

# City of Lincoln Council

## **DRAFT - Report to the Audit Committee**

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

**June 2025**

# Introduction

## To the Audit Committee of City of Lincoln Council

We are pleased to have the opportunity to meet with you on 3rd June to discuss our audit of the financial statements of City of Lincoln Council for the year ended 31 March 2025.

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

This report outlines our risk assessment and planned audit approach.

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

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## The engagement team

Rashpal Khangura is the engagement director on the audit. He has over 20 years experience in public sector audit.

Rashpal Khangura shall lead the engagement and is responsible for the audit opinion.

Other key members of the engagement team include engagement manager John Blewett and in-charge Dominic Kular with 8 years and 4 years of experience respectively.

Yours sincerely,

**Rashpal Khangura**

**Director - KPMG LLP**

June 2025

## How we deliver audit quality

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

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

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

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

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

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Rashpal Khangura ([Rashpal.Khangura@KPMG.co.uk](mailto:Rashpal.Khangura@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 raise your complaint as per the following process [Complaints](#).

# Overview of planned scope including materiality

## Our materiality levels

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

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

To respond to aggregation risk from individually immaterial misstatements, we design our procedures to detect misstatements at a lower level of materiality £1.5m / 75% of materiality driven by our expectations of normal level of undetected or uncorrected misstatements in the period. We also adjust this level further downwards for items that may be of specific interest to users for qualitative reasons.

## We will report misstatements to the audit committee including:

- Corrected and uncorrected audit misstatements above £0.1m.
- Errors and omissions in disclosure (Corrected and uncorrected) and the effect that they, individually in aggregate, may have on our opinion.
- Other misstatements we include due to the nature of the item.

## Control environment

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

## Entity Materiality

Entity	
Materiality for the financial statements as a whole	<b>£2m</b> (2023/24: £2m 2% of Expenditure)
Performance Materiality	<b>£1.5m</b> (2023/24 : £1.3m 65% of Materiality)
Misstatements reported to the audit committee	<b>£0.1m</b> (2023/24: £0.1m)

# Overview of planned scope including materiality (cont.)

## Timing of our audit and communications

- We will maintain communication led by the engagement director and manager throughout the audit. We set out below the form, timing and general content of our planned communications:
- Kick-off meeting with management in March 2025 where we discuss our draft audit plan outlining our audit approach and discuss management's progress in key areas;
- Audit Committee meeting in June 2025 where we present our final audit plan;
- Status meetings with management during July to September 2025 where we communicate progress on the audit plan, any misstatements, control deficiencies and significant issues;
- Closing meeting with management in September 2025 where we discuss the auditor's report and any outstanding deliverables;
- Audit Committee meeting in September 2025 where we communicate audit misstatements and significant control deficiencies; and
- Biannual private meetings can also be arranged with the Committee chair if there is interest.

## Using the work of others and areas requiring specialised skill

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

Others	Extent of planned involvement or use of work
<b>KPMG Pensions Centre of Excellence</b>	The pensions audit team will perform all planning, risk assessment and substantive procedures over the LGPS account balances. KPMG actuary will review and assess the underlying assumptions within the entity's year-end actuarial report.
<b>Internal Audit</b>	We will review the work of internal audit as part of our risk assessment procedures but will not place reliance on their work.

# Significant risks and Other audit risks

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

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

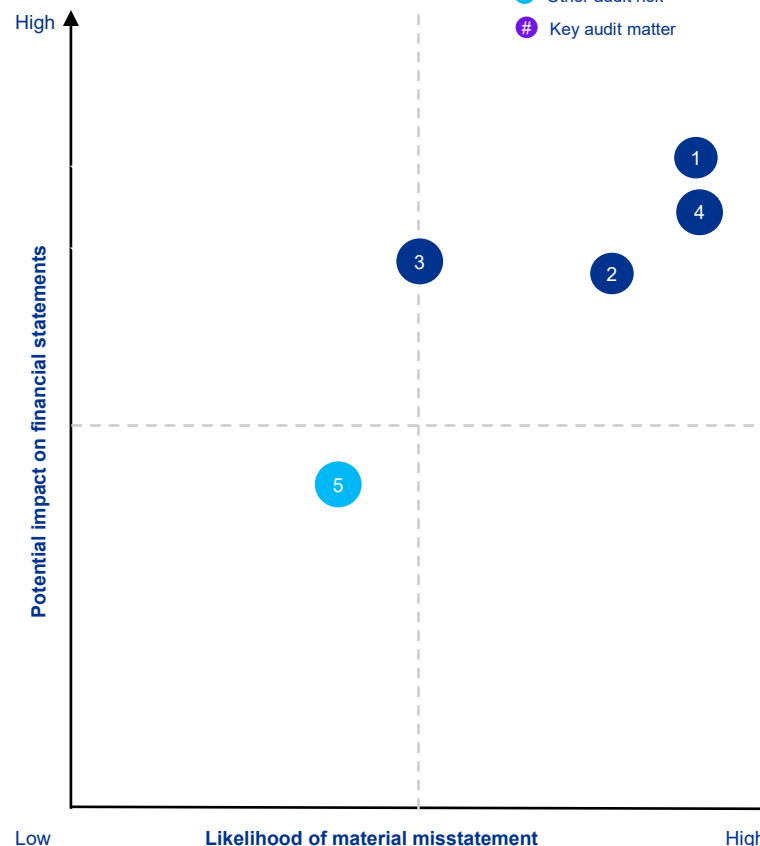
## Significant risks

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

## Other audit risks

5. Adoption of IFRS 16

Key: # Significant financial statement audit risks  
 # Other audit risk  
 # Key audit matter



## Value for money

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

# Audit risks and our audit approach (cont.)

1

## Valuation of land and buildings

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

Change vs prior year



### Significant audit risk

The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate current value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle, with land and buildings outside the full revaluation subject to a desktop review. The Authority engages the District Valuer for all Housing property and employs an in-house valuer for all other land and buildings.

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

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

As at March 2024, the net book value of Land and Buildings was £83,738k and Council Dwellings was £331,830k.



### Planned response

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

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

# Audit risks and our audit approach (cont.)

2

## Valuation of investment property

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

Change vs prior year



### Significant audit risk

The Code defines an investment property as one that is used solely to earn rentals or for capital appreciation or both. Property that is used to facilitate the delivery of services or production of goods as well as to earn rentals or for capital appreciation does not meet the definition of an investment property. As at March 2024, the value of investment properties was £38.3m.

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.



### Planned response

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

We will critically assess the independence, objectivity and expertise of the valuer used in developing the valuation of the Council's investment property at 31 March 2025;

We will inspect the instructions issued to the valuers to verify they are appropriate to produce a valuation consistent with the requirements of the CIPFA Code.

We will compare the accuracy of the data provided to the valuers for the development of the valuation to underlying information;

We will evaluate the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used;

We will challenge the appropriateness of the valuation; including any material movements from the previous revaluations. We will challenge key assumptions within the valuation as part of our judgement;

We will agree the calculations performed of the movements and verify that these have been accurately accounted for in line with the requirements of the CIPFA Code;

We will utilise our own valuation specialists (as required) to review the valuation report prepared by the Council's valuer to confirm the appropriateness of the methodology utilised; and

Disclosures: We will consider the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation.

# Audit risks and our audit approach (cont.)

3

## Management override of controls(a)

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

Change vs prior year



### Significant audit risk

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

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



### Planned response

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

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



# Audit risks and our audit approach (cont.)

## 4 Valuation of post retirement benefit obligations

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

Change vs prior year



### Significant audit risk

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



### Planned response

We will perform the following procedures:

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

# Audit risks and our audit approach

## Expenditure – rebuttal of Significant Risk

Practice Note 10 states that the risk of material misstatement due to fraudulent financial reporting may arise from the manipulation of expenditure recognition is required to be considered.

Having considered the risk factors relevant to the Council and the nature of expenditure within the Council, we have determined that a significant risk relating to expenditure recognition is not required.

Specifically, the financial position of the Council, (whilst under pressure) is not indicative of a position that would provide an incentive to manipulate expenditure recognition and the nature of expenditure has not identified any specific risk factors.

# Audit risks and our audit approach

## Revenue – Rebuttal of Significant Risk

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

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

# Audit risks and our audit approach

5

## Adoption of IFRS 16

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

Change vs prior year



[Other audit risk]

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

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

- Completeness of lease listing used in transition computations.
- Inadequate lease disclosures as per IFRS 16.
- Inaccurate computation of lease liabilities and right of use assets.
- Training needs for new/existing staff



Planned response

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

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

# Mandatory communications

Type	Statements
<b>Management's responsibilities (and, where appropriate, those charged with governance)</b>	<p>Prepare financial statements in accordance with the applicable financial reporting framework that are free from material misstatement, whether due to fraud or error.</p> <p>Provide the auditor with access to all information relevant to the preparation of the financial statements, additional information requested and unrestricted access to persons within the entity.</p>
<b>Auditor's responsibilities</b>	Our responsibilities set out through the NAO Code (communicated to you by the PSAA) and can be also found on their website, which include our responsibilities to form and express an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.
<b>Auditor's responsibilities – Fraud</b>	This report communicates how we plan to identify, assess and obtain sufficient appropriate evidence regarding the risks of material misstatement of the financial statements due to fraud and to implement appropriate responses to fraud or suspected fraud identified during the audit.
<b>Auditor's responsibilities – Other information</b>	Our responsibilities are communicated to you by the PSAA and can be also found on their website, which communicates our responsibilities with respect to other information in documents containing audited financial statements. We will report to you on material inconsistencies and misstatements in other information.
<b>Independence</b>	Our independence confirmation at page 30 discloses matters relating to our independence and objectivity including any relationships that may bear on the firm's independence and the integrity and objectivity of the audit engagement director and audit staff.

# Mandatory communications - additional reporting

## Going concern

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






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

## Additional reporting

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

Work is completed throughout our audit and we can confirm the matters are progressing satisfactorily 	We have identified issues that we may need to report 	Work is completed at a later stage of our audit so we have nothing to report 
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We have summarised the status of all these various requirements at the time of planning our audit below and will update you as our work progresses:

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

# Value for money risk assessment



# Value for money

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

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

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

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

## **Risk assessment processes**

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

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

## **Reporting**

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

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

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

### **Financial sustainability**

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

### **Governance**

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

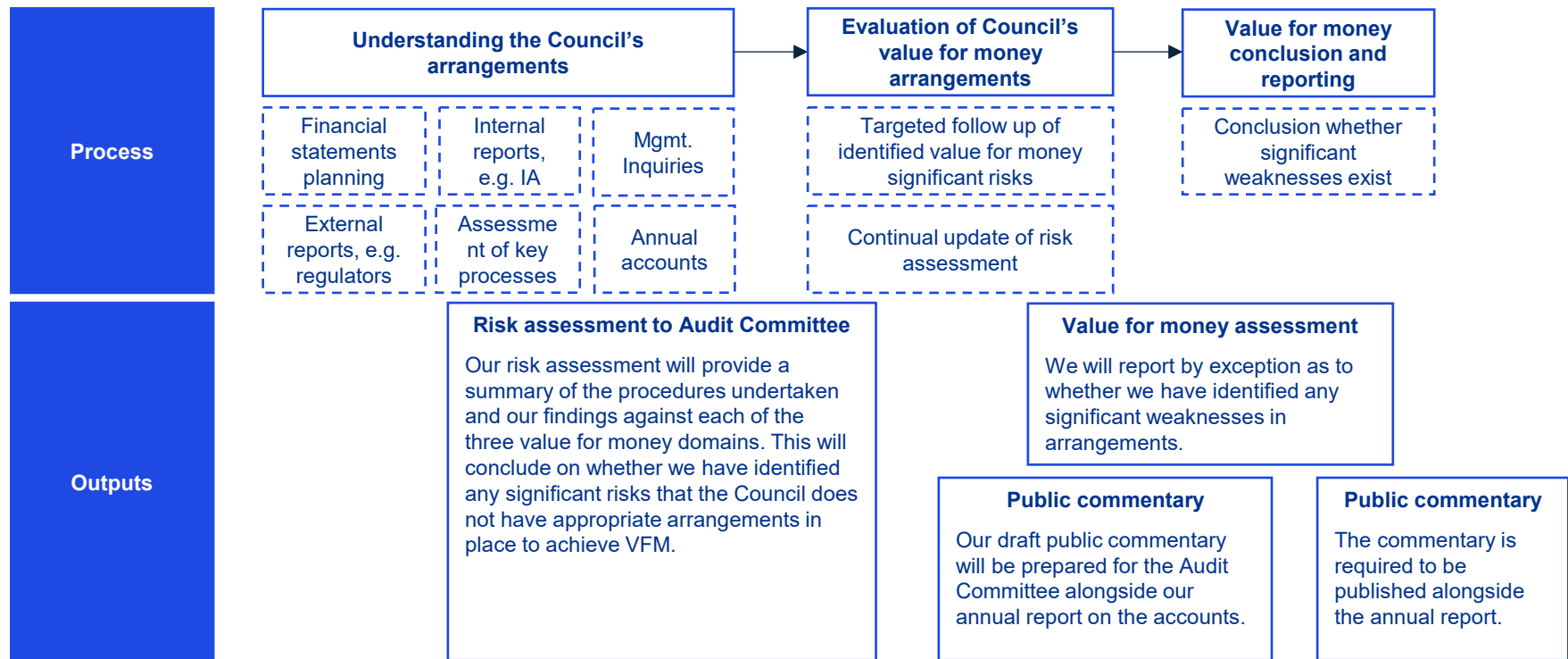
### **Improving economy, efficiency and effectiveness**

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



# Value for money

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



# Summary of risk assessment

## Summary of risk assessment

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

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

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

We have not identified any significant risks that there are not appropriate arrangements in place as part of the procedures we have undertaken. We have provided a summary of the procedures performed and our key findings from these on pages 19 to 26.

We have not raised any recommendations as a result of our work.

We have not raised any performance improvement observations as a result of our work.

# Value for money arrangements

## Financial sustainability

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

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

### Summary of risk assessment

#### *Budget setting*

- The budget setting process is a rolling process as part of the Medium Term Financial Strategy, this usually starts in the autumn of the previous year. For 2024-25, the preparation of the budget began in October 2023 with budgets approved March 2024. A detailed timetable is agreed by Executive and Council to ensure appropriate scrutiny and challenge can occur throughout the process. Budgets are initially prepared at a service level with budget managers producing initial expectations of requirements using their knowledge of the directorate through ongoing budget planning meetings. Discussions with finance teams in both these services identified that detailed analysis on both demographic pressures and inflationary pressures (specifically with regard to external providers) are considered during the initial budget preparation stage. It is during this initial preparation at the service level that potential savings programmes are also identified and reviewed.
- Service budgets are directorate driven and an iterative process of budget proposals considered by each of the Assistant Directors for their services. This is then presented to the Directorate Management Team (DMT) for challenge by the Director. Agreed Directorate proposals are then presented to Corporate Management Team (CMT) for challenge and agreement or not for inclusion in the budget. The Finance Team are involved in all of these stages and also provide independent challenge to the Directorates. CMT consider, and challenge, the CFO's proposals for underlying assumptions and resources assumptions. Budget Scrutiny Review Group provide cross party challenge of the budget and MTFS proposals. Communications take place prior to setting the budgets to allow review and challenge of any assumptions.

#### *Budget monitoring*

- Budget monitoring is performed quarterly, with reports provided to Directorate Management Teams, Corporate Management Teams and Executive, and these reports set out the current situation relative to budget and movements since the previous reports. They also cover the forecast for the remainder of the year. The Finance Team meet with budget holders to agree forecast outturn positions these are then agreed with ADs. These are detailed through quarterly monitoring reports which are completed by the DMTs. The overall position is then presented to CMT for agreement prior to reporting to Members.

# Value for money arrangements

## Financial sustainability

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

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

### Outturn

- For 2024-25, the Council set a balanced budget, with a small planned surplus of £146k in General Fund. At quarter three, the Council forecasted an underspend of £285k which was a further improvement on £138k underspend against the original budget. The key drivers of these positive movements in the forecast were increased car park income (£334k), reduced borrowing costs (£332k) and release of the inflation volatility reserve (£184k). These were offset by some cost increases in areas such as non-recoverable accommodation and housing costs (£388k) and decrease in net crematorium income (£387k). Overall the Council is expecting closing General Fund reserves of £2.53m, which is above the Council's stated prudent minimum range of c.£1.5-£2m.
- For the Housing Revenue account the Council had budgeted for a small deficit of £101k in Housing Revenue Account. At quarter three, that position had improved and the Council forecasted an underspend of £613k, driven by improved rental and investment income, in addition to an overall forecast surplus on the Housing Repairs Service.
- The below table shows the actual reserves position as at March 2024 (excl. Insurance reserves) compared to the Q3 forecast reserves position at March 2025 (excl. Insurance reserves):

Reserve	Forecast 2024/25 (£m)	2023/24 (£m)
General Fund	2.5	2.2
General Fund Earmarked	7.0	8.3
<b>Total General Fund Balance</b>	<b>9.5</b>	<b>10.5</b>
HRA	1.7	1.1
HRA Earmarked	4.8	4.6
<b>Total HRA Balances</b>	<b>6.5</b>	<b>5.7</b>

- We note that forecast closing reserves for GF and HRA remain above the expected minimum.

# Value for money arrangements

## Financial sustainability

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

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

### *Savings*

- As part of the Council's Toward Financial Sustainability Programme (TFS), the 2024-25 plan included the requirement to deliver savings of £125k. Savings plans are developed as part of the overall budget setting process and therefore encounter the same levels of challenge, scrutiny and approval as detailed above. Performance against the TFS target is monitored by CMT and reported quarterly to Performance Scrutiny as part of the monitoring process. Actions identified where projects fall behind plan are done through CMT as well as by individuals through project management. At quarter three, the Council was reporting secured savings total £89k for the General Fund, resulting in an under-achievement of £36k in year.

### *Links to risk management*

- The Council's Risk Management Policy details a clear process and reporting structure in how the entity is to respond and manage risks. The Council maintains a Strategic Risk Register (SRR) to identify and assess risks – including those relating to financial sustainability. The Audit Committee has overall responsibility for oversight of the register and is discussed at the Committee meetings regularly. The SRR is reported and monitored quarterly at the Performance Scrutiny Committee. At Q3 delivery of the MTFS remains red rated risk in the SRR whilst failure to deliver TFS is rated amber. Long and short-term mitigating actions are included and there is clear evidence of regular review and update within Performance Scrutiny Committee.

### **Risk assessment conclusion**

Based on the risk assessment procedures performed to date, we have not identified a significant risk associated with financial sustainability.

# Value for money arrangements

## Governance

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

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

### Summary of risk assessment

#### *Risk Management*

- Risks are identified in line with the Council's Risk Management Strategy. This includes quarterly reviews of Strategic and Directorate registers where new risks are considered and escalated where necessary. Assessing the impact and likelihood of each risk is done as through a matrix which uses a likelihood/impact model to calculate a risk score. The score is assigned as per the strategy guidance. Challenge comes through a range of officer involvement through project boards. Support is also brought in from the County Council Risk Management Service as required to provide further support and challenge.
- The Strategic risk register is presented to Performance Scrutiny and Executive on a Quarterly Basis. During the Q3 monitoring there were 15 risks contained within the strategic risk register; 7 were rated high (almost certain/critical) and 8 were rated medium (probable/major). The development of actions is completed using the Risk management strategy Toolkit. Actions use the avoid/modify/transfer/retain matrix to evaluate responses to the risk depending on the severity and likelihood. Monitoring is undertaken through either project management teams or boards. Performance Scrutiny are asked to consider the register and report any comments/issues to the Executive who also receive the register. Committee reports for all key decisions are required to set out the key risk associated with the proposed decision. This is a mandatory requirement.

#### *Counter Fraud*

- The Council undertake a number of measures to prevent and detect fraud. There is a Counter Fraud policy strategy which complies with the requirements of the code, this sets out key actions for the Council to ensure compliance. This was reviewed and updated in April 2024. The Council also receives assurance through the work of internal audit, and all staff are required to complete the e-learning on fraud which is held centrally. An annual fraud report is presented to the Audit Committee including the counter fraud action plan and fraud risk register. Overall cases in 23/24 had increased slightly on 22/23 but the areas of fraud remained broadly similar, with the majority being in relation to Housing Benefit and Council Tax. We will review the level of cases in 24/25 as the audit continues. The Council has ongoing actions in these areas. The Council is also part of the Lincolnshire Counter Fraud Partnership which shares good practice and provides advice.

# Value for money arrangements

## Governance

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

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

### *Risks related to finance*

- The 2024-25 financial plan, as part of the MTFS, went through several levels of review prior to approval by the Council in March 2024. The MTFS includes a risk assessment of the key financial risks that the Council faces over the 5-year period. These risks are modelled to include inflation, council tax base, business rates base, pay inflation, interest rates etc. The MTFS also includes a section on Financial Resilience/Scenario Planning and Reserves.
- Financial performance is monitored against budget regularly as outlined on page 19. As part of reporting to Performance and Scrutiny Committee, variances against budget are clearly identified and explained. Any mitigating actions are also identified. During 24/25 the Council has been able to manage increases in costs with increased income and continues to report an underspend for the year.

### *Compliance with Laws and Regs*

- The City Solicitor, in the role of Monitoring Officer, is responsible for monitoring compliance with all relevant/applicable legal requirements. All Executive reports are subject to mandatory consultation with Legal Services and Financial Services, with those more contentious decisions seeking sign off by the Section 151 officer and Monitoring Officer. Where required Executive Reports are supported by Equality Impact Assessments. Management inquiries have confirmed there have been no breaches of legislation or regulatory standards that has led to an investigation by any legal or regulatory body during the year.

### *Code of Conduct*

- The Council's Code of Conduct communicates values and expected behaviours of staff, this is covered through the Code of Conduct, Disciplinary Policy, Dignity and Work Policy and Probation Policy. This is communicated to staff as part of the recruitment process and is available on the staff intranet. This also covers requirements with regard to gifts and hospitality and the register of interests. There are a number of other policies available to view on the Council's website as well as the Constitution.

# Value for money arrangements

## Governance

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

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

### *Decision making*

- Our risk assessment procedures and management inquiries confirm the Council has appropriate arrangements in place to ensure scrutiny, challenge and transparency of decision making. Key decision making is subject to discussion and scrutiny at executive team level and relevant sub-committees such as Performance and Scrutiny. The majority of decision-making takes place at Executive while decisions taken by full Council are mainly around the MTFS and overall policy/strategic plan and constitutional matters. All key decision records are available to view on the Council's website.
- There have been a number of key decisions made by the Council in year, which demonstrate the Council's key decisions are made following the appropriate process – these include:
  - Western Growth Corridor project (now Charterholme as of December 2024),
  - changes to the Leisure Services contract, investment in IT hardware,
  - the transfer into the Council of the maintenance of telecare services from North Kesteven District Council;
  - and the preparations for introduction of statutory food waste collection service in 25/26.
- The Western Growth Corridor/Charterholme project has had some significant developments in 24/25. The Council approved the commencement of work on the eastern access road in July 2024 and confirmed the conditions under which this would be subsequently adopted by Lincolnshire County Council. The delivery of the bridge has also been confirmed and work is progressing in line with plan, with completion date estimated for March 2026. The Council then entered into an agreement with Lindum Developments Ltd in July 2024 for the delivery of the first 52 homes following executive approval.
- This is a large project for the Council to manage and deliver and presents a significant risks. There are project management arrangements in place, including agreements with key partners and contractors, which help to mitigate these risks. At each stage of the project there are opportunities for review and scrutiny of progress, and appropriate approvals within the Councils management and committee structure. The agreements with contractors also contain break clauses which allow the Council to mitigate the risk. We will continue to monitor the arrangements in place as the project progresses.

### **Risk assessment conclusion**

Based on the risk assessment procedures performed to date, we have not identified a significant risk associated with governance.



# Value for money arrangements

## Improving economy, efficiency and effectiveness

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

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

### Summary of risk assessment

#### *Performance information and performance management*

- We have found appropriate arrangements and processes in place to support the Council in using information about costs and performance to improve the way services are managed and delivered, with a focus on the level of value for money being achieved. This is reported quarterly through Performance and Scrutiny Committee and Executive.
- The Council's performance framework includes regular service monitoring of detailed performance trends covering Performance measures, Volumetric measures and Customer satisfaction. The most recent performance reports is that of the Q3 Monitoring reports. At the end of Q3 of the 87 performance measures 54 were either acceptable of meeting/exceeding the target. 12 were red rated as below target and 25 were volumetric. There were action plans in place for all metrics below target. For example, for performance measure *AH 1 - Number of affordable homes delivered*, work has now been completed on the Hermit Mews Housing development, a redevelopment project funded by the Council and Homes England.
- Performance Scrutiny Committee reviews service and financial performance (against cost, performance, and satisfaction) on a quarterly basis and periodically reviews key (off target) services. Quarterly reports are also presented to the Executive. The performance framework also includes regular monitoring of Portfolios with annual reports from Portfolio Holders with a key focus on performance, these are presented to the Performance Scrutiny Committee. The Council reviews its corporate performance measures annually through a target setting process. The process is co-ordinated by the Corporate Policy and Transformation team, with input from all directorates. Target setting incorporates benchmarking, assessment of local conditions, and national indicators/reporting requirements. Key examples of this are found in financial performance monitoring where management use regional and national data to give context to the Council's current position.

*(Continued)*

# Value for money arrangements

## Improving economy, efficiency and effectiveness

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

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

### *Benchmarking*

- The Council participates in benchmarking activities through LG Futures which includes service unit costs, actuals and budgets, fees & charges and local taxation. Service unit costs are further analysed and used as a tool to support the development of future transformation and savings programme development.
- Per the benchmarking report to CMT in October 2024, it was noted that the Council's spend per resident is greater than many comparable authorities, with net expenditure per resident budgeted to be 35.5% higher than the nearest neighbour average. It was ranked 3rd highest out of the 16 authorities in the group. The report does explain that after the data is adjusted for some distortions the council's performance improves slightly to 5<sup>th</sup> highest out of the 16 authorities in the group.

### *Partnership working*

- The Council works closely with other organisations locally to support delivering economy, efficiency and effectiveness, for example the Council shares its Revenue and Benefits operations team with other councils in Lincolnshire under service level agreements. One of the Council's key partnership is with Lindum Western Growth Community Ltd for the Western Growth Corridor/Charteholme and this is managed through a Delivery Agreement and joint Board, as detailed on page 23. We have also seen evidence of how the Council worked with other partners on issues which could impact on the City, including emerging issues.

### **Risk assessment conclusion**

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

# Appendix

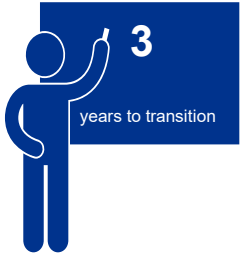
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# Audit team and rotation

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

<p><b>Rashpal Khangura</b> is the director responsible for our audit. They will lead our audit work, attend the Audit Committee and be responsible for the opinions that we issue.</p>	<p><b>John Blewett</b> is the manager responsible for our audit. They will co-ordinate our audit work, attend the Audit Committee and ensure we are co-ordinated across our accounts and use of funds work.</p>	<p><b>Dominic Kular</b> is the in-charge responsible for our audit for the second year. They will be responsible for our on-site fieldwork. He will complete work on more complex section of the audit.</p>
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To comply with professional standard we need to ensure that you appropriately rotate your external audit director. There are no other members of your team which we will need to consider this requirement for:



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

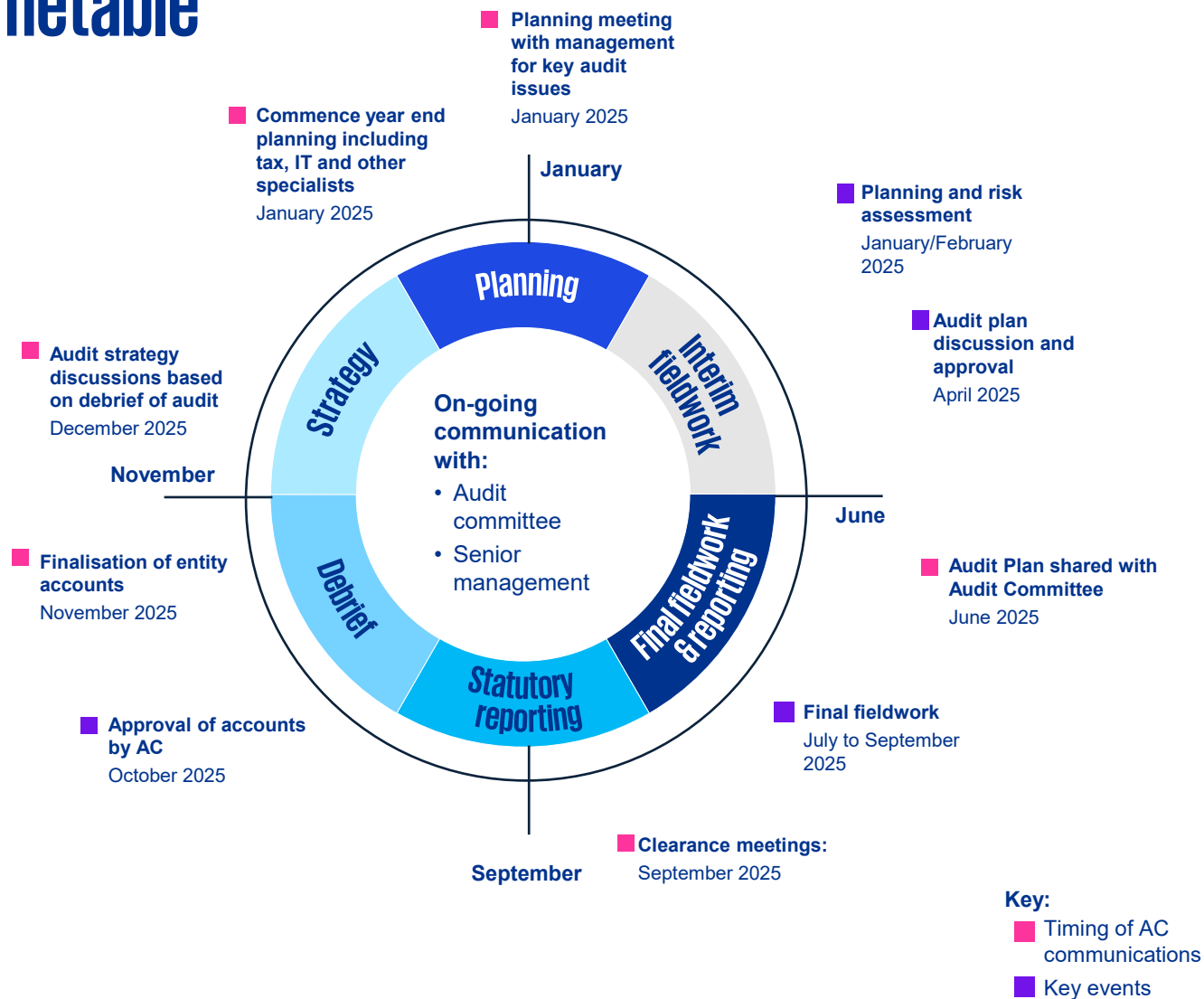
# Audit cycle & timetable

## Our schedule Jan 2025 – Dec 2025

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

We have agreed with management an audit cycle and timetable that reflects our aim to sign our audit report by December 2025.

Given the large amount of consultation happening in regard to the scope and timing of local government this audit **schedule may be subject to change**.



# Fees

## Audit fee

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

Entity	2024/25 (£'000)	2023/24 (£'000)
Statutory audit	154	140
ISA315r	0	10
Fee variations		TBC*
<b>Total</b>	<b>154</b>	<b>150</b>

\*Fee variations for £3k from 23/24 have been agreed with management and submitted to PSAA for approval.

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

## Billing arrangements

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

## Basis of fee information

Our fees are subject to the following assumptions:

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

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

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

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

# Confirmation of Independence

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

## To the Audit and Risk Committee members

### Assessment of our objectivity and independence as auditor of [entity name]

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

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's	Value of Services Committed but not yet delivered £000's
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	TBC	TBC
2	Pooling of Local Authority Housing Receipts audit	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	TBC	TBC



# Confirmation of Independence (cont.)

## Summary of fees

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

## Fee ratio

The ratio of non-audit fees to audit fees for the year is to be confirmed however based on the 23/24 fees of £56k we do not anticipate that the ratio would exceed 0.4:1. We therefore do not consider that the total non-audit fees create a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

2024/25	
£'000	
Statutory audit	153
Other Assurance Services	TBC
<b>Total Fees</b>	<b>153</b>

## 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**

# KPMG's Audit quality framework

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

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

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

## ■ Commitment to continuous improvement

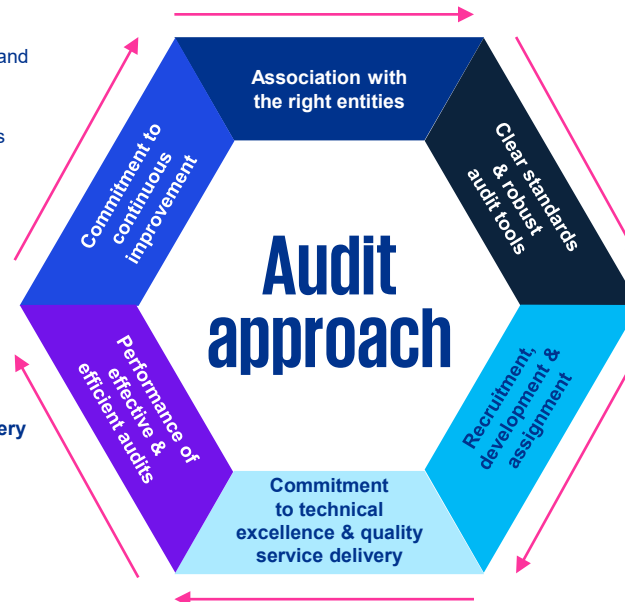
- Comprehensive effective monitoring processes
- Significant investment in technology to achieve consistency and enhance audits
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

## ■ Performance of effective & efficient audits

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

## ■ Commitment to technical excellence & quality service delivery

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



## ■ Association with the right entities

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

## ■ Clear standards & robust audit tools

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

## ■ Recruitment, development & assignment of appropriately qualified personnel

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

# Statement on the Effectiveness of our system of quality management

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

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

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

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

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

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

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

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

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

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



# Understanding of IT



Effect on audit effort



## Summary

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

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

### Why is Understanding of IT so important?

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

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

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

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

### What kind of things might we identify?

As part of our risk assessment procedures, we perform:

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

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

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

### What does this mean for our audits?

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

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

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

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

# ISA (UK) 600 Revised: Summary of changes



## Summary

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

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

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

# FRC's areas of focus

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

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

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

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

### Pre-issuance checks and restatements

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

### Risks and uncertainties

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

### Financial reporting framework

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

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

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



# FRC's areas of focus (cont.)



## Impairment of assets

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

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

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

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

## Cash flow statements

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

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

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

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

## Climate

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

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

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

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

## Financial instruments

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

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

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

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

## Judgements and estimates

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

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

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

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



# FRC's areas of focus (cont.)

## Revenue

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

## Presentation

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

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

## Income taxes

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

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

## Strategic report and Companies Act

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

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

## Fair value measurement

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

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

## Thematic reviews

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

### UK's largest private companies

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

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

### Retail sector focus



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

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

## 2024/25 review priorities

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

 Industrial metals and mining  
 Retail

 Construction and materials  
 Gas, water and multi-utilities

 Food producers  
 Financial Services



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