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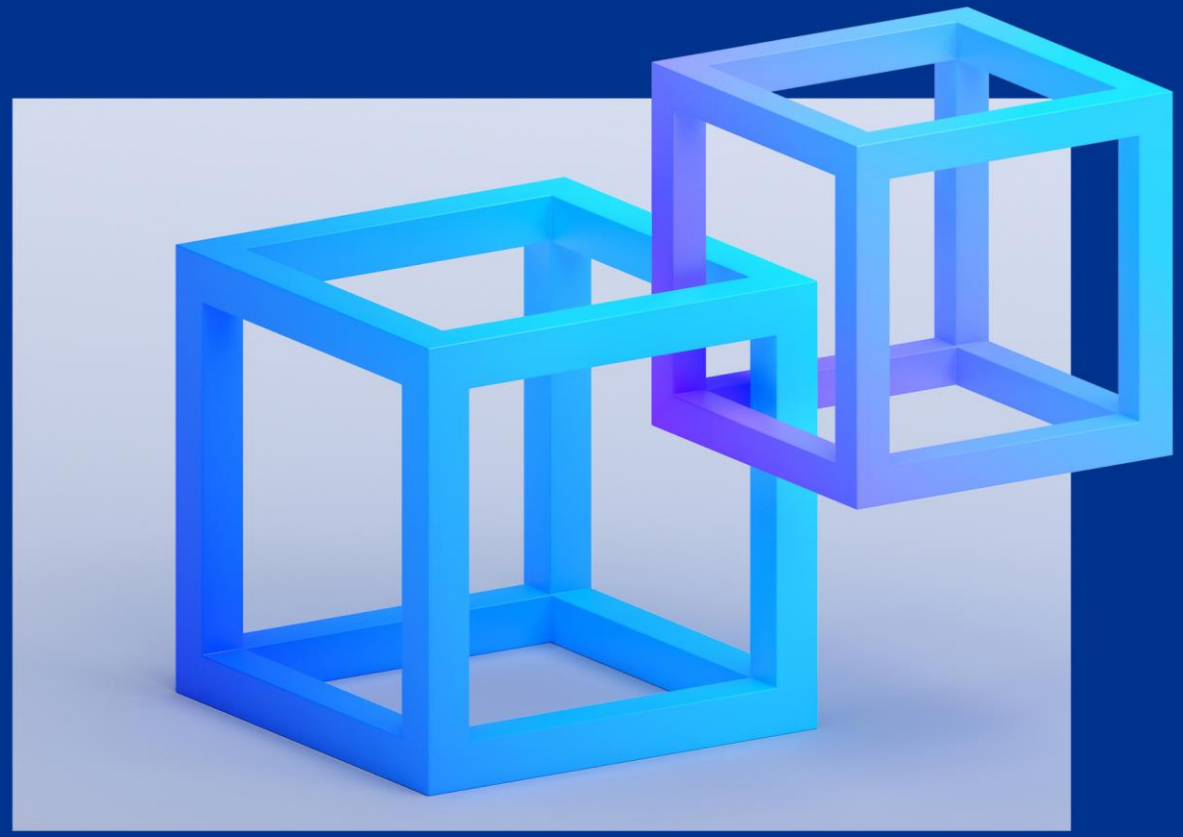
South Holland District Council



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Year End Audit Progress Report to the Governance & Audit Committee

Audit progress report for the year ended 31 March 2025

—

27 October 2025

Introduction

To the Governance and Audit Committee of South Holland District Council

We are pleased to have the opportunity to meet with you on 13 November 2025 to discuss the results of our audit of the consolidated financial statements of South Holland District Council (the 'Council') and its subsidiaries (the 'Group'), as at and for the year ended 31 March 2025.

We are providing this report in advance of our meeting to enable you to consider our findings and hence enhance the quality of our discussions. This report should be read in conjunction with our audit plan and strategy report, presented on 10 July 2025. We will be pleased to elaborate on the matters covered in this report when we meet.

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 management; and,
- All of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

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 James Boyle (James.Boyle@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 access KPMG's complaints process here: Complaints.

The engagement team

Subject to the approval of the statement of accounts, we expect to be in a position to sign our audit opinion on the approval of those statement of accounts and auditor's representation letter, provided that the outstanding matters noted on page 4 of this report are satisfactorily resolved.

There have been no significant changes to our audit plan and strategy other than those described on page 5.

We expect to issue an unmodified Auditor's Report except for the work pertaining to the opening balances of prior year disclaimed audits. See pages 55-57.

Yours sincerely,

James Boyle

27 October 2025

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Our audit findings

Significant audit risks	Page 7-13
Significant audit risks	**Our findings**
Valuation of land and buildings	Testing over the following significant assumptions used in the Depreciated Replacement Cost (DRC) valuation – obsolescence - was found to be neutral. Testing over the significant data elements used in the valuation of land and buildings (i.e. floor areas) demonstrated that whilst there has been a significant improvement in the availability of accurate floor plans, we identified that 8 out the 40 plans which relied upon floor areas (20%) did not have floor plans to support the valuation. Of these, £1.1m could not be accurately verified. Testing over the significant assumption used to value the Council Dwellings – comparable transactions for beacon values – were found to be neutral.
Management override of controls	The results of our testing in relation to this risk were found to be satisfactory.
Valuation of post-retirement benefit obligations	We have received the results from KPMG actuaries who have evaluated the assumptions used in the calculation for the Council's post-retirement benefit obligations. The significant assumptions used in the calculation were found to be balanced.

Uncorrected Audit Misstatements		Page 30
Understatement/ (overstatement)	**£000's**	**%**
Revenues	-	-
Surplus for the year	623	13.1
Total assets	(623)	0.02
Total taxpayers' equity	290	0.01

Number of Control deficiencies	Page 33-53
Significant control deficiencies	0
Other control deficiencies raised in 2024/25	7
Prior year control deficiencies not fully implemented	5
Prior year control deficiencies remediated	8

Misstatements in respect of Disclosures	Page 32 Our Findings
Note 33 – Related Parties	We have reported specific observations to management in order to ensure the financial statements fully comply with The Code of Local Government Accounting in respect of the disclosures noted here. Full details of these observations can be seen on page 32
Note 30 – Remuneration Report	
Note 6B – Segmental Income	
HRA – Note 2 Housing Stock	
Note 36 – Defined Benefit Pension Schemes	
Cash Flow Statement	
Group Cash Flow Statement	

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Our audit findings [cont]

Outstanding matters

Our audit is substantially complete except for the following matters

- Completion of our Related Parties testing;
- Receipt of a signed Management Representation Letter;
- Completion Procedures; and
- Building back assurance work relating to disclaimed opinions in prior periods. See pages 55-57.

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Key changes to our audit plan

We have not made any changes to our audit plan as communicated to you on 10 July 2025 other than as follows:

Risk	Effect on audit plan	Effect on audit strategy and plan
1. Valuation of Land and Buildings – Assumptions (BCIS Indices and Location Factor)	For assets subject to the DRC valuation, we initially identified a significant risk relating to the following assumptions used in the valuation: obsolescence; BCIS Indices; and Location Factor. However, when performing our risk assessment over the valuation of land and buildings, we did not identify significant changes in the BCIS indices and location factor from the prior year and therefore we reduced the inherent risk to elevated.	• The effect on our audit strategy has been documented as part our response and findings on the 'Valuation of Land and Buildings' - see pages 7-8
2. Valuation of Land and Buildings – Data (Floor Areas)	The risk associated with the key data input into the valuation (floor areas) was increased to significant because we raised a recommendation to management in the prior year regarding insufficient floor plan data with the expectation that this would be resolved. When performing inquiries and our initial audit response, we identified that not all floor plans were available and we have therefore raised our inherent risk in relation to this area of the valuation of land and buildings from elevated to significant.	• The effect on our audit strategy has been documented as part our response and findings on the 'Valuation of Land and Buildings' - see pages 7-8
3. Group – Valuation of Investment Properties – Assumption (Yield)	We have reduced the inherent risk associated with the yield assumption used in the valuation of investment properties from significant to elevated. We have inquired directly with the external valuer, Wilks Head and Eve, and obtained directly from Wilks Head and Eve their valuation report schedules for 31/03/2025. We have compared the method, assumptions and data to the prior period calculation and did not identify and largen and/or unusual differences. We have therefore reduced the yield assumption to elevated, from significant.	• The risk is no longer significant, so we are not required to evaluate the design and implementation of controls for management's review of the valuation and the appropriateness of the significant assumptions previously identified.

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Significant risks and Other audit risks

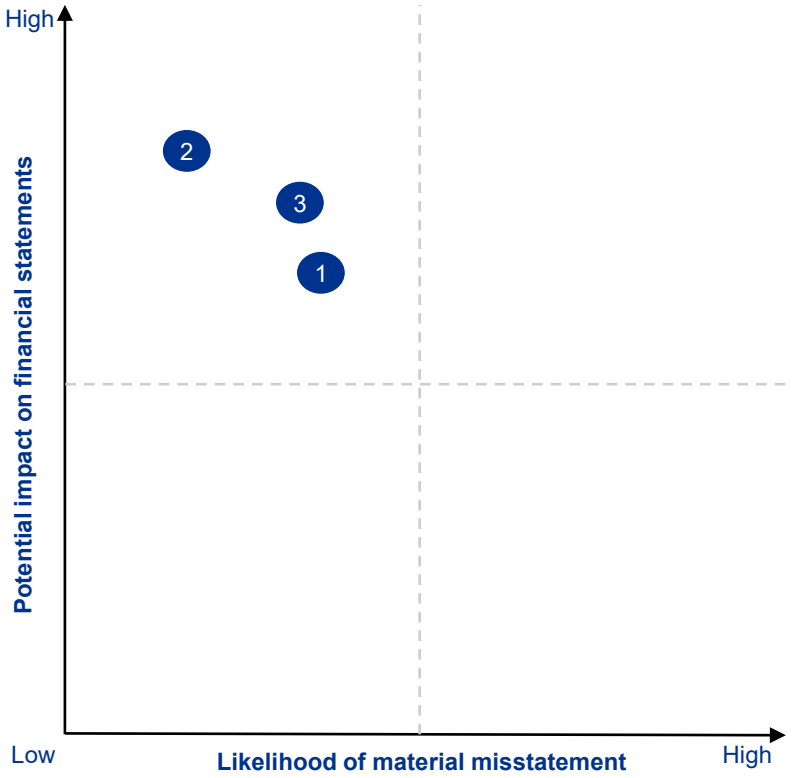
We discussed the significant risks which had the greatest impact on our audit with you when we were planning our audit.

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

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

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

Significant risks	
1.	Valuation of land and buildings
2.	Management override of controls
3.	Valuation of post-retirement benefit obligations



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Audit risks and our audit approach

1 Valuation of land and buildings

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

Other Land and Buildings

For the year-end 31 March 2025, the Council is utilising an internal valuer to undertake the valuation, Ed Cox, (MRICS registered valuer). As per the draft 24/25 financial statements, the value of the Council's Other Land and Buildings as at 31 March 2025 was £28.06m, of which £227k were not subject to re-valuation, being the additions in-year which were measured at cost.

Ed Cox has valued £24m of these assets, with the remaining assets of £3.85m relating to temporary accommodation which were re-valued by Savills.

Of the £24m assets valued by Ed Cox, £16.8m (70%) of the valued land and buildings use the Depreciated Replacement Cost (DRC) model. Due to the level of estimation uncertainty associated with the obsolescence assumption and issues identified with the floor plan data in the prior year and as part of our risk assessment, there is a material risk that the carrying value of the assets differ from their fair value.

Council Dwellings:

As per the draft 24/25 financial statements, the value of the Council's dwellings as at 31 March 2025 was £257m.

For the year-ended 31 March 2025, the Council is utilising an external valuer, Savills, to undertake the valuation (MRICS registered valuer).

Due to the level of estimation uncertainty associated with relevant key assumptions, specifically the comparable transactions for beacon values used by the valuer, when valuing the relevant elements of the Authority's estate, this creates a risk that the year-end carrying value of these assets differs materially from fair value.

Our response

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

- We critically assessed the independence, objectivity and expertise of Edward Cox, the valuer used in developing the valuation of the South Holland District Council's Other Land and Buildings at 31 March 2025;
- We critically assessed the independence, objectivity and expertise of Savill's, the valuer used in developing the valuation of the South Holland District Council's Council Dwellings at 31 March 2025;

For both valuations:

- We inspected the instructions issued to the valuers for the valuation of land and buildings to verify they are appropriate to produce a valuation consistent with the requirements of the CIPFA Code.
- We evaluated the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used as well as the data used in the DRC valuations;
- We challenged the appropriateness of the valuation of land and buildings; including any material movements from the previous revaluations.
- We challenged key aforementioned significant assumptions within the valuation as part of our judgement;
- Disclosures: We considered the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation.
- We inspected floor plans for all Land and Buildings which rely on floor areas as part of their valuations to ensure accuracy.

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Audit risks and our audit approach (cont.)

1 Valuation of land and buildings (cont.)

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

Our findings

Other Land and Buildings

- We are satisfied the internal valuer, Edward Cox, has sufficient expertise and has appropriate independence and objectivity for the purposes of performing the relevant valuation exercise. As Edward is the only qualified surveyor used by the Council to value a significant portion of the Council's Other Land and Buildings, there is no counter-signatory to the report and review functions are undertaken by staff in the finance department.
- Auditing standards require us to report that the design and implementation of the management review control relating to this area is ineffective in line with the ISA definition. The ISAs acknowledge that it is difficult for management to design controls that address subjectivity and estimation uncertainty in a manner that effectively prevents, or detects and corrects, material misstatements. We have raised a control deficiency on page 39 for the fact there is no counter-signatory to the report, and no formal management review control in place. However, we are aware that management operates a control that they are satisfied with that provides the organisation with assurance over this area.
- The instructions issued to the internal valuer, Edward Cox, were in line with our expectations for the valuation of relevant land and buildings as at 31 March 2025 and were consistent with the requirements of the CIPFA Code.
- We challenged the appropriateness of the valuation of relevant land and buildings; including any material movements from the previous revaluation. No reportable issues were identified
- We challenged the significant assumption, obsolescence, within the valuation under the DRC method as part of our judgement. We confirmed the assumptions were neutral.
- We tested the accuracy of the significant data element, floor areas, relied upon by the valuer to underlying information. We identified that there are 8 out of 40 floor areas used in the valuation that were not supported by adequate floor plans or did not exist. 2 of the 8 we could not verify which have a value of £1.1m. The other 6 resulted in understatement of £191k. We are satisfied that those assets identified do not represent a material risk to the valuation. However, we have raised a control deficiency on page 42 and a misstatement of page 30.
- Disclosures: The disclosures within the financial statements are satisfactory.

Other findings linked to the valuation but not in response to the sig risk

- We identified, through inspection of the valuation certificates, that the valuer had used forecast BCIS figures to the end of June 2025, when the BCIS should be taken 'as at' March 2025. We have raised a control deficiency on page 34..
- We have identified that the Council have applied 15% external fees to all DRC valued assets regardless of the external reality of the asset. We identified that the external fees assumption used was optimistic in this regard. However, this did not have a material impact on the valuation and as such did not affect our overall neutral conclusion. We have raised a deficiency on page 38.

Key:
Prior year
Current year

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Audit risks and our audit approach (cont.)

1 Valuation of land and buildings (cont.)

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

Our findings

Council Dwellings

- We are satisfied that the external valuer, Savills, has sufficient expertise and hasappropriate independence and objectivity for the purposes of performing the relevant valuation exercise for the HRA assets.
- The instructions issued to the external valuer, Savills, were in line with our expectations for the valuation of relevant land and buildings as at 31 March 2025 and were consistent with the requirements of the CIPFA Code.
- Auditing standards require us to report that the design and implementation of the management review control relating to this area is ineffective in line with the ISA definition. The ISAs acknowledge that it is difficult for management to design controls that address subjectivity and estimation uncertainty in a manner that effectively prevents, or detects and corrects, material misstatements. However, we are aware that management operates a control that they are satisfied with that provides the organisation with assurance over this area.
- We challenged the key assumption within the valuation for Council Dwellings and confirmed the comparable transactions for beacon values were found to be neutral. Based on the data used by the external valuer to group the assets into relevant beacons, the valuation of the assets sampled were found to be reasonable and appropriate.
- Disclosures: The disclosures within the financial statements are satisfactory.

Key:
Prior year
Current year

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Audit risks and our audit approach

2 Management override of controls[(a)]

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

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

Our response

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

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

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

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Audit risks and our audit approach (cont.)

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

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

Our findings

- Other than the accounting estimates we have identified as part of our significant risks for the valuation of land and buildings (page 7-9), and valuation of post-retirement obligation benefits (page 12-13), we identified two other accounting estimates that had a reasonable possibility of material misstatement as part of the audit. These were in relation to:
  - Fair value of other land and buildings valued under the fair value in use model.
  - Fair value of investment property valued under the fair value in use model

  Our testing has not identified any indications of management bias around these areas.
- We have evaluated the selection and application of accounting policies over relevant accounts and we have not identified any reportable issues.
- Auditing standards require us to consider and report accordingly on the design and implementation of controls in place which respond to the significant risks identified. We confirmed that as the organisation's General Ledger system does not enforce segregation of duties and as such the design and implementation of controls over journal entries and post-closing adjustments were deemed to not be effective.
- We have not identified any inappropriate methods or underlying assumptions used to prepare accounting estimates in our work completed.
- We identified 4 journal entries and other adjustments meeting our high-risk criteria – our examination did not identify unauthorised, unsupported or inappropriate entries.
- Our procedures did not identify any unusual transactions.
- Our inquiries with management identified the maintenance of the Register of Interests occurs annually. Our walkthroughs identified that there is an appropriate process for capturing declarations of interest. However, identified that 5 Councillors and 2 members of the senior leadership team had not filled in their declarations of interest before the preparation of the financial statements so we have raised a control deficiency on page 35. We have additionally identified a misstatement in the Related Parties note. See page 32.

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Audit risks and our audit approach

3 Valuation of post-retirement benefit obligations

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

- 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.

Our response

We have performed the following procedures :

- Understood the processes the Council have in place to set the assumptions used in the valuation;
- Evaluated the competency, objectivity of the actuaries to confirm their qualifications and the basis for their calculations;
- Performed inquiries of the accounting actuaries to assess the key assumptions made,
- Evaluated the design and implementation of controls in place for the Council to determine the appropriateness of the assumptions used by the actuaries in valuing the liability;
- Challenged, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate and mortality/life expectancy against externally derived data where approrprite;
- Considered the adequacy of the Council's disclosures in respect of the sensitivity of the deficit to these assumptions; and
- Where applicable, assessed the level of surplus that should be recognised by the entity.

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Audit risks and our audit approach (cont.)

3 Valuation of post retirement benefit obligations (cont.)

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

Our findings

- We are satisfied the actuaries who provide the calculation of post-retirement benefit obligations to the Council have sufficient expertise, independence and objectivity in performing the valuation exercise.
- We have performed inquiries of the actuaries to assess the key assumptions made and did not identify any reportable issues.
- Auditing standards require us to report that the design and implementation of the management review control relating to this area remains ineffective in line with the ISA definition. The ISAs acknowledge that it is difficult for management to design controls that address subjectivity and estimation uncertainty in a manner that effectively prevents, or detects and corrects, material misstatements. However, we are aware that management operates a control that they are satisfied with that provides the organisation with assurance over this area.
- We utilised our own KPMG actuaries to assess the aforementioned key assumptions. We have received the results from our actuaries who have evaluated the assumptions, and all assumptions are deemed to be balanced and fall within KPMG's acceptable range.
- We have confirmed the LGPS remains in deficit as at 31 March 2025.
- We requested management to include additional detail within the reconciliation of asset ceiling disclosure for the defined benefit pension scheme. This is noted on page 32.

Key:
Prior year | Current year

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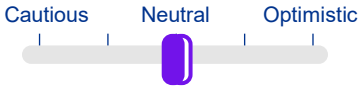
Key accounting estimates and management judgements– Overview



Our view of management judgement

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

Asset/liability class	Our view of management judgement	Balance (£m)	YoY change (£m)	Our view of disclosure of judgements & estimates	Further comments
Other Land and Buildings	Cautious / Neutral / Optimistic	£28.1m	-£0.6m	Needs improvement / Neutral / Best practice	• Our testing of the BCIS indices, location factors and obsolescence factors confirmed the assumptions to be neutral. Based on the data used by the internal valuer the valuation of the assets sampled were found to be reasonable and appropriate. • We identified that the external fees provision was not specific and higher than expected, and therefore we assessed the assumption to be optimistic. • We identified 8 out of 40 floor areas which were not supported by adequate floor plans. See page 32. • The disclosures were adequate concerning the key judgements and degree of estimation involved in arriving at the valuation.
Council Dwellings		£257m	-£7m		• Our testing over the significant assumptions used to value the Council Dwellings –comparable transactions for beacon values – were found to be neutral. • The disclosures were adequate concerning the key judgements and degree of estimation involved in arriving at the valuation.

Key:
Prior year
Current year

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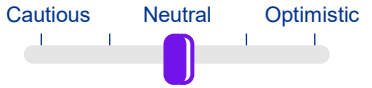
Key accounting estimates and management judgements– Overview (Cont.)



Our view of management judgement

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

Asset/liability class	Our view of management judgement	Balance (£m)	YoY change (£m)	Our view of disclosure of judgements & estimates	Further comments
Post-Retirement Benefit Obligations	Cautious / Neutral / Optimistic	£3.80m	-£0.2m	Needs improvement / Neutral / Best practice	• We utilised our own KPMG actuaries to assess the aforementioned key assumptions. Our actuaries evaluated the assumptions, and all assumptions are deemed to be balanced and fall within KPMG's acceptable range. • The disclosures were adequate concerning the key judgements and degree of estimation involved in arriving at the valuation. However, we requested management to make minor amendments to the disclosures.

Key:
Prior year
Current year

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Other significant matters

Control deficiencies

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

See pages 33-53 for the breakdown of control deficiencies.

Key:

- These are significant control deficiencies which increase the likelihood and potential magnitude of a material misstatement in the financial statements. We have identified no significant control deficiencies in the current year.
- These are matters of sufficient importance to note such as weaknesses which were subsequently corrected and matters that could be significant in the future if left unaddressed. We have identified 1 such deficiencies in the current year.
- These are less significant weaknesses but which we considered to be of sufficient importance to merit management's attention. We have raised 6 related observations in the current year.

Significant difficulties

Matters which led to significant difficulties in performing the audit included the following:

- We encountered delays on receiving Councillor (5) and Senior Leadership Team declarations (2) that were not completed at the time of the preparation of the financial statements;
- We extended the sample of our non-pay expenditure testing due to the audit difference identified on page 30;
- We faced difficulties in the valuation of other land and buildings, resulting in:
  - A control deficiency identified for the application of BCIS indices (see page 34);
  - A control deficiency identified for the methodology applied for the valuation of car parks that offered free parking (see page 39);
  - Issues with availability of audit evidence to support key data elements of the valuation, such as floor areas (page 42); and
  - Difficulty to ascertain adequate supporting explanations from the internal valuer; in particular the timeliness and quality of responses. There were several delays in receiving responses and corroborating to supporting information from the internal valuer.

These events all led to an increased volume of audit work that was required to gain sufficient assurance, over areas of significant risk for the valuation of land and buildings in particular, to be able to express an opinion on the financial statements.

Quality and timeliness of information prepared by management/those charged with governance

In our view, except for the matters identified above, the quality of information:

- supported our ability to understand key decisions better and obtain sufficient audit evidence
- enabled informed challenge of management decisions
- supported audit quality and better disclosure

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Audit misstatements

Management has approved the correction of the audit misstatements detailed on page 31 and they are reflected in the draft financial statements. A summary of the uncorrected audit misstatements is detailed on page 32.

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

- If the uncorrected factual audit misstatements were posted, they would decrease the deficit by £623k
- For our views on management estimates – see pages 14 and 15 (Key accounting estimates)
- A detailed summary of corrected and uncorrected audit misstatements and omissions and errors in disclosure is included in the appendices, on pages 31 to 33.

Audit misstatements

	Page
Corrected misstatements	31
Uncorrected misstatements	32
Misstatements in disclosures	33

Types of misstatement

Factual: Misstatements about which there is no doubt

Projected: Our best estimate of misstatements in the audited populations

Judgemental: Differences arising from judgements of management that we consider unreasonable or inappropriate

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Group involvement – Significant component audits

We are the Group auditor and the Component auditor for South Holland District Council.

The components within the scope of our work accounted for 99% of the Group's net expenditure

We did not contact component auditors. The procedures we have performed for the Council, was sufficient to provide assurance at the Group level. We have ensured appropriate evidence was obtained.

Component	Scope Rationale: Individually financially significant	Scope Rationale: Significant due to risk	Scope Rationale: Other	Significant matters discussed with component auditors
Council	✓			Not Applicable. We are the auditors of the Group, and the Council's financial statements.
Public Sector Partnerships Services Ltd				Our risk assessment procedures confirmed the associate is not significant to the Group financially and/or due to risk. The Council has reported total interests in PSPS Ltd of £457k. This is below our threshold for Group materiality. Therefore this component is not scoped in for the Group audit, and, as a result, we have not contacted the component auditors.
Welland Homes Ltd		✓		Our risk assessment procedures confirmed the subsidiary has total assets that are material to the Group (£11.8m). £11.5m of the total assets relate to investment properties. Due to the level of estimation uncertainty associated with the relevant key assumptions used to value investment properties, specifically yield used by the valuer, when valuing estate, this creates a risk that the year-end carrying value of these assets differs materially from their fair value. We identified an elevated risk to the Group for the valuation of investment properties.
South Holland Local Housing Community Interest Company				Our risk assessment procedures confirmed the subsidiary is not significant to the Group financially and/or due to risk. The total assets of the subsidiary as at 31 March 2024 was £1.68m.

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Other matters

Narrative report

We have read the contents of the Narrative Report and checked compliance with the requirements of the Annual Report and financial statements with the Code of Practice on Local Authority Accounting in the United Kingdom 2024/25 ('the Code'). Based on the work performed: We have not identified any inconsistencies between the contents of the Narrative Report and the financial statements.

- We have not identified any material inconsistencies between the knowledge acquired during our audit and the statements of the Council. As Governance and Audit Committee members you confirm that you consider that the Narrative Report and financial statements taken as a whole are fair, balanced and understandable and provides the information necessary for regulators and other stakeholders to assess the Council's performance, model and strategy.

Annual Governance Statement

We have reviewed the Council's 2024/25 Annual Governance Statement and confirmed that:

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

Whole of Government Accounts

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

We are yet to receive instructions from NAO regarding WGA.

Independence and Objectivity

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

Audit Fees

Our scale fee for the 2024/25 audit, as set by PSAA is **£154,662** plus VAT (£140,166 in 2023/24).

See page 26 for details and status of fee variations.

We have also completed non audit work at the Council during the year on the Housing Benefit Grant Certification and have included on page 30 confirmation of safeguards that have been put in place to preserve our independence.

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01

Value for money

Value for Money

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

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

Commentary on arrangements

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

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

As noted on the right, we have not identified a risk of significant weakness in the Council's arrangements to secure value for money.

Summary of findings

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

Domain	Risk assessment	Summary of arrangements
Financial sustainability	No significant risks identified	No significant weaknesses identified
Governance	No significant risks identified	No significant weaknesses identified
Improving economy, efficiency and effectiveness	No significant risks identified	No significant weaknesses identified

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

Performance improvement observations

As part of our work we have identified three Performance Improvement Observations, and followed up on one Performance Improvement Observations in the prior period, which are suggestions for improvement but not responses to identified significant weaknesses – see pages 22 to 24.

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Value for Money: Performance improvement observations

The performance improvement observations raised as a result of our work in respect of value for money arrangements in the current year are as follows:

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

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
1	2	**Formal record of discussion and actions for efficiency savings** We have identified an absence of formal recording of discussions and corresponding actions from key meetings that have been held in 2024-25, such as: • Through inquiry with management, we confirmed that a meeting was held with the Cabinet members to discuss savings before the 2024-25 budget was set. A list of potential savings was identified and discussed at this meeting, which was subject to review by the Senior Leadership Team (SLT). We requested evidence of this meeting however no minutes or actions logs have been kept by the Council. • Meetings of the Business and Efficiency Savings meetings are not minuted and therefore not available to review. We confirmed from the agendas of the September 2024 and January 2025 meeting that an item for the savings/efficiency plans is included. However, we did not identify any written record of key decisions and actions taken from these meetings held by the Senior Leadership Team throughout 2024-25. This also means there are no action logs prepared and monitored by the Council in relation to achieving the efficiencies within the long list. Therefore, in the absence of audit evidence, we cannot confirm the efficiency lists are discussed appropriately within the Governance structure of the Council. **Risk** There is a risk that the efficiency lists are not discussed appropriately within the Governance structure. Without a formal record of agreed actions, there is also an increased risk action will not be taken in a timely manner, and this will not be identified by management. **Recommendation** We recommend the Council keeps a formal log for key decisions made in relation to the identification of efficiencies within the budget setting and monitoring process. This should also include action logs which can be monitored on a regular basis.	**Management response and Officer** The Council has adopted a revised approach to preparation of the 2026/27 budget and as part of this officer and Member decisions will be recorded. This will commence from August 2025. **Responsible officer** Director of Finance & Section 151 Officer **Due Date** 31 March 2026

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Value for Money: Performance improvement observations

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
2	2	**Future savings within the efficiency programme** Within the quarter two efficiency list for 2024/25, we identified this does not include a forward look of the efficiencies that can be achieved in future years. This is inconsistent to other efficiency programmes within the SELCP that did also identify future savings. **Risk** Within the 2024/25 approved budget, the Council has identified a budget savings requirement of £1m in 25/26, increasing to £1.8m in 28/29. There is a risk that if the efficiency programme is only focused on the current year, which limits the opportunities for the Council to be able to effectively identify key efficiencies that can be made to ensure they achieve required savings in future years. **Recommendation** We recommend formalising of the efficiency programme, which should have a focus of at least three years ahead, with best practice of five years in line with the medium-term financial plan.	**Management response** To be addressed as part of the budget process 2026/27. **Responsible Officer** Director of Finance & Section 151 Officer **Due Date** 31 December 2025
3	3	**Fraud Risk Registers** Internal Audit has undertaken counter-fraud mapping in three key areas: Procurement, Assets and Revenues and Benefits. Fraud risk registers have been created, and Internal Audit has advised on updating and reviewing the Council's counter fraud policies. However, we identified the fraud risk registers were not included within the quarterly risk reports that are presented within the Governance Structure. **Risk** If the fraud risk registers are not presented within the Governance structure on a regular basis, there is a risk that there is not sufficient oversight and management of the fraud risks if the fraud risk registers are not presented within the Governance structure on a regular basis. **Recommendation** We recommend the fraud risk registers are included within the quarterly risk reports that are presented within the Governance structure.	**Management response** Fraud risk registers are already included in reporting to Leadership Team and will be included in reporting to Governance & Audit Committee and South Holland Cabinet from Q4 24/25 in line with the reporting process across the rest of the partnership. **Responsible Officer** Assistant Director - Governance & Monitoring Officer **Due Date** 31 July 2025 **Status** **We have confirmed this has been implemented.**

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Value for Money: Performance improvement observations

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

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Update as of October 2025
1		**Efficiency Programme 2023-24** For the financial year ended 31 March 2024, the Council did not have a formal efficiency programme in place. The Council did have an efficiency long list that was presented to the Senior Leadership Team (SLT) monthly. This is a long list of potential efficiencies to be explored which are allocated to lead officers. This has been used to identify and report efficiencies during 2023-24, and forward planning into 2024-25. However, for the period of audit, there was not a formal programme in place to effectively identify, RAG rate and monitor efficiencies. Through inquiry with management, the Council have been working to improve this process in 2024-25. **Impact** There is a risk that efficiencies are not effectively identified, RAG rated and monitored, thereby impacting on the Authority's ability to deliver a sustainable financial plan moving forwards. **Recommendation** We recommend this be implemented as soon as possible to ensure any funding gaps in future financial forecasts are offset as far as possible by efficiencies/savings rather than the depletion of reserves. This efficiency programme should incorporate: • the development of plans for how efficiencies will be achieved; • regular monitoring of performance against the required level of efficiencies; • reporting of performance against the required efficiency target to an appropriate committee; and • a process in place for identifying actions where projects are falling behind plan • a RAG rating system to help identify the risk to relevant schemes / plans	**Management Response:** The efficiency monitoring process will be formalised and regularly monitored, with the reporting in the quarterly reports expanded to capture the RAG status. **Responsible Officer:** Strategic Finance Manager **Due Date:** 30 September 2025	**Status: Not implemented** We have observed through attendance at the September 2025 Governance and Audit Committee, the Council had an internal audit review scheduled for the Identification and Monitoring of Savings. However, the internal auditors found there was insufficient controls in place – and was unable to establish sufficient first or second-line controls to test. Therefore, we consider our above recommendation to be not implemented.

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Appendix

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Fees

Audit fee

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

Entity	2024/25 (£'000)	*2023/24 (£'000)*
Scale fee as set by PSAA	154	*140*
Fee variations approved by PSAA	-	*29*
Fee variation for agreed with management but subject to PSAA approval	TBC	
TOTAL	**154**	*169*

We are in the process of agreeing fee variations with management and report these at a later date.

Billing arrangements

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

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Confirmation of Independence

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

To the Audit and Risk Committee members

Assessment of our objectivity and independence as auditor of South Holland 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.
- The conclusion of the audit engagement partner as to our compliance with the FRC Ethical Standard in relation to this audit engagement and that the safeguards we have applied are appropriate and adequate

We are satisfied that our general procedures support our independence and objectivity except for those detailed below where additional safeguards are in place.

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

Summary of non-audit services

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

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Confirmation of Independence (cont.)

Disclosure	Description of scope of services	Principal threats to Independence	Safeguards Applied	Basis of fee	Value of Services Delivered in the year ended 31 March 2025 £000	Value of Services Committed but not yet delivered £
1	Housing benefit grant certification	Management Self review Self interest	• 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 & Time	35.4*	0
2	Pooling for housing capital receipts return	Management Self review Self interest	• 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 & Time	7.3*	0

**These fees are expected and subject to final agreement.*

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Confirmation of Independence (cont.)

Summary of fees

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

Fee ratio

The ratio of non-audit fees to audit fees for the year is anticipated to be 0.28: 1. We do not consider that the total non-audit fees create a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

	2024/25
	£'000
Scale fee	154.6
Other Assurance Services	42.7
Total Fees	**197.3**

Application of the FRC Ethical Standard 2019

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

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

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

Independence and objectivity considerations relating to other matters

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

Confirmation of audit independence

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

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

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

Yours faithfully

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Uncorrected audit misstatements

Under UK auditing standards (ISA (UK) 260) we are required to provide the Governance & Audit Committee with a summary of uncorrected audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial', which are not reflected in the financial statements. In line with ISA (UK) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor's report, individually or in aggregate. As communicated previously with the Governance & Audit Committee, details of all adjustments greater than £80K are shown below:

Uncorrected audit misstatements (£'000s)				
No.	**Detail**	**CIES Dr/(cr)**	**Balance Sheet Dr/(cr)**	**Comments**
1	Dr Prepayments	-	£333k	This misstatement is made up of a £5k factual misstatement and a £328k projected misstatement.
	Cr Other Services Expenses	(£333k)	-	The Council paid for an invoice which related to the purchase of computer licenses. The license spans the period of 26/08/2024 – 26/08/2025. Management has not reversed the expenditure relating to the period 01/04/2025-26/08/2025 and as such the expenditure is overstated. The corrective entry is to Dr Prepayments and Cr Expenditure. As this sample was selected through our statistical sampling software, this has projected an additional misstatement of £328k in addition to the £5k factual misstatement identified.
2	Dr Property, Plant and Equipment	-	£191k	When re-calculating the floor area to be used in the valuations based on floor plans, we have identified an understatement of £191k in the PPE balance, as the valuer had used incorrect floor areas within the initial valuation.
	Cr Revaluation Reserve / Movement in Reserves	(£191k)		
3	Dr Property, Plant and Equipment	-	£99k	We identified a methodological error in the car park valuations, which resulted in an understatement of £99k in the car park valuations.
	Cr Revaluation Reserve / Movement in Reserves	(£99k)		
Total		**(£623k)**	**£623k**	

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Corrected audit misstatements

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

We have agreed with management these will be corrected in the final financial statements, however, at the time of writing the final financial statements were not available. Therefore these will be confirmed as updated within our final ISA260, and we will update the Committee if any remain uncorrected by the Council.

Corrected audit misstatements (£'000s)				
No.	**Detail**	**SOCI Dr/(cr)**	**Balance Sheet Dr/(cr)**	**Comments**
1	Dr Gain on disposal of Non-Current Assets (income) Cr Loss on disposal of Non-Current assets (expenditure)	£2.077m (£2.077m)	- -	We identified an error in the presentation of gains and losses on disposals of non-current assets because the gain or loss was not being calculated on an individual asset basis. This resulted in an overstatement of income and expenditure.
Total		**£0**	**£0**	

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Corrected audit misstatements - Disclosures

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

We have agreed with management these will be corrected in the final financial statements, however, at the time of writing the final financial statements were not available. Therefore these will be confirmed as updated within our final ISA260, and we will update the Committee if any remain uncorrected by the Council.

Audit Misstatements in disclosures		
No.	**Disclosure**	**Comments**
1	Note 33 – Related Parties	We have identified related party transactions that were not fully disclosed in the accounts. Management has corrected these in the final version of the financial statements.
2	Note 30 – Remuneration Report	We made one observation to management to ensure the financial statement fully comply with The Code of Local Government Accounting in respect of the disclosures surrounding remuneration of the Section 151 Officer. The Interim Section 151 Officer worked for 16 days in the 24/25 financial year, and as such should have been included in the Remuneration Report for Senior Managers. We also identified the salary figures for senior officer's were not complete. This was due to the Council including taxable pay instead of gross pay. Whilst the amounts are quantitatively immaterial it is considered qualitatively material given the nature of the disclosure.
3	Note 6B – Segmental Income	We made an observation to management to ensure the financial statement fully comply with The Code of Local Government Accounting in respect of the disclosures surrounding remuneration of the Segmental Income. This disclosure was omitted from the draft version of financial statements.
4	HRA – Note 2 Housing Stock	We identified inconsistencies between the number of houses and bungalows reported in the financial statements compared to the valuer report.
5	Note 36 – Defined Benefit Pension Schemes	We requested management to include additional detail within the reconciliation of asset ceiling disclosure for the defined benefit pension scheme.
6	Cash Flow	The misstatement arises from an isolated error in relation to the calculation of the year-end capital creditors balance. The entity used the figure of £377k which related to the General Fund Balance however capital creditors in relation to the HRA balance were omitted. As a result, the total capital creditors are £737k. The following two lines were impacted: • (Increase)/decrease in creditors - Disclosed as (£1,378k) should be (£1,738k) • Purchase of property, plant and equipment, investment property and intangible assets - Disclosed as £16,375k should be £16,015k
7	Group Cash Flow	The Council has made a loan to Welland Homes in 24/25 for £751k and hence the transaction would need to be eliminated as an intercompany transaction in the Group Cash Flow, this was not eliminated on consolidation.

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Control Deficiencies

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

Priority rating for recommendations		
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
1	3	**Payments to Suppliers** **Issue** Through our testing of journal entries, completed as part of the external audit of Boston Borough Council, it came to our attention that Boston Borough Council had erroneously received £9,721.88 from South Holland District Council. This occurred as a result of the wrong supplier being entered when processing the invoice, an invoice which was subsequently approved and paid. **Impact** The value of the identified error is small and therefore not reportable. However, there is a risk that larger transactions are paid to the wrong supplier due to this manual error. **Recommendation** Those responsible should thoroughly review the inputs in the processing of invoices before the payment is made to ensure that the payments are made to correct suppliers.	**Management Response** There is an approval process in place whereby the Budget Manager is required to review and approve the invoice for payment, if it is not processed against a purchase order. The Budget Manager is responsible for ensuring that the details of the payment are correct before approving. A reminder will be issued to Budget Managers to check details when approving, and the Accounts Payable team are also regularly reminded of the importance of accuracy when processing transactions. No PO no pay has also recently been launched, therefore invoices processed outside of a purchase order will significantly reduce going forward. **Officer** Deputy Chief Finance Officer (PSPS) **Due Date** 31 December 2025

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Control Deficiencies

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
2	3	**Application of BCIS figures in the DRC Valuation of Land and Buildings** **Issue** Relevant land and buildings are valued 'as at' the end of the financial year under audit. Through inquiry, we identified that the BCIS figures used in the DRC valuation of relevant land and buildings were forecasted values to the end of June 2025. We would expect the BCIS figures used to be as at 31st March 2025. **Impact** The size of the relevant land and buildings balance is material. Therefore, although we don't expect significant changes in the BCIS index on a quarterly basis, there is a risk that a change in the BCIS could materially affect the valuation of land and buildings. We tested the entirety of the balance of DRC valued assets and we identified a difference of £20k, which is below our audit reporting threshold and therefore not reportable as an audit difference. **Recommendation** BCIS figures as at 31st March of each relevant financial year should be used in the DRC valuations of relevant land and buildings.	**Management Response** Agreed **Officer** Internal Valuer **Due Date** 31 March 2026

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Control Deficiencies

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
3	2	**Related Parties Process** **Issue** Our walkthrough of the related party transaction process confirmed that the Council has an appropriate process in place to obtain annual declarations for relevant individuals and to identify related party transactions from said declarations. However, we identified that declarations of interests were not completed and returned for 5 Councillors, including one (interim) member of the senior management team who subsequently left the Council. We were therefore unable to ensure that all related party transactions were fully disclosed. We also identified 2 Senior Leadership Team Member who performed their declaration of interest late. **Impact** There is a risk that that all relevant transactions with related parties have not been fully disclosed. **Recommendation** Councillors are reminded of their duties to disclose declarations of interest to ensure all declarations are complete for the next financial year.	**Management Response** Outstanding Related Party forms will be followed up by Finance, and then escalated to Group Leaders for a response to be obtained **Officer** Monitoring Officer **Due Date** 30 April 2026

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Control Deficiencies

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
4	3	**SELCP Shared Management Transactions** **Issue** Section 113 costs are split between the three Councils in the Partnership. The Council maintains a master spreadsheet which shows the percentage split for each constituent Council in the partnership and the amount to be recharged in relation to each relevant employee. During the 23/24 external audit, we identified a control deficiency related to the lack of a formal control in the review of Section 113 management recharges. We discussed this issue with management at this time but did not raise a formal recommendation to Those Charged With Governance. During our 24/25 external audit, for one sample item selected, we were able to corroborate the data for the 2024/2025 split. However, this had changed since the 23/24 financial year,. During 2023/24, the costs for the individual were incorrectly shown as 100% to SHDC instead of 100% to ELDC. We note that the error was below our reporting threshold. However, the Council still lacks a formalised control to ensure the accuracy of the split of these costs. **Impact** There is a risk that costs associated with the Section 113 officers within the Partnership are split incorrectly between the three Councils, resulting in the payroll expense being misstated. **Recommendation** We recommend that a formal control be established for the review of the percentage splits of the Section 113 management recharges as part of the year-end process to mitigate the risk of incorrect allocations.	**Management Response** A formal control process will be undertaken to review the workings supporting the S113 management recharges. **Officer** Head of Finance Delivery (PSPS) **Due Date** 31 March 2026

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Control Deficiencies

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
5	3	**Internal Valuer within the SELCP** **Issue** Inspection of the valuation report and valuation certificates shows that there is one individual responsible for all of the valuation of land and buildings and investment properties across all three Council's in the South-East Lincolnshire Partnership. This valuer is the only RICS qualified valuer involved in the valuations. Therefore, there's no formal review from a RICS qualified valuer of the valuation output. We note that the finance team does perform a review of the portfolio, but the reviewer is not RICS qualified, and we have not observed any challenge of the underlying methods or assumptions. Therefore, we have raised a deficiency for the fact: • There is an absence of an effective review control over the work of the valuations performed by the internal valuer; • There is not a counter signatory on the valuation report who is also RICS qualified; and • The portfolio is varied in the nature of assets and it is therefore difficult for one valuer to maintain accurate information and specialism across all assets – along with being the sole RICS valuer for the other two Council's in the South-East Lincolnshire Partnership. **Impact** Absence of a counter-signatory who is also RICS qualified increases the risk the application of specialised valuation methodology is incorrectly applied and the selection of assumptions that require specialist judgement are inappropriate. The absence of a formal management review control at the Council increases the risk material misstatements would go undetected. **Recommendation:** The Council should consider providing additional support to the existing valuer to provide further assurance over the valuations.	**Management Response** This recommendation has not been accepted by management. The Council notes this position but has chosen to tolerate the risk.

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Control Deficiencies

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
6	3	**Provision for External Fee Applied to DRC Buildings Valuation** **Issue** In line with the Depreciated Replacement Cost valuation method, the methodology allows for an inclusion of cost for external works which is based on a percentage of the build costs for the building itself. We inspected the valuation report and certificates and inquired directly with the valuer around the assumption used. We identified the external area cost of 15% was applied on all DRC assets regardless of the size of the external area or the type of external area required for operation of the asset (e.g. car parks, paths, public area). We would expect the external fee applied to be specific and reflect the nuances of each, or groups of, DRC assets. **Impact** We identified, on review, that most assets were optimistic in terms of the approach to external fees, but overall fell within our acceptable range. We have considered this as part of the valuation of land and buildings finding on page 8. **Recommendation:** The internal valuer should review the assumption used for external areas and ensure that the provision is adjusted to reflect the size and use of the external areas attributed to each DRC asset.	**Management Response** This recommendation has not been accepted by management.

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Control Deficiencies

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
7	3	**Land and Buildings Methodology** **Issue** For the valuation of car parks, the valuer has used an existing use valuation methodology which is expected for this type of asset. A key assumption within this valuation is the estimated income value used directly in the valuation calculation. We identified that for a number of assets an annual income value of £120 had been applied for free car parks. The methodology splits this income figure between an amount guaranteed by a lease, and the additional amount for the risks and rewards of ownership. However, by applying an annual value (rather than actual income), this functions as the 'lease' amount and therefore there should be no split in the valuation. **Impact** When we re-calculate this figure for four car parks identified where the £120 annual value per space has been applied, it comes to understatement of £99k. We have reported this within our uncorrected misstatements on page 32. **Recommendation:** We recommend that the internal valuers reviews this methodology to ensure that the application of the methodology is appropriate.	**Management Response** This recommendation has not been accepted by management.

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Control Deficiencies (previous years audit)

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

Total number of recommendations	Number of recommendations fully implemented	Number of recommendations partially implemented	Number outstanding (repeated below):
13	8	3	2*

Please refer the status explanations in the following pages.

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Control Deficiencies (previous years audit cont.)

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Current Status (November 2025)
1	2	**Preparation of bank reconciliations** Bank Reconciliations have not been completed on a timely basis throughout the year. The General Fund Reconciliation at the year-end was performed and reviewed in August 2024. We would expect the year-end bank reconciliation to be prepared and reviewed within one month after the year-end in April 2024. Through our bank reconciliation testing at year-end, it was identified that the Council made an duplicate payment of £60k to a supplier, by paying the same invoice twice. This was identified by the Council whilst performing the reconciliation in August 2024. The duplicate payment was made almost two years ago, and would have been picked up by timely bank reconciliations. **Impact** There is a risk that errors are identified in a timely manner, leading to unidentified misstatements within the financial results of the Council. During the course of the audit, we identified two misstatements from the bank reconciliation. An overstatement in the ledger of £424k relating to a returned payment to Lincolnshire County Council in 2023/24 but not recognised on the ledger.An understatement of £60k, of which it was paid twice in the bank (overpayment) but the second payment not recognised on the ledger. **Recommendation** We recommend the bank reconciliations form part of month-end closedown procedures and they are prepared and reviewed within the month after to the period they relate.	**Management Response:** The bank reconciliation is now up to date as at the end of September 2024. This is being completed and signed off monthly. **Responsible Officer:** Deputy Chief Finance Officer (Corporate) **Due Date:** 30 November 2024	**Status: Partially Implemented** While we note that there has been significant improvement since the prior year, bank reconciliations have not been completed on a timely basis throughout the year. During the planning and risk assessment phase of the audit, we identified items, which were reconciled but not matched to the ledger, totalling up to £24 million on the December bank reconciliation. The majority of these items were in relation to CHAPS and Direct Debit payments which had been made by the Council but not yet matched due to staff absences within the Accounts Payable team. We would expect bank reconciliations to be completed and reviewed within one month of the month end, with all items fully reconciled. We do note that the year-end bank reconciliation did not have the issues identified in the bank reconciliation, and that it was prepared in a timely manner, however. **Management Response:** The £24m mainly relates to investments placed, and a new process is now in place, whereby Treasury prepare an upload to the ledger on a weekly basis to ensure the ledger accurately reflects the bank position.

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Control Deficiencies (previous years audit cont.)

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Current Status (November 2025)
2	2	**Data used in the valuation of other land and buildings** Through inquiries we became aware the floor areas used by the internal valuer as a direct input into the valuation calculation were not consistently supported by corresponding floor plans for every asset being valued. This highlights a weakness in the availability of information when preparing the valuation and increases the risk of valuations being misstated due to incorrect data inputs. This also highlights an absence of challenge in management's review control of the valuation certificates in terms of validating the data used. **Impact** Due to the nature of the valuation process, changes in the floor area data used can result in a misstatements in the valuation being recorded in the financial statements. This has resulted in a delay to the audit testing of the floor areas of land and buildings, as the internal valuer has had to re-perform the measurements for a sample of assets so appropriate audit evidence can be obtained. **Recommendation** We recommend management performs a validation exercise in advance of the next annual valuation to ensure the all floor areas are supported by accurate floor plans, such as CAD plans, and that these have been measured in line with RICS guidance.	**Management Response:** A validation process is in hand for 31 March 2025. **Responsible Officer**: Andy Fisher **Due Date**: 31 March 2025	**Status: Not Implemented** While we note that there has been significant improvement since the prior year, we have identified that floor areas used by the internal valuer as a direct input into the valuation calculation were not consistently supported by corresponding floor plans for every asset being valued. We identified that £1.1m worth of assets in PPE did not have floor plans for which we could not accurately verify and £160k of assets held in Trust. Through inspection of valuation certificates in the current year audit, we also noted that several floor plans had been re-drawn by the valuer, as part of the valuation exercise, which were not signed or dated and so it was difficult to substantiate whether a qualified individual had drawn the floor plan, and when the floor plan had been produced. **Management Response:** Noted, and agreed subject to the resources required to complete the exercise being made available. **Responsible Officer**: Group Manager - General Fund Assets **Due Date**: Subject to the approval of resources

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Control Deficiencies (previous years audit cont.)

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Current Status (November 2025)
3	2	**Posting of journals** As part of our payroll walkthroughs in the SELCP, we identified that the net pay journals for the December 2023 payroll had not yet been posted as of March 2024. We confirmed this also applied to South Holland District Council. **Impact** There is greater risk of error, or omission of key journals being posted if they are not performed in a timely manner. **Recommendation** We recommend journals are posted and approved in the same month to which they relate.	**Management Response:** The net pay journal was posted as part of the work on the bank reconciliation – these are now being posted monthly, when the payroll BACS file has been processed. **Responsible Officer:** Deputy Chief Finance Officer (Corporate) **Due Date:** 30 November 2024	**Status: Implemented.** We have performed walkthroughs of the bank reconciliation during the year and identified no issues relating to this specific issue. We are therefore satisfied that this has been appropriately implemented.

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Control Deficiencies (previous years audit cont.)

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Current Status (November 2025)
4	2	**Year-end Accrual Process** Through our audit procedures for fees, charges and other service income walkthrough, we identified weaknesses in the year-end accrual process: • We identified income of £65k which related to 2022/23 but was not accrued for in 2022/23 and was recognised in 2023/24. **Impact** The error identified show errors of understatement and overstatement of income in 2023-24. As this is below our audit misstatement posting threshold, this has not been included within our uncorrected audit differences slide. **Recommendation** We recommend guidance is shared with the Budget Managers for accounting for estimates and costs during the year-end closedown procedures where an invoice has not yet been received	**Management Response:** Responsibility lies with the Budget Manager to ensure that the value of goods and services received or provided is accounted for in the appropriate financial year. Budget Managers have access to their financial information to assist in identifying any required accruals, and the Finance Team supports with this. Training will be delivered to Budget Managers prior to year end 24/25 alongside the annually published year end guidance. **Responsible Officer:** Head of Finance Delivery (PSPS) **Due Date:** 31 March 2025	**Status: Not implemented.** Through our substantive audit response for other service expenditure, we identified a weakness in the year-end accrual process. We identified that expenditure incurred of £4.4k for computer licenses, spanning the period of 26/08/2024-26/08/2025, had been fully recorded in the 24/25 financial year rather than being amended to only include the element pertaining to the 24/25 financial year. The error identified overstates the expenditure balance. As this was identified as part of our substantive response, we extended our sample selected for testing relating to the other services expenditure balance. We have reported the factual and projected misstatement identified as part of this procedure in the audit differences section of this report. **Management Response:** The training will be conducted again for 25/26 and finance will produce the guidance (year end memo). By their very nature, there is a risk that accruals could get missed, but processes are in place to ensure this is mitigated where possible

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Control Deficiencies (previous years audit cont.)

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Current Status (November 2025)
5	3	**Review of other system reconciliations** We identified that whilst reconciliations between the General Ledger and Capita systems used for key business service lines (e.g. Council Tax, Business Rates and Benefit expenditure) had been prepared by a Finance Manager (Corporate), there was no review on a timely basis. We identified that payroll reconciliations relating to the 2023-24 financial year were not completed until the start of September 2023 and that the review of these payroll reconciliations remained ineffective at the time of audit in February 2024. **Impact** There is a greater risk of error to information recorded in the ledger if reconciliations are not performed and reviewed on a on a timely basis. **Recommendation** We recommend that reconciliations form part of month-end closedown procedures and they are prepared and reviewed in the month after to the period they relate.	**Management Response:** All relevant reconciliations to other systems are now being undertaken on a monthly basis, signed off by the appropriate manager and any queries raised are being followed up to ensure a suitable conclusion. Specifically, the payroll reconciliations are being completed and reviewed monthly, and monthly meetings with the Payroll team are also being held to resolve any outstanding queries. **Responsible Officer:** Deputy Chief Finance Officer (Corporate) **Due Date:** 30 November 2024	**Status: Partially implemented** There was significant improvement in the reconciliations performed across the relevant business processes within the Council, particularly in relation to the Business Rates and Payroll reconciliations, of which we found no issues. However, we identified that reconciliations between the General Ledger and Capita system for Council Tax reconciliations were not being completed in a timely manner. As part of our planning and risk assessment, we identified that the November reconciliation was prepared on the 15th January and reviewed on the 17th January, which is 6 weeks after the month end. Additionally, through inquiry we became aware that, due to the retirement of a key member of staff, that reconciliations were not completed on a monthly basis for the reconciliation between the HRA and the General Ledger. We would expect reconciliations to be completed within a month of month end to ensure timely identification and resolution of reconciling items. **Management Response:** Reconciliations continue to be completed and queried with the relevant departments on a monthly basis – follow ups will be undertaken in a timely manner

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Control Deficiencies (previous years audit cont.)

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Current Status (November 2025)
6	3	**Lack of formalised impairment provision policy** Through our risk assessment of expected credit losses, we identified that there was no formal impairment provision policy in place that informed how and why the Council were impairing its debtors. While the reasoning for the impairments tested were logical, the lack of formal policy increases the risk of debtors not being appropriately impaired. To caveat, the Section 151 Officer approved the impairment provision included within the financial statements, but this did not appear to be a formal approval or review of the key assumptions that informed the bad debt provision. **Impact** Lack of formalised policies increases the likelihood of inconsistent application year-on-year. This could result in increased error, or provide the opportunity for fraud. **Recommendation** We recommend management produce a formal policy outlining the impairment approach.	**Management Response:** The impairment provision approach will be documented as part of the accounting policies in preparation for the 24/25 year end accounts process. **Responsible Officer:** Deputy Chief Finance Officer (Corporate) **Due Date:** 31 March 2025	**Status: Implemented** Management have a section in their accounting policies describing the approach to bad debt. The accounting policies are reviewed at the executive level and therefore this is deemed appropriate to ensure consistent application.

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Control Deficiencies (previous years audit cont.)

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Current Status (November 2025)
7	3	**IFRS 16 Transition Plan** The Council plans to implement the new lease accounting standard, IFRS 16, effective April 1, 2024. A review of the IFRS 16 pre-transition disclosures in the draft financial statements revealed that management has only included qualitative disclosures, without providing quantitative impact information. According to IAS 8, the disclosure should include a discussion of the estimated impact the introduction of new standards will have on the financial statements. If a reasonable estimate cannot be made due to data limitations, this fact should be disclosed. While the lack of quantitative disclosures in the 2023-24 financial statements is not considered an omission, given the standard's effective date of April 1, 2024, it is expected that management should be well advanced in their quantitative impact assessment for the 2024-25 financial statements. **Impact** There is a risk that delaying this assessment could lead to errors, insufficient review time, and potentially material misstatements. Management should ensure that the quantitative impact assessment is scheduled and completed promptly, allowing sufficient time for review and challenge before posting transition adjustments. **Recommendation** We recommend management prepare an implementation plan and this is reviewed by an appropriate member of staff.	**Management Response:** The plan for implementation of IFRS 16 is currently in progress, although an initial review of the Council's arrangements indicates this will not have a material impact. **Responsible Officer:** Deputy Chief Finance Officer (Corporate) **Due Date:** 31 March 2025	**Status: Implemented** IFRS 16 was implemented from 1st April 2024. From our testing we did not identify any issues in relation to this area.

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Control Deficiencies (previous years audit cont.)

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Current Status (November 2025)
8	3	**Familiarity Threat – Wilks Head and Eve as the External Valuer** From the valuation report it states Wilks, Head and Eve have been performing the valuations for SHDC since 2014. This is therefore a longstanding appointment and could indicate familiarity threat. This is recognised by the valuer on page 6 of the report: Wilks Head & Eve LLP operates a Valuer Rotation Policy in accordance with RICS Valuation Global Standards. "To confirm, we understand the use of a consistent valuer over a long period of time may lead to over familiarity which may lead to potential objectivity issues. We both rotate valuers within in line with the Standards and have implemented valuation policies and practices to minimise and mitigate this point." We made inquiries direct with the valuer on rotation requirements who responded that this is the first year we have valued the HRA stock but we have an internal rotation policy for valuers. Therefore this is the first year the valuer has valued the HRA stock, but in previous years has valued other land and buildings. **Impact** The risk is reduced as this was the first year involvement of the HRA assets, however, the familiarity threat with management remains same. We have not identified any incentive for the external valuer to manipulate the valuation. **Recommendation** We recommend management rotate the firm of Valuer where they have been in place for more than 10 consecutive years or ensure that specific individual valuers are rotated on a regular basis.	**Management Response:** The rotation of the external valuer will be considered going forward. **Responsible Officer:** Deputy Chief Finance Officer (Corporate) **Due Date: 31 March 2025**	**Status: Implemented** The Council engaged Savills as the new external valuers for the HRA. We note that Welland Homes use Wilks Ed & Eve since 2018, however this is within the rotation period. Therefore, this threat did not exist in 24/25.

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Control Deficiencies (previous years audit cont.)

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Current Status (November 2025)
9	3	**Income information provided to the valuer** The valuer uses annual rental income as a direct input in the valuation of land and buildings valued using fair value in use. As part of our information testing to confirm the completeness and accuracy of such data, we identified an absence of a quality review process of the income figures used by the valuer. This meant the income figures used by the valuer could not easily be reconciled to supporting audit evidence. **Impact** This has resulted in an audit misstatement of the valuation being understated by £81k, this can be seen in the list of uncorrected misstatements on page 31. **Recommendation** We recommend that as part of the valuation process management reviews the income data relied upon by the valuer to ensure it is complete and accurate for the purpose of the valuation.	**Management Response:** The income figures used by the valuer will be provided directly from the ledger and any assumptions to adjust these for use within the valuations will be clearly evidenced. **Responsible Officer:** Deputy Chief Finance Officer (Corporate) – PSPS **Due Date:** 31 March 2025	**Status: Implemented** Car parking data has been derived directly from the General Ledger in 24/25. We are therefore satisfied that this has been sufficiently implemented.

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Control Deficiencies (previous years audit cont.)

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Current Status (November 2025)
10	3	**Related Party Disclosure Process** Our walkthrough of the related party transaction process confirmed that the Council has an appropriate process in place to obtain annual declarations for relevant individuals and to identify related party transactions from said declarations. The Code of Practice on Local Authority Accounting 2023-24 allows the Council to make a judgement on materiality when disclosing transactions with related parties. However, upon further investigation we identified the Council does not have a formal policy that outlines the threshold of materiality, and the threshold applied was not disclosed within the financial statements to inform users of the approach applied. **Impact** The lack of an approved formal policy for the materiality threshold also increases the risk this will be inconsistently applied year-on-year. **Recommendation** We recommend a policy is produced for applying materiality to the related party disclosure and this is approved by the Council or relevant sub-committee of the Council in advance of the next annual declaration process.	**Management Response:** An approved approach on the disclosure threshold will be agreed for 24/25 with the S151 Officer. **Responsible Officer:** Deputy Chief Finance Officer (Corporate) – PSPS **Due Date:** 31 March 2025	**Status: Implemented** The Council has included the following as part of their related parties note: "The Council has chosen not to disclose these transactions as they are below £10,000 and are therefore deemed to be immaterial."

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Control Deficiencies (previous years audit cont.)

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Current Status (November 2025)
11	2	**Internal inspections of buildings not carried out as part of the valuation exercise** Through review of the valuer's report, there was no reference to internal inspections of the buildings. We confirmed through inquiry, the valuer only performed curb-side review of the buildings as part of their valuation. The internal condition of a property is important to the assumptions made by the valuer regarding obsolescence. **Impact** The magnitude of a potential misstatement could be material to the financial statements. Other land and buildings total £28.69m at cost as at 31/03/2024. Therefore, a small change in valuation could likely have a have material impact on the financial statements. The entity also have several individually material assets (Civic Centre £5m, Castle sports £3.4m). **Recommendation** We recommend as part of the valuation exercise; internal inspections of the buildings are performed by the valuer. Where this is not possible, data should be provided to the valuer on the condition of the properties from the Estates team along with photographs.	**Management Response:** Only where the Valuer considers it necessary will full internal inspections be undertaken in future years. The Council has acquired and is implementing the KEL IT system which will continue to be updated and populated in real time with suitable and sufficient data to underpin a robust valuation minimising the necessity to inspect the internal parts of each asset annually. **Responsible Officer:** Internal Valuer **Due Date:** 31 March 2025	**Status: Implemented** Through inquiry of management and inspection of valuation certificates, the internal valuer has performed physical inspections of the relevant assets in 24/25.

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Control Deficiencies (previous years audit cont.)

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Current Status (November 2025)
12	3	**Methodology used by the valuer could not be substantiated** issue arose when we were challenging the assumption made by the valuer on the £per acre values. Some of the asset land value were valued at an equivalent to 3x agricultural land value calculated by the internal valuer. We could not vouch the rationale to an accepted valuation practice. **Impact** In the absence of evidence therefore, based on our own market research of land values in East Midlands, and re-calculation of the land values, we identified a total overstatement of £1k to the Council which is below our reporting threshold. This was due to the assets affected having small acres of land. The impact would have been larger if used on assets with larger acres of land. **Recommendation** We recommend as part of the valuation exercise, management ensures as part of the instructions to the internal valuer, all assumptions are sufficiently detailed and supported by evidence.	**Management Response:** As part of instructions to the internal valuer, we will request that all assumptions are sufficiently detailed and supported by evidence. **Responsible Officer:** Deputy Chief Finance Officer (Corporate) **Due Date:** 31 March 2025	**Status**: **Partially Implemented** The letter of instruction includes "..supporting evidence for all aspects of the valuations over the external auditor's materiality (value to be confirmed) is required to be provided.." and stipulates those assumptions which need to be supported by evidence. However, we do note that the existing issue with obtaining sufficiently detailed explanations from the internal valuer is still relevant, as we have identified similar issues in the current year as raised in the prior year. See significant difficulties section on page 16.

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Control Deficiencies (previous years audit cont.)

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Current Status (November 2025)
13	3	**Shared Ownership Council Dwellings** This finding was identified as part of our information testing on the Housing Revenue Account stock (Council Dwellings) used by the external valuer, Wilks Head and Eve, for the shared ownership properties. Management were unable to provide the legal shared ownership agreement for one property in our initial sample of 10 properties. This was due to the sale of part of the property being dated before 1970 and as such the Council could not find the record. The ownership value recorded by the Council is £82.5k for 50% of the full property value. **Impact** The projected misstatement could be up to £215k over or understated on the Council Dwelling balances. **Recommendation** We recommend management undertakes a verification exercise of the shared ownership properties records to confirm they can locate the agreements, with a priority of obtaining the ownership agreements for the properties that pre-date 1970.	**Management Response:** A verification exercise of the shared ownership agreements will be undertaken. **Responsible Officer:** Business Support Manager **Due Date:** 30 April 2025	**Status**: **Implemented** We included two of the properties which we could not vouch to in the prior year in our sample. We were able to vouch to lease agreements that confirmed the shared ownership split. We are therefore satisfied that the verification exercise has been implemented.

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Rebuilding assurance update

South Holland District Council

Rebuilding assurance update

Background

As previously reported, the Government has introduced measures to resolve the legacy local government financial reporting and audit backlog.

Last year, amendments were made to the Accounts and Audit Regulations and NAO's Code of Audit Practice which allowed auditors to give disclaimed opinions over any open, incomplete audits up to the period ending 31 March 2023. These were required to be delivered by 13th December 2024. For the Council this had the impact of disclaimed audit opinion for 2022/23 (as issued by the previous auditors). We then issued a disclaimed audit opinion for 2023/24 on 12 February 2024 due to being unable to obtain sufficient appropriate audit evidence over one area of the financial statements as had been unable to perform the procedures that we consider necessary to form our opinion on the financial statements ahead of the Backstop Date. This area related to the floor areas used in the valuations of property, plant and equipment, the resulting revaluation movements recognised in the Comprehensive Income and Expenditure statement and the revaluation reserve for the year ended 31 March 2024 and the movements in usable and unusable reserves for the year ended 31 March 2024 in relation to both the Group and the Authority.

In addition, we were unable to obtain sufficient appropriate evidence over the disclosed comparative figures for the year ended 31 March 2023 due to the Backstop Date. Therefore, we were unable to determine whether any adjustments were necessary to the opening balances as at 1 April 2023 or whether there were any consequential effects on the Group's and the Authority's income and expenditure for the year ended 31 March 2024.

Impact on our audit of the financial statements

As explained in previous reporting to the Governance and Audit Committee, the level of rebuilding assurance related to the years prior to our appointment was limited in 2023/24. This was because we concluded there was insufficient time before the February 2025 backstop to complete our audit to obtain sufficient appropriate audit evidence, and, in our view, this was pervasive to the prior year financial statements as a whole.

The impact of the above means that for the financial year 2024/25 elements of the opening balances of Property, Plant and Equipment, and the 2023/24 comparatives are still impacted by previous disclaimers and as such our audit opinion is likely to be modified in relation to this matter.

Work has been ongoing in the sector to develop guidance to help support appropriate audit procedures for audits where further work on is required to build back assurance. Further guidance has now been published by the NAO through the Local Audit Reset and Recovery Implementation Guidance (LARRIG) 06 - Special considerations for rebuilding assurance for specified balances following backstop-related disclaimed audit opinions. See overleaf over for more details.

Value for money

The amendments to the Accounts and Audit Regulations do not impact on our responsibilities in relation to the Authority's Value for Money arrangements. We are responsible for forming a view on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources and as such our work will proceed as normal.

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LARRIG 06 and KPMG's approach

Purpose of LARRIG 06

LARRIG 06 sets out guidance to auditors of English local authorities in circumstances where the auditor's opinion on the prior year financial statements has been disclaimed because of backstop arrangements included in the Accounts and Audit (Amendment) Regulations 2024, specifically its purpose is to assist auditors in the process of rebuilding assurance for specific classes of transactions, account balances and disclosures which warrant special consideration beyond the general principles set out in LARRIG 05.

KPMG approach

We have developed an approach compliant with the LARRIGs which include a risk assessment process which includes:

- Entity and process level risk assessment procedures;
- Review of Statements of Accounts from disclaimed years;
- Review of predecessor's auditors file, where necessary;
- An assessment of the revenue budget setting and monitoring, including reserves, and capital during the disclaimed period; and
- Inquiries, with regards to changes to the Authority during the disclaimed period.

The results of this risk assessment process will drive the identification and assessment of risks of material misstatement and then further procedures will be designed and performed to address these risk of material misstatements that have been identified as well as mandated substantive procedures.

Ultimately the aim is to seek assurance to be able to issue unmodified audit opinions (where the evidence allows this) as shown in the illustrative pathway to unmodified opinions. However, we must stress the success of this will not be known until we first complete the risk assessment and then the further procedures to address risks of material misstatement.

Key factors to consider in potential success of this

There are a range of factors that will determine both whether rebuilding assurance is possible and speed at which it happens, the key factors being:

- Number of years of previous disclaimed audit;
- Availability of underlying records to accounting transactions;
- Responsiveness of the Authority to our requests;
- The level of corporate knowledge on past transactions in the disclaimed periods; and
- Level of potential work that is required as identified by our risk assessment.

Timing

We will aim to progress our risk assessment following the completion of our substantive procedure relating to the 2024/25 audit. We will then agree a timetable for the completion of the further procedures following the results of the risk assessment. Note under the LARRGs this work can be phased over a number of audit years

Fees

We estimate fees will be in the range of £32,000 to £39,000 excluding VAT for the **risk assessment stage only**. Further fees will only be known once we complete the risk assessment stage. Our fees could vary if the provision of information is not complete and we do not receive adequate responses to our requests.

Note our fees will be subject to PSAA approval.

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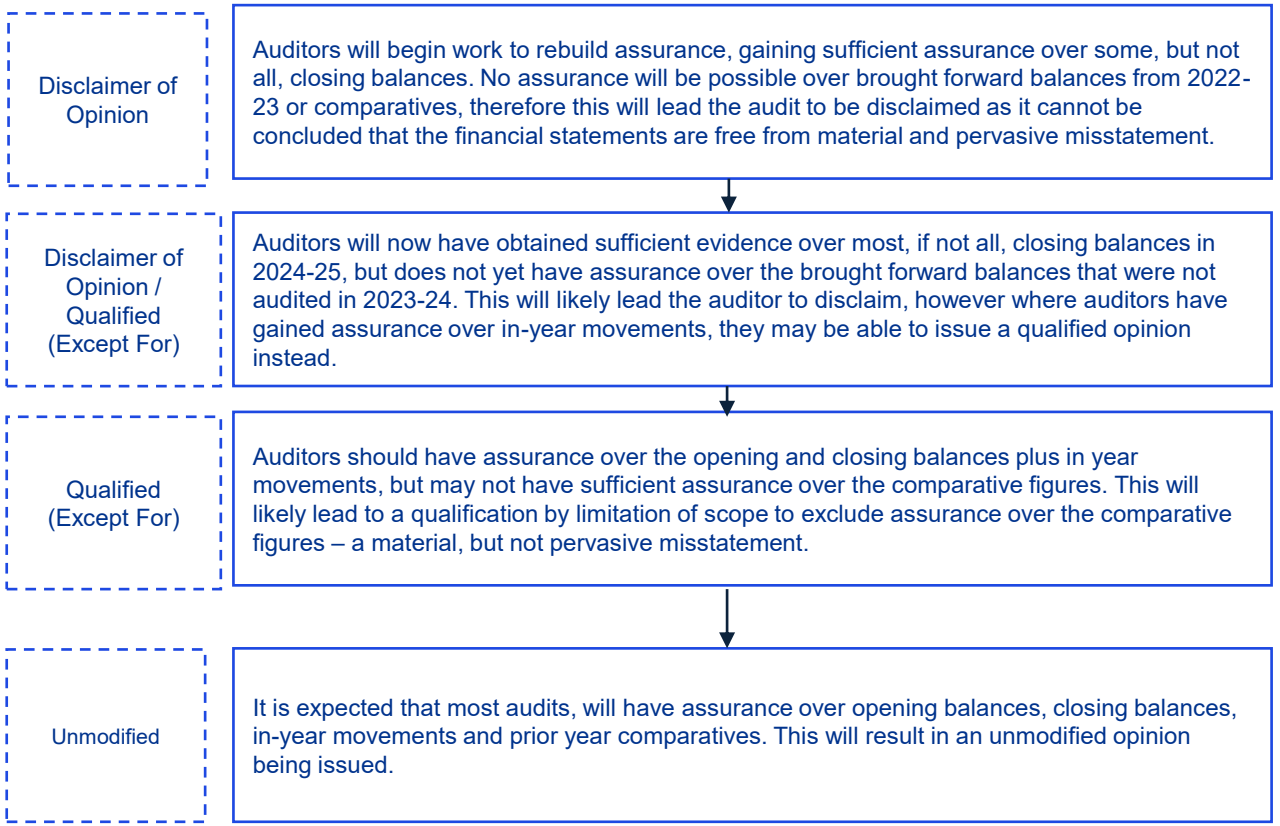
Illustrative pathway to unmodified opinions

Illustrative pathway - reproduced from LARRIG 1



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