

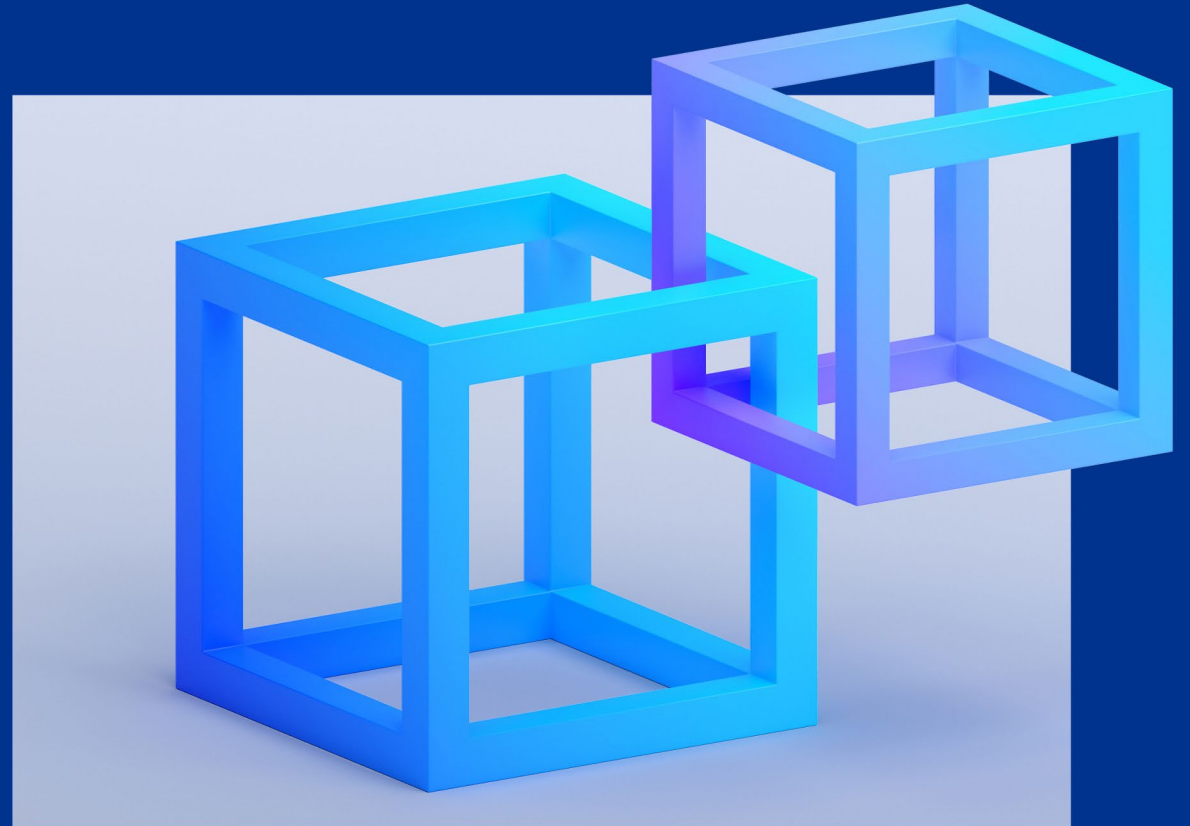


South Holland District Council

Report to the Governance & Audit Committee

**Rebuilding Assurance Risk Assessment Outcome for the
Year-Ending 31 March 2026**

2 June 2026



Rebuilding assurance

Background

The Government introduced measures to resolve the legacy local government financial reporting and audit backlog. In 2024, amendments were made to the Accounts and Audit Regulations and the 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 and 27 February 2026 for the 2023/24 and 2024/25 audits, respectively.

Guidance has been developed to help support appropriate audit procedures for audits where further work is required to build back assurance. In addition to the Local Audit Rest and Recovery Implementation Guidance (LARRIGs) that was 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.

For the Council this had the impact of a disclaimer of opinion issued by your predecessor auditor for one financial year up to and including 2022/23. We then issued a disclaimer of opinion for 2023/24 on 13 February to comply with the statutory backstop date. For the 2024/25 audit we issued a disclaimer of opinion on 24 February 2026.

The 2025/26 audit

As part of the 2025/26 audit, we have completed our rebuilding assurance risk assessment which included:

- Inquiries with regards to changes to the Council during the disclaimed period.
- Considering the disclaimed period and associated reporting including the Statement of Accounts, Annual Government Statements, findings from the disclaimed period audits and any findings from the Section 151 officer in their assessment that the financial statements present a true and fair view.
- Reconciling the planned movement in reserves from budget setting, in-year monitoring and outrun reports and documenting our understanding of planned usage and changes in reserves over the disclaimed period.

- Considering the processes over capital additions/disposals.
- A balance sheet financial statement caption-by-caption assessment of the movement over the disclaimed period overlaid with findings from other risk assessment procedures to determine the appropriate testing strategy to remove the risk of material misstatement in line with the LARRIGs.

As a result of the risk assessment – we designed an appropriate response to address the risks. The work completed in relation to those substantive procedures has been set out on the following pages.

Fees

We note our fees for this work are expected to be in region of:

- **Risk assessment** - £32,000 (Agreed with management and reported within our ISA260 for the year ended 31 March 2025 but still subject to agreement with PSAA)
- **Substantive work** – We have estimated a cost between £25,000 - £30,000. This is based on estimated planned hours to complete the rebuilding assurance work, costed using the PSAA 2025/26 hourly rates.
- We note our fees will be subject to the PSAA fee variation process and PSAA approval. MHCLG has announced grant funding for this work.

Rebuilding assurance: Risk assessments results

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

Specifically, we have completed the following risk assessment procedures:

- Entity and process level risk assessment procedures;
- Review of Statements of Accounts from disclaimed years;
- An assessment of the revenue budget setting and monitoring, including reserves, and capital during the disclaimed period; and
- Inquiries, with regards to changes to the Council during the disclaimed period.

The risk assessment has identified risks of material misstatement over which we need to complete procedures. The table below identifies the risks of material misstatements, the procedures to address the risks and the likely audit year we will complete the work.

#	Account Caption	Risk of material misstatement identified	Procedures to address the risk of material misstatement	Audit year we have planned the procedures *
1	Property, Plant and Equipment	Additions to property, plant and equipment are recorded inappropriately when: the expenditure is not eligible for capitalisation, the assets are not accurately recorded, the entity does not have the rights to the assets, or the assets do not exist.	For a sample of additions capitalised in the year ended 31 March 2023, we will: <ul style="list-style-type: none"> • Confirm the entity have the rights to the assets and that they exist; • Confirm the additions meet the criteria to be capitalised and have been capitalised in the correct period; and • Confirm the useful economic lives applied to the assets are in line with the Council's accounting policy, which drives the depreciation calculation. 	2025/26
2	Capital Receipts Reserve	Transfers to the Capital Receipts Reserve have not been completely identified, or accurately recorded.	We will reconcile the number of assets recorded in the fixed asset register as disposals in the year ended 31 March to the number of capital receipts. For a sample of capital receipts, we will vouch these to bank statements and vouch to supporting audit evidence to confirm whether the assets were disposed of in the year ended 31 March 2023.	2025/26

Rebuilding assurance: Risk assessments results

#	Account Caption	Risk of material misstatement identified	Procedures to address the risk of material misstatement	Audit year we have planned the procedures *
3	Capital Grants Unapplied (usable reserves)	Transfers to or from Capital Grants Unapplied reserve are not completely identified, or are not accurately recorded.	<p>To assess whether transfers to and from the Capital Grant Unapplied reserve are accurately recorded, for a sample of transactions in the year ended 31 March 2023, we will:</p> <ul style="list-style-type: none"> Review the grant agreement and the activity undertaken by the Council in the relevant financial year to assess whether the transfer has been made in line with the requirements of the Code of Practice for Local Authority Accounting. <p>To assess whether transfers to and from the Capital Grant Unapplied reserve have been completely recorded, for a sample of capital grants received in the year ended 31 March 2023, we will:</p> <ul style="list-style-type: none"> Vouch the income to grant agreements and cash receipts, and review the conditions of the grant to confirm appropriate recognition of the income; and Assess the reserve impact to confirm this is accurately recorded. 	2025/26
4	Unusable Reserves	Transfers to or from unusable reserves are not appropriately identified and classified, or are not accurately recorded.	<p>We will:</p> <ul style="list-style-type: none"> Confirm the entries in the Capital Adjustment Account, Revaluation Reserve, Pensions Reserve, Financial Instruments Adjustment Account, and other Unusable Reserves are consistent with the Movement in Reserves Statement (i.e. in and out of General Fund and the Housing Revenue Account). This involves ensuring that the "accounting entries" in the Comprehensive Income and Expenditure Statement are reversed out and replaced by the funding "entries". This test confirms movements to the General Fund, Housing Revenue Account, and the unusable reserves, are consistent. Confirm that Capital Expenditure additions to the Capital Financing Requirement (CFR) agree materially to the capital expenditure outturn. Confirm whether the Revenue Expenditure Funded from Capital Under Statute (REFCUS) expenditure impacts the Capital Financing Requirement and if the Minimum Revenue Provision (MRP) is in line with Policy, and whether there have been any changes in the disclaimed period. Confirm whether voluntary MRP has been approved through the Governance Committee. Assess completeness of balances such as MRP, which move usable funds to unusable funds to support the understanding of any understatement of MRP. 	2025/26

Rebuilding assurance: Risk assessments results

#	Account Caption	Risk of material misstatement identified	Procedures to address the risk of material misstatement	Audit year we have planned the procedures *
5	Housing Revenue Account (reserves)	Transfers to or from the Housing Revenue Account reserves are not appropriately identified, classified, or are not accurately recorded.	<p>For transactions in the year-ended 31 March 2023, we will:</p> <ul style="list-style-type: none"> Inspect a sample of Housing Revenue Account (HRA) expenditure to supporting audit evidence, to confirm the expenditure has been incurred and is correct to be classified as HRA expenditure; Inspect a sample of movements in the Major Repairs Reserve to supporting audit evidence, to confirm the movement is accurately recorded and in line with the requirements of the Code of Local Authority Accounting; and We will review expenditure and payments made in the period following 31 March 2023 to determine whether expenditure recognised is complete. <p><i>*We have not repeated procedures here that are covered within item 4 on the previous page, which outlines our procedures to confirm movements to the General Fund, Housing Revenue Account, and the unusable reserves, are consistent.</i></p>	2025/26

To carry out our audit procedures on the financial statements, we will:

- Agree the closing position as at 31/03/2022 (the financial statement period where the audit opinion was not disclaimed) to the subsequent year opening position up to and including the year ended 31 March 2026. We will ensure the accounts (as presented) agree to the general ledger, from which our testing will be carried out.



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