

South Kesteven District Council

DRAFT - Report to the Governance and Audit Committee

External Audit Plan & Strategy for the year ended
31 March 2025

June 2025

Introduction

To the Governance and Audit Committee of South Kesteven District Council

We are pleased to have the opportunity to meet with you on 18 June 2025 to discuss our audit of the financial statements of South Kesteven District Council for the year ending 31 March 2025.

This report provides the Governance and Audit Committee with an opportunity to review our planned audit approach and scope for the 2024/25 audit. The audit is governed by the provisions of the Local Audit and Accountability Act 2014 and in compliance with the NAO's 2024/25 Code of Audit Practice, auditing standards and other professional requirements.

This report outlines our risk assessment and planned audit approach. Our planning activities are still ongoing and we will communicate any significant changes to the planned audit approach.

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

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The engagement team

Salma Younis is the engagement director on the audit. She has over 20 years experience in public sector audit. She shall lead the engagement and is responsible for the audit opinion.

Other key members of the engagement team include John Blewett (engagement manager) and Katie Lindsay (assistant manager) with 7 and 4 years of experience respectively.

Yours sincerely,

Salma Younis

Director - KPMG LLP

June 2025

How we deliver audit quality

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

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

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

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

We aim to complete all audit work no later than 2 days before audit signing.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Salma Younis (Salma.Younis@KPMG.co.uk), the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with the response, please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Tim Cutler (tim.culter@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can raise your complaint as per the following process [Complaints](#).

Overview of planned scope including materiality

Our materiality levels

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

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

To respond to aggregation risk from individually immaterial misstatements, we design our procedures to detect misstatements at a lower level of materiality £1.27m / 65% driven by our expectations of normal level of undetected or uncorrected misstatements in the period. We also adjust this level further downwards for items that may be of specific interest to users for qualitative reasons, such as officers' remuneration.

We will report misstatements to the audit committee including:

- Corrected and uncorrected audit misstatements above £85k
- Errors and omissions in disclosure (corrected and uncorrected) and the effect that they, individually in aggregate, may have on our opinion.
- Other misstatements we include due to the nature of the item.

Control environment

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

Our reliance on group-wide controls will be limited to our review of the consolidation process

Group Materiality

Group	
Materiality for the financial statements as a whole	£1.7m (2% of expenditure £85m 23/24: £1.6m)
Performance Materiality	£1.27m (23/24: £1.04m)
Misstatements reported to the audit committee	£85k (23/24: £80k)

Council Materiality

£1.7m

2% of forecast Council Expenditure £85m

Overview of planned scope including materiality (cont.)

Timing of our audit and communications

We will maintain communication led by the engagement partner and manager throughout the audit. We set out below the form, timing and general content of our planned communications:

- Kick-off meeting with management in February 2025 where we outlined our audit approach and discussed management's progress in key areas;
- Governance and Audit Committee meeting in June 2025 where we plan to present our audit plan;
- Status meetings with management in July to December 2025 where we communicate progress on the audit plan, any misstatements, control deficiencies and significant issues;
- Closing meeting with management in November/December 2025 where we discuss the auditor's report and any outstanding deliverables;
- Governance and Audit Committee meeting in (month TBC) where we communicate audit misstatements and significant control deficiencies; and
- Biannual private meetings can also be arranged with the Committee Chair.

The above timings are subject to change as the Council confirmed there is a risk that it may not issue its statement of accounts by 30 June 2025.

Using the work of others and areas requiring specialised skill

We outline below where, in our planned audit response to audit risks, we expect to use the work of others such as Internal Audit or require specialised skill/knowledge to perform planned audit procedures and evaluate results.

Others	Extent of planned involvement or use of work
KPMG Pensions Centre of Excellence	<p>The pensions audit team will perform all planning, risk assessment and substantive procedures over the LGPS account balances.</p> <p>The KPMG actuary will review and assess the underlying assumptions within the Council's year-end actuarial report.</p>
KPMG Real Estate Valuation Centre of Excellence	<p>The valuations team will support our review of the assumptions and methodology used by the Valuer in the revaluation exercise.</p>

Significant risks, Higher assessed risks and Other audit risks

Our risk assessment draws upon our understanding of the applicable financial reporting framework, knowledge of the business, the sector and the wider economic environment in which the Council operates.

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

Due to the current levels of uncertainty there is an increased likelihood of significant risks emerging throughout the audit cycle that are not identified (or in existence) at the time we planned our audit. Where such items are identified we will amend our audit approach accordingly and communicate this to the Audit Committee.

Value for money

We are required to provide commentary on the arrangements in place for ensuring Value for Money is achieved at the Council and report on this via our Auditor's Annual Report. This will be published on the Council's website and include a commentary on our view of the appropriateness of the Council's arrangements against each of the three specified domains of Value for Money: financial sustainability; governance; and improving economy, efficiency and effectiveness.

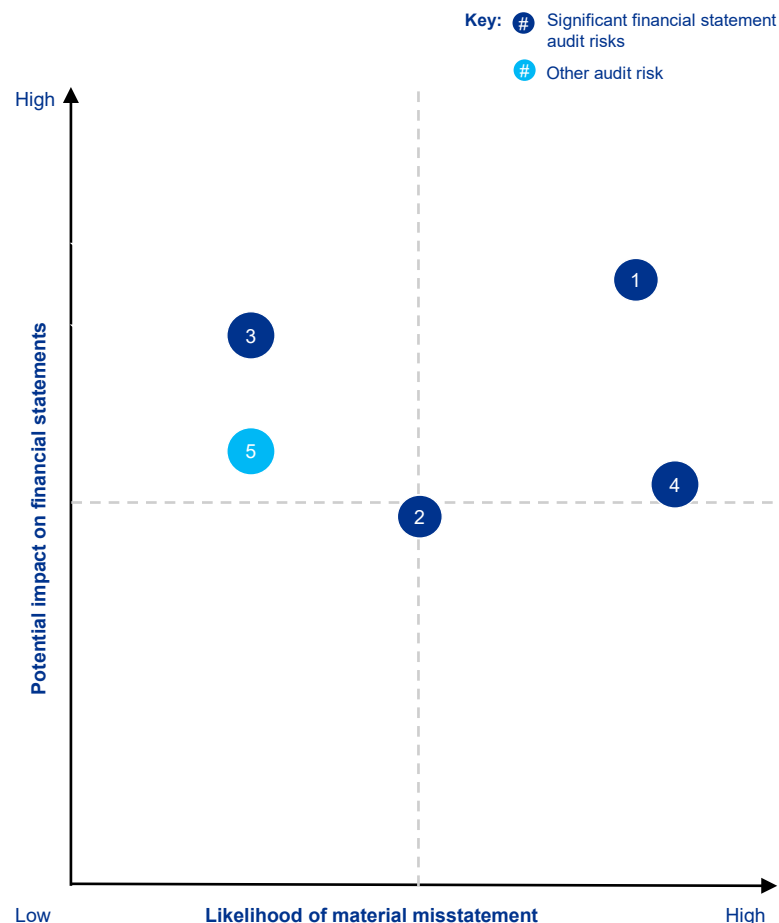
Our risk assessment in relation to Value for Money starts on page 14 and we will report the output of this work to the June Audit Committee.

Significant risks

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

Other audit risks

5. IFRS 16 adoption



Audit risks and our audit approach (cont.)

1

Valuation of land and buildings

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

Change vs prior year 



Significant audit risk

The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate current value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle, with land and buildings outside the full revaluation subject to a desktop review.

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

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

From our risk assessment of the elements within the valuations estimate, we have focused our significant risk over the BCIS indices for the DRC valuations and the rental rate & yield assumptions used for the EUV valuations. For valuation of Council Dwellings we have identified a significant risk over the categorisation of beacon properties.



Planned response

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

- We will critically assess the independence, objectivity and expertise of the District Valuer, the valuers used in developing the valuation of the Council's properties at 31 March 2025;
- We will inspect the instructions issued to the valuers for the valuation of land and buildings to verify they are appropriate to produce a valuation consistent with the requirements of the CIPFA Code.
- We will compare the accuracy of the data provided to the valuers for the development of the valuation to underlying information;
- We will evaluate the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used;
- We will challenge the appropriateness of the valuation of land and buildings; including any material movements from the previous revaluations. We will challenge key assumptions within the valuation as part of our judgement;
- We will agree the calculations performed of the movements in value of land and buildings and verify that these have been accurately accounted for in line with the requirements of the CIPFA Code;
- We will utilise our own valuation specialists to review the valuation report prepared by the Council's valuers to confirm the appropriateness of the methodology utilised;
- Disclosures: We will consider the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation.

Audit risks and our audit approach (cont.)

2 Valuation of investment property

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

Change vs prior year 



Significant audit risk

The Code defines an investment property as one that is used solely to earn rentals or for capital appreciation or both. Property that is used to facilitate the delivery of services or production of goods as well as to earn rentals or for capital appreciation does not meet the definition of an investment property. As at March 2024, the value of investment properties was £12.7m.

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

From our risk assessment of the elements within the valuations estimate we have focused our significant risk over the income approach methodology and the yield assumptions.



Planned response

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

- We will critically assess the independence, objectivity and expertise of the valuer used in developing the valuation of the council's investment property at 31 March 2025;
- We will inspect the instructions issued to the valuers to verify they are appropriate to produce a valuation consistent with the requirements of the CIPFA Code.
- We will compare the accuracy of the data provided to the valuers for the development of the valuation to underlying information;
- We will evaluate the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used;
- We will challenge the appropriateness of the valuation; including any material movements from the previous revaluations. We will challenge key assumptions within the valuation as part of our judgement;
- We will agree the calculations performed of the movements and verify that these have been accurately accounted for in line with the requirements of the CIPFA Code;
- We will utilise our own valuation specialists to review the valuation report prepared by the Council's valuer to confirm the appropriateness of the methodology utilised; and
- Disclosures: We will consider the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation.

Audit risks and our audit approach (cont.)

3

Management override of controls(a)

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

Change vs prior year 



Significant audit risk

- Professional standards require us to communicate the fraud risk from management override of controls as significant.
- Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
- We have not identified any specific additional risks of management override relating to this audit.

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



Planned response

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

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

Audit risks and our audit approach (cont.)

4

Valuation of post retirement benefit obligations

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

Change vs prior year



Significant audit risk

- The valuation of the post retirement benefit obligations involves the selection of appropriate actuarial assumptions, most notably the discount rate applied to the scheme liabilities, inflation rates and mortality rates. The selection of these assumptions is inherently subjective and small changes in the assumptions and estimates used to value the Council's pension liability could have a significant effect on the financial position of the Council.
- The effect of these matters is that, as part of our risk assessment, we determined that post retirement benefits obligation has a high degree of estimation uncertainty. The financial statements disclose the assumptions used by the council in completing the year end valuation of the pension deficit and the year on year movements.
- We have identified this in relation to the following pension scheme memberships: Local Government Pension Scheme
- Also, recent changes to market conditions have meant that more councils are finding themselves moving into surplus in their Local Government Pension Scheme (or surpluses have grown and have become material). The requirements of the accounting standards on recognition of these surplus are complicated and requires actuarial involvement.



Planned response

We will perform the following procedures:

- Understand the processes the Councils have in place to set the assumptions used in the valuation;
- Evaluate the competency, objectivity of the actuaries to confirm their qualifications and the basis for their calculations;
- Perform inquiries of the accounting actuaries to assess the methodology and key assumptions made, including actual figures where estimates have been used by the actuaries, such as the rate of return on pension fund assets;
- Agree the data provided by the audited Council to the Scheme Administrator for use within the calculation of the scheme valuation;
- Evaluate the design and implementation of controls in place for the Council to determine the appropriateness of the assumptions used by the actuaries in valuing the liability;
- Challenge, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate and mortality/life expectancy against externally derived data;
- Confirm that the accounting treatment and entries applied by the Group are in line with IFRS and the CIPFA Code of Practice;
- Consider the adequacy of the Council's disclosures in respect of the sensitivity of the deficit or surplus to these assumptions; and
- Where applicable, assess the level of surplus that should be recognised by the Council.

Audit risks and our audit approach

5

Adoption of IFRS 16

An inappropriate amount is estimated and recorded for lease liabilities and right of use assets

Change vs prior year



Other audit risk

The Council has adopted IFRS 16 as per CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom (2024/25) with an implementation date of 1 April 2024.

We anticipate the following impact in the first year of implementation.

- Risk of completeness of lease listing used in transition computations.
- Risk of inadequate lease disclosures as per IFRS 16.
- Risk of inaccurate computation of lease liabilities and right of use assets.
- Training needs for new/existing staff



Planned response

We will perform the following procedures in order to respond to the other audit risk identified:

- Obtain the full listings of leases and reconcile to the general ledger.
- Review a sample of the lease agreements to determine the terms of the leases and confirm correct classification.
- Review the appropriateness of the discount rate used in the lease computations.
- Review the transition adjustments passed by the Council's.
- Review the disclosures made on the financial statements against requirements of IFRS16.

Audit risks and our audit approach

Revenue – Rebuttal of Significant Risk

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. Due to the nature of the revenue within the sector we have rebutted this significant risk. We have set out the rationale for the rebuttal of key types of income in the table below.

Description of Income	Nature of Income	Rationale for Rebuttal
Council tax	This is the income received from local residents paid in accordance with an annual bill based on the banding of the property concerned.	The income is highly predictable and is broadly known at the beginning of the year, due to the number of properties in the area and the fixed price that is approved annually based on a band D property: it is highly unlikely for there to be a material error in the population.
Business rates	Revenue received from local businesses paid in accordance with an annual demand based on the rateable value of the business concerned.	The income is highly predictable and is broadly known at the beginning of the year, due to the number of businesses in the area and the fixed amount that is approved annually: it is highly unlikely for there to be a material error in the population.
Fees and charges	Revenue recognised from receipt of fixed fee services, in line with the fees and charges schedules agreed and approved annually.	The income stream represents high volume, low value sales, with simple recognition. Fees and charges values are agreed annually. We do not deem there to be any incentive or opportunity to manipulate the income.
Grant income	Predictable income receipted primarily from central government, including for housing benefits.	Grant income at a local authority typically involves a small number of high value items and an immaterial residual population. These high value items frequently have simple recognition criteria and can be traced easily to third party documentation, most often from central government source data. There is limited incentive or opportunity to manipulate these figures.

Expenditure – rebuttal of Significant Risk

Practice Note 10 states that the risk of material misstatement due to fraudulent financial reporting may arise from the manipulation of expenditure recognition is required to be considered. Having considered the risk factors relevant to the Council and the nature of expenditure within the Council, we have determined that a significant risk relating to expenditure recognition is not required. Specifically, the financial position of the Council, (whilst under pressure) is not indicative of a position that would provide an incentive to manipulate expenditure recognition has not identified any specific risk factors.

Mandatory communications - additional reporting

Going concern

Under NAO guidance, including Practice Note 10 - A local authority's financial statements shall be prepared on a going concern basis; this is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future. Transfers of services under combinations of public sector bodies (such as local government reorganization) do not negate the presumption of going concern.

However, financial sustainability is a core area of focus for our Value for Money opinion.

Additional reporting

Your audit is undertaken to comply with the Local Audit and Accountability Act 2014 which gives the NAO the responsibility to prepare an Audit Code (the Code), which places responsibilities in addition to those derived from audit standards on us. We also have responsibilities which come specifically from acting as a component auditor to the NAO. In considering these matters at the planning stage we indicate whether:



Work is completed throughout our audit and we can confirm the matters are progressing satisfactorily



We have identified issues that we may need to report



Work is completed at a later stage of our audit so we have nothing to report

We have summarised the status of all these various requirements at the time of planning our audit below and will update you as our work progresses:

Type	Status	Response
Our declaration of independence		No matters to report. The engagement team and others in the firm, as appropriate, have complied with relevant ethical requirements regarding independence.
Issue a report in the public interest		We are required to consider if we should issue a public interest report on any matters which come to our attention during the audit. We have not identified any such matters to date.
Provide a statement to the NAO on your consolidation schedule		This "Whole of Government Accounts" requirement is fulfilled when we complete any work required of us by the NAO to assist their audit of the consolidated accounts of DLUHC.
Provide a summary of risks of significant weakness in arrangements to provide value for money		We are required to report significant weaknesses in arrangements. Work to be completed at a later stage.
Certify the audit as complete		We are required to certify the audit as complete when we have fulfilled all of our responsibilities relating to the accounts and use of resources as well as those other matters highlighted above.

Mandatory communications

Type	Statements
Management's responsibilities (and, where appropriate, those charged with governance)	<p>Prepare financial statements in accordance with the applicable financial reporting framework that are free from material misstatement, whether due to fraud or error.</p> <p>Provide the auditor with access to all information relevant to the preparation of the financial statements, additional information requested and unrestricted access to persons within the Council.</p>
Auditor's responsibilities	Our responsibilities set out through the NAO Code (communicated to you by the PSAA) and can be also found on their website, which include our responsibilities to form and express 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.
Auditor's responsibilities – Fraud	This report communicates how we plan to identify, assess and obtain sufficient appropriate evidence regarding the risks of material misstatement of the financial statements due to fraud and to implement appropriate responses to fraud or suspected fraud identified during the audit.
Auditor's responsibilities – Other information	Our responsibilities are communicated to you by the PSAA and can be also found on their website, which communicates our responsibilities with respect to other information in documents containing audited financial statements. We will report to you on material inconsistencies and misstatements in other information.
Independence	Our independence confirmation at page 33 discloses matters relating to our independence and objectivity including any relationships that may bear on the firm's independence and the integrity and objectivity of the audit engagement partner and audit staff.

Value for money risk assessment



Value for money

Our value for money reporting requirements have been designed to follow the guidance in the Audit Code of Practice.

Our responsibility is to conclude on significant weaknesses in value for money arrangements.

The main output is a narrative on each of the three domains, summarising the work performed, any significant weaknesses and any recommendations for improvement.

We have set out the key methodology and reporting requirements on this slide and provided an overview of the process and reporting on the following page.

Risk assessment processes

Our responsibility is to assess whether there are any significant weaknesses in the Council's arrangements to secure value for money. Our risk assessment will consider whether there are any significant risks that the Council does not have appropriate arrangements in place.

In undertaking our risk assessment we will be required to obtain an understanding of the key processes the Council has in place to ensure this, including financial management, risk management and partnership working arrangements. We will complete this through review of the Council's documentation in these areas and performing inquiries of management as well as reviewing reports, such as internal audit assessments.

Reporting

Our approach to value for money reporting aligns to the NAO guidance and includes:

- A summary of our commentary on the arrangements in place against each of the three value for money criteria, setting out our view of the arrangements in place compared to industry standards;
- A summary of any further work undertaken against identified significant risks and the findings from this work; and
- Recommendations raised as a result of any significant weaknesses identified and follow up of previous recommendations.

The Council will be required to publish the commentary on its website at the same time as publishing its annual report online.

Financial sustainability

How the body manages its resources to ensure it can continue to deliver its services.

Governance

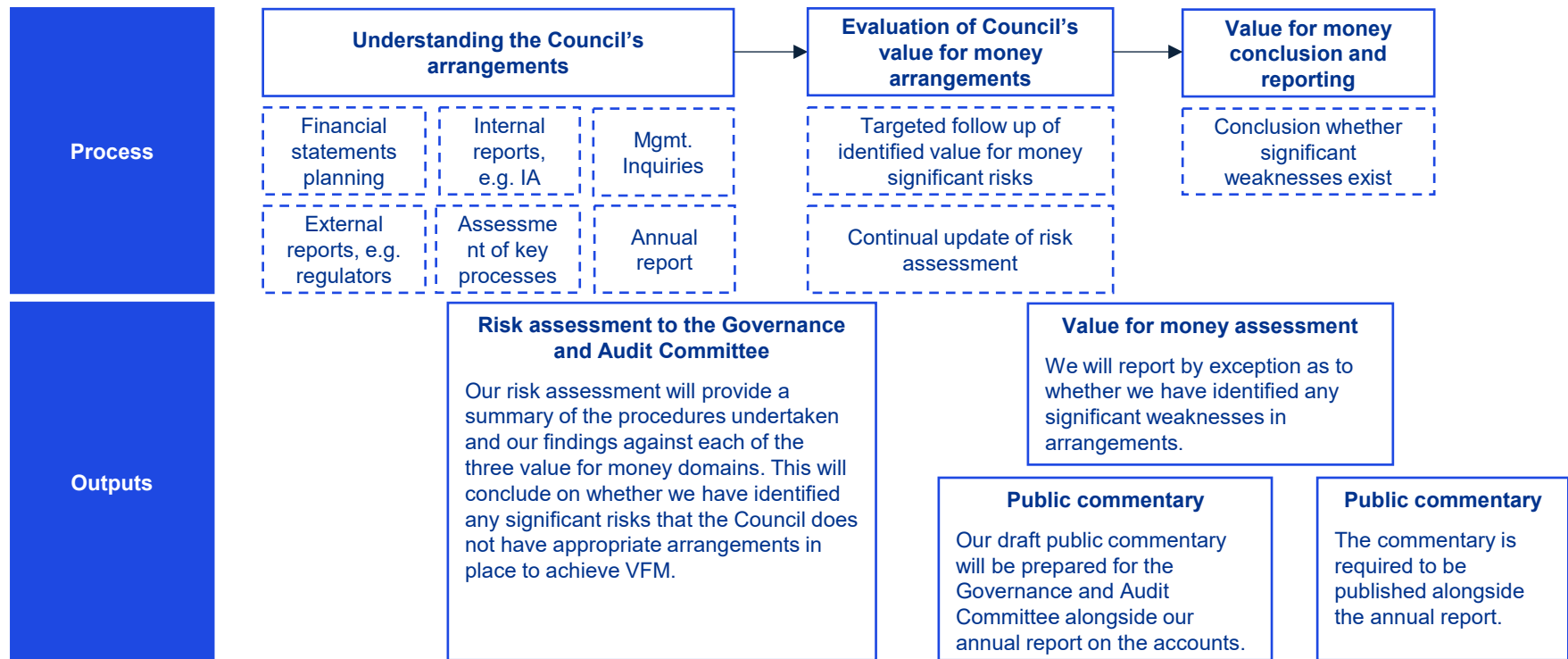
How the body ensures that it makes informed decisions and properly manages its risks.

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.

Value for money

Approach we take to completing our work to form and report our conclusion:



Summary of risk assessment

Summary of risk assessment

As set out in our methodology we have evaluated the design of controls in place for a number of the Council's systems, reviewed reports from external organisations and internal audit and performed inquiries of management. These procedures are consistent with prior year.

Based on these procedures the table below summarises our assessment of whether there is a significant risk that appropriate arrangements are not in place to achieve value for money at the Council for each of the relevant domains:

Domain	Significant risk identified?
Financial sustainability	No significant risks identified
Governance	No significant risks identified
Improving economy, efficiency and effectiveness	No significant risks identified

Based on our work to date, we have not identified any significant risks that there are not appropriate arrangements in place. We have provided a summary of the procedures performed and our key findings from these on pages 18 to 24.

We have followed up on prior year performance improvement observations as a result of our work and documented management's updated responses on pages 25 - 28.

Value for money arrangements

Financial sustainability

In assessing whether there was a significant risk of financial sustainability we reviewed:

- The processes for setting the 2024/25 financial plan to ensure that it is achievable and based on realistic assumptions;
- How the 2024/25 efficiency plan was developed and monitoring of delivery against the requirements;
- Processes for ensuring consistency between the financial plan set for 2024/25 and the workforce and operational plans;
- The process for assessing risks to financial sustainability;
- Processes in place for managing identified financial sustainability risks; and;
- Performance for the year to date against the financial plan.

Summary of risk assessment

The budget setting process is a rolling process as part of the medium-term financial plan, this usually starts in the autumn of the previous year. For 2024/25, the preparation of the budget began in October 2023 with draft budgets approved in January 2024. A detailed timetable is agreed by Executive and Council to ensure appropriate scrutiny and challenge can occur throughout the process.

Budgets are initially prepared at a service level with budget holders producing initial expectations of requirements using their knowledge of the directorate through ongoing budget planning meetings. This is then presented to the Finance team for challenge of assumptions. Individual budget lines are analysed by finance looking at the previous three years to establish trends which are then discussed with budget holders to ensure pressures or potential savings are identified at an early stage. These savings are then incorporated into the plan. Our discussions with finance team and services identified that detailed analysis on both demographic pressures and inflationary pressures for each directorate are considered during the initial budget preparation stage. Communications take place prior to setting the budgets to allow review and challenge of any assumptions. The Budget Joint Scrutiny Overview and Scrutiny Committee provide cross party challenge of the budget and budget proposal.

Financial Performance is reported to the Finance and Economic Overview and Scrutiny Committee ahead of reporting to Cabinet on a quarterly basis. Forecasts are developed with budget holders using year to date performance and commitments to help inform the forecasting. The Finance team meet with budget holders to agree forecast outturn positions, these are then agreed with Directors. These are detailed through the quarterly monitoring reports. The overall position is then presented to the S151 Officer for agreement prior to reporting to Members.

For 2024/25, the Council set a balanced budget, with no planned use of the Budget Stabilisation Reserve. Throughout the year there were lower than expected adjustments to budget however the Council ultimately reported a net underspend of £707k against the adjusted budget. The key drivers of these positive movements in the forecast were an underspend on planning fee income (£200k) and fuel (£363k) driven by lower than expected increases and improved investment income (£446k) due to higher interest rates. Overall, the Council closing General Fund reserves, are above the Council's stated prudent minimum.

Value for money arrangements

Financial sustainability

In assessing whether there was a significant risk of financial sustainability we reviewed:

- The processes for setting the 2024/25 financial plan to ensure that it is achievable and based on realistic assumptions;
- How the 2024/25 efficiency plan was developed and monitoring of delivery against the requirements;
- Processes for ensuring consistency between the financial plan set for 2024/25 and the workforce and operational plans;
- The process for assessing risks to financial sustainability;
- Processes in place for managing identified financial sustainability risks; and;
- Performance for the year to date against the financial plan.

The Council's budget for 2024/25 included no requirement to deliver savings. Savings plans are usually developed as part of the overall budget setting process and therefore encounter the same levels of challenge, scrutiny and approval as the budget. Actions are identified where there are risks in financial performance for each service through the year. Savings are not separately reported but key savings identified in year are detailed in the reporting on significant variances to budget, for example, as a result of the corporate restructure. This demonstrates the Council's arrangements are operating effectively.

Under the medium-term financial plan, the Council has identified outstanding savings total for 2025/26 and 2026/27. Overall, as per the Corporate plan to 2028, the Council has identified a savings requirement of £1.1m. The objectives of the corporate plan, including key capital projects, are identified within the budget setting process to ensure consistency.

The Council's Risk Management Policy details a clear process and reporting structure in how the entity responds and manages risks. Various risks relating to financial sustainability have been identified by the Council including risks related to future financial deficits, continued inflationary pressures and requirement for borrowing to fund capital projects. Actions identified to mitigate these include regular monitoring of overspend and use of sensitivity to identify worst case scenarios for inflation. The Council has also identified savings plans and is modelling the impact of any borrowing that might be undertaken.

The Council continues to support its wholly owned subsidiary Leisure SK Ltd. LeisureSK was in a deficit position through 2023/24 due to increased staff costs, utilities and an issue around irrecoverable VAT. Management prepared a budget for 2024/25 with an increased management fee of £450k from the Council and as part of the conditions set by the Culture and Leisure Overview and Scrutiny they requested a recovery and mitigation plan to ensure the management fee was sufficient for the company's cashflow. This was subsequently received and approved in September 2024. In response to LeisureSK's financial difficulties the committee had also reviewed options for a new contract with the company and recommended to Cabinet that LeisureSK continue to deliver services under an agency model to stabilise its finances. Cabinet approved this in September 2024 and the new contract commenced on 1st April 2025.

Risk assessment conclusion

Based on the risk assessment procedures performed to date, we have not identified a significant risk associated with the Council's arrangements in relation to securing financial sustainability.

Value for money arrangements

Governance

In assessing whether there was a significant risk relating to governance we reviewed:

- Processes for the identification, monitoring and management of risk;
- The design of the governance structures in place at the Authority;
- Controls in place to prevent and detect fraud;
- The review and approval of the 2024/25 financial plan by the Authority, including how financial risks were communicated;
- How compliance with laws and regulations is monitored;
- Processes in place to monitor officer compliance with expected standards of behaviour, including recording of interests, gifts and hospitality; and
- How the Authority ensures decisions receive appropriate scrutiny.

Summary of risk assessment

Risks are identified in line with the Council's Risk Management Strategy. There are several levels of risk management identified - Strategic, Service and Project – and these are monitored through regular review by the register owners, Corporate Management Team (CMT), Heads of Service and Governance and Risk Officer. Assessing the impact and likelihood of each risk is done through a matrix which uses a likelihood/impact model to calculate a risk score. The score is assigned as per the strategy guidance. Challenge comes through a range of officer involvement through project boards. Support is also bought in from the Risk Management Group as required to provide further support and challenge.

The Strategic risk register is presented to Governance and Audit Committee twice a year for review. As at 31 March 2025, there were 15 risks contained within the strategic risk register; 12 were rated high (almost certain/critical) and 3 were rated medium (probable/major). The development of actions is completed using the risk management framework guidance. Actions use the Treat, Tolerate, Transfer, Terminate matrix to evaluate responses to the risk depending on the severity and likelihood. Monitoring is undertaken through either project management teams or boards. When reported to Governance and Audit committee, members are asked to consider the register and report any comments/issues to CMT and Cabinet who also receive the register. Committee reports for all key decisions are mandated to set out the key risk associated with the proposed decision.

The Council undertake a number of measures to prevent and detect fraud. There is a Counter Fraud policy and strategy which complies with the requirements of the Code, this sets out key actions for the Council to ensure compliance. We note a review is currently underway of the policy and strategy. The Council also receives assurance through the work of internal audit, and all staff are required to complete the e-learning on fraud which is held centrally. An annual fraud report is presented to the Governance and Audit Committee including the counter fraud action plan and fraud risk register.

The 2024/25 financial plan, as part of the medium-term financial plan, went through several levels of review prior to approval by the Council in March 2024. The financial plan includes a risk assessment of the key financial risks that the Council faces over the period. These risks are modelled to include increased utility and fuel costs, impact of national pay award, changes to council tax base, business rates base, interest rates etc. The analysis identifies a likelihood percentage and risk value amount, with a worst-case scenario impact on the current reserves.

Value for money arrangements

Governance

In assessing whether there was a significant risk relating to governance we reviewed:

- Processes for the identification, monitoring and management of risk;
- The design of the governance structures in place at the Authority;
- Controls in place to prevent and detect fraud;
- The review and approval of the 2024/25 financial plan by the Authority, including how financial risks were communicated;
- How compliance with laws and regulations is monitored;
- Processes in place to monitor officer compliance with expected standards of behaviour, including recording of interests, gifts and hospitality; and
- How the Authority ensures decisions receive appropriate scrutiny.

Financial performance is monitored against budget regularly as outlined in the Financial Sustainability section of this report. As part of reporting to Overview and Scrutiny Committee, variances against budget are clearly identified and explained. Any mitigating actions are also identified. During 2024/25 the Council has been able to manage increases in costs with increased investment income and car park income to mitigate the need for using the Budget Stabilisation Reserve.

The Monitoring Officer is responsible for monitoring compliance with all relevant/applicable legal requirements. All Executive reports are subject to mandatory consultation with the Chief Executive, Section 151 Officer and Monitoring Officer. Where required Executive Reports are supported by Equality Impact Assessments. Management inquiries have confirmed there have been no breaches of legislation or regulatory standards that has led to an investigation by any legal or regulatory body during the year.

The Council's Code of Conduct communicates values and expected behaviours of staff and Council members, this is covered through the Code of Conduct and Disciplinary Policy. This is communicated to staff as part of the recruitment process and is available on the staff intranet. This also covers requirements with regard to gifts and hospitality and the register of interests. There are a number of other policies available to view on the Council's website as well as the Constitution which details the Terms of Reference for each committee and the responsibilities of key officers.

As part of our review we identified an increase in the number of member complaints in 2023/24 under the member code of conduct policy. These complaints required initial investigation by officers and for several cases the Council engaged independent legal expertise to complete investigations. In 2024/25 this resulted in additional legal costs to the Council of c.£70k. We note also that the high volume of complaints would require a considerable amount of senior officer time.

We reviewed a number of key decisions made by the Council in year to assess the effectiveness of the arrangements in place. Key decision making is subject to discussion and scrutiny at executive team level and relevant sub-committees such as Governance and Audit and Overview and Scrutiny, followed by formal approval by the Council. All key decision records are available to view on the Council's website.

Value for money arrangements

Governance

In assessing whether there was a significant risk relating to governance we reviewed:

- Processes for the identification, monitoring and management of risk;
- The design of the governance structures in place at the Authority;
- Controls in place to prevent and detect fraud;
- The review and approval of the 2024/25 financial plan by the Authority, including how financial risks were communicated;
- How compliance with laws and regulations is monitored;
- Processes in place to monitor officer compliance with expected standards of behaviour, including recording of interests, gifts and hospitality; and
- How the Authority ensures decisions receive appropriate scrutiny.

One such decision was to sell land at St Martin's Park. In 2023/24 the Council examined options available for the St Martin's Park land project and subsequently approved the decision to sell the land in order to mitigate the financial deficit on the project. As at October 2024, sales contracts had been exchanged committing developers to the scheme at the sale contract prices agreed by Council and landowners and developers were working on items that needed to be finished before the sale contract could be completed with the developers.

The Council had also made key decisions in relation to the new Finance system due to be introduced in year. As we reported in our prior year report, the Council had planned to implement a new finance system from April 2024, however a decision was made to postpone this to April 2025 due to changes in key finance team members, and to enable the Council to engage specialist support for the roll-out to mitigate any risks. It was also deemed a lower risk at the time if a new system is implemented at the commencement of the new financial year. The Council extended the software licence for its existing finance system and the additional cost was approved as part of the 2024/25 budget.

In February 2025 however, the Council made the decision to postpone the 'go live' date to July 2025. This decision was taken due to further changes in key finance team members and to avoid incurring significant costs from the engaged specialists who would be required to take on more of the implementation work to meet the original deadline. The delay would also help the finance team to manage their competing priorities in relation to year-end close and accounts preparations. We will continue to monitor the Council's project management in this area.

As stated above there have been some changes in senior staffing in the Finance team in 2024/25. The Interim Deputy Director of Finance left the Council in February 2025 and has been replaced by a permanent appointment. The changes in the finance team are expected to impact the production of the draft annual statement of accounts, with the risk of missing the June 2025 deadline for publishing draft accounts. We continue to liaise with the S151 Officer and his Deputy on this matter.

Risk assessment conclusion

Based on the risk assessment procedures performed to date, we have not identified a significant risk associated with the Council's arrangements in relation to governance.

Value for money arrangements

Improving economy, efficiency and effectiveness

In assessing whether there was a significant risk relating to improving economy, efficiency and effectiveness we reviewed:

- The processes in place for assessing the level of value for money being achieved and where there are opportunities for these to be improved;
- The development of efficiency plans and how the implementation of these is monitored;
- How the performance of services is monitored and actions identified in response to areas of poor performance;
- How the Authority has engaged with partners in development of the organisation and system wide plans and arrangements;
- The engagement with wider partnerships and how the performance of those partnerships is monitored and reported; and
- The monitoring of outsourced services to verify that they are delivering expected standards.

Summary of risk assessment

We note that the Council takes part in national benchmarking exercises but does not routinely use benchmarking in reviewing performance. The Council does have processes in place to support it in using information about costs, through financial monitoring, and performance to improve the way services are managed and delivered, with a focus on the level of value for money being achieved. This is reported quarterly through Overview and Scrutiny Committee and Cabinet.

The Council reviews its corporate performance measures as part of the three-year Corporate Plan through a target setting process. The process is co-ordinated by the Corporate Management team, with input from all directorates. Target setting incorporates benchmarking, assessment of local conditions, and national indicators/reporting requirements.

The Council's performance framework is driven by the Corporate Plan priorities: Healthy & Strong Communities, Growth & Our economy and High Performing Council. The most recent performance reports is that for Q2, with monitoring of actions split across the different Overview and Scrutiny Committees. The Finance and Economic committee had 20 actions. Of those actions with updates, 12 actions were on target and 2 were below target. The below target actions related to the delay in the implementation of the new finance system and ensuring all contract awards under £25k are fully compliant with procurement policy.

The Finance and Economic Overview and Scrutiny committee also reviews financial performance on a quarterly basis and this covers key services, helping to identify any services off target and what actions are being taken to address/mitigate the financial risks. Quarterly reports are also presented to the Cabinet.

We note that the Council has continued to underspend against its capital plan through 2024/25 due to phasing of the work, for example on the new depot project. This has led to planned capital budget being carried forward into 2025/26. This underspend has been reported to Cabinet and Finance and Economic Overview and Scrutiny committee through the year and we will revisit the position at year-end.

Value for money arrangements

Improving economy, efficiency and effectiveness

In assessing whether there was a significant risk relating to improving economy, efficiency and effectiveness we reviewed:

- The processes in place for assessing the level of value for money being achieved and where there are opportunities for these to be improved;
- The development of efficiency plans and how the implementation of these is monitored;
- How the performance of services is monitored and actions identified in response to areas of poor performance;
- How the Authority has engaged with partners in development of the organisation and system wide plans and arrangements;
- The engagement with wider partnerships and how the performance of those partnerships is monitored and reported; and
- The monitoring of outsourced services to verify that they are delivering expected standards.

The Council has a number of key partnerships to help deliver support and services, such as the Building Control Partnership with Newark and Sherwood District Council and Rushcliffe Borough Council, where a partnership agreement is in place and performance is monitored through this arrangement. The Council also has a collaboration agreement in place with Burghley Land Ltd in relation to the land at St Martin's park. There is a partnership policy that details the governance framework for partnership working and all partnerships are recorded in the partnerships register held by Governance team. Monitoring is performed via reporting through relevant Overview and Scrutiny committees.

The Council engages with key stakeholders to help develop the Council as an organisation. There have been numerous consultation with the public around Community Governance in year and Council tax and rate payers were consulted on proposed changes. In preparing the Council's Corporate Plan, residents are encouraged to comment on the Council's priorities, for example in relation to sustainability. Response rates are published in the plan and the 2024/25 narrative report to the accounts.

The Council has appropriate arrangements in place to deal with residents' complaints, FOI requests, Subject Access Requests, data breaches and whistleblowing allegations. The Council also engages with other local partners such as Legal Services Lincolnshire, Lincolnshire Police, Lincolnshire County Council. We note there has been no outsourcing of services in year.

We note that in response to the Government White Paper on Local Government Reorganisation, the Council examined a number of options within its submission after working with neighbouring District Councils. These interim plans were formally approved and were submitted in time for the 21st March deadline as set by MHCLG. The Council continues to work on these plans with relevant parties for the next submission deadline in November 2025. This is a developing area and we will continue to monitor throughout this and subsequent audits.

Risk assessment conclusion

Based on the risk assessment procedures performed to date, we have not identified a significant risk associated with the Council's arrangements in relation to improving economy, efficiency and effectiveness.

Performance improvement observations – follow up from prior year

We have been provided with updated management responses below. We will follow these up fully as part of our VfM work at the final audit stage and provide KPMG commentary in the Annual Auditor Report.

Priority rating for observations			
1	Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	2	Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.
3	Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.		

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date	Update from Management May 2025
1	2	Management response to VfM We note that managements response to our initial VfM risk assessment requests was significantly delayed – the process was initially started in November 2023 but we were only able to start our detailed review from October 2024 onwards due to delayed receipt of the completed management questionnaire and supporting documentation. The completed questionnaire was also was lacking sufficient detail, in-depth responses and was focused on financial performance. Thus, the opportunity for the Council to promote itself and share insight on good examples of VFM arrangements was lost somewhat. We recommend a named individual is assigned ownership of the VfM work within the Council. Their role would include oversight of the completeness of the VfM management questionnaire, collation of supporting documentation, liaison across the Council directorates to give a balanced perspective of arrangements in place, and act as the point of contact for the audit team.	Response: The Council's s151 Officer will be the primary contact for receiving and coordinating the response to the VFM and liaising with colleagues to ensure a comprehensive response. Officer responsible: s151 Officer Action Date: April 2025	2024/25 VFM response has been submitted on time and risk assessment is being presented to the G&A committee in June 2025. The Council's s151 Officer was nominated as the lead officer and coordinated the responses in respect of the VFM work.

Performance improvement observations – follow up from prior year

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date	Update from Management May 2025
2	3	Reporting on financial savings We recognise that there will be significant financial pressures in future years due to cost pressures and we expect the Council will have a greater focus on achieving specific savings to meet its financial targets, as identified in the Corporate plan. Currently we note that while savings are highlighted within quarterly financial reporting, achievement is not separately reported against savings plans. We recommend management consider separately monitoring achievements against savings targets as part of quarterly financial reporting to better understand the effectiveness of Council's savings plans	Response: There is currently no savings built into the 2024/25 budget framework. However, should there be savings built into future budgets, then appropriate monitoring will be put in place. Officer responsible: s151 Officer Action Date: n/a	There are currently no savings built into the 2025/26 budget framework as a balanced budget was achieved. However, once the medium term outlook has been reviewed following the Business baseline reset / fair funding review there may be a requirement to develop a savings plan to respond to any projected deficits. If a plan is required this will be covered through the budget monitoring process.
3	2	Leisure SK Ltd The Council as parent company has overall responsibility for the governance and performance of its subsidiary Leisure SK. Due to Leisure SK's financial difficulties in recent years, its management had to request additional unplanned contribution from the Council for 23/24. We note that Leisure SK also had significant changes in its Board of Directors through the year with a number of directors resigning and being replaced. We recommend the Council takes measures to ensure it has appropriate oversight of the subsidiary to avoid unplanned financial contributions and become help the company become financially sustainable. This could include tailored training for Directors appointed to Leisure SK board (from Council members) to improve their understanding of the company's financial position and performance.	Response: An action plan has already been put in place following the request for additional funding to further strengthen the governance and financial controls. Officer responsible: s151 Officer Action Date: January 2025	No additional funding was requested during 2024/25 as the cashflow and financial management has been significantly improved over the past year. The savings generated from the move to the Agency model will further strengthen the financial position. Regular budget monitoring is being undertaken by the Leisure Board and financial forecasting is provided by the Council to enable any corrective action to be taken. Director training has been undertaken.

Performance improvement observations – follow up from prior year

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date	Update from Management May 2025
4	②	St Martin's Park land purchase The purchase of the land at St Martin's Park in 2019 and subsequent identification of unplanned remediation costs posed a significant financial impact to the Council. The Council engaged external independent commercial assets consultants to detail options on the way forward to ensure the project was delivered and would meet the agreed objectives, including the mitigation of the deficit on the project. These were presented to the Council in February 24 and actions agreed. We recommend management undertake a 'lessons learnt' exercise following the sale of the land at St Martin's Park, focusing on the need for completing appropriate due diligence for similar transactions.	Response: A lessons learnt report will be undertaken once the project has been successfully completed. Officer responsible: s151 Officer Action date: June 2025	The project continues to be managed through the project board and is nearing overall completion which after that time a full financial appraisal will be undertaken as part of the lessons learnt process.
5	②	Implementation of new finance system The Council made the decision in year to delay the introduction of a new finance system (Unit 4) and have proposed a go-live date in April 2025. This will be a significant piece of work at a time when there have been changes in senior staff. We recommend the Council ensures there is appropriate project management in place to introduce the new finance system for the planned April 2025 date and avoid any further delay and associated cost	Response: Robust project management is already in place and the Council has further strengthened this by engaging with an external project management consultancy firm to ensure successful system implementation of April 2025. Officer responsible: s151 Officer Action date: January 2025	The AD for Finance is now lead project manager and utilising specialist external support we are on track for the agreed revised Go Live date of July 2025.

Performance improvement observations – follow up from prior year

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date	Update from Management May 2025
6	②	Accounts preparation <p>The change in the finance team impacted on the production of the annual statement of accounts for 2023/24, and they were published in draft in September 2024 rather than the planned May 2024 deadline. We recommend management review the accounts production processes and timetable for 2024/25 to ensure they have necessary capacity to meet the regulatory deadline and reporting timetable</p>	<p>Response: The timetabling and resource allocation for the closure and preparation of the draft 2024/25 accounts is already in place and interim support has also been implemented.</p> <p>Officer responsible: s151 Officer</p> <p>Action date: January 2025</p>	<p>A timetable and resource allocation plan is in place but this will continue to be a challenge this year with the changes and transition period of staff moving into key roles alongside the implementation of the new finance system. The council have confirmed to external audit there is a risk that it may not issue its statement of accounts by 30 June 2025.</p>

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Audit team and rotation

Your audit team has been drawn from our specialist local government audit department and is led by key members of staff who will be supported by auditors and specialists as necessary to complete our work. We also ensure that we consider rotation of your audit director and firm.

	<p>Salma Younis is the director responsible for our audit. She will lead our audit work, attend the Governance and Audit Committee and be responsible for the opinions that we issue.</p>		<p>John Blewett is the manager responsible for our audit. He will co-ordinate our audit work, attend the Governance and Audit Committee and ensure we are co-ordinated across our accounts and value for money work.</p>		<p>Katie Lindsey is the in-charge responsible for our audit. She will be responsible for our on-site fieldwork. She will complete work on more complex sections of the audit.</p>
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To comply with professional standard we need to ensure that you appropriately rotate your external audit director. There are no other members of your team which we will need to consider this requirement for:



This will be Salma's second year as your engagement lead. She is required to rotate every five years, extendable to seven with PSAA approval.

Audit cycle & timetable

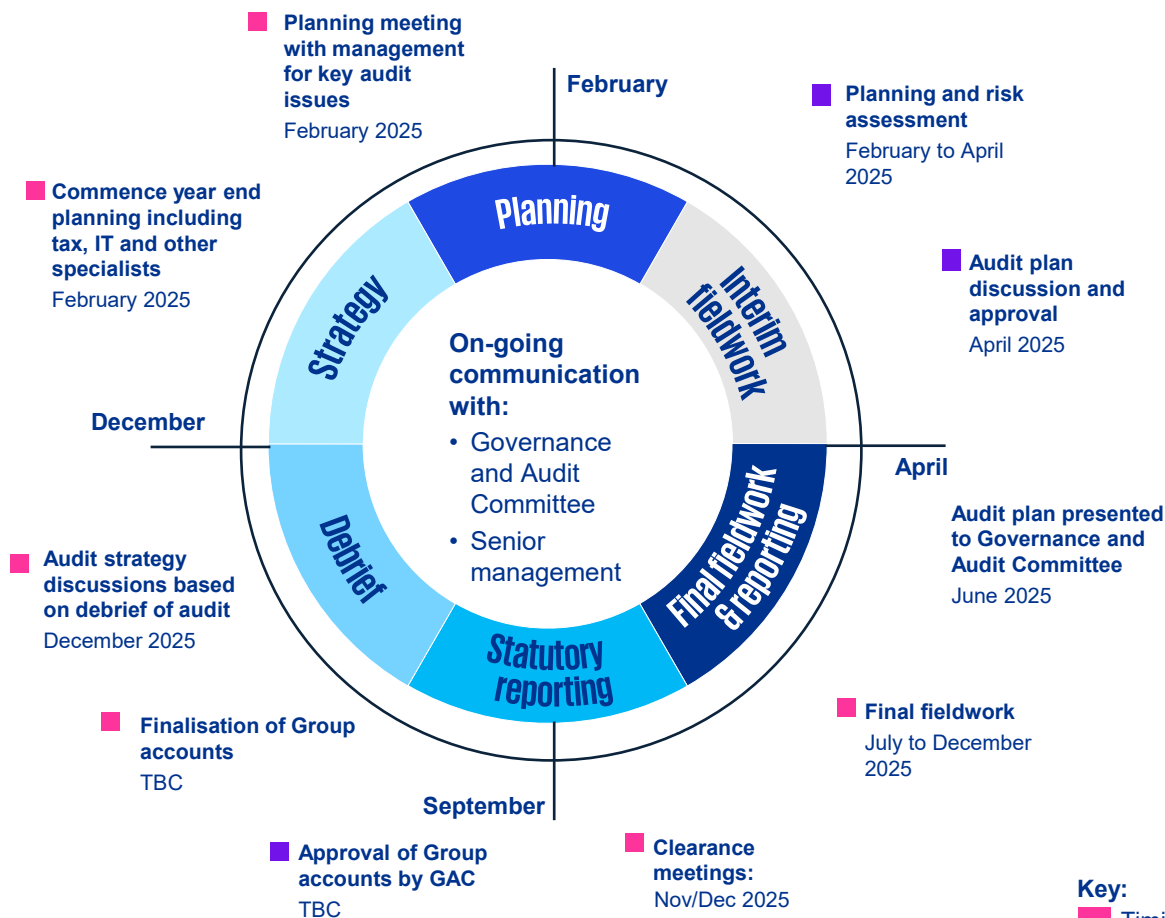
Our schedule Feb 2025 – Dec 2025

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

We have agreed with management an audit cycle and timetable that reflects our aim to sign our audit report by February 2026.

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

Given the large amount of consultation happening in regard to the scope and timing of local government, and as the Council confirmed there is a risk that it may not issue its statement of accounts by 30 June 2025, **this audit schedule may be subject to change.**



Key:

- Timing of AC communications
- Key events

Fees

Audit fee

Our fees for the year ended 31 March 2025 are set out in the PSAA Scale Fees communication and are shown below.

Entity	2024/25 (£'000)	2023/24 (£'000)
Statutory audit	166	151
ISA315R	-	12
Fee variations	-	6
TOTAL	166	169

The fees also assume no significant risks are identified as part of the Value for Money risk assessment. Additional fees in relation to these areas will be subject to the fees variation process as outlined by the PSAA.

Should this audit be selected as a sampled component by the NAO as a result of ISA600, any resulting work will also be subject to additional fee to be agreed later in the year.

Billing arrangements

Fees will be billed in accordance with the milestone completion phasing that has been communicated by the PSAA.

Basis of fee information

Our fees are subject to the following assumptions:

- The Council's audit evidence files are completed to an appropriate standard (we will liaise with you separately on this);
- Draft statutory accounts are presented to us for audit subject to audit and tax adjustments;
- Supporting schedules to figures in the accounts are supplied;
- The Council's audit evidence files are completed to an appropriate standard (we will liaise with management separately on this);
- A trial balance together with reconciled control accounts are presented to us;
- All deadlines agreed with us are met;
- We find no weaknesses in controls that cause us to significantly extend procedures beyond those planned;
- Management will be available to us as necessary throughout the audit process; and
- There will be no changes in deadlines or reporting requirements.

We will provide a list of schedules to be prepared by management stating the due dates together with pro-formas as necessary.

Our ability to deliver the services outlined to the agreed timetable and fee will depend on these schedules being available on the due dates in the agreed form and content.

Any variations to the above plan will be subject to the PSAA fee variation process.

Confirmation of Independence

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

To the Governance and Audit Committee members

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

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

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

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

General procedures to safeguard independence and objectivity

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

Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through: Instilling professional values.

- Communications.
- Internal accountability.
- Risk management.
- Independent reviews.

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

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

Summary of non-audit services

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

Confirmation of Independence

Disclosure	Description of scope of services	Principal threats to Independence	Safeguards Applied	Basis of fee	Value of Services Delivered in the year ended 31 March 2025 £k	Value of Services Committed but not yet delivered £m
1	Housing benefit grant certification	Management Self review Self interest	<ul style="list-style-type: none"> • Separate teams • Standard language on non-assumption of management responsibilities is included in our engagement letter. • The engagement contract makes clear that we will not perform any management functions. • The work is performed after the audit is completed and the work is not relied on within the audit file. • Our work does not involve judgement and are statements of fact based on agreed upon procedures. 	Fixed	TBC (23/24: £27)	TBC
2	Pooling of Local Authority Housing Receipts audit	Management Self review Self interest	<ul style="list-style-type: none"> • Separate teams • Standard language on non-assumption of management responsibilities is included in our engagement letter. • The engagement contract makes clear that we will not perform any management functions. • The work is performed after the audit is completed and the work is not relied on within the audit file. • Our work does not involve judgement and are statements of fact based on agreed upon procedures. 	Fixed	TBC (23/24: £6)	TBC

Confirmation of Independence (cont.)

Summary of fees

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

Fee ratio

The ratio of non-audit fees to audit fees for the year is to be confirmed however based on the 23/24 fees of £33k we do not anticipate that the ratio would exceed 0.2:1. We therefore do not consider that the total non-audit fees create a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

2024/25	
£'000	
Statutory audit	166
Other Assurance Services	TBC
Total Fees	166

Independence and objectivity considerations relating to other matters

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

Confirmation of audit independence

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

This report is intended solely for the information of the Audit and Risk Committee of the Group and should not be used for any other purposes.

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

Yours faithfully

KPMG LLP

Appendix E KPMG's Audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.

To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework.

Responsibility for quality starts at the top through our governance structures as the UK Board is supported by the Audit Oversight Committee, and accountability is reinforced through the complete chain of command in all our teams.

■ Commitment to continuous improvement

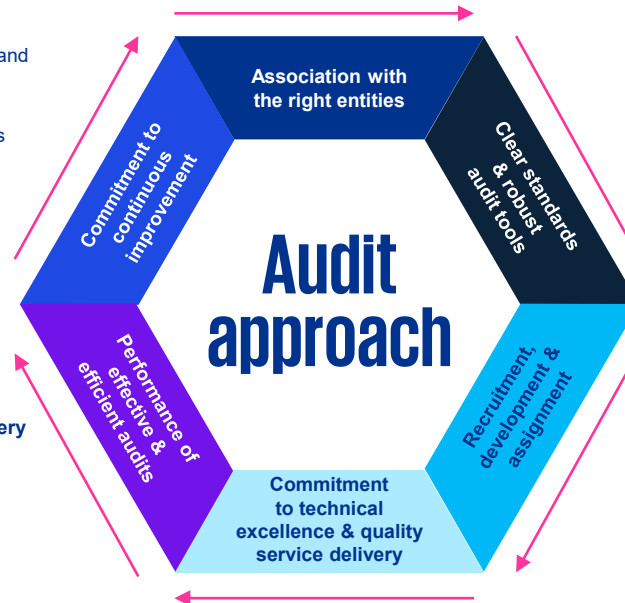
- Comprehensive effective monitoring processes
- Significant investment in technology to achieve consistency and enhance audits
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

■ Performance of effective & efficient audits

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

■ Commitment to technical excellence & quality service delivery

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



■ Association with the right entities

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

■ Clear standards & robust audit tools

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

■ Recruitment, development & assignment of appropriately qualified personnel

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

Statement on the Effectiveness of our system of quality management

Based on the annual evaluation of the Firm's System of Quality Management as of 30 September 2023, the System of Quality Management provides the Firm with reasonable assurance that the objectives of the System of Quality Management are being achieved.

Our full Statement on the effectiveness of the System of Quality Management of KPMG UK LLP as at 30 September 2023 can be found [here](#).

The extract below is the Statement on the Effectiveness of our system of quality management taken from our Transparency Report:

As required by the International Auditing and Assurance Standards Board (IAASB)'s, International Standard on Quality Management (ISQM1), the Financial Reporting Council (FRC)'s International Standard on Quality Management (UK) 1 (ISQM (UK) 1), and KPMG International Limited Policy, KPMG UK LLP (the "Firm" and/or "KPMG UK") has responsibility to design, implement and operate a System of Quality Management for audits or reviews of financial statements, or other assurance or related services engagements performed by the Firm.

The objectives of the System of Quality Management are to provide the Firm with reasonable assurance that:

- a) The Firm and its personnel fulfil their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
- b) Engagement reports issued by the Firm or engagement partners are appropriate in the circumstances.

KPMG UK outlines how its System of Quality Management supports the consistent performance of quality engagements in the 2023 Transparency Report.

Integrated quality monitoring and compliance programmes enable KPMG UK to identify and respond to findings and quality deficiencies both in respect of individual engagements and the overall System of Quality Management.

If deficiencies are identified when KPMG UK performs its annual evaluation of the System of Quality Management, KPMG UK evaluates the severity and pervasiveness of the identified deficiencies by investigating the root causes, and by evaluating the effect of the identified deficiencies individually and in the aggregate, on the System of Quality Management, with consideration of remedial actions taken as of the date of the evaluation.

Based on the annual evaluation of the Firm's System of Quality Management as of 30 September 2023, the System of Quality Management provides the Firm with reasonable assurance that the objectives of the System of Quality Management are being achieved.



Understanding of IT

Effect on audit effort



Summary

The release of ISA 315 (UK) revised brought an increased focus on Understanding of IT in the audit, and it continues to be an area of focus.

Stakeholders now expect auditors to not only understand IT in detail, but also to consider the impact of the findings from their risk assessment procedures on their planned audit approach.

Why is Understanding of IT so important?

Businesses continue to embrace increasingly complex and sophisticated IT systems and place more and more reliance on automated IT processing not simply for a competitive advantage, but also for "business as usual" operations.

This increased reliance means that to effectively audit accounts, balances and transactions, auditors are required to understand and challenge more around how those IT system and process work.

Therefore, Understanding of IT is a crucial building block of our audit strategy and influences our planned audit approach at every stage.

This is true regardless of whether controls reliance is planned or the audit is expected to be fully substantive in nature.

What kind of things might we identify?

As part of our risk assessment procedures, we perform:

- An assessment of the formality, or otherwise, of certain financially relevant IT processes
- An evaluation of the design and implementation of related general IT controls
- An evaluation of the design and implementation of automated process level controls

As a result of these procedures, we may identify IT control deficiencies or IT process informalities that may have an impact on our planned audit approach.

Additionally, we may identify findings related to the wider control environment or threats to the accuracy or completeness of the information used by both Council management and auditors alike.

What does this mean for our audits?

Auditors are being asked to consider the findings from their risk assessment procedures over IT in relation to the planned audit approach.

The findings may impact any area of the audit, however there are three main areas of focus where we anticipate that most impact as a result of identifying IT deficiencies or IT process informality;

- Increased risk to data integrity
- Additional fraud risk factors
- Additional high-risk criteria to be used in journals analysis

It is important to understand that these findings may have an impact regardless of planned reliance on automated controls and general IT controls.

ISA (UK) 600 Revised: Summary of changes



Summary

ISA (UK) 600 (Revised): Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors) is effective for periods commencing on or after 15 December 2023.

The new and revised requirements better aligns the standard with recently revised standards such as ISQM 1, ISA (UK) 220 (Revised) and ISA (UK) 315 (Revised). The revisions also strengthen the auditor's responsibilities related to professional skepticism, planning and performing a group audit, two-way communications between the group auditor and component auditors, and documentation.

Area	Summary of changes and impact	Effect on audit effort
Risk-based approach	The nature and extent of risk assessment procedures performed by the group auditor at group level may increase, which may include further inquiries of group and/or component management and those charged with governance; analytical procedures, attendance of walkthroughs at components, and inspection and/or observation of additional component information. Consequently, while we will continue to work across the group audit to be as efficient in our interactions with you as possible, group and component management will typically receive additional, and more specific/granular requests, for information from both the group and component auditors.	
Group auditor responsibilities	Through a more targeted audit response to address the group Risks of Material Misstatement, we may perform audit work and communicate with component management at a greater number of components within the group, and we may request less information from component management at certain components where we previously performed full scope audits for the Group audit, if we determine that a full scope audit is no longer necessary. While statutory audit requirements will still apply, this change may be beneficial for overall audit effort where a statutory audit is not required.	
Flexibility in defining components	You may also see changes in the planned scope and timing of the audit in communications to group management and those charged with governance, such as changes to the identification of components and the work to be performed on their financial information, and/or changes to the nature of the group auditor's planned involvement in the work to be performed by component auditors. The impact will be greater where there are more components.	
Quality management	Enhanced leadership, direction, supervision and review responsibilities of the group engagement partner may result in the group engagement partner needing to engage more extensively with group management, your component management and component auditors throughout the audit.	
Robust communication	If the group auditor determines that the increased work effort is needed, this determination will impact how much, and the type of, information you will need to provide to the group auditor or component auditors. The group auditor is required to prescribe required work at a more granular level. This may mean there is increased work for component auditors, particularly in year one, to align the requirements of the group audit and local statutory audits. We will continue to work closely to minimise this.	
Application of materiality and aggregation risk	Changes in component performance materiality may result in changes to the nature, timing and extent of component auditor's work. If so, this may impact how much, and the type of, information you will need to provide to the group auditor or component auditors.	
Revised independence principles	This may make it more challenging to address auditor rotation and other independence requirements for component auditors we may plan to involve in the group audit and mean more matters impacting independence may need to be communicated to you. Potential changes to the component auditor firms engaged to perform work on financial information of components.	

FRC's areas of focus

The FRC released their **Annual Review of Corporate Reporting 2023/24** ('the Review') in September 2024 having already issued three thematic reviews during the year.

The Review and thematic reviews identify where the FRC believes companies can improve their reporting. These slides give a high level summary of the key topics covered. We encourage management and those charged with governance to read further on those areas which are significant to their Council.



Key expectations for 2024/25 annual reports

Overview

The Review identifies that the quality of reporting across FTSE 350 companies has been maintained this year, but there is a widening gap in standards between FTSE 350 and non-FTSE 350 companies. This is noticeable in the FRC's top two focus areas, 'Impairment of assets' and 'Cash Flow Statements'.

'Provisions and contingencies' has fallen out of the top ten issues for the first time in over five years. This issue is replaced by 'Taskforce for Climate-related Financial Disclosures (TCFD) and climate-related narrative reporting'.

The FRC re-iterates that companies should apply careful judgement to tell a consistent and coherent story whilst ensuring the annual report is clear, concise and company-specific.

Pre-issuance checks and restatements

The FRC expects companies to have in place a sufficiently robust self-review process to identify common technical compliance issues. The FRC continues to be frustrated by the increasing level of restatements affecting the presentation of primary statements. This indicates that thorough, 'step-back' reviews are not happening in all cases.

Risks and uncertainties

Geopolitical tensions continue and low growth remains a concern in many economies, particularly with respect to going concern, impairment and recognition/recoverability of tax assets and liabilities. The FRC continue to push for enhanced disclosures of risks and uncertainties. Disclosures should be sufficient to allow users to understand the position taken in the financial statements, and how this position has been impacted by the wider risks and uncertainties discussed elsewhere in the annual report.

Financial reporting framework

The FRC reminds preparers to consider the overarching requirements of the UK financial reporting framework in determining the information to be presented. In particular the requirements for a true and fair view, along with a fair, balanced, and comprehensive review of the company's development, position, performance, and future prospects.

The FRC does not expect companies to provide information that is not relevant and material to users, and companies should exercise judgement in determining what information to include.

Companies should also consider including disclosures beyond the specific requirements of the accounting standards where this is necessary to enable users to understand the impact of particular transactions or other events and conditions on the entities financial position, performance and cash flows.

FRC's areas of focus (cont.)

Impairment of assets

Impairment remains a key topic of concern, exacerbated in the current year by an increase in restatements of parent company investments in subsidiaries.

Disclosures should provide adequate information about key inputs and assumptions, which should be consistent with events, operations and risks noted elsewhere in the annual report and be supported by a reasonably possible sensitivity analysis as required.

Forecasts should reflect the asset in its current condition when using a value in use approach and should not extend beyond five years without explanation.

Preparers should consider whether there is an indicator of impairment in the parent when its net assets exceed the group's market capitalisation. They should also consider how intercompany loans are factored into these impairment assessments.

Cash flow statements

Cash flow statements remain the most common cause of prior year restatements.

Companies must carefully consider the classification of cash flows and whether cash and cash equivalents meet the definitions and criteria in the standard. The FRC encourage a clear disclosure of the rationale for the treatment of cash flows for key transactions.

Cash flow netting is a frequent cause of restatements and this was highlighted in the ['Offsetting in the financial statements'](#) thematic.

Preparers should ensure the descriptions and amounts of cash flows are consistent with those reported elsewhere and that non-cash transactions are excluded but reported elsewhere if material.

Climate

This is a top-ten issue for the first time this year, following the implementation of TCFD.

Companies should clearly state the extent of compliance with TCFD, the reasons for any non-compliance and the steps and timeframe for remedying that non-compliance. Where a company is also applying the Companies Act 2006 Climate-related Financial Disclosures, these are mandatory and cannot be 'explained', further the required location in the annual report differs.

Companies are reminded of the importance of focusing only on material climate-related information. Disclosures should be concise and company specific and provide sufficient detail without obscuring material information.

It is also important that there is consistency within the annual report, and that material climate related matters are addressed within the financial statements.

Financial instruments

The number of queries on this topic remains high, with Expected Credit Loss (ECL) provisions being a common topic outside of the FTSE 350 and for non-financial and parent companies.

Disclosures on ECL provisions should explain the significant assumptions applied, including concentrations of risk where material. These disclosures should be consistent with circumstances described elsewhere in the annual report.

Companies should ensure sufficient explanation is provided of material financial instruments, including company-specific accounting policies.

Lastly, the FRC reminds companies that cash and overdraft balances should be offset only when the qualifying criteria have been met.

Judgements and estimates

Disclosures over judgements and estimates are improving, however these remain vital to allow users to understand the position taken by the company. This is particularly important during periods of economic and geopolitical uncertainty.

These disclosures should describe the significant judgements and uncertainties with sufficient, appropriate detail and in simple language.

Estimation uncertainty with a significant risk of a material adjustment within one year should be distinguished from other estimates.

Further, sensitivities and the range of possible outcomes should be provided to allow users to understand the significant judgements and estimates.

FRC's areas of focus (cont.)

Revenue

Disclosures should be specific and, for each material revenue stream, give details of the timing and basis of revenue recognition, and the methodology applied. Where this results in a significant judgement, this should be clear.

Presentation

Disclosures should be consistent with information elsewhere in the annual report and cover company-specific material accounting policy information.

A thorough review should be performed for common non-compliance areas of IAS 1.

Income taxes

Evidence supporting the recognition of deferred tax assets should be disclosed in sufficient detail and be consistent with information reported elsewhere in the annual report.

The effect of Pillar Two income taxes should be disclosed where applicable.

Strategic report and Companies Act

The strategic report must be 'fair, balanced and comprehensive'. Including covering all aspects of performance, economic uncertainty and significant movements in the primary statements.

Companies should ensure they comply with all the statutory requirements for making distributions and repurchasing shares.

Fair value measurement

Explanations of the valuation techniques and assumptions used should be clear and specific to the company.

Significant unobservable inputs should be quantified and the sensitivity of the fair value to reasonably possible changes in these inputs should provide meaningful information to readers.

Thematic reviews

The FRC has issued three thematic reviews this year: 'Reporting by the UK's largest private companies' (see below), 'Offsetting in the financial statements', and 'IFRS 17 Insurance contracts – Disclosures in the first year of application'. The FRC have also performed Retail sector research (see below).

UK's largest private companies

The quality of reporting by these entities was found to be mixed, particularly in explaining complex or judgemental matters. The FRC would expect a critical review of the draft annual report to consider:

- internal consistency
- whether the report as a whole is clear, concise, and understandable; notably with respect to the strategic report
- whether it omits immaterial information, or
- whether additional information is necessary for the users understanding particularly with respect to revenue, judgments and estimates and provisions

Retail sector focus



Retail is a priority sector for the FRC and the research considered issues of particular relevance to the sector including:

- Impairment testing and the impact of online sales and related infrastructure
- Alternative performance measures including like for like (LFL) and adjusted e.g. pre-IFRS 16 measures
- Leased property and the disclosure of lease term judgements, particularly for expired leases.
- Supplier income arrangements and the clarity of accounting policies and significant judgements around measurement and presentation of these.

2024/25 review priorities

The FRC has indicated that its 2024/25 reviews will focus on the following sectors which are considered by the FRC to be higher risk by virtue of economic or other pressures:

 Industrial metals and mining
 Retail

 Construction and materials
 Gas, water and multi-utilities

 Food producers
 Financial Services



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