the source date and key assumptions including comparable rental income and yields for the properties.</li> </ul> <p>Our audit work in relation to the valuation of land, building and council dwellings is finished, subject to our internal quality review processes. We have identified an issue in relation to one beacon property, leading to the Council's dwellings being understated by £135k.</p>	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious</p>

### Assessment

- [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

## 2. Financial Statements - key judgements and estimates





Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Investment Property Valuation - £5.019m	<p>Council has engaged the Valuation Office Agency to complete the valuation of properties as at 31st March 2023. Investment Properties must be included in the balance sheet at fair value (the price that would be received in an orderly transaction between the market participant at the measurement date).</p> <p>All investment property assets were revalued during 2022/23.</p> <p>The total year end valuation of investment property was £5.019m, a net gain due to revaluations of £0.356m from 2021/22 (£4.950m), the remainder of the difference is due to disposals.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation expert and the scope of their work. This provided us with assurance over the completeness and accuracy of the underlying information used to determine the estimate</li> <li>evaluated the competence, capabilities and objectivity of the valuation expert</li> <li>written to the valuer to confirm the basis on which the valuations were carried out</li> <li>tested on a sample basis revaluations of the Council's investment properties during the year to ensure they have been input correctly into the Council's asset register and financial statements</li> <li>considered the appropriateness of the source date and key assumptions including comparable rental income and yields for the properties.</li> </ul> <p>Our audit work in relation to the valuation of investment properties is finished, subject to our internal quality review processes. We have not identified any issues to report.</p>	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious</p>
Provisions – NNDR Appeals Provision - £2.339m	<p>The Council is responsible for repaying a proportion of successful rateable value appeals. Management use historic data relating to appeal success rates and the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) to calculation the level of provision required.</p>	<p>We have not identified any issues with completeness and accuracy of the underlying information used to determine the estimate.</p> <p>Disclosure of the estimate in the financial statements is considered adequate.</p> <p>The Council has used a national estimated percentage to calculate the provision, which reflected the estimated impact of the new appeals process when it was first implemented. The Council have then adjusted this to be more specific to the Council.</p> <p>Management have not provided us with any supporting evidence for the adjustment that was made to the national average and have also not been able to demonstrate that this approach to setting the provision has been reconsidered since its implementation to assess whether it remains the most appropriate estimate. We recommend that the Council gives this some consideration for future years, however we have considered the calculation of the provision and are satisfied that there is not a risk that this balance is materially misstated. This has been reported as a control deficiency in Appendix B.</p>	<p>We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic</p>

## 2. Financial Statements - key judgements and estimates





Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment																								
<b>Net pension asset - £2.932m</b>	<p>The Council's net pension asset at 31 March 2023 is £2.932m (PY net pension liability £48.327m) comprising the Lincolnshire Local. The Council uses Barnett Waddingham LLP to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation was completed in 2022. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £51.867m net actuarial gain during 2022/23.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>Undertaken an assessment of management's expert</li> <li>Reviewed and assessed the actuary's approach taken and detailed work undertaken to confirm reasonableness of approach</li> <li>Used an auditors expert (PwC) to assess the actuary and assumptions made by the actuary. This led to further detailed discussions with the Pension Fund and Actuary whereby we challenged the assumptions and calculation methods applied</li> <li>Identified no issues with the completeness and accuracy of the underlying information used to determine the estimate</li> <li>Confirmed there have been no changes to the valuation method since the previous year, other than the updating of key assumptions</li> </ul> <table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>4.8%</td> <td>4.8 – 4.85%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>2.9%</td> <td>2.65 – 2.95%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>3.9%</td> <td>2.90 – 5.45%</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>21.1 / 19.8</td> <td>20.9 – 23.4 / 19.5 – 22.1</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>24.4 / 22.9</td> <td>24.3 – 25.9 / 22.9 – 24.5</td> <td>●</td> </tr> </tbody> </table> <p>At the time of writing this report, we are yet to finalise our work on the pension liability and have one outstanding query relating to the rate of return on the assets of Lincolnshire Pension Fund. We anticipate to receive a response by the end of January 2024.</p> <p>To date, we have not identified any material issues with the estimate.</p>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	4.8%	4.8 – 4.85%	●	Pension increase rate	2.9%	2.65 – 2.95%	●	Salary growth	3.9%	2.90 – 5.45%	●	Life expectancy – Males currently aged 45 / 65	21.1 / 19.8	20.9 – 23.4 / 19.5 – 22.1	●	Life expectancy – Females currently aged 45 / 65	24.4 / 22.9	24.3 – 25.9 / 22.9 – 24.5	●	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious</p>
Assumption	Actuary Value	PwC range	Assessment																								
Discount rate	4.8%	4.8 – 4.85%	●																								
Pension increase rate	2.9%	2.65 – 2.95%	●																								
Salary growth	3.9%	2.90 – 5.45%	●																								
Life expectancy – Males currently aged 45 / 65	21.1 / 19.8	20.9 – 23.4 / 19.5 – 22.1	●																								
Life expectancy – Females currently aged 45 / 65	24.4 / 22.9	24.3 – 25.9 / 22.9 – 24.5	●																								

# 2. Financial Statements: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

IT application	Level of assessment performed	Overall ITGC rating	ITGC control area rating			Related significant risks/other risks	Additional procedures carried out to address risks arising from our findings
			Security management	Technology acquisition, development and maintenance	Technology infrastructure		
E-financials	ITGC assessment (design and implementation effectiveness only)					Management override of control	As on page 8, we have identified a number of super-users who are able to post to the ledger. We have therefore targeted admin users through journals testing.

**Assessment**

-  Significant deficiencies identified in IT controls relevant to the audit of financial statements
-  Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
-  IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
-  Not in scope for testing

## 2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

<b>Issue</b>	<b>Commentary</b>
<b>Matters in relation to fraud</b>	We have previously discussed the risk of fraud with the Governance and Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
<b>Matters in relation to related parties</b>	We have raised a recommendation in relation to the Council's process for identifying related parties – this is shown within Appendix C.
<b>Matters in relation to laws and regulations</b>	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
<b>Written representations</b>	A letter of representation has been requested from the Council, including representations for the Group (included at Appendix G).
<b>Confirmation requests from third parties</b>	We requested from management permission to send a confirmation request to your bank. This permission was granted and the requests were sent and the appropriate confirmation was obtained.
<b>Accounting practices</b>	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
<b>Audit evidence and explanations/significant difficulties</b>	No issues noted with respect of audit evidence.

## 2. Financial Statements - other communication requirements



### Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> <li>the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities</li> <li>for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report.</li> </ul> <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"> <li>the nature of the Council and the environment in which it operates</li> <li>the Council's financial reporting framework</li> <li>the Council's system of internal control for identifying events or conditions relevant to going concern</li> <li>management's going concern assessment.</li> </ul> <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> <li>a material uncertainty related to going concern has not been identified</li> <li>management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.</li> </ul>

## 2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>Our review of Other Information is partially complete, and to date, no material inconsistencies have been identified. We plan to issue an unmodified opinion in this respect.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> <li>• if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit,</li> <li>• if we have applied any of our statutory powers or duties.</li> <li>• where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es.</li> </ul> <p>To date, we have nothing to report on these matters.</p>
Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>Note that work is not required as the Council does not exceed the reporting threshold.</p>
Certification of the closure of the audit	<p>We intend to certify of the closure of the 2022/23 audit of South Kesteven District Council when we give our audit opinion.</p>



# 3. Value for Money arrangements (VFM)

## Approach to Value for Money work for 2022/23

The National Audit Office issued its guidance for auditors in April 2020. The Code requires auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.



### Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



### Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3–5 years)



### Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

## Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:



### Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



### Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



### Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

# 3. VFM: our procedures and conclusions

We have completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. The risks we identified are detailed in the table below, along with the further procedures we performed and our conclusions. We identified a significant weakness in the Council's arrangements and so are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Our auditor's report will make reference to this significant weakness in arrangements, as required by the Code.

Risk of significant weakness	Procedures undertaken	Conclusion	Outcome
We identified a significant weakness in relation the Council's use of non-disclosure agreements (NDAs), and the processes and procedures that the Council follows when determining whether to use an NDA.	The Council used a significant, and unusually high, number of NDAs in 2021/22 and 2022/23. From review of key documents, we have identified an instance where the Council's authorisation form could have been clearer as to whether legal advice was sought regarding the case.	We recommend that the Council should complete a review of the historic use of NDAs to consider their use, any overarching themes that might be addressed, and whether or not the Council is satisfied that this was the most appropriate outcome to the process in each case. Following on from this review, 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 Agreements (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 improvements can be made to the documentation of that process going forward.	We have marked this as a key recommendation within the Auditor's Annual Report.

# 4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

## Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified which were charged from the beginning of the financial year to January 2024, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	2021/22 Fees £	2022/23 Fees £	Threats identified	Safeguards
Audit related				
Pooling of Capital Receipts	6,000	6,000	Self-Interest (because this is a recurring fee)	The level of these recurring fees taken on their own are not considered a significant in comparison to the total fee for the audit and in particular relative to Grant Thornton UK LLP's turnover overall. Further, each is a fixed fee and there is no contingent element to any of them. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Housing Benefit Claim	12,000	30,000	Self review (because GT provides audit services) Management (because findings are shared with management)	Our team have no involvement in the preparation of the for which is certified, and do not expect material misstatements in the financial statements to arise from the performance of the certification work. Although related income and expenditure is included within the financial statements, the work required in respect of certification is separate from the work required to audit the financial statements, and is performed after the audit of the financial statements has been completed.
CFO Insights Subscription	3,950	N/A		The scope of the work does not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow. Our team perform these engagements in line with set instructions and reporting frameworks. Any amendments made as a result of our work are the responsibility of informed management

There were no non-audit related services

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix E.

## Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

# 4. Independence and ethics

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Company that may reasonably be thought to bear on our integrity, independence and objectivity
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Group or investments in the Group held by individuals
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Group as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Group
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Group's board, senior management or staff.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person and network firms have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements

# Appendices

- A. Communication of audit matters to those charged with governance
- B. Action plan – Audit of Financial Statements
- C. Follow up of prior year recommendations
- D. Audit Adjustments
- E. Fees and non-audit services
- F. Auditing developments
- G. Audit letter in respect of delayed VFM work

# A. Communication of audit matters to those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

## Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

## Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

## B. Action Plan – Audit of Financial Statements

To date, we have identified 3 new recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium	<p><b>Business rates appeals provision</b></p> <p>The Council has used a national estimated percentage to calculate the provision, which reflected the estimated impact of the new appeals process when it was first implemented. The Council have then adjusted this to be more specific to the Council at 2%.</p> <p>Management have not provided us with any supporting evidence for the adjustment that was made to the national average and have also not been able to demonstrate that this approach to setting the provision has been reconsidered since its implementation to assess whether it remains the most appropriate estimate. There is the risk that the most appropriate rate is not being applied by the Council.</p>	<p>We recommend that the Council gives this some consideration for future years, however we have considered the calculation of the provision and are satisfied that there is not a risk that this balance is materially misstated. This is consistent with findings from the prior year.</p> <p><b>Management response</b></p> <p>For 2023/24 the Council will be using an external organisation to support the calculation of the appeals provision.</p>
Medium	<p><b>Bad debt provision</b></p> <p>The Council make an estimate annually to write-off debt that they are unlikely to receive. This is typically calculated by applying a percentage to debt based on their age and the likelihood of receiving the monies. Although we are satisfied that the approach taken by the Council is reasonable and not materially misstated, they have been unable to provide supporting calculations based on historical or forward-looking data. There is the risk that their bad debt write-off may be over/under stated.</p>	<p>We recommend that the Council annually completed an exercise to the different steams of debtors to analyse what percentages of debts should be written off based on data collated from their records.</p> <p><b>Management response</b></p> <p>From 2023/24 onwards the Council will complete the recommended calculation.</p>
Medium	<p><b>Valuation of housing stock</b></p> <p>The Council has not revalued the housing stock that was constructed in the year, which are held at cost in the balance sheet. As the cost of building an asset is usually in the region of 60-80% of market value, and these assets would have been valued using a specific valuation method (EUV-SH), they are likely over-valued in the balance sheet.</p> <p>As the properties are only £1.1m at cost, there is no risk that this has led to a material misstatement in the balance sheet, however, there remains the risk that the valuation of these assets is not accurate.</p>	<p>We recommend that the Council incorporate the assets constructed in year into the year-end valuation of all housing stock to ensure that the valuations are correctly reflected on the balance sheet.</p> <p><b>Management response</b></p> <p>This will be implemented from 2023/24.</p>

### Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

# C. Follow up of prior year recommendations

We identified the following issues in the audit of South Kesteven District Council's 2021/22 financial statements, which resulted in 7 recommendations being reported in our 2021/22 Audit Findings report. We have followed up on the implementation of our recommendations and note 6 are still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	<p><b>Super-user access to the ledger</b></p> <p>We have noted that there are 5 posters of journals who have super-user access. This access allows the individuals to create new users or to alter existing roles. From our testing, we have not identified any instances of management override of control, however we would not expect any members of the finance team who post journals to have this level of access. This is as there is the risk that new users could be created, who could then post inappropriate journals to the ledger.</p> <p>The Council should review which individuals have super-user access to the ledger and ensure that this is not held by anyone within the finance team who can post journals.</p>	<p>From our journals testing, we have noted that there are still superusers who were able to post onto the ledger in 2022/23.</p> <p><b>Management response</b> This was raised as an action in the 21/22 audit findings report which was received by the Council in September 23, therefore the Council was not able to action this in 2022/23. The Council has now reduced the number of superusers 4 and also issued the remaining superusers with a separate username to use when processing journals in the system.</p>
X	<p><b>Lack of journals authorisations</b></p> <p>From our review of the journals control environment, we have identified that there are no formal journals authorisation process in place for the posting of transactions onto the ledger. We would expect for each journal to be reviewed by someone in a senior position to the poster to ensure that this has been appropriately authorised. Although journals are reviewed in totality as part of the Council's monthly budget monitoring, there is the risk journals could be inappropriately input onto the ledger.</p> <p>The Council should introduce controls to ensure that each journal posted to the ledger is appropriately authorised by someone more senior to the poster.</p>	<p>The Council has still not implemented controls to authorise postings on the ledger.</p> <p><b>Management response</b> This was raised as an action in the 21/22 audit findings report which was received by the Council in September 23, therefore the Council was not able to action any corrective action for the 2022/23 accounts. For 2023/24 a review will be completed of all journals.</p>
✓	<p><b>Valuation of Heritage Assets</b></p> <p>The Council received a new Heritage Asset in 2021/22 which has been included within the balance sheet at £0.3m, based on the value provided by the donator. The Council does not have any evidence to support the valuation of this asset.</p> <p>Within the Council's accounting policies, it states 'where no market exists or the assets is deemed to be unique, and it is not practical to obtain a valuation, the asset is not recognised in the Balance Sheet but disclosed in the notes to the accounts'. This accounting policy has not been consistently applied.</p> <p>The Council should obtain a proper valuation for this asset and where this is not possible, the item should be removed from its balance sheet, so that it is consistently applying its accounting policy.</p>	<p>The Council have now removed the asset from the balance sheet to comply with their accounting policies.</p> <p><b>Management response</b> N/A</p>

## Assessment

- ✓ Action completed
- X Not yet addressed

# C. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	<p><b>Completeness of declaration of interests</b></p> <p>Our testing of related parties via a search of Companies House identified numerous interests and directorships of senior management and councillors that were not declared or disclosed. Although we are satisfied that no transactions took place with the Council, incomplete declarations of interest lead to the risk that the Council does not understand its related parties.</p> <p>We recommend that at least once per year, the Council should undertake a completeness review of related parties including:</p> <ul style="list-style-type: none"> <li>Ensuring all disclosure returns are received from senior management and councillors, including nil declarations and from those that leave their role during the year.</li> <li>Undertaking searches on Companies House to identify any undeclared directorships.</li> </ul>	<p>From our testing, although there has been a reduction in the number of undisclosed interests and directorships, we have noted that there was one member who had not declared an interest. We are satisfied that no transactions took place with the Council, however, note the completeness error.</p> <p><b>Management response</b> Management undertake every effort to ensure responses are received.</p>
X	<p><b>Service organisation assurance</b></p> <p>The Council (via the payroll service outsourced to North Kesteven District Council) uses iTrent as a service organisation for its HR and payroll software and has not obtained a service auditor report for these services for 2021/22. We understand that iTrent are requesting a fee for this report. The Council should ensure that it has appropriate checks and controls in place to have assurance over these transactions.</p> <p>We are satisfied that this would not lead to a material issue in the financial statements.</p> <p>The Council should ensure that it has appropriate procedures in place to gain assurance that the iTrent systems are working effectively.</p>	<p>The Council have not obtained a service auditors report from iTrent in 2022/23, therefore has not received assurance from its supplier that the payroll software services are working effectively</p> <p><b>Management response</b> This was raised as an action in the 21/22 audit findings report which was received by the Council in September 23, therefore the Council was not able to action any corrective action for the 2022/23 accounts. The Council will follow this up with the system supplier in readiness for the 2023/24 year end process.</p>

## Assessment

- ✓ Action completed
- X Not yet addressed

# C. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	<p><b>Depreciation policy</b></p> <p>We have identified that the Council has several assets within its asset register which are held at a nil net book value. The gross book value of these assets is £6.3m and whilst there is no impact on the balance sheet, this does increase the gross book value and accumulated depreciation in note 19.</p> <p>From the work that we have performed we have assurance that these assets are not materially misstating the financial statements. However, a significant balance of assets being held at nil net book value may indicate that these assets were depreciated prematurely.</p> <p>The Council should consider whether its depreciation policy remains appropriate.</p>	<p>In 2022/23, we have identified that there are still £5.9m worth of assets held at gross book value within the fixed asset register. Although the Council has removed some items from the previous year audit, they should complete a more thorough review of all asset held at nil book value.</p> <p><b>Management response</b></p> <p>A review is now completed annually to ensure that the assets recorded in the asset register are still held by the Council.</p>
X	<p><b>Presentation of the Earmarked Reserves note</b></p> <p>From our review of the accounts, we have noted movements in the Earmarked Reserves note that we would not expect to be presented within this disclosure. Although the requirements from the Code are technically met within Note 34 of the financial statements, this is not to the level of detail that we would expect to see.</p> <p>The Council should review the presentation of the Earmarked Reserves note to ensure that it is in sufficient detail to provide information to users of the accounts.</p>	<p>The Council has presented the Earmarked Reserves note in the same format as 2021/22.</p> <p><b>Management response</b></p> <p>The draft accounts had already been produced when this issue was raised, as this is not a material error the Council will amend the note from 2023/24 onwards.</p>

## Assessment

- ✓ Action completed
- X Not yet addressed

# D. Audit Adjustments

We are required to report all non-trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

## Impact of adjusted misstatements

To date, we have not identified any misstatements that have been adjusted by the Council.

## Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure/issue/Omission	Auditor recommendations	Adjusted?
We have identified various trivial presentation matters.	These items include changes to: references; prior year values to remain consistent with the audited financial statements of the prior year; and corrections to the amounts included in the notes to agree to the primary financial statements.	✓
Note 13 – Officer Remuneration	We have noted an error within the Officer Remuneration note. This related to an omission in relation to one senior officer’s compensation package for loss of employment, which has now been adjusted by the Council.	✓
Note 27 – Cash and Cash Equivalents	Within the note, the line relating to ‘Cash held by the authority’ of £217k, is not actual cash held by the Council, and the majority of this relates to reconciling items. We consider the £214k should be netted off against the ‘Bank Current Accounts’ line and this would be a more accurate description for users of the accounts. This does not impact the overall cash balance of £17,607k however is a presentational error.	✓
Group Accounts – Movement in Reserves Statement	From our review of the group MIRS, we have noted that the statement is not fully compliant with the Code. We have reperformed the compilation of the statement from the underlying records and are satisfied that this is not materially misstated, however the statement should be updated to meet all requirements of the Code. The Council has not amended.	X
Group Accounts - CIES	We have noted some inconsistencies within the consolidation procedures between the current/prior year and also between the Group/Council accounts. These have been flagged with management.	✓



# D. Audit Adjustments (continued)

## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2022/23 audit which have not been made within the final set of financial statements. The Governance and Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Impact on general fund £'000	Reason for not adjusting
<b>Prepayments</b>					
The Council made a housing benefits payment in March 2023, which was deferred into 2023/24 by recognising this as a prepayment. The Council's rationale for this treatment is that it follows the requirements of the housing benefits subsidy grant.	Credit – Expenditure (8)	Credit – Prepayments (658)	No impact	No impact	Not considered material
While we agree that the treatment is correct for subsidy purposes, the Council's financial statements should be prepared on an accruals basis, recognising expenditure in the year to which it relates. In this case, the payment related to the 4 week period beginning 7 March 2023, meaning that 25 of the 28 days that the expenditure related to were in 2022/23.	Debit – Income 8	Debit – Debtors 658			
It is our view that the correct treatment would have been to recognise this expenditure in 2021/22 (with a possible adjustment for the last 3 days if it were not de minimis). The Council should also have accrued for the amount of subsidy grant that they expect to receive in relation to this payment in order to offset the impact on the cost of services and the general fund.					
The same prepayment was made in the 2021/22 accounts, with a value of £666k, reducing the in-year impact on the Council's CIES.					
<b>Council Dwellings</b>					
From our testing of Council Dwelling beacons, we identified that the incorrect value has been applied to a beacon, which means that dwellings were undervalued by £135k. This is the same issue that was identified in the 2021/22 audit.	Credit – Revaluation of non-current assets (135)	Debit – PPE 135	Increase income (135)	No impact	Not considered material
<b>Overall impact</b>	<b>(135)</b>	<b>135</b>	<b>(135)</b>	<b>-</b>	

# D. Audit Adjustments

## Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2021/22 financial statements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
<b>Prepayments</b>				
The Council made a housing benefits payment in March 2022, which was deferred into 2022/23 by recognising this as a prepayment. The Council's rationale for this treatment is that it follows the requirements of the housing benefits subsidy grant.	Credit – Expenditure (71)	Credit – Prepayments (666)	No impact	Not considered material
While we agree that the treatment is correct for subsidy purposes, the Council's financial statements should be prepared on an accruals basis, recognising expenditure in the year to which it relates. In this case, the payment related to the 4 week period beginning 7 March 2022, meaning that 25 of the 28 days that the expenditure related to were in 2021/22.	Debit – Income 71	Debit – Debtors 666		
It is our view that the correct treatment would have been to recognise this expenditure in 2021/22 (with a possible adjustment for the last 3 days if it were not de minimis). The Council should also have accrued for the amount of subsidy grant that they expect to receive in relation to this payment in order to offset the impact on the cost of services and the general fund.				
The same prepayment was made in the 2020/21 accounts, with a value of £737k, reducing the in-year impact on the Council's CIES.				
<b>Council Dwellings</b>				
From our testing of Council Dwelling beacons, we identified that the incorrect value has been applied to a beacon, which shows that dwellings were undervalued by £135k	Credit – Revaluation of non-current assets (135)	Debit – PPE 135	Increase income (135)	Not considered material
<b>Investment Properties</b>				
Whilst testing the source data used in the valuations of Investment Properties, we had noted that the floor areas provided to the valuer were different to the floorplans held by the Council, which shows that the assets were understated by £187k	Credit – Income & Expenditure and Movement in Fair Value of Investment Property (187)	Debit – Investment Properties 187	Increase income (187)	Not considered material

Continued on page 33.

# D. Audit Adjustments

## Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2021/22 financial statements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
<p>Other Land and Building (OLB) revaluations</p> <p>From our testing of the source data, we identified that the incorrect floor sizes had been used in the valuers' calculations, compared to the floorplans. From the testing of 6 key items, we have identified that OLB is overstated by £87,820.</p> <p>From our testing on the residual sample, we have identified errors where we estimate that OLB is overstated by £308,984.</p> <p>In total, we estimate that OLB is overstated by £396,264.</p>	<p>Debit - Revaluation of non-current assets 396</p>	<p>Credit PPE (396)</p>	<p>Decrease income 396</p>	<p>Not considered material</p>
<b>Overall impact</b>	<b>74</b>	<b>(74)</b>	<b>74</b>	

# E. Fees and non-audit services

We confirm below our final fees charged for the audit.

<b>Audit fees</b>	<b>Fee per Plan (£)</b>	<b>Final fee (£)</b>
Scale fee published by PSAA for 2022/23	47,651	47,651
Additional work on Value for Money under new NAO Code	9,000	9,000
Increased audit requirements of revised ISAs 540 / 240 / 700	2,100	2,100
Enhanced audit procedures on journals testing	3,000	3,000
Enhanced audit procedures for Payroll – Change of circumstances	500	500
Enhanced audit procedures for Collection Fund – reliefs testing	750	750
Increased audit requirements of revised ISA 315	3,000	3,000
Additional fee relating to Value for Money work		4,500
Additional fee relating to work performed on the Council’s net pension asset under IFRIC 14		3,000
Additional fee relating to complexities and delays in revaluations work		6,250
<b>Total audit fees (excluding VAT)</b>	<b>£66,001</b>	<b>£79,751</b>

Fees are subject to approval by PSAA.

# E. Fees and non-audit services

<b>Non-audit fees for other services</b>	<b>Proposed fee</b>
<b>Audit Related Services</b>	
Pooling of Capital Receipts	6,000
Certification of Housing Benefit Claim	30,000
<b>Total non-audit fees (excluding VAT)</b>	<b>£36,000</b>

The Audit and Pooling of Capital Receipt fees reconcile to the financial statements; however the Certification of Housing Benefits Claim is stated as £6,000. This is a trivial difference of £24,000 which the Council will not be amending for.

None of the above services were provided on a contingent fee basis

This covers all services provided by us and our network to the group, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence. (The FRC Ethical Standard (ES 1.69))

# F. Auditing developments

## Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'

**This impacts audits of financial statement for periods commencing on or after 15 December 2021.**

ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'

ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements'

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: <ul style="list-style-type: none"> <li>the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures</li> <li>the identification and extent of work effort needed for indirect and direct controls in the system of internal control</li> <li>the controls for which design and implementation needs to be assess and how that impacts sampling</li> <li>the considerations for using automated tools and techniques.</li> </ul>
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: <ul style="list-style-type: none"> <li>increased emphasis on the exercise of professional judgement and professional scepticism</li> <li>an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence</li> <li>increased guidance on management and auditor bias</li> <li>additional focus on the authenticity of information used as audit evidence</li> <li>a focus on response to inquiries that appear implausible</li> </ul>
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. <ul style="list-style-type: none"> <li>Consideration is also being given to the potential impacts on confidentiality and independence.</li> </ul>
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: <ul style="list-style-type: none"> <li>clarification of the requirements relating to understanding fraud risk factors</li> <li>additional communications with management or those charged with governance</li> </ul>
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

# G. Management letter of representation

Grant Thornton UK LLP  
17th Floor  
103 Colmore Row  
Birmingham  
B3 3AG

[Date]

Dear Grant Thornton UK LLP

**South Kesteven District Council**

**Financial Statements for the year ended 31 March 2023**

This representation letter is provided in connection with the audit of the financial statements of South Kesteven District Council and its subsidiary undertakings, Gravitas Housing Ltd and LeisureSK Ltd for the year ended 31 March 2023 for the purpose of expressing an opinion as to whether the group and Council financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

## Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the group and Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the group and Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the group and Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include Revaluation of Council Dwelling, Other Land and Buildings, Investment Properties and the Net Pension Liability. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

vii. Except as disclosed in the group and Council financial statements:

- a. there are no unrecorded liabilities, actual or contingent
- b. none of the assets of the group and Council has been assigned, pledged or mortgaged
- c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.

# G. Management letter of representation

xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xiii. We have considered whether the Council is required to reflect a liability in respect of equal pay claims within its financial statements. We confirm that we are satisfied that no liability needs to be recognised given that we are not aware of any claims to date and we are monitoring this on an ongoing basis.

xiv. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xv. We have updated our going concern assessment. We continue to believe that the group and Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that:

a. the nature of the group and Council means that, notwithstanding any intention to cease the group and Council operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements

b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and

c. the group and Council's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the group and Council's ability to continue as a going concern need to be made in the financial statements

xvi. We have considered whether accounting transactions have complied with the requirements of the Local Government Housing Act 1989 in respect of the Housing Revenue Account ring-fence.

xvii. The group and Council has complied with all aspects of ring-fenced grants that could have a material effect on the group and Council's financial statements in the event of non-compliance.

## Information Provided

xviii. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the group and Council's financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. access to persons within the Council via remote arrangements from whom you determined it necessary to obtain audit evidence.

xix. We have communicated to you all deficiencies in internal control of which management is aware.

xx. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xxi. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xxii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and Council, and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xxiii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xxiv. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxv. We have disclosed to you the identity of the group and Council's related parties and all the related party relationships and transactions of which we are aware.

xxvi. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

# G. Management letter of representation

**Annual Governance Statement**

xxvii. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

**Narrative Report**

xxviii. The disclosures within the Narrative Report fairly reflect our understanding of the group and Council's financial and operating performance over the period covered by the financial statements.

**Approval**

The approval of this letter of representation was minuted by the Council's Governance and Audit Committee at its meeting on 24 January 2024.

Yours faithfully

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....

Signed on behalf of the Council

# H. Audit Opinion

## Independent auditor's report to the members of South Kesteven District Council

### Report on the audit of the financial statements

#### Opinion on financial statements

We have audited the financial statements of South Kesteven District Council (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2023, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Account, the Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet and the Group Cash Flow Statement, and notes to the financial statements, including a summary of the significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2023 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Chief Finance Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group and the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority or the group to cease to continue as a going concern.

In our evaluation of the Chief Finance Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 that the Authority's and group's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the group and the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2022) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the group and Authority and the group and Authority's disclosures over the going concern period.

In auditing the financial statements, we have concluded that the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's and the group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Chief Finance Officer with respect to going concern are described in the relevant sections of this report.

#### Other information

The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. The Chief Finance Officer is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

# H. Audit Opinion

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'Delivering Good Governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE, or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

## Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

## Responsibilities of the Authority and the Chief Finance Officer

As explained more fully in the Statement of Responsibilities, set out on page 18, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer. The Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Authority's and the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have been informed by the relevant national body of the intention to dissolve the Authority and the group without the transfer of its services to another public sector entity.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. Irregularities, including fraud, are instances of non-compliance with laws and regulations. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and Authority and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks (the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003).

# H. Audit Opinion

We enquired of management and the Governance and Audit Committee, concerning the group and Authority's policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;
- the detection and response to the risks of fraud; and
- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

We enquired of management, internal audit and the Governance and Audit Committee whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

We assessed the susceptibility of the Authority and group's financial statements to material misstatement, including how fraud might occur, by evaluating management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk management override of controls. We determined that the principal risks were in relation to journal entries, in particular those posted around the reporting date which had an impact on the Comprehensive Income and Expenditure Statement. Our audit procedures involved:

- evaluation of the design effectiveness of controls that management has in place to prevent and detect fraud,
- journal entry testing, with a focus on material, post year-end and unusual journals,
- challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings council dwellings, investment property and defined benefit pensions liability valuations, and
- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

We communicated relevant laws and regulations and potential fraud risks to all engagement team members, including potential for fraud in revenue and expenditure recognition. We remained alert to any indications of non-compliance with laws and regulations, including fraud, throughout the audit.

Our assessment of the appropriateness of the collective competence and capabilities of the group and Authority's engagement team [and component auditors] included consideration of the engagement team's and component auditor's:

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
- knowledge of the local government sector in which the group and Authority operates
- understanding of the legal and regulatory requirements specific to the Authority and group including:

o the provisions of the applicable legislation

o guidance issued by CIPFA/LASAAC and SOLACE

o the applicable statutory provisions.

In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Authority and group's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
- the Authority and group's control environment, including the policies and procedures implemented by the Authority and group to ensure compliance with the requirements of the financial reporting framework.

For components at which audit procedures were performed, we requested component auditors report to us instances of non-compliance with laws and regulations that gave rise to a risk of material misstatement of the group financial statements. No such matters were identified by the component auditors.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

**Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

**Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

# H. Audit Opinion

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023.

We have nothing to report in respect of the above matter except on 24 January 2024 we identified a significant weakness in the Authority's governance arrangements. This was in relation to the Authority using a higher number of Non-Disclosure Agreements (NDAs) during 2022/23 than we would expect to see, and higher than we commonly see used by other local authorities. The reasons for these NDAs included redundancies, mutual terminations, grievances, and flexible retirements. The Authority does not have a process in place to rule out other options before proceeding with a NDA. We recommended that the Authority review its processes and controls for making decisions on whether to use NDAs, including the drafting of clear guidance on when use of NDAs may be appropriate and what alternatives should be considered.

## Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

## Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in January 2023. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

## Report on other legal and regulatory requirements – Audit certificate

We certify that we have completed the audit of South Kesteven District Council for the year ended 31 March 2023 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

## Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

