



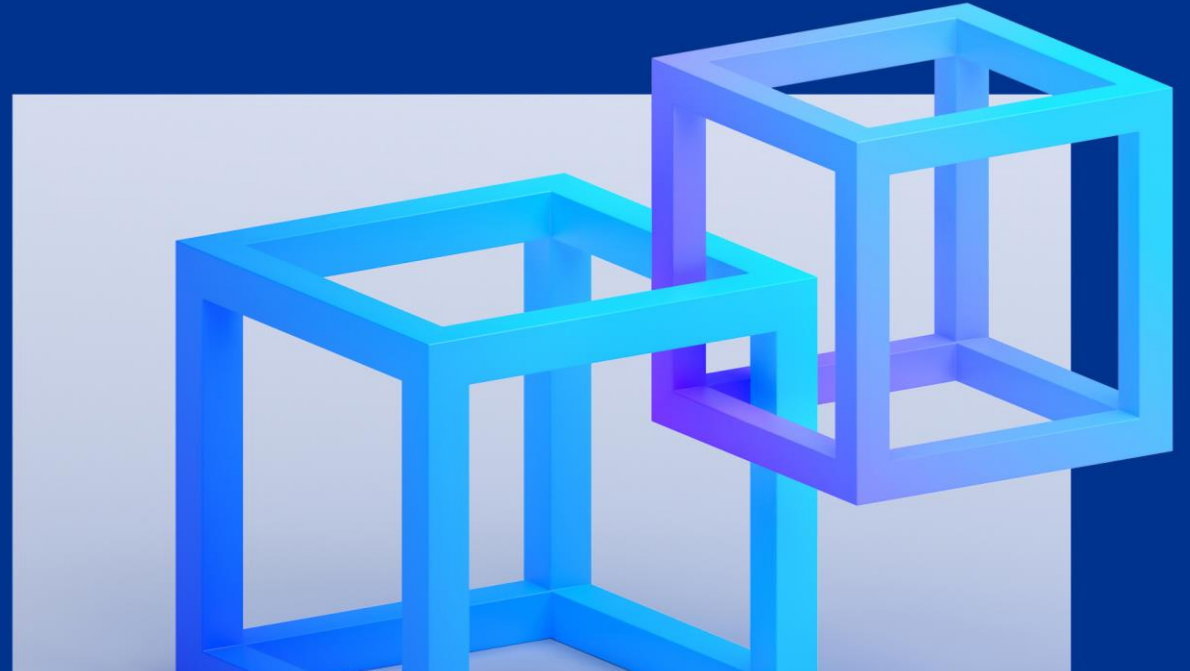
# South Holland District Council

**DRAFT**

Year End Report to the Governance and Audit  
Committee

Year end report for the year ended 31 March 2025

14 January 2026



## NOTE FOR COMMITTEE MEMBERS:

This report follows on from our year-end progress report presented on 13 November 2025. Therefore a lot of the content is repeated.

For ease of review, we have added a green text box to the new slides that have not previously been seen by the Committee.

Where slides have been seen previously, any additional text has been included in green.

# Introduction

## To the Governance and Audit Committee of South Holland District Council

We are pleased to have already had the opportunity to meet with you on 13 November 2025 to discuss the findings and key issues arising from 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.

This report should be read in conjunction with our year-end progress report presented on 13 November 2025, and our audit plan and strategy report, presented on 10 July 2025.

## How we deliver audit quality

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

We consider risks to the quality of our audit in our engagement risk assessment and planning discussions.

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

- Audits are executed consistently, in line with the requirements and intent of applicable professional standards within a strong system of quality 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](mailto: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](mailto: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 report on the approval of those statement of accounts and auditor's representation letter on [date].

There have been no significant changes to our audit plan and strategy other than those described on page 8.

We draw your attention to the important notice on page 3 of this report, which explains:

- The purpose of this report
- Limitations on work performed
- Status of our audit and the implications of the statutory backstop.

Yours sincerely,

**James Boyle**

**14 January 2026**

Contents	Page
Introduction	2
Important notice	3
The statutory backstop and rebuilding assurance	4
Our audit findings	7
Key changes to our audit plan	8
Significant risks and other audit risks	9
Audit risks and our audit approach	10
Key accounting estimates and management judgement	17
Other significant matters	19
Audit misstatements	20
Group involvement – Significant component audits	21
Other matters	22
Value for money	23
Appendix	28



# Important notice

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

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

## Purpose of this report

This Report has been prepared in connection with our audit of the consolidated financial statements of South Holland District Council (the 'Council' (and its subsidiaries (the 'Group') for the year ended 31 March 2025.

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

This report summarises the key issues identified during our audit and includes all previous communications from our year-end progress report presented on 13 November 2025.

## Limitations on work performed

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

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

The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit (to the extent it has been possible in the context of our disclaimer of opinion - see page 4)

## Status of our audit and the implications of the statutory backstop

Page 4 'The statutory backstop and rebuilding assurance' explains the impact of the statutory backstop and our current expectation is that we will issue a disclaimer opinion on the financial statements

While we are expecting to disclaim our audit opinion on the financial statements, we are still required to identify our audit findings based on the work performed. We have identified findings as reported in our report.

Our audit is complete pending signature of our audit report

# The statutory backstop and rebuilding assurance

## Background

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 introduced the requirement for audit reports in respect of any open, incomplete audits up to the period ending 31 March 2023 to be published by 13 December 2024. It also introduced a statutory back stop date of 28 February 2025 for the 2023/24 audit. For the Council this had the impact of a disclaimer of opinion issued by your predecessor auditor for 2022/23. We then issued a disclaimer of opinion for 2023/24 on 12 February 2025 to comply with the statutory backstop date for the reasons set out in our Basis of Disclaimer Opinion below.

Work has been ongoing in the sector to develop guidance to help support appropriate audit procedures for audits where further work is required to build back assurance. In addition to Local Audit Rest and Recovery Implementation Guidance (LARRIGs) that were published in 2024 by the NAO, further guidance has now been published by the NAO LARRIG) 06 - Special considerations for rebuilding assurance for specified balances following backstop-related disclaimed audit opinions (e.g reserves balances where a disclaimer has been previously issued). We note the LARRIGs are prepared and published with the endorsement of the Financial Reporting Council (FRC) and are intended to support the reset and recovery of local audit in England.

## The 2023/24 audit

In our *Basis of Disclaimer Opinion* section of our audit report in 2023/24 we reported:

The Accounts and Audit (Amendment) Regulations 2024 (the "Amendment Regulations") require the Authority to publish its financial statements and our opinion thereon for the year ended 31 March 2024 by 28 February 2025 (the "Backstop Date"). We have been unable to obtain sufficient appropriate audit evidence over one area of the financial statements as we have been unable to perform the procedures that we consider necessary to form our opinion on the financial statements ahead of the Backstop Date. This relates 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 have been 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.

Any adjustments from the above matters would have a consequential effect on the Group's and the Authority's net assets and split of reserves between usable reserves, including the Housing Revenue Account, and unusable reserves as at 31 March 2024 and 31 March 2023, the Collection Fund and on their income and expenditure and cash flows for the years then ended.

## The 2024/25 audit

On Page 6, we set out what work we have been able and not been able to complete in respect of the 2024/25 financial statements as being able to audit the closing balance sheet is an essential element of rebuilding assurance.

In addition, during the 2024/25 audit we have started our rebuilding assurance risk assessment. We will report separately as part of the 2025/26 reporting cycle, the findings of this exercise along with the period of time we will take to complete this work. The results of our risk assessment indicates we will be able to rebuild assurance in 2025/26, however, this is dependent on the results of the substantive work that is required to rebuild assurance.

## Impact on our audit report on the financial statements

Given our work to rebuild assurance is not fully complete and due to the statutory backstop date of 27 February 2026, we have determined that there is insufficient time to obtain sufficient appropriate audit evidence over the split of useable and unusable reserves as at 31 March 2025 or 31 March 2024 ahead of the backstop, and, in our view, this is pervasive to the Council's and the Group's financial positions as at 31 March 2025.

Further to this there are a number of areas of the financial statements where we have determined we will be unable to obtain sufficient appropriate audit evidence, as we will be unable to perform the procedures that we consider necessary to form our opinion on the financial statements ahead of the Backstop Date. These are detailed on page 6.

As a result of the pervasiveness of the above, we intend to issue a disclaimer of opinion on the financial statements as a whole.

# The statutory backstop and rebuilding assurance

## Other matters

As required by the ISAs (UK) when we are disclaiming our audit opinion on the financial statements as a whole, our audit report will not report on other matters that we would usually report on, most notably the use of the going concern assumption in the preparation of the financial statements; the extent to which our audit was considered capable of detecting irregularities, including fraud; and whether there are material misstatements in the other information presented within the Statement of Accounts.

Although we are disclaiming our audit opinion we have, in this report, reported matters that have come to our attention and, where appropriate, we intend to include in our audit report.

## Value for Money

The amendments to the Accounts and Audit Regulations do not impact on our responsibilities in relation to the Council's Value for Money arrangements, specifically we are responsible for reporting if we have identified any significant weaknesses in the arrangements that have been made by the Council to secure economy, efficiency and effectiveness in its use of resources. We also provide a summary of our findings in the commentary in this report.

Page 24 provides a summary of our findings. Further details are also available in our Auditor's Annual Report for 2024/25.

# The statutory backstop and rebuilding assurance

## Work completed in 2024/25

Our audit plan, presented to you on 10 July 2025 set out our audit approach including our significant risks and other audit risks. We have updated our response to those significant risks in the pages overleaf, and confirm we have completed all work required in response to the significant risks.

Although we will be issuing a disclaimer of opinion, we have reported matters that have come to our attention during the audit and, where appropriate, we intend to include in our audit report.

Specifically in relation to 2024/25 we have completed substantially all of the audit. We have been unable to complete our work on a number of areas, as a result of the disclaimer opinion issued in the previous years, including, but not limited to:

- Split of usable and unusable reserves for the year ended 31 March 2025;
- The disclosed comparative figures for the Group and Council's Property, Plant Equipment, and 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 Council, as disclosed in the 'Basis for Disclaimer Opinion' section of our 2023/24 audit report (see page 4).

## Significant challenges with progressing work

We have completed the 2024/25 audit. We have faced significant difficulties which we have outlined on page 22. We have discussed fee variations with management. These are outlined on page 30.

We are working with management in advance of the 2025/26 audit to ensure these are addressed where possible.

# Our audit findings

Significant audit risks	Page 10-16
Significant audit risks	Our findings
Valuation of land and buildings	<p>Testing over the significant assumption used in the Depreciated Replacement Cost (DRC) valuation – obsolescence - was found to be neutral.</p> <p>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.</p> <p>Testing over the significant assumption used to value the Council Dwellings – comparable transactions for beacon values – was found to be neutral.</p>
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 34	
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 37-57
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 36 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 37.
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	

# 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
<b>1. Valuation of Land and Buildings – Assumptions (BCIS Indices and Location Factor)</b>	<p>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.</p>	<ul style="list-style-type: none"> <li>The effect on our audit strategy has been documented as part our response and findings on the 'Valuation of Land and Buildings' - see pages 10-11</li> </ul>
<b>2. Valuation of Land and Buildings – Data (Floor Areas)</b>	<p>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.</p>	<ul style="list-style-type: none"> <li>The effect on our audit strategy has been documented as part our response and findings on the 'Valuation of Land and Buildings' - see pages 10-11</li> </ul>
<b>3. Group – Valuation of Investment Properties – Assumption (Yield)</b>	<p>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.</p>	<ul style="list-style-type: none"> <li>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.</li> </ul>

# 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.**

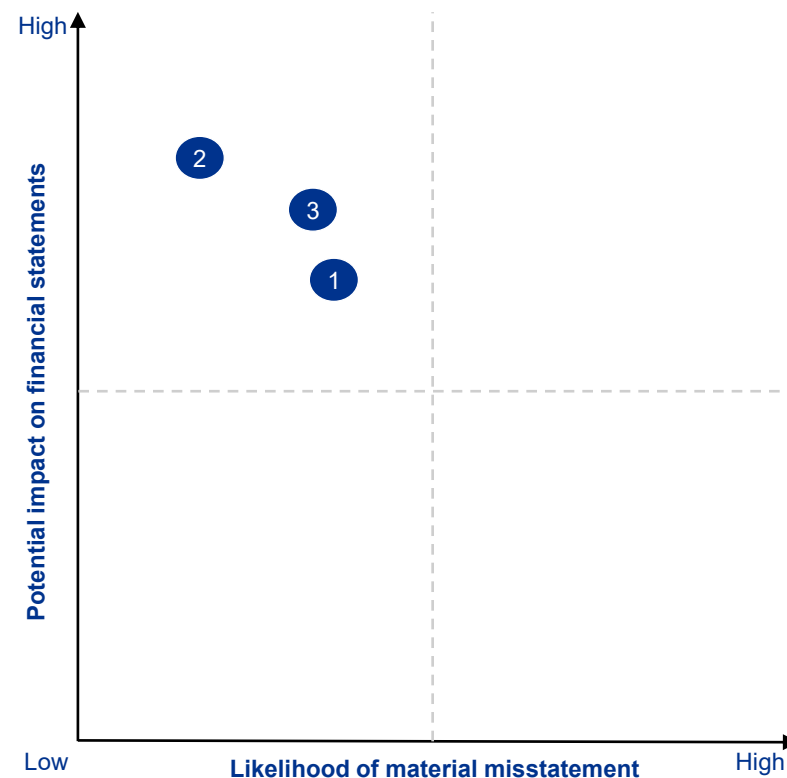
Our risk assessment draws upon our historic knowledge of the business, the industry and the wider economic environment in which South Holland District Council operates.

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



Key: # Significant financial statement audit risks

# Audit risks and our audit approach



## 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.

# 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



### Other Land and Buildings



#### Our findings

- 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 41 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.

Key:

 Prior year  Current year

- 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 46 and a misstatement of page 34.
- 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 38.
- 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 42.

# 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 has appropriate 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



# Audit risks and our audit approach

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

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 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.

# Audit risks and our audit approach (cont.)

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

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 10-12), and valuation of post-retirement obligation benefits (page 15-16), 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. We have subsequently received declaration forms for four out of the five Councillors. We have performed alternative procedures for the Councillor who did not return a declaration of interest form, and for the senior management team member who has subsequently left the Council.
- As part of our testing, we also identified a Councillor had returned a nil declaration, however, this was inconsistent with their appointments on Companies House where they were listed as a Director of a Company. This Directorship was already identified by the process PSPS follow to identify potential related parties. Therefore, this did not have an impact on the financial statements, but we have raised a control deficiency on page 39.
- We have additionally identified a misstatement in the Related Parties note. See page 36.

# 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 appropriate;
- 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.

# 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 36.

#### Key:

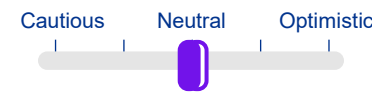
 Prior year  Current year



# 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		£28.1m	£-0.6m		<ul style="list-style-type: none"> <li>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.</li> <li>We identified that the external fees provision was not specific and higher than expected, and therefore we assessed the assumption to be optimistic.</li> <li>We identified 8 out of 40 floor areas which were not supported by adequate floor plans.</li> <li>The disclosures were adequate concerning the key judgements and degree of estimation involved in arriving at the valuation.</li> </ul>
Council Dwellings		£257m	£-7m		<ul style="list-style-type: none"> <li>Our testing over the significant assumptions used to value the Council Dwellings –comparable transactions for beacon values – were found to be neutral.</li> <li>The disclosures were adequate concerning the key judgements and degree of estimation involved in arriving at the valuation.</li> </ul>

Key:  
 Prior year  
 Current year

# 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		£3.80m	-£0.2m		<ul style="list-style-type: none"> <li>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.</li> <li>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.</li> </ul>

Key:  
 Prior year Current year



# 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 37-57 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 34;
- 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 38);
  - A control deficiency identified for the methodology applied for the valuation of car parks that offered free parking (see page 43);
  - Issues with availability of audit evidence to support key data elements of the valuation, such as floor areas (page 46); 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

# Audit misstatements

Given we are disclaiming our audit opinion as described on pages 4 to 6 there may be other audit misstatement our audit procedures would have identified if we completed our audit procedures as initially planned.

Management has approved the correction of the audit misstatements detailed on page 35 and they are reflected in the draft financial statements. A summary of the uncorrected audit misstatements is detailed on page 34.

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 17 and 18 (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 34 to 36.

## Audit misstatements

	Page
Corrected misstatements	35
Uncorrected misstatements	34
Misstatements in disclosures	36

### 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

# 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			Significant matters discussed with component auditors
	Individually financially significant	Significant due to risk	Other	
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.

# Other matters

## Narrative report

As Governance and Audit Committee members you confirm that you consider that the Narrative Report, including the Annual Governance Statement, 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.

Our responsibility is to read the other information, which comprises the information included in the Statement of Accounts other than the financial statements and our auditor's report thereon and, in doing so, consider whether, based on our financial statements audit work, the other information is materially misstated or inconsistent with the financial statements or our audit knowledge.

Due to the significance of the matters leading to our disclaimer of opinion, and the possible consequential effect on the related disclosures in the other information, whilst in our opinion the other information included in the Statement of Accounts is consistent with the financial statements, we are unable to determine whether there are material misstatements in the other information.

## 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 30 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 the Pooling for housing capital receipts return. We have included on page 32 confirmation of safeguards that have been put in place to preserve our independence.

**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 Observation from the prior period, which are suggestions for improvement but not responses to identified significant weaknesses – see pages 25 to 27.

# 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		
<b>1</b>	<b>Priority one:</b> 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.	<b>2</b>
		<b>Priority two:</b> 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.
		<b>3</b>
		<b>Priority three:</b> 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	<b>2</b>	<p><b>Formal record of discussion and actions for efficiency savings</b></p> <p>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:</p> <ul style="list-style-type: none"> <li>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.</li> <li>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.</li> </ul> <p><b>Risk</b></p> <p>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.</p> <p><b>Recommendation</b></p> <p>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.</p>	<p><b>Management response and Officer</b></p> <p>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.</p> <p><b>Responsible officer</b></p> <p>Director of Finance &amp; Section 151 Officer</p> <p><b>Due Date</b></p> <p>31 March 2026</p>

# Value for Money: Performance improvement observations

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
2	<b>2</b>	<p><b>Future savings within the efficiency programme</b></p> <p>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.</p> <p><b>Risk</b></p> <p>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.</p> <p><b>Recommendation</b></p> <p>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.</p>	<p><b>Management response</b></p> <p>To be addressed as part of the budget process 2026/27.</p> <p><b>Responsible Officer</b></p> <p>Director of Finance &amp; Section 151 Officer</p> <p><b>Due Date</b></p> <p>31 December 2025</p>
3	<b>3</b>	<p><b>Fraud Risk Registers</b></p> <p>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.</p> <p><b>Risk</b></p> <p>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.</p> <p><b>Recommendation</b></p> <p>We recommend the fraud risk registers are included within the quarterly risk reports that are presented within the Governance structure.</p>	<p><b>Management response</b></p> <p>Fraud risk registers are already included in reporting to Leadership Team and will be included in reporting to Governance &amp; Audit Committee and South Holland Cabinet from Q4 24/25 in line with the reporting process across the rest of the partnership.</p> <p><b>Responsible Officer</b></p> <p>Assistant Director - Governance &amp; Monitoring Officer</p> <p><b>Due Date</b></p> <p>31 July 2025</p> <p><b>Status</b></p> <p><b>We have confirmed this has been implemented.</b></p>

# 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		<p><b>Efficiency Programme 2023-24</b></p> <p>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.</p> <p>Through inquiry with management, the Council have been working to improve this process in 2024-25.</p> <p><b>Impact</b></p> <p>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.</p> <p><b>Recommendation</b></p> <p>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:</p> <ul style="list-style-type: none"> <li>• the development of plans for how efficiencies will be achieved;</li> <li>• regular monitoring of performance against the required level of efficiencies;</li> <li>• reporting of performance against the required efficiency target to an appropriate committee; and</li> <li>• a process in place for identifying actions where projects are falling behind plan</li> <li>• a RAG rating system to help identify the risk to relevant schemes / plans</li> </ul>	<p><b>Management Response:</b> The efficiency monitoring process will be formalised and regularly monitored, with the reporting in the quarterly reports expanded to capture the RAG status.</p> <p><b>Responsible Officer:</b> Strategic Finance Manager</p> <p><b>Due Date:</b> 30 September 2025</p>	<p><b>Status: Not implemented</b></p> <p>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.</p>

# Appendix

## Contents

	Page
Required communications	29
Fees	30
Confirmation of Independence	31
Uncorrected audit misstatements	34
Corrected audit misstatements	35
Misstatements in disclosures	36
Control Deficiencies	37
FRC's area of focus	58

# Required communications

Type	Response
<b>Our draft management representation letter</b>	<input checked="" type="checkbox"/> OK We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2025.
<b>Adjusted audit differences</b>	<input checked="" type="checkbox"/> OK There is one adjusted audit difference with no surplus impact. See page 35.
<b>Unadjusted audit differences</b>	<input checked="" type="checkbox"/> OK The aggregated surplus impact of unadjusted audit differences would be £623k. In line with ISA 450 we request that you adjust for these items. However, they will have no effect on the opinion in the auditor's report, individually or in aggregate. See page 34.
<b>Related parties</b>	<input checked="" type="checkbox"/> OK We encountered delays receiving all declaration of interest forms as detailed on page 19. We also raised a control deficiency in regard to the related party process on page 39. These deficiencies did not result in a significant deficiency.
<b>Other matters warranting attention by the Audit Committee</b>	<input checked="" type="checkbox"/> OK There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
<b>Control deficiencies</b>	<input checked="" type="checkbox"/> OK We communicated to management in writing all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified during the audit within this report on pages 37 to 57.
<b>Actual or suspected fraud, noncompliance with laws or regulations or illegal acts</b>	<input checked="" type="checkbox"/> OK No actual or suspected fraud involving Group or Council management, employees with significant roles in group-wide internal control, or where fraud results in a material misstatement in the financial statements identified during the audit.
<b>Issue a report in the public interest</b>	<input checked="" type="checkbox"/> OK We are required to consider if we should issue a public interest report on any matters which come to our attention during the audit. We have not identified any such matters.

Type	Response
<b>Significant difficulties</b>	<input checked="" type="checkbox"/> OK Significant difficulties have been outlined on page 19.
<b>Modifications to auditor's report</b>	<input checked="" type="checkbox"/> X Our audit opinion will be disclaimed. See pages 4 to 6 for further details.
<b>Disagreements with management or scope limitations</b>	<input checked="" type="checkbox"/> OK The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
<b>Other information</b>	<input checked="" type="checkbox"/> OK No material inconsistencies were identified related to other information in the statement of accounts.
<b>Breaches of independence</b>	<input checked="" type="checkbox"/> OK No matters to report. The engagement team have complied with relevant ethical requirements regarding independence.
<b>Accounting practices</b>	<input checked="" type="checkbox"/> OK Over the course of our audit, we have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.
<b>Significant matters discussed or subject to correspondence with management</b>	<input checked="" type="checkbox"/> OK No matters to report.
<b>Certify the audit as complete</b>	<input checked="" type="checkbox"/> X We are required to certify the audit as complete when we have fulfilled all of our responsibilities relating to the accounts and use of resources as well as those other matters highlighted above. We will issue our certificate once we have received confirmation from the National Audit Office that their audit of the Whole of Government Accounts is complete and therefore all our work in respect of the Authority's Whole of Government Accounts consolidation pack is complete.
<b>Whole of government accounts</b>	<input checked="" type="checkbox"/> X 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.

# 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	21	
Fee variations for rebuilding assurance	32	
<b>TOTAL</b>	<b>207</b>	<b>169</b>

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.

# 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.



# 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	<ul style="list-style-type: none"> <li>Standard language on non-assumption of management responsibilities is included in our engagement letter.</li> <li>The engagement contract makes clear that we will not perform any management functions.</li> <li>The work is performed after the audit is completed and the work is not relied on within the audit file.</li> <li>Our work does not involve judgement and are statements of fact based on agreed upon procedures.</li> </ul>	Fixed & Time	35.4*	0
2	Pooling for housing capital receipts return	Management Self review Self interest	<ul style="list-style-type: none"> <li>Standard language on non-assumption of management responsibilities is included in our engagement letter.</li> <li>The engagement contract makes clear that we will not perform any management functions.</li> <li>The work is performed after the audit is completed and the work is not relied on within the audit file.</li> <li>Our work does not involve judgement and are statements of fact based on agreed upon procedures.</li> </ul>	Fixed & Time	7.3*	0

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

# Confirmation of Independence (cont.)

## Summary of fees

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

## Fee ratio

The ratio of non-audit fees to audit fees for the year is anticipated to be 0.2: 1. We do not consider that the total non-audit fees create a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

	2024/25 £'000
Scale fee	154.6
Fee variation for agreed with management but subject to PSAA approval	21
Fee variation for rebuilding assurance	32
Other Assurance Services	42.7
<b>Total Fees</b>	<b>250.3</b>

### Application of the FRC Ethical Standard 2019

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

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

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

## Independence and objectivity considerations relating to other matters

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

## Confirmation of audit independence

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

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

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

Yours faithfully

KPMG LLP

# Uncorrected audit misstatements

Given we are disclaiming our audit opinion as described on pages 4 to 6 there may be other audit misstatements our audit procedures would have identified if we completed our audit procedures as initially planned. In this section, we have reported uncorrected audit misstatements that we have identified.

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.  - 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.
	Cr Other Services Expenses	(£333k)		
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)		
<b>Total</b>		<b>(£623k)</b>	<b>£623k</b>	

# Corrected audit misstatements

Given we are disclaiming our audit opinion as described on pages 4 to 6 there may be other audit misstatements our audit procedures would have identified if we completed our audit procedures as initially planned. In this section, we have reported corrected audit misstatements that we have identified.

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.

Corrected audit misstatements (£'000s)				
No.	Detail	SOCI Dr/(cr)	Balance Sheet Dr/(cr)	Comments
1	Dr Gain on disposal of Non-Current Assets (income)	£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.
	Cr Loss on disposal of Non-Current assets (expenditure)	(£2.077m)		
<b>Total</b>		<b>£0</b>	<b>£0</b>	

# 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.

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	<p>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.</p> <p>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.</p> <p>Whilst the amounts are quantitatively immaterial it is considered qualitatively material given the nature of the disclosure.</p>
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	<p>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:</p> <ul style="list-style-type: none"> <li>• (Increase)/decrease in creditors - Disclosed as (£1,378k) should be (£1,738k)</li> <li>• Purchase of property, plant and equipment, investment property and intangible assets - Disclosed as £16,375k should be £16,015k</li> </ul>
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.

# 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	<b>3</b>	<p><b>Payments to Suppliers</b></p> <p><b>Issue</b></p> <p>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.</p> <p><b>Impact</b></p> <p>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.</p> <p><b>Recommendation</b></p> <p>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.</p>	<p><b>Management Response</b></p> <p>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.</p> <p>No PO no pay has also recently been launched, therefore invoices processed outside of a purchase order will significantly reduce going forward.</p> <p><b>Officer</b></p> <p>Deputy Chief Finance Officer (PSPS)</p> <p><b>Due Date</b></p> <p>31 December 2025</p>

# Control Deficiencies

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
2	3	<p><b>Application of BCIS figures in the DRC Valuation of Land and Buildings</b></p> <p><b>Issue</b></p> <p>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.</p> <p><b>Impact</b></p> <p>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.</p> <p>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.</p> <p><b>Recommendation</b></p> <p>BCIS figures as at 31st March of each relevant financial year should be used in the DRC valuations of relevant land and buildings.</p>	<p><b>Management Response</b></p> <p>Agreed</p> <p><b>Officer</b></p> <p>Internal Valuer</p> <p><b>Due Date</b></p> <p>30 April 2026</p>

# Control Deficiencies

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
3	2	<p><b>Related Parties Process</b></p> <p><b>Issue</b></p> <p>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.</p> <p>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. <i>We have subsequently received declaration forms for four out of the five Councillors. We have performed alternative procedures for the Councillor who did not return a declaration of interest form, and for the senior management team member who has subsequently left the Council.</i></p> <p>We also identified 2 Senior Leadership Team Member who performed their declaration of interest late.</p> <p><i>As part of our testing, we also identified a Councillor had returned a nil declaration, however, this was inconsistent with their appointments on Companies House where they were listed as a Director of a Company. This Directorship was already identified by the process PSPS follow to identify potential related parties. Therefore, this did not have an impact on the financial statements, however, is indicative of a control deficiency as the declaration form should include a complete list of interests.</i></p> <p><b>Impact</b></p> <p>There is a risk that that all relevant transactions with related parties have not been fully disclosed.</p> <p><b>Recommendation</b></p> <p>Councillors are reminded of their duties to disclose declarations of interest to ensure all declarations are complete for the next financial year.</p>	<p><b>Management Response</b></p> <p>The related party guidance will be reviewed in 2025/26. Outstanding Related Party forms will be followed up by Finance, and then escalated to Group Leaders for a response to be obtained.</p> <p><b>Officer</b></p> <p>Monitoring Officer</p> <p><b>Due Date</b></p> <p>30 April 2026</p>

# Control Deficiencies

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
4	3	<p><b>SELCP Shared Management Transactions</b></p> <p><b>Issue</b></p> <p>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.</p> <p>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.</p> <p>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.</p> <p><b>Impact</b></p> <p>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.</p> <p><b>Recommendation</b></p> <p>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.</p>	<p><b>Management Response</b></p> <p>A formal control process will be undertaken to review the workings supporting the S113 management recharges.</p> <p><b>Officer</b></p> <p>Head of Finance Delivery – SHDC (PSPS Ltd)</p> <p><b>Due Date</b></p> <p>31 March 2026</p>

# Control Deficiencies

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
5	3	<p><b>Internal Valuer within the SELCP</b></p> <p><b>Issue</b></p> <p>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.</p> <p>Therefore, we have raised a deficiency for the fact:</p> <ul style="list-style-type: none"> <li>• There is an absence of an effective review control over the work of the valuations performed by the internal valuer;</li> <li>• There is not a counter signatory on the valuation report who is also RICS qualified; and</li> <li>• 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.</li> </ul> <p><b>Impact</b></p> <p>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.</p> <p><b>Recommendation:</b></p> <p>The Council should consider providing additional support to the existing valuer to provide further assurance over the valuations.</p>	<p><b>Management Response</b></p> <p>This recommendation has not been accepted by management. The Council notes this position but has chosen to tolerate the risk.</p>

# Control Deficiencies

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
6	3	<p><b>Provision for External Fee Applied to DRC Buildings Valuation</b></p> <p><b>Issue</b></p> <p>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).</p> <p>We would expect the external fee applied to be specific and reflect the nuances of each, or groups of, DRC assets.</p> <p><b>Impact</b></p> <p>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 11.</p> <p><b>Recommendation:</b></p> <p>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.</p>	<p><b>Management Response</b></p> <p>This will be considered as part of the 2025/26 valuation process.</p> <p><b>Officer</b></p> <p>Internal Valuer</p> <p><b>Due Date</b></p> <p>30 April 2026</p>

# Control Deficiencies

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
7	3	<p><b>Land and Buildings Methodology</b></p> <p><b>Issue</b></p> <p>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.</p> <p>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.</p> <p><b>Impact</b></p> <p>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 34.</p> <p><b>Recommendation:</b></p> <p>We recommend that the internal valuers reviews this methodology to ensure that the application of the methodology is appropriate.</p>	<p><b>Management Response</b></p> <p>This will be considered as part of the 2025/26 valuation process.</p> <p><b>Officer</b></p> <p>Internal Valuer</p> <p><b>Due Date</b></p> <p>30 April 2026</p>

# 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.

# Control Deficiencies (previous years audit cont.)

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Current Status (November 2025)
1	2	<p><b>Preparation of bank reconciliations</b></p> <p>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.</p> <p>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.</p> <p><b>Impact</b></p> <p>There is a risk that errors are identified in a timely manner, leading to unidentified misstatements within the financial results of the Council.</p> <p>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.</p> <p><b>Recommendation</b></p> <p>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.</p>	<p><b>Management Response:</b></p> <p>The bank reconciliation is now up to date as at the end of September 2024. This is being completed and signed off monthly.</p> <p><b>Responsible Officer:</b> Deputy Chief Finance Officer (Corporate)</p> <p><b>Due Date:</b> 30 November 2024</p>	<p><b>Status: Partially Implemented</b></p> <p>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.</p> <p>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.</p> <p>We would expect bank reconciliations to be completed and reviewed within one month of the month end, with all items fully reconciled.</p> <p>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.</p> <p><b>Management Response:</b></p> <p>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.</p>

# Control Deficiencies (previous years audit cont.)

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Current Status (November 2025)
2	2	<p><b>Data used in the valuation of other land and buildings</b></p> <p>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.</p> <p>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.</p> <p>This also highlights an absence of challenge in management's review control of the valuation certificates in terms of validating the data used.</p> <p><b>Impact</b></p> <p>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.</p> <p><b>Recommendation</b></p> <p>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.</p>	<p><b>Management Response:</b> A validation process is in hand for 31 March 2025.</p> <p><b>Responsible Officer:</b> Andy Fisher</p> <p><b>Due Date:</b> 31 March 2025</p>	<p><b>Status: Not Implemented</b></p> <p>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.</p> <p>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.</p> <p>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.</p> <p><b>Management Response:</b> Noted, and agreed subject to the resources required to complete the exercise being made available.</p> <p><b>Responsible Officer:</b> Group Manager - General Fund Assets</p> <p><b>Due Date:</b> Subject to the approval of resources</p>

# Control Deficiencies (previous years audit cont.)

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Current Status (November 2025)
3	2	<p><b>Posting of journals</b></p> <p>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.</p> <p><b>Impact</b></p> <p>There is greater risk of error, or omission of key journals being posted if they are not performed in a timely manner.</p> <p><b>Recommendation</b></p> <p>We recommend journals are posted and approved in the same month to which they relate.</p>	<p><b>Management Response:</b></p> <p>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.</p> <p><b>Responsible Officer:</b> Deputy Chief Finance Officer (Corporate)</p> <p><b>Due Date:</b> 30 November 2024</p>	<p><b>Status: Implemented.</b></p> <p>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.</p>

# Control Deficiencies (previous years audit cont.)

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Current Status (November 2025)
4	2	<p><b>Year-end Accrual Process</b></p> <p>Through our audit procedures for fees, charges and other service income walkthrough, we identified weaknesses in the year-end accrual process:</p> <ul style="list-style-type: none"> <li>We identified income of £65k which related to 2022/23 but was not accrued for in 2022/23 and was recognised in 2023/24.</li> </ul> <p><b>Impact</b></p> <p>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.</p> <p><b>Recommendation</b></p> <p>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</p>	<p><b>Management Response:</b></p> <p>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.</p> <p><b>Responsible Officer:</b> Head of Finance Delivery (PSPS)</p> <p><b>Due Date:</b> 31 March 2025</p>	<p><b>Status: Not implemented.</b></p> <p>Through our substantive audit response for other service expenditure, we identified a weakness in the year-end accrual process.</p> <p>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.</p> <p>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.</p> <p><b>Management Response:</b></p> <p>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</p>

# Control Deficiencies (previous years audit cont.)

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Current Status (November 2025)
5	3	<p><b>Review of other system reconciliations</b></p> <p>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.</p> <p>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.</p> <p><b>Impact</b></p> <p>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.</p> <p><b>Recommendation</b></p> <p>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.</p>	<p><b>Management Response:</b> 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.</p> <p>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.</p> <p><b>Responsible Officer:</b> Deputy Chief Finance Officer (Corporate)</p> <p><b>Due Date:</b> 30 November 2024</p>	<p><b>Status: Partially implemented</b></p> <p>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.</p> <p>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.</p> <p>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.</p> <p>We would expect reconciliations to be completed within a month of month end to ensure timely identification and resolution of reconciling items.</p> <p><b>Management Response:</b></p> <p>Reconciliations continue to be completed and queried with the relevant departments on a monthly basis – follow ups will be undertaken in a timely manner</p>

# Control Deficiencies (previous years audit cont.)

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Current Status (November 2025)
6	3	<p><b>Lack of formalised impairment provision policy</b></p> <p>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.</p> <p><b>Impact</b></p> <p>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.</p> <p><b>Recommendation</b></p> <p>We recommend management produce a formal policy outlining the impairment approach.</p>	<p><b>Management Response:</b></p> <p>The impairment provision approach will be documented as part of the accounting policies in preparation for the 24/25 year end accounts process.</p> <p><b>Responsible Officer:</b> Deputy Chief Finance Officer (Corporate)</p> <p><b>Due Date:</b> 31 March 2025</p>	<p><b>Status: Implemented</b></p> <p>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.</p>

# Control Deficiencies (previous years audit cont.)

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Current Status (November 2025)
7	3	<p><b>IFRS 16 Transition Plan</b></p> <p>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.</p> <p>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.</p> <p>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.</p> <p><b>Impact</b></p> <p>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.</p> <p><b>Recommendation</b></p> <p>We recommend management prepare an implementation plan and this is reviewed by an appropriate member of staff.</p>	<p><b>Management Response:</b> 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.</p> <p><b>Responsible Officer:</b> Deputy Chief Finance Officer (Corporate)</p> <p><b>Due Date:</b> 31 March 2025</p>	<p><b>Status: Implemented</b></p> <p>IFRS 16 was implemented from 1<sup>st</sup> April 2024. From our testing we did not identify any issues in relation to this area.</p>

# Control Deficiencies (previous years audit cont.)

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Current Status (November 2025)
8	3	<p><b>Familiarity Threat – Wilks Head and Eve as the External Valuer</b></p> <p>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.</p> <p>This is recognised by the valuer on page 6 of the report: Wilks Head &amp; 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.”</p> <p>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.</p> <p><b>Impact</b></p> <p>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.</p> <p><b>Recommendation</b></p> <p>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.</p>	<p><b>Management Response:</b> The rotation of the external valuer will be considered going forward.</p> <p><b>Responsible Officer:</b> Deputy Chief Finance Officer (Corporate)</p> <p><b>Due Date:</b> 31 March 2025</p>	<p><b>Status: Implemented</b></p> <p>The Council engaged Savills as the new external valuers for the HRA. We note that Welland Homes use Wilks Ed &amp; Eve since 2018, however this is within the rotation period. Therefore, this threat did not exist in 24/25.</p>

# Control Deficiencies (previous years audit cont.)

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Current Status (November 2025)
9	3	<p><b>Income information provided to the valuer</b></p> <p>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.</p> <p><b>Impact</b></p> <p>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 34.</p> <p><b>Recommendation</b></p> <p>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.</p>	<p><b>Management Response:</b> 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.</p> <p><b>Responsible Officer:</b> Deputy Chief Finance Officer (Corporate) – PSPS</p> <p><b>Due Date:</b> 31 March 2025</p>	<p><b>Status: Implemented</b></p> <p>Car parking data has been derived directly from the General Ledger in 24/25. We are therefore satisfied that this has been sufficiently implemented.</p>

# Control Deficiencies (previous years audit cont.)

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Current Status (November 2025)
10	3	<p><b>Related Party Disclosure Process</b></p> <p>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.</p> <p>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.</p> <p><b>Impact</b></p> <p>The lack of an approved formal policy for the materiality threshold also increases the risk this will be inconsistently applied year-on-year.</p> <p><b>Recommendation</b></p> <p>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.</p>	<p><b>Management Response:</b> An approved approach on the disclosure threshold will be agreed for 24/25 with the S151 Officer.</p> <p><b>Responsible Officer:</b> Deputy Chief Finance Officer (Corporate) – PSPS</p> <p><b>Due Date:</b> 31 March 2025</p>	<p><b>Status: Implemented</b></p> <p>The Council has included the following as part of their related parties note:</p> <p>“The Council has chosen not to disclose these transactions as they are below £10,000 and are therefore deemed to be immaterial.”</p>

# Control Deficiencies (previous years audit cont.)

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Current Status (November 2025)
11	2	<p><b>Internal inspections of buildings not carried out as part of the valuation exercise</b></p> <p>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.</p> <p><b>Impact</b></p> <p>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).</p> <p><b>Recommendation</b></p> <p>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.</p>	<p><b>Management Response:</b> 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.</p> <p><b>Responsible Officer:</b> Internal Valuer</p> <p><b>Due Date:</b> 31 March 2025</p>	<p><b>Status: Implemented</b></p> <p>Through inquiry of management and inspection of valuation certificates, the internal valuer has performed physical inspections of the relevant assets in 24/25.</p>

# Control Deficiencies (previous years audit cont.)

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Current Status (November 2025)
12	3	<p><b>Methodology used by the valuer could not be substantiated</b></p> <p>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.</p> <p><b>Impact</b></p> <p>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.</p> <p><b>Recommendation</b></p> <p>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.</p>	<p><b>Management Response:</b> As part of instructions to the internal valuer, we will request that all assumptions are sufficiently detailed and supported by evidence.</p> <p><b>Responsible Officer:</b> Deputy Chief Finance Officer (Corporate)</p> <p><b>Due Date:</b> 31 March 2025</p>	<p><b>Status: Partially Implemented</b></p> <p>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.</p> <p>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 19.</p>

# Control Deficiencies (previous years audit cont.)

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Current Status (November 2025)
13	3	<p><b>Shared Ownership Council Dwellings</b></p> <p>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.</p> <p><b>Impact</b></p> <p>The projected misstatement could be up to £215k over or understated on the Council Dwelling balances.</p> <p><b>Recommendation</b></p> <p>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.</p>	<p><b>Management Response:</b> A verification exercise of the shared ownership agreements will be undertaken.</p> <p><b>Responsible Officer:</b> Business Support Manager</p> <p><b>Due Date:</b> 30 April 2025</p>	<p><b>Status: Implemented</b></p> <p>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.</p>

# FRC's areas of focus

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

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



## Key expectations for 2024/25 annual reports

### Overview

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

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

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

### Pre-issuance checks and restatements

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

### Risks and uncertainties

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

### Financial reporting framework

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

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

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

# FRC's areas of focus (cont.)

## Impairment of assets

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

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

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

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

## Cash flow statements

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

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

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

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

## Climate

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

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

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

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

## Financial instruments

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

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

Council/Authority should ensure sufficient explanation is provided of material financial instruments, including Council/Authority -specific accounting policies.

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

## Judgements and estimates

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

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

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

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

# FRC's areas of focus (cont.)

## Revenue

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

## Presentation

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

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

## Income taxes

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

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

## Strategic report

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

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

## Fair value measurement

Explanations of the valuation techniques and assumptions used should be clear and specific to the Council/Authority.

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

## Thematic reviews

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

### UK's largest private companies

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

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

### Retail sector focus

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

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

## 2024/25 review priorities

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

 Industrial metals and mining

 Construction and materials

 Food producers

 Retail

 Gas, water and multi-utilities

 Financial Services



[kpmg.com/uk](https://kpmg.com/uk)

© 2025 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

**Document Classification: KPMG Confidential**