KPMG

Year End Report to the Governance and Audit Committee

West Lindsey District Council

Year end report for the year ended 31 March 2024

—

January 2025

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 financial statements of West Lindsey District Council (the 'Council'), prepared in accordance with International Financial Reporting Standards ('IFRSs') as adapted Code of Practice on Local Authority Accounting in the United Kingdom 2023/24, as at and for the year ended 31 March 2024.

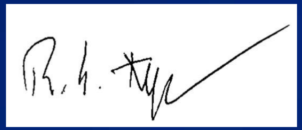
This Report has been prepared for the Council's Governance and Audit Committee, a sub-group of those charged with governance, in order to communicate matters that are significant to the responsibility of those charged with oversight of the financial reporting process as required by ISAs (UK), and other 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 but does not repeat matters we have previously communicated to you by written communication.

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.

Yours sincerely,



Rashpal Khangura

Director KPMG LLP
January 2025

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.

Status of our audit

Our audit is substantively complete. We will provide an oral update on the status. Page 3 'Our Audit Findings' outlines the outstanding matters in relation to the audit.
Our conclusions will be discussed with you before our audit report is signed.

Restrictions on distribution

The report is provided for the information of the Governance and Audit Committee of the Council; that it will not be quoted or referred to, in whole or in part, without our prior written consent; and that we accept no responsibility to any third party in relation to it.

Our audit findings

Significant audit risks	Page 5 –13
Significant audit risks	**Our findings**
Valuation of land and buildings	We have identified one misstatement related to year-end value of surplus land assets. Please see page 6 for further detail.
Valuation of investment property	We have not identified any misstatement from our work in respect of this significant risk
Valuation of post retirement benefit obligations	We have identified one misstatement with respect to management's IFRIC 14 assessment which resulted in a corrected audit difference for the current year in respect of minimum funding requirements (MFR) - see page 10 for further detail. We were able to conclude that no prior year adjustment was required for MFR.
Management override of controls	The results of our testing were found to be satisfactory and we have not identified any instances of management override of control.
Key accounting estimates	**Page 16**
Valuation of land and buildings	We have concluded that the assumptions used in the valuation of land and buildings are overall optimistic but within our acceptable range.
Valuation of investment property	We have concluded that the assumptions used in the valuation of investment properties are overall balanced.
Valuation of Pension Liabilities and Assets	We have concluded that the overall assumptions used by the management for valuation of post retirement benefit obligations and assets are balanced relative to our central rates and are reasonable within our range.

Uncorrected Audit Misstatements
No uncorrected audit misstatement has been noted.

Misstatements in respect of Disclosures	Page 29
Misstatement in respect of Disclosures	**Our findings**
Defined Benefit Pension Scheme	Disclosure changes following asset ceiling adjustment and other presentational changes
Officers' Remuneration	Correction of remuneration banding table and total amount of exit packages
Grants Receipt in advance	Correctly disclosing classification of grants receipt in advance by nature
Property, plant and equipment (PPE)	Presentational changes
Accounting policies	Presentational changes
Collection Fund Account	Presentational changes

Number of Control deficiencies	Page 30-31
Understatement/ (overstatement)	
Significant control deficiencies	0
Other control deficiencies	4
Prior year control deficiencies remediated	0

Outstanding matters

Our audit is substantially complete except for the following outstanding matters

- Finalisation processes
- Management representation letter
- Draft annual report to KPMG
- Finalise audit report and sign

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 knowledge of the business, the industry and the wider economic environment in which West Lindsey 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.

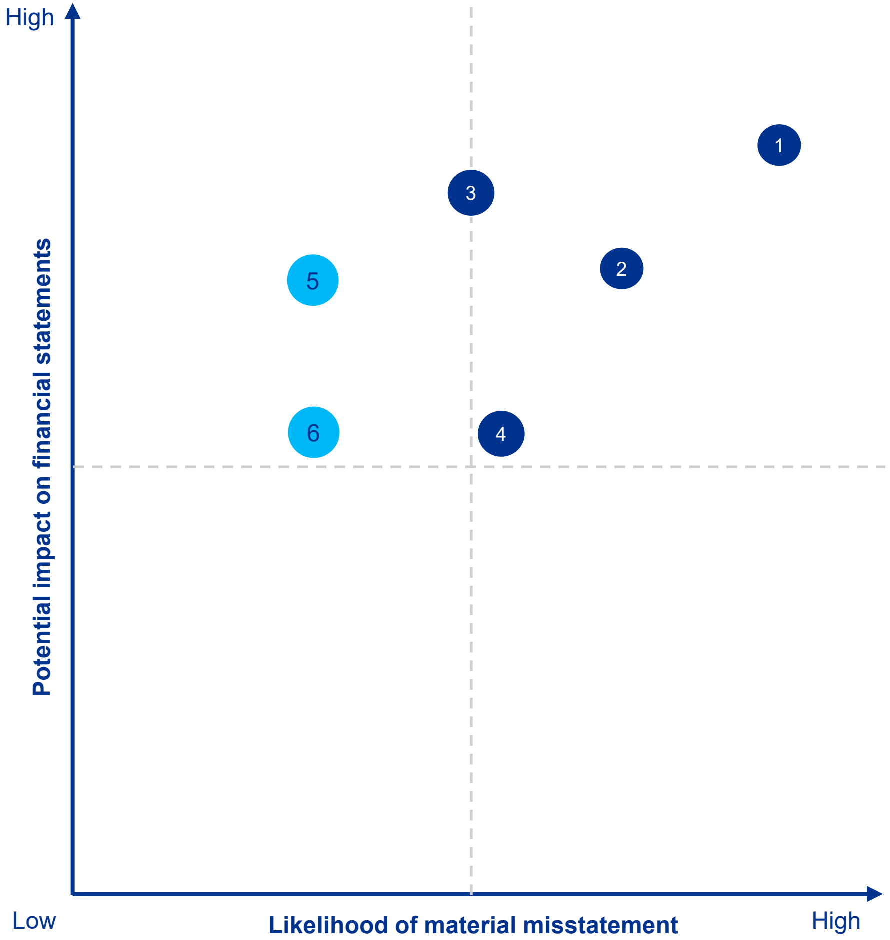
See the following slides for the cross-referenced risks identified on this slide.

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

Other audit risks	
5.	Revenue expenditure is inappropriately recognised as capital expenditure
6.	Revenue expenditure is inappropriately recognised as REFCUS

Key: # Significant financial statement audit risks

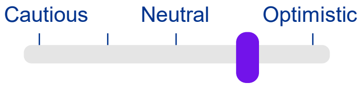
Other audit risk



Audit risks and our audit approach

1 Valuation of land and buildings

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



Significant audit risk

- The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The council adopts a full revaluation policy in relation to freehold and long leasehold land and buildings, with valuation occurring as at 31st March each financial year.
- Valuations are inherently judgemental and there is a risk of error that the assumptions are not appropriate or correctly applied by the Council's engaged external valuer Wilks, Head & Eve LLP (WHE).
- As per the draft 2023/24 financial statements, the value of the Council's land and buildings as at 31 March 2024 was £32m, all were subject to valuation.

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 WHE, the valuers used in developing the valuation of the Council's properties at 31 March 2024;
- 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 compared the accuracy of the data provided to the valuers for the development of the valuation to underlying information;
- We evaluated the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used;
- We challenged the appropriateness of the valuation of land and buildings; including any material movements from the previous revaluations. We challenged key assumptions within the valuation as part of our judgement;
- We agreed the calculations performed of the movements in value of land and buildings and verified that these have been accurately accounted for in line with the requirements of the CIPFA Code;
- We utilised our own valuation specialists to review the valuation report prepared by the Council's valuers to confirm the appropriateness of the methodology utilised; and
- Disclosures: We considered the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation.

Audit risks and our audit approach (cont.)

1 Valuation of land and buildings (cont.)

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

Cautious | Neutral | Optimistic

Significant audit risk

- The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The council adopts a full revaluation policy in relation to freehold and long leasehold land and buildings, with valuation occurring as at 31st March each financial year.
- Valuations are inherently judgemental and there is a risk of error that the assumptions are not appropriate or correctly applied by the Council's engaged external valuer Wilks, Head & Eve LLP (WHE).
- As per the draft 2023/24 financial statements, the value of the Council's land and buildings as at 31 March 2024 was £32m, all were subject to valuation.

Our response

- We, with the help of our valuation specialist team, have challenged the appropriateness of the valuation of land and buildings; including any material movements from the previous revaluations. We have challenged key assumptions within the valuation as part of our judgement.
- We have agreed the calculations performed of the movements in value of land and buildings and verified that these have been accurately accounted for in line with the requirements of the CIPFA Code.
- We identified one misstatement related to year-end value of surplus land assets. We challenged the Council's valuation basis for sites marked for potential development and upon re-assessment, these sites have been revalued with reference to amenity land rates. This resulted in total decrease in the value of these land assets by £1,484k.
- We considered the estimate to be overall optimistic based on the procedures performed due to the optimistic assumptions used in the valuation, however the resulting difference does not lead to a material error.
- We did not identify any issues in relation to the related disclosures.
- Auditing Standards requires auditors to identify a management review control (MRC) where there is a significant audit risk. There is a significant threshold that needs to be met in order to have a satisfactory MRC in place – particularly around the precision of the control. We note that although the Council has processes in place to help ensure that the valuation of land and buildings is based on best estimate, supported by reasonable assumptions, these processes do not meet the required threshold of an MRC. Management have confirmed that they are comfortable with the current arrangements of employing an external expert to provide their valuations, and rely on their professionalism and skills to provide an accurate valuation.

Audit risks and our audit approach (cont.)

2 Valuation of investment property

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

Cautious Neutral Optimistic

Significant audit risk

- The Code defines an investment property as one that is used solely to earn rentals or for capital appreciation or both. Property that is used to facilitate the delivery of services or production of goods as well as to earn rentals or for capital appreciation does not meet the definition of an investment property.
- The Council's property portfolio includes 9 commercial and industrial units, fair valued at £22.9m as at 31 March 2024.
- There is a risk that investment properties are not being held at fair value, as is required by the Code. At each reporting period, the valuation of the investment property must reflect market conditions. Significant judgement is required to assess fair value and management experts are often engaged to undertake the valuations.

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 WHE, the valuers used in developing the valuation of the Council's investment property at 31 March 2024;
- We inspected the instructions issued to the valuers to verify they are appropriate to produce a valuation consistent with the requirements of the CIPFA Code.
- We compared the accuracy of the data provided to the valuers for the development of the valuation to underlying information;
- We evaluated the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used;
- We challenged the appropriateness of the valuation; including any material movements from the previous revaluations. We challenge key assumptions within the valuation as part of our judgement;
- We agreed the calculations performed of the movements and verify that these have been accurately accounted for in line with the requirements of the CIPFA Code;
- We utilised our own valuation specialists to review the valuation report prepared by the Council's valuers to confirm the appropriateness of the methodology utilised; and
- Disclosures: We considered the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation.

Audit risks and our audit approach (cont.)

2 Valuation of investment property (cont.)

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

Cautious | Neutral | Optimistic

Significant audit risk

- The Code defines an investment property as one that is used solely to earn rentals or for capital appreciation or both. Property that is used to facilitate the delivery of services or production of goods as well as to earn rentals or for capital appreciation does not meet the definition of an investment property.
- The Council's property portfolio includes 9 commercial and industrial units, fair valued at £22.9m as at 31 March 2024.
- There is a risk that investment properties are not being held at fair value, as is required by the Code. At each reporting period, the valuation of the investment property must reflect market conditions. Significant judgement is required to assess fair value and management experts are often engaged to undertake the valuations.

Our findings

- We, with the help of our valuation specialist team, have challenged the appropriateness of the valuation of investment properties; including any material movements from the previous revaluations. We have challenged key assumptions within the valuation as part of our judgement.
- We have agreed the calculations performed of the movements in value of investment properties and verified that these have been accurately accounted for in line with the requirements of the CIPFA Code.
- We considered the estimate to be overall balanced based on the procedures performed due to the neutral assumptions used in the valuation of investment properties.
- We did not identify any issues in relation to accounting treatment of the valuation movements.
- We did not identify any issues in relation to the related disclosures.
- Auditing Standards requires auditors to identify a management review control (MRC) where there is a significant audit risk. There is a significant threshold that needs to be met in order to have a satisfactory MRC in place – particularly around the precision of the control. We note that although the Council has processes in place to help ensure that the valuation of investment properties is based on best estimate, supported by reasonable assumptions, these processes do not meet the required threshold of an MRC. Management have confirmed that they are comfortable with the current arrangements of employing an external expert to provide their valuations, and rely on their professionalism and skills to provide an accurate valuation.

Audit risks and our audit approach (cont.)

3 Valuation of post retirement benefit obligations

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

Cautious | Neutral | Optimistic

Significant audit risk

- The valuation of the post retirement benefit obligations involves the selection of appropriate actuarial assumptions, most notably the discount rate applied to the scheme liabilities, inflation rates and mortality rates. The selection of these assumptions is inherently subjective and small changes in the assumptions and estimates used to value the Council's pension liability could have a significant effect on the financial position of the Council.
- The effect of these matters is that, as part of our risk assessment, we determined that post retirement benefits obligation has a high degree of estimation uncertainty. The financial statements disclose the assumptions used by the Council in completing the year end valuation of the pension deficit and the year on year movements.
- We have identified this in relation to the following pension scheme memberships: Local Government Pension Scheme
- Also, recent changes to market conditions have meant that more Council/Authority 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 methodology and key assumptions made;
- Agreed the data provided by the audited entity to the Scheme Administrator for use within the calculation of the scheme valuation;
- 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;
- Confirmed that the accounting treatment and entries applied by the Council are in line with IFRS and the CIPFA Code of Practice;
- 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

Cautious | Neutral | Optimistic

Significant audit risk

- The valuation of the post retirement benefit obligations involves the selection of appropriate actuarial assumptions, most notably the discount rate applied to the scheme liabilities, inflation rates and mortality rates. The selection of these assumptions is inherently subjective and small changes in the assumptions and estimates used to value the Council's pension liability could have a significant effect on the financial position of the Council.
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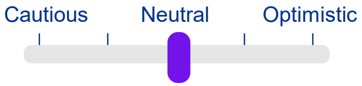
Our findings

- Upon review of the process and after discussions with management, we noted that there are no key controls in place around the assumptions. Although reviewed, management do not challenge the assumptions used or review the reasonableness of the calculations performed.
- We have assessed the overall assumptions used by management as balanced relative to our central rates and within our reasonable range. All of the individual assumptions were balanced and within our reasonable range (see next page).
- We challenged management's IFRIC 14 assessment which resulted in a corrected audit difference for the current year in respect of minimum funding requirements (MFR) (see page 28). We were able to conclude that no prior year adjustment was required for MFR.
- Following the Court of Appeal's dismissal of the Virgin Media appeal, we have recommended that the Council makes appropriate narrative disclosure that it is currently not clear if there is any impact on the benefits in LGPS Funds, therefore it is not possible for employers to quantify the DBO impact, if any.
- Our remaining work on disclosures is ongoing and management are currently working through our recommendations.

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



Significant audit risk

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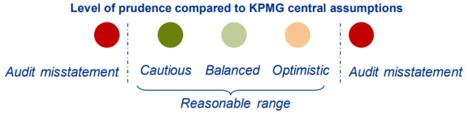
- The effect of these matters is that, as part of our risk assessment, we determined that post retirement benefits obligation has a high degree of estimation uncertainty. The financial statements disclose the assumptions used by the Council in completing the year end valuation of the pension deficit 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 Council/Authority 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 findings



Overall assessment of assumptions for audit consideration								Balanced	
Underlying assessment of individual assumptions		**Methodology**	**Consistent methodology to prior year?**	**Compliant methodology with accounting standard?**	**Employer**	**KPMG central**	**Assessment**	**Significant assumption**	
Discount rate		AA yield curve	✓	✓	4.90%	4.81%		✓	
CPI inflation		Deduction to inflation curve	✓	✓	2.90%	2.85%		✓	
Pension increases		In line with CPI	✓	✓	2.90%	2.97%			
Salary increases		Employer best estimate	✓	✓	CPI plus 1%	In line with long-term remuneration policy			
Mortality	Base tables	In line with most recent Fund valuation	✓	✓	130%/120% of SAPS S3 tables for Males/Females	In line with best-estimate Fund experience		✓	
	Future improvements	In line with most recent Fund valuation, updated to use latest available CMI model	✓ See next page	✓	CMI 2022, 1.25% long-term trend rate and default other parameters	CMI 2022,1.25% long-term trend rate and default other parameters		✓	
Other demographics		In line with most recent Fund valuation	✓	✓	In line with most recent Fund valuation	In line with Scheme experience			

Audit risks and our audit approach (cont.)

4 Management override of controls[a]

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

Significant audit risk

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

Our response

We have performed the following procedures designed to specifically address the significant risk associated with management override of controls:

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

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

Audit risks and our audit approach (cont.)

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

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

Significant audit risk

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

Our findings

- We have not identified any issues in relation to the Council's accounting policies, accounting estimates and financial statement disclosures.
- We identified 7 journal entries and other adjustments meeting our high-risk criteria – our examination did not identify unauthorised, unsupported or inappropriate entries.
- 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. Based on our walkthrough procedure, we noted that the Council's General Ledger application 'One Finance' does not enforce segregation of duties for journal and as such the design and implementation of controls over journal entries and post-closing adjustments were deemed to not be effective. Please see related control observation on page 30.
- Our procedures did not identify any significant unusual transactions.
- We evaluated accounting estimates, including the valuation of land and buildings; investment properties and pension obligation and did not identify any indicators of management bias. See page 16 for further details.
- Based on our review of related parties process, we noticed discrepancies with respect to accuracy of the Council's register of interest as at year-end. Please see related control observation on page 30.

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

Audit risks and our audit approach (cont.)

5 Revenue expenditure is inappropriately recognised as capital expenditure

Revenue expenditure is inappropriately recognised as capital expenditure

Other audit risk

Given the size of the Council's capital programme of £11.6m for 2023/24 (as per revised budget), we have identified an Other Audit Risk regarding the recognition of revenue expenditure being inappropriately recognised as capital expenditure.

Our response

We have performed the following procedures in order to respond to the other audit risk risk identified:

- We evaluated the design and implementation of controls for classifying expenditure as capital;
- We reviewed the capital programme for schemes which indicate they are of a revenue nature; and
- We tested capital expenditure incurred by the Council to ensure it is correctly capitalised.

Our findings

- From our work over the capital expenditure, we have not identified any issues of misclassification.

Audit risks and our audit approach (cont.)

6 Revenue expenditure is inappropriately recognised as REFCUS

Revenue expenditure is inappropriately recognised as REFCUS

Other audit risk

Given the size of the Council's revenue expenditure funded by capital (REFCUS) - £4.1m - we have identified an Other Audit Risk regarding the inappropriate classification of REFCUS.

Our response

We have performed the following procedures in order to respond to the other audit risk identified:

- We evaluated the design and implementation of controls for applying capital to fund revenue expenditure; and
- We tested a sample of revenue expenditure funded from capital to ensure it as been appropriately classified within the requirements.

Our findings

- From our review of REFCUS for the year, we have not identified any issues of misclassification.

KPMG

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
	Cautious / Neutral / Optimistic			Needs improvement / Neutral / Best practice	
Land and buildings		32	(2.7)		We considered the estimate to be overall optimistic based on the procedures performed due to the optimistic assumptions used in the valuation of land and building, however the resulting difference does not lead to a material error.
Investment properties		22.9	0.5		We considered the estimate to be overall balanced based on the procedures performed due to the neutral assumptions used in the valuation of investment properties.
LGPS gross DBO Gross defined obligation		72.3	1.3		Our actuarial specialists have assessed the overall and individual assumptions used by management in valuing the pension liabilities as balanced and within our reasonable range. No issues were noted in the judgements made in the valuation of pension liabilities.
LGPS gross DBA Gross defined benefit assets		69.8	7.6		We have assessed the asset returns adopted by the Fund and the consistency of asset allocation and share of scheme assets year on year. No issues were identified in the judgements made in the valuation of pension assets.

Other matters

Narrative report

We have read the contents of the Narrative Report and checked compliance with the requirements of the Annual Report and financial statements with the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 ('the Code'). Based on the work performed:

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

Annual Governance Statement

We have reviewed the Council's 2023/24 Annual Governance Statement and confirmed that:

- It is not misleading and is consistent with other information we are aware of from our audit of the financial statements.

Whole of Government Accounts

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

We have confirmed that, for West Lindsey District Council, the threshold at which detailed testing is required has not been exceeded.

We will submit an updated assurance statement on completion of the audit and following review the final financial statements.

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 PSAA prescribed 2023/24 audit scale fee for the audit was £132k plus VAT (£82k in 2022/23).

We have agreed with the Council and are awaiting approval through the PSAA Fee Variation process a variation of £9.5k for work associated with the new ISA315 revised Auditing Standard.

We have also completed non-audit work at the Council during the year and have included on page 25 confirmation of safeguards that have been put in place to preserve our independence.

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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 any risks of a significant weakness in the Council's arrangements to secure value for money.

We have no recommendations to report.

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 3 Performance Improvement Observations, which are suggestions for improvement but not responses to identified significant weaknesses. These are set out within our Auditor's Annual Report.

KPMG

03
West Lindsey District Council Appendices

Year ended 31 March 2024

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January 2025

Appendices

Contents	Page

Required communications

Type		Response
Our draft management representation letter	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 2024.
Adjusted audit differences	OK	There were 7 adjusted audit differences with a deficit impact of £9.3 million. See page 28.
Unadjusted audit differences	OK	There were no unadjusted audit differences from our audit procedures to date.
Related parties	OK	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit Committee	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.
Control deficiencies	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 that had not previously been communicated in writing within this report.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	OK	No actual or suspected fraud involving Council management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements identified during the audit.
Make a referral to the regulator	OK	We have not identified any such matters.
Issue a report in the public interest	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
Significant difficulties	OK	No significant difficulties were encountered during the audit.
Modifications to auditor's report	OK	None
Disagreements with management or scope limitations	OK	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	OK	No material inconsistencies were identified related to other information in the annual report, Strategic and Directors' reports. The Strategic report is fair, balanced and comprehensive, and complies with the law.
Breaches of independence	OK	No matters to report. The engagement team and others in the firm have complied with relevant ethical requirements regarding independence.
Accounting practices	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.
Significant matters discussed or subject to correspondence with management	OK	No significant matters arising.
Certify the audit as complete	OK	We have not yet certified the audit as complete because our work on WGA is outstanding
Provide a statement to the NAO on your consolidation schedule	OK	We will issue our report to the National Audit Office following the signing of the annual report and accounts.

Fees

Audit fee

Our fees for the year ending 31 March 2024 are set out in the PSAA Scale Fees communication and are shown below.

Entity	2023/24 (£'000)	*2022/23 (£'000)*
Statutory audit	132	*81.6[a]*
ISA315r	9.5	-
TOTAL	**141.5**	*81.6*

The ISA315r has been agreed with management and we are awaiting PSAA approval.

In the process of completing our audit we will be discussing with management a further fee variation for £8k to reflect the additional work associated with the additional testing as a result of the adjustments identified.

Note: (a) Fee charged by Mazars – your predecessor auditor.

Billing arrangements

- Fees have been billed in accordance with the milestone completion phasing that has been communicated by the PSAA.
- As per PSAA's Scale Fees Consultation, the scale fees did not include new requirements of ISA315 revised (risk of material misstatement); or ISA 240 (auditor's responsibilities relating to fraud.
- Additional fees will be subject to the fees variation process as outlined 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 Partner and audit staff is not impaired.

To the Governance and Audit Committee members

Assessment of our objectivity and independence as auditor of West Lindsey District Council

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

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

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

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners/directors and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values.
- Communications.
- Internal accountability.
- Risk management.
- Independent reviews.

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

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

Summary of non-audit services

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out 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 2023	Value of Services Committed but not yet delivered
1	Housing benefit grant certification	Management Self review Self interest	• Standard language on non-assumption of management responsibilities is included in our engagement letter. • The engagement contract makes clear that we will not perform any management functions. • The work is performed after the audit is completed and the work is not relied on within the audit file. • Our work does not involve judgement and are statements of fact based on agreed upon procedures.	Fixed	£0	£43,200

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 0.3: 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.

	2023/24
	£'000
Statutory audit	132
Other Assurance Services	43
Total Fees	**175**

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

Rashpal Khangura

KPMG LLP

Uncorrected audit misstatements

We have not identified any unadjusted audit differences during the audit to date.

Corrected audit misstatements

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

Corrected audit differences (£'000s)

No.	Detail	SOCI Dr/(cr)	SOFP Dr/(cr)	Comments
1	Dr Movement in asset ceiling Cr Net pension position	£7,929 -	- (£7,929)	We challenged the IFRIC 14 assessment to include minimum funding requirements resulting in management posting an additional liability to reflect the present value of future deficit recovery contributions which the council is committed to as at the balance sheet date.
2	Dr Impairment loss Cr Surplus land assets	£1,484 -	- (£1,484)	We challenged the Council's valuation basis for surplus assets of land sites marked for potential development. Upon re-assessment, five of such sites are assessed as not meeting the conditions for development in future. Therefore, these sites have been revalued with reference to amenity land rates. This resulted in impairment to book value of these surplus land assets.
3	Dr Bank Current Accounts Cr Short-term deposits	- -	£500 (£500)	Classification adjustment to correctly classify balance with bank from short-term deposit to cash at bank.
4	Dr Trade and other receivables Cr Short-term deposits	- -	£145 (£145)	Classification adjustment to correctly classify accrued interest on short term investments from cash and cash equivalents to trade and other receivables.
5	Dr Accrued Income Cr Service Grants	- (£76)	£76 -	Upon our review, we noticed that the Council did not accrue housing benefit subsidy income pertaining to current financial year. Upon identification, management adjusted the accounts to record correct amount of accrued income for the year.
6	Dr Capital Grant RIA Cr Revenue Grant RIA	- -	£298 (£298)	Classification adjustment to correct erroneous classification of revenue grant received in advance as capital grant received in advance.
7	Dr Other debtors Cr Trade debtors	- -	£134 (£134)	Adjustment to correctly classify provision against debtor from other receivable to trade debtors.
Total		**£9,337**	**(£9,337)**	

Corrected audit misstatements (Cont.)

We also identified some presentational issues which have been updated by management - the most significant of which are:

- Grant income disclosure update to reflect correct position of ‘Other Grants & Contributions’ income as £5,482k, previously disclosed as £5,665k
- PPE Note – Disclosure changes for better presentation of ‘Other land / buildings’ additions and other movements in cost.
- PPE Note – Disclosure update to disclose correct range of useful lives of infrastructure asset as 8-30 years (previously disclosed as 16-28 years) and surplus assets as 49-52 years (previously disclosed 49-51 years).
- Officers’ Remuneration – Updating remuneration band table to 14 employees in total, previously disclosed as 18
- Officers’ Remuneration – Updating total exit package amount for band £0-£20,000 to £23,803, previously disclosed as £21,822
- Defined Benefit Pension Scheme – Additional disclosure with respect to Virgin Media case
- Defined Benefit Pension Scheme – To disclose the adjustment of asset ceiling, reconciliation of asset ceiling, correct presentation of net pension liability post asset ceiling adjustment and better presentation of asset category table
- Collection Fund Account – Business Rates disclosure – Updated local rateable values to £53.8m as per Valuation Office Agency report for period ended 31 March 2024

Control Deficiencies

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

Priority rating for recommendations		
❶ **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.	❷ **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.	❸ **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	❷	**Journals segregation of duties (SOD) in One Finance** Based on our walkthrough of journal process, we noted that the Council's General Ledger application 'One Finance' does not enforce SOD for journal and as such the design and implementation of controls over journal entries and post-closing adjustments were deemed to not be effective. In the absence of an effective SOD control for journal authorisation, there is risk of erroneous and/or fraudulent journals being posted, which could result in a misstatement in the financial statements. Therefore, we recommend that management implements an effective system control that enforces SOD in the posting of journals.	Our systems administrator noted this issue on 31st January 2024 and raised the issue with T1 on 7th February 2024. System access for all was amended a week later on 14th February 2024. This has now been tested again and we are confident that segregation of duties is implemented within the system is operating effectively.
2	❷	**Register of interest for related parties** Based on our review of related parties process, we noticed discrepancies with respect to accuracy of the Council's register of interest (ROI) for members and senior management. We noticed two instances where interests of the member as per ROI were inconsistent with the latest declarations. We also noticed two instances where senior officers on ROI either left the Council or are no more part of the senior team however ROI is not updated for these changes. In the absence of effective oversight of ROI, there is risk that the Council will transact with third parties which are related parties without appropriate approval. Also, there is risk of disclosing incorrect related parties interests / transactions in the financial statements. Therefore, we recommend that the management should formalise its processes to periodically review ROI and ensure accuracy of related parties interests and transactions disclosed in the financial statements.	We will introduce a formal monthly process to review related parties, to ensure that these are accurate and correctly disclosed. This will be added to the finance teams monthly tasks and then reviewed by the relevant senior member of the team.

Control Deficiencies (cont.)

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
3	2	**Impairment review process** We noted from our work over valuation of land and buildings that the Council does not have a formal year-end impairment review process. Whilst there are processes in place for land and buildings there is a potential that indicators in impairment are missed across other assets. We recommend management consider implementing a formal write-out to asset holders to ensure any issues with assets are accurately reflected in impairment review and therefore ensuring all assets on the asset register are held at an appropriate value.	Asset managers are contacted prior to closedown each year to confirm they still have the assets they held the previous year. They are then asked to confirm the remaining useful life of the assets, if they are still operational and whether there is a plan to dispose of them. We will add to this process to ask the manager to confirm if there has been any physical deterioration, functional obsolescence, economic obsolescence, changes in use, legal restrictions or environmental contamination. Once returns are received the finance team will then consider factors which could mean an impairment is required such as market value decline, changes in interest rates, changes in economic conditions, changes in government policy and any natural disasters. If there are any of these then this will be discussed with the external valuers before the final valuations are arrived at.
4	3	**Monthly Fixed Asset Register (FAR) Reconciliation** Based on our walkthrough of the FAR reconciliation process, we noticed that while FAR and GL reconciliation is performed by Principal Corporate Accountant on monthly basis, reconciliation is not reviewed by senior member of the team. Also, we noticed that no documentation is maintained to evidence sign-off of the reconciliation by preparer. In the absence of robust oversight of the process, there is risk that FAR and GL differences will not be identified and could result in error in the accounts. Also, there is risk of lack of accountability if reconciliation is not signed-off by the relevant staff. We would recommend that the management should formalise its process of FAR reconciliation where it should be reviewed by senior member of the team. Also, formal documentation should be maintained to evidence sign-off by the preparer and reviewer.	A review will be done each month of the fixed asset register reconciliation by a senior member of the finance team. A cover sheet will be added to the monthly reconciliation currently undertaken which will then be signed by the preparer and reviewer to show this review has taken place.

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 thematics 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 company-specific.

Pre-issuance checks and restatements

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

Risks and uncertainties

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

Financial reporting framework

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

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

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

FRC's areas of focus (cont.)

Impairment of assets

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

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

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

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

Cash flow statements

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

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

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

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

Climate

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

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

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

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

Financial instruments

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

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

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

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

Judgements and estimates

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

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

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

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

FRC's areas of focus (cont.)

Revenue

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

Presentation

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

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

Income taxes

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

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

Strategic report and Companies Act

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

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

Fair value measurement

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

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

Thematic reviews

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

UK's largest private companies

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

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

Retail sector focus

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

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

2024/25 review priorities

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

- Industrial metals and mining
- Construction and materials
- Food producers
- Retail
- Gas, water and multi-utilities
- Financial Services

ISA (UK) 240 Revised: changes embedded in our practices

Ongoing impact of the revisions to ISA (UK) 240

ISA (UK) 240 (revised May 2021, effective for periods commencing on or after 15 December 2021) The auditor's responsibilities relating to fraud in an audit of financial statements included revisions introduced to clarify the auditor's obligations with respect to fraud and enhance the quality of audit work performed in this area. These changes are embedded into our practices and we will continue to maintain an increased focus on applying professional scepticism in our audit approach and to plan and perform the audit in a manner that is not biased towards obtaining evidence that may be corroborative, or towards excluding evidence that may be contradictory.

We will communicate, unless prohibited by law or regulation, with those charged with governance any matters related to fraud that are, in our judgment, relevant to their responsibilities. In doing so, we will consider the matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud.

Matters related to fraud that are, in our judgement, relevant to the responsibilities of Those Charged with Governance

Our assessment of the risks of material misstatement due to fraud may be found on page 3. We also considered the following matters required by ISA (UK) 240 (revised May 2021, effective for periods commencing on or after 15 December 2021) *The auditor's responsibilities relating to fraud in an audit of financial statements*, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud:

- Concerns about the nature, extent and frequency of management's assessments of the controls in place to prevent and detect fraud and of the risk that the financial statements may be misstated.
- A failure by management to address appropriately the identified significant deficiencies in internal control, or to respond appropriately to an identified fraud.
- Our evaluation of the entity's control environment, including questions regarding the competence and integrity of management.
- Actions by management that may be indicative of fraudulent financial reporting, such as management's selection and application of accounting policies that may be indicative of management's effort to manage earnings in order to deceive financial statement users by influencing their perceptions as to the entity's performance and profitability.
- Concerns about the adequacy and completeness of the authorization of transactions that appear to be outside the normal course of business.

Based on our assessment, we have no matters to report to Those Charged with Governance.

ISA (UK) 315 Revised: changes embedded in our practices

Summary

In the prior period, ISA (UK) 315 Revised "Identifying and assessing the risks of material misstatement" was introduced and incorporated significant changes from the previous version of the ISA.

These were introduced to achieve a more rigorous risk identification and assessment process and thereby promote more specificity in the response to the identified risks. The revised ISA was effective for periods commencing on or after **15 December 2021**.

The revised standard expanded on concepts in the existing standards but also introduced new risk assessment process requirements – the changes had a significant impact on our audit methodology and therefore audit approach.

What impact did the revision have on audited entities?

With the changes in the environment, including financial reporting frameworks becoming more complex, technology being used to a greater extent and entities (and their governance structures) becoming more complicated, standard setters recognised that audits need to have a more robust and comprehensive risk identification and assessment mechanism.

The changes result in additional audit awareness and therefore clear and impactful communication to those charged with governance in relation to (i) promoting consistency in effective risk identification and assessment, (ii) modernising the standard by increasing the focus on IT, (iii) enhancing the standard's scalability through a principle based approach, and (iv) focusing auditor attention on exercising professional scepticism throughout risk assessment procedures.

Implementing year 1 findings into the subsequent audit plan

Entering the second year of the standard, the auditors will have demonstrated, and communicated their enhanced insight into their understanding of your wider control environment, notably within the area of IT.

In year 2 the audit team will apply their enhanced learning and insight into providing a targeted audit approach reflective of the specific scenarios of each entity's audit.

A key area of focus for the auditor will be understanding how the entity responded to the observations communicated to those charged with governance in the prior period.

Where an entity has responded to those observations a re-evaluation of the control environment will establish if the responses by entity management have been proportionate and successful in their implementation.

Where no response to the observations has been applied by entity, or the auditor deems the remediation has not been effective, the audit team will understand the context and respond with proportionate application of professional scepticism in planning and performance of the subsequent audit procedures.

What will this mean for our on-going audits?

To meet the on-going requirements of the standard, auditors will each year continue to focus on risk assessment process, including the detailed consideration of the IT environment.

Subsequent year auditor observations on whether entity actions to address any control observations are proportionate and have been successfully implemented will represent an on-going audit deliverable.

Each year the impact of the on-going standard on your audit will be dependent on a combination of prior period observations, changes in the entity control environment and developments during the period. This on-going focus is likely to result in the continuation of enhanced risk assessment procedures and appropriate involvement of technical specialists (particularly IT Audit professionals) in our audits which will, in turn, influence auditor remuneration.

KPMG's Audit quality framework

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

To ensure that every engagement lead and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework. Responsibility for quality starts at the top through our governance structures as the UK Board is supported by the Audit Oversight Committee, and accountability is reinforced through the complete chain of command in all our teams.

Commitment to continuous improvement

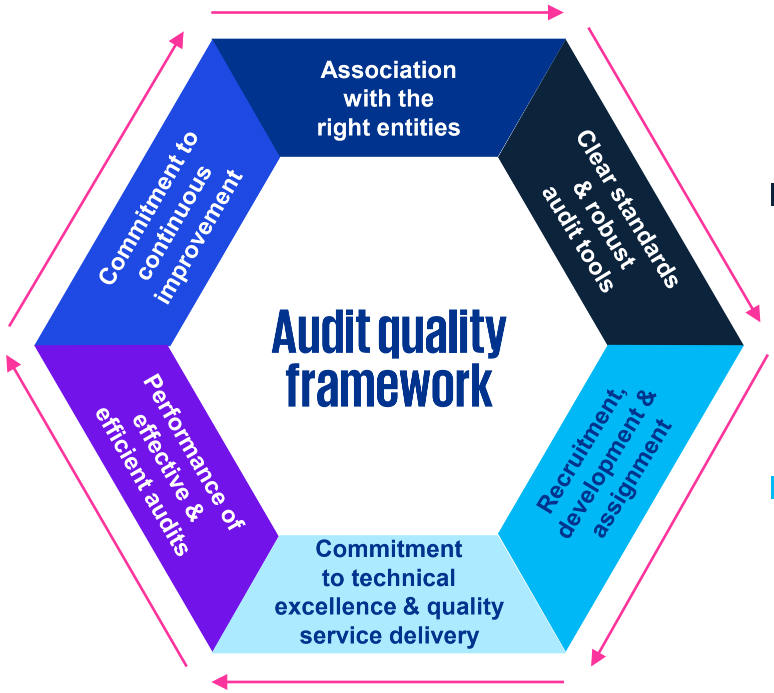
- Comprehensive effective monitoring processes
- Significant investment in technology to achieve consistency and enhance audits
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

Performance of effective & efficient audits

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

Commitment to technical excellence & quality service delivery

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



Association with the right entities

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

Clear standards & robust audit tools

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

Recruitment, development & assignment of appropriately qualified personnel

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

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