Year End Report to the Audit Committee

Southend on Sea City Council

Year end report for the year ended 31 March 2024

27 February 2025

Introduction

To the Audit Committee of Southend On Sea City Council

We are providing this report in advance of our meeting to enable you to consider our findings and hence enhance the quality of our discussions. This report should be read in conjunction with our audit plan and strategy report, presented on 24 April 2024. We will be pleased to elaborate on the matters covered in this report when we meet.

Audit status

Our audit is complete and we anticipate signing your financial statements on the 27 February 2025.

As a result of our ongoing risk assessment procedures, we have refined the focus of our risks and this is laid out on slide 5 and 6

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

- The purpose of this report
- Limitations on work performed
- Restrictions on distribution of this report

Yours sincerely,

Emma Larcombe

Emma Larcombe
Director, KPMG LLP

27 February 2025

How we deliver audit quality

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

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

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

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

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Important notice

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

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

Purpose of this report

This Report has been prepared in connection with our audit of the consolidated financial statements of Southend on Sea City 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 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 on 24 April 2024.

Limitations on work performed

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

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

The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

Status of our audit

Our audit is complete and we anticipate signing your accounts on the 27 February 2025.

Our audit findings

Significant audit risks	Page 7–17
Significant audit risks	**Our findings**
Inappropriate capitalisation of expenditure into fixed assets	We have completed our testing of the capitalised revenue expenditure and do not have any findings to report.
Recognition of surplus on the net pension asset	We have completed our work on surplus recognition and concluded that minimum funding contributions are higher than the future service cost and therefore no surplus is recognisable. For the surplus recognised in FY 2022/23 financial statements, we proposed a prior year adjustment to restrict the surplus to Nil.
Valuation of post retirement benefit obligations	The results of our testing were satisfactory. We have not identified any issues in relation to the significant assumptions used within the valuation of the LGPS gross pension liability.
Management override of control	Our work did not identified any significant issues.
Valuation of fixed assets - EUV	We have completed our work over valuation of council dwellings and have assessed the overall assumptions to be balanced and within reasonable range. The beacon used are representative of the wider group and indexation applied is in line with the sector average.

Audit misstatements	Page 31
Misstatement	**Our findings**
Financial statements	We have proposed a prior period adjustment of £126,243k, please refer to page number 31 for further details.
Disclosure	We have raised disclosure misstatements in respect of the pension note, the restatement of numbers in the accounts and the remuneration disclosures.

Key accounting estimates	Page 18-19
Property, Plant & Equipment - Other L&B valued under EUV	We reviewed the valuation model and report provided by valuation specialist and assessed the key assumptions for a sample of properties for reasonableness by comparing them to standard industry practice. From our sample testing, we consider valuation of assets valued using EUV methodology fall within an acceptable range,
Property, Plant & Equipment - School buildings valued under DRC	We reviewed and challenged the key assumptions used in the valuation, including the indices used and concluded the assumptions used in the valuation were neutral.
Property, Plant & Equipment – housing properties valued under the Beacon approach EUV	We reviewed and challenged the key assumptions used in the valuation, including selection of beacon and indexation of council dwellings. No issues were noted that would indicate valuation is materially misstated and indicative of management bias.
Present value of defined benefit obligation	We assessed the overall assumptions underpinning the valuation to be balanced.

Number of Control deficiencies	Page 32
Significant control deficiencies	0
Other control deficiencies	5
Value for money control deficiencies	4
Prior year control deficiencies remediated	N/A

Key changes to our audit plan

We have not made any changes to our audit plan as communicated to you on 24 April 24, other than as follows:

Risk	Risk change	Effect on audit strategy and plan
Valuation of land and buildings - council dwellings	Risk increased to significant as part of our re-evaluation of risks throughout the completion of the planning and iterative risk assessment of our audit.	See page 14 for the procedures performed to address this risk
Valuation of land and buildings valued under the EUV method	Risk is no longer significant following a re-evaluation of risks throughout the completion of the planning and iterative risk assessment of our audit.	See page 16 for the procedures performed to address this risk
Valuation of investment property	The risk has been downgraded as part of our re-evaluation of risks throughout the completion of the planning and iterative risk assessment of our audit and the low value	We have removed this risk following review of the calculation of the valuation and confirming a selection of rental values through to lease agreements as well as understanding the movement in the yield rates required to cause a material misstatement.

Group audit

Our work over the consolidation is complete.

We have not changed our group audit scoping from our Audit Strategy and Planning document where we only identified Southend on Sea City Council as a significant component of the Group. Whilst we have performed no substantive testing over the other entities within the Group we have confirmed that the balances within these other entities are in line with our expectations to confirm we do not need to change our scoping of components.

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 Southend on Sea City 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.

As a result of our ongoing risk assessment procedures, we have refined the focus of our significant risks in relation to the valuation of land and buildings, valuation of Investment properties and the valuation of post retirement benefit obligations.

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

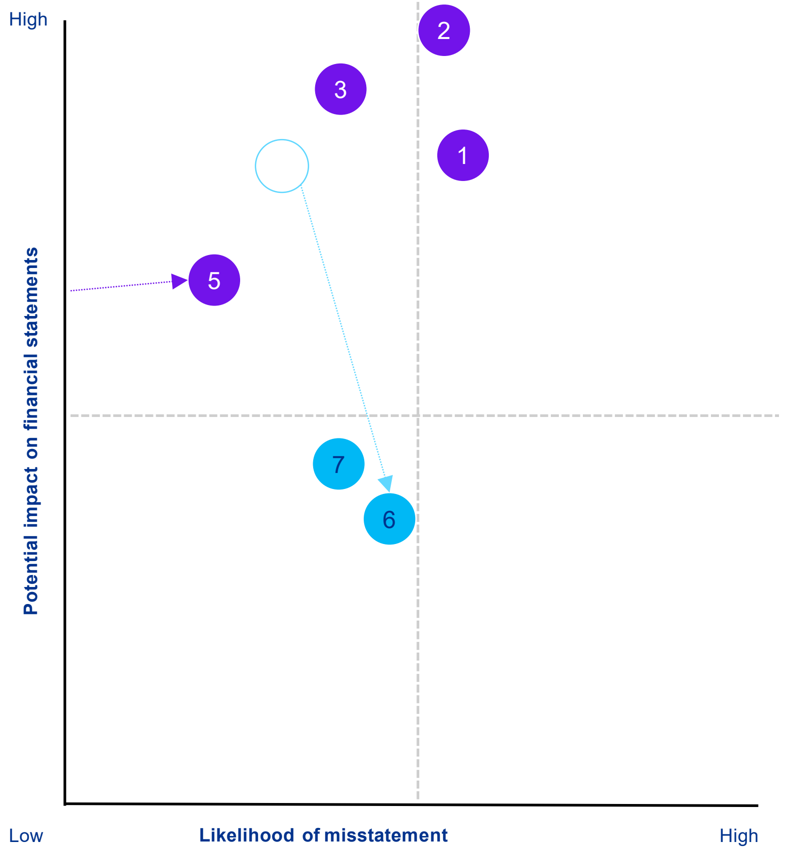
Significant risks	
1.	Inappropriate capitalisation of expenditure into fixed assets
2.	Recognition of surplus on the net pension asset
3.	Valuation of post retirement benefit obligations
4.	Management override of controls*
5.	Valuation of land and buildings – Council Dwellings

Other audit risks	
6.	Valuation of land and buildings - EUV
7.	Valuation of land and buildings - DRC

* pervasive

Key:

- # Significant financial statement audit risks
- # Other audit risk
- Increasing or decreasing risk compared with planning



Audit risks and our audit approach (cont.)

1 Fraud risk from expenditure recognition

Risk that additions to property, plant and equipment, infrastructure assets and heritage assets are recorded inappropriately when the expenditure is not eligible for capitalisation

Significant audit 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.

The Council has a statutory duty to balance their annual budget. Where a Council does not meet its budget this creates pressure on the Council's usable reserves and this in term provides a pressure on the following year's budget. This is not a desirable outcome for management.

Given the context of significant pressures on funding and demand faced by councils in the sector the size of the Council's capital programme provides an opportunity for inappropriate capitalisation of revenue expenditure.

Our response

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

- We have 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 have tested a sample of capital expenditure incurred by the Council to ensure it is appropriate to capitalise.

Our findings

- We have nothing to report in terns of the controls put in place at the council;
- We have no issues to report in respect of this risk

Audit risks and our audit approach (cont.)

2 Recognition of the surplus on the net pension asset

Cautious Neutral Optimistic

Management's assessment of the level of recognisable surplus may not be in line with requirements

Significant audit risk

Recent changes to market conditions have meant that more councils are finding themselves moving into surplus in their Local Government Pension Scheme (As at the 31 March 2023 Southend on Sea City Council found their LGPS in a surplus of £122.5m up from a deficit of £118.6m at 31 March 2022).

The requirements of the accounting standards on recognition of these surplus are complicated and requires actuarial involvement.

The Council will need to assess the level of economic benefit it can derive from this surplus, as per the requirements of IFRIC14.

This assessment will be required each year, and the outcome may change as it will depend upon market conditions at the year end and any changes in the contributions committed to under the rates and adjustments certificate.

Our response

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

- Tested the data and valuations provided by the actuary in their IAS 19 report for completeness and consistency with the other information provided by the Council.
- Considered, and challenged, the Council's estimate of the recognisable surplus.
- Considered the adequacy of the Council's disclosures in respect of the assumptions or judgements made in determining the level of recognisable surplus.

Audit risks and our audit approach (cont.)

2 Recognition of the surplus on the net pension asset

Cautious Neutral Optimistic

Management's assessment of the level of recognisable surplus may not be in line with requirements

Significant audit risk

Recent changes to market conditions have meant that more councils are finding themselves moving into surplus in their Local Government Pension Scheme (As at the 31 March 2023 Southend on Sea City Council found their LGPS in a surplus of £122.5m up from a deficit of £118.6m at 31 March 2022).

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The Council will need to assess the level of economic benefit it can derive from this surplus, as per the requirements of IFRIC14.

This assessment will be required each year, and the outcome may change as it will depend upon market conditions at the year end and any changes in the contributions committed to under the rates and adjustments certificate.

Our findings

- As part of our work, we noted that the minimum funding contributions are higher than the future service cost and therefore no surplus is recognisable. There are no positive secondary future contributions due, and therefore there is no additional liability to recognise under IFRIC 14. Therefore, the funded surplus has been limited by £190,872k to nil for FY 23/24. We agree with the approach and valuation of the asset ceiling proposed by the management.
- At 31 March 2023, a surplus of £122,531k was recognised in full on the balance sheet. If a consistent methodology had been applied at 31 March 2023 to the approach adopted at 31 March 2024, our expectation is that the surplus in respect of the funded liabilities of £126,243k at 31 March 2023 would have been restricted to £Nil, and the unfunded liabilities would have been disclosed separately as an additional liability of £3,712k. We have proposed a prior period adjustment of £126,243k, please refer to page number 31 for further details.
- In- line with International Auditing Standards, it is important for management to have ownership over the defined benefit pension valuation and related surplus/ deficit recognised in financial statements, even though this draws upon the expertise of actuarial experts engaged by the pension fund itself. While we are aware that management has discussed the assumptions to be used with the scheme actuary, this review and challenge by management has not been performed and documented for our review in line with the requirements of auditing standards for an effective management review control.

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: Essex Local Government Pension Scheme

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, including actual figures where estimates have been used by the actuaries, such as the rate of return on pension fund assets;
- 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 Group 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 Nil balance to these assumptions;
- Assessed the level of surplus that should be recognised by the Council; and
- Assessed the impact of a new triennial valuation model and/or any special events, where applicable.

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: Essex Local Government Pension Scheme

Our findings

- We assessed the competency and objectivity of the Scheme actuaries and did not identify any reportable findings.
- The Actuarial Funding Valuation for the Fund, with an effective valuation date of 31 March 2022, was completed and signed in a prior accounting period. However, given this is a first-year audit, we have considered the impact of the 31 March 2022 valuation. This is within the typical tolerance of 1% - 2% per annum.
- We have performed a reconciliation of the triennial funding valuation position to the opening IAS 19 figures as at 31 March 2022. Our checks are within our acceptable tolerances.
- Our actuaries have performed inquiries of the actuaries and have reviewed the underlying assumptions behind the calculation of the estimate. We have concluded that the overall assumptions are balanced relative to our central rates.
- We have conducted an assessment of the Council's contractual agreements concerning the outsourcing of certain public services, which the Council is legally required to provide. As part of this outsourcing process, Council employees who previously provided these services are transferred to a third-party corporate entity. Our evaluation of these 'pass through arrangements' with third-party corporate entities indicates that the obligations arising from these arrangements fall within the scope of IFRS 9. They do not fall within the scope of IAS 19 'Employee Benefits'. Our review of these arrangements showed that Council is correctly accounting for these arrangements with South Essex Homes Limited and Southend Care Ltd in their financial statements.
- We have raised a recommendation for lack of management review of assumptions. Please refer to page 34 for further details. We have shared the disclosure recommendations with the management – see page 31.

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 assessed the accounting estimates for biases by evaluating whether judgments and decisions in making accounting estimates, even if individually reasonable, indicate a possible bias;
- 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 Council's normal course of business, or are otherwise unusual;
- We analysed all journals through the year and have selected higher risk journals to substantively test.

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]

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.

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

Our findings

- Our testing of accounting estimates did not indicate any management bias although we noted that the assumption behind the recognition of plan assets had high-risk and we have raised an audit misstatement in relation to this;
- We have raised one control finding in relation to the design and implementation of controls over journal entries on page 34.
- We have identified one transaction that was outside the Council's normal course of business and have performed testing over this and concluded it was accounted for appropriately;
- We have selected a sample of 2 journals meeting our high-risk criteria and have substantively tested these journals and not identified any issues.

Audit risks and our audit approach

5 Valuation of land and buildings – Council Dwellings

The carrying amount of council dwellings valued using the Beacon Approach 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 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 including Council Dwellings (433m), other land and buildings excluding schools (233m)

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

We have focussed this risk around the valuation of council dwellings which are valued using the beacon approach and in particular the selection of which property to use as the Beacon and it is this element that drives our significant risk.

Our response

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

- We evaluated the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used;
- We critically assessed the independence, objectivity and expertise of Whybrow and Dodds, 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 have reviewed the property list and attributes of all properties to confirm that the Beacon applied is representative of the wider group

We have performed the following procedures to address the parts of the elements of the estimate that are not related to a significant risk.

- We note that the last full valuation occurred in 2020/21 and since this time indexation only was applied. We have agreed the indexation back to movement in the industry standard data.
- 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.
- Disclosures: We considered the adequacy of the disclosures concerning the key judgements and the degree of estimation involved in arriving at the valuation.

Audit risks and our audit approach

5 Valuation of land and buildings – Council Dwellings

The carrying amount of council dwellings valued using the Beacon Approach 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 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 including Council Dwellings (433m), other land and buildings excluding schools (233m)

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

We have focussed this risk around the valuation of council dwellings which are valued using the beacon approach and in particular the selection of which property to use as the Beacon and it is this element that drives our significant risk.

Our findings

- We have no issues to note in relation to the design and implementation of controls over the valuation and appropriateness of assumptions used;
- We consider managements expert to be independent and have appropriate expertise and instruction to carry out the valuation;
- We consider the properties selected as beacons to be representative of the broader group of assets and the indexation applied since the last full valuation is in line with sector averages;
- We have concluded our substantive audit procedures on the valuation of council dwellings and have determined that the overall assumptions are balanced and fall within a reasonable range.

Audit risks and our audit approach

6 Valuation of land and buildings – EUV

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

Cautious Neutral Optimistic

Other 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 including Council Dwellings (433m), other land and buildings excluding schools (233m)

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

We focus this risk on the other land and buildings element revaluated in the year and in particular the yield assumption.

Our response

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

- We critically assessed the independence, objectivity and expertise of **Whybrow and Dodds**, 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 requirementsof the CIPFA Code.
- We compared the accuracy of the data provided to the valuers for the development of the valuation to underlying information.
- We performed sensitivity analysis over the yield assumption used to revalue the assets subject to full revaluation in the year
- 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.
- Disclosures: We considered the adequacy of the disclosures concerning the key judgements and the degree of estimation involved in arriving at the valuation.

Our findings

- We found the valuer's assumption to be reasonable and neutral when compared with standard industry practice. No issues were noted that would be indicative of management bias. Overall, based on the results of the procedures performed, we have concluded that the risk of material misstatement arising from the EUV valuation methodology has been adequately addressed.

Audit risks and our audit approach

7 Valuation of land and buildings – DRC

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

Cautious | Neutral | Optimistic

Other 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. We have identified this risk over Schools (32.4m) and other land and buildings valued under DRC (103.2m).

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 engaged valuer.

Our response

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

- We have critically assessed the independence, objectivity and expertise of Whybrow and Dodds, the valuers used in developing the valuation of the Council's properties at 31 March 2024;
- We have 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 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;
- 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;

Our findings

- We found the valuer's assumption to be reasonable and neutral when compared with standard industry practice. No issues were noted that would be indicative of management bias. Overall, based on the results of the procedures performed, we have concluded that the risk of material misstatement arising from the DRC valuation methodology has been adequately addressed.

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.

Cautious Neutral Optimistic

Asset/liability class	Our view of management judgement	Balance (£m)	YoY change (£m)	Our view of disclosure of judgements & estimates	Further comments
Defined benefit Plan assets – fair value	Neutral	707	73.2	Adequate	The pensions assets balance has increased by 11.5% in comparison to prior year. The rate of return confirmed by the pension fund is in line with actuary's report, hence they were considered to be neutral.
Defined benefit obligations – present value	Neutral	519	8.3	Adequate	KPMG actuaries have reviewed the actuarial valuation for the Council, considered the disclosure implications and compared the actuarial valuation to our internal benchmarks. Overall, we consider the assumptions adopted to be Neutral relative to our benchmark range.
Defined benefit – effect of the asset ceiling	Neutral	187.5	65	Adequate	KPMG specialist have assessed the change in the effect of asset ceiling under IFRIC14 over the year for reasonableness. This involves an independent recalculation of the closing position, P&L and OCI elements. The results are reasonable based on the effect of asset ceiling at the start of the period and known developments over the accounting period.

Key accounting estimates and management judgements – Overview

Our view of management judgement

Cautious Neutral Optimistic

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
Property, Plant & Equipment Assets valued under the Beacon Approach	Neutral	437	(21)	Adequate	We have set out our detailed findings of this area of estimation on page 14
Property, Plant & Equipment Assets valued under the EUV basis	Neutral	39	(13)	Adequate	We have set out our detailed findings of this area of estimation on page 16
Property, Plant & Equipment Assets valued under the DRC basis	Neutral	234	5	Adequate	We have set out our detailed findings of this area of estimation on page 17

Significant audit misstatements

Management has approved the correction of the audit misstatements detailed on page 31 and they are reflected in the updated financial statements. There are no uncorrected audit misstatements to report.

The misstatements identified, and their estimated financial impact on the surplus, are summarised in the table on the right.

We have not identified any misstatements which will not be corrected by management.

A detailed summary of corrected and uncorrected audit misstatements and omissions and errors in disclosure is included in the appendix.

Audit misstatements – Total Comprehensive expenditure/(income) 2023/24

	Type	£m	Comment
Trial balance		164.7	
Corrected misstatements			
Pension adjustment	Factual	(126.2)	At 31 March 2023, a surplus of £122,531k was recognised in full on the balance sheet. If a consistent methodology had been applied at 31 March 2023 to the approach adopted at 31 March 2024, our expectation is that the surplus in respect of the funded liabilities of £126,243k at 31 March 2023 would have been restricted to £Nil, and the unfunded liabilities would have been disclosed separately as an additional liability of £3,712k. This has no impact on the general fund.
Reported in FS		38.5	

Audit misstatements – Total Comprehensive expenditure/(income) 2022/23

	Type	£m	Comment
Trial balance		(241.8)	
Corrected misstatements			
Pension adjustment	Factual	145.0	This is the prior year impact of adjusting the prior year pension adjustment plus a similar adjustment in the subsidiary
Reported in FS		(96.8)	

Types of misstatement

Factual: Misstatements about which there is no doubt

Projected: Our best estimate of misstatements in the audited populations

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

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 complies with Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE;
- 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 Southend on Sea City Council, the threshold at which detailed testing is required has not been exceeded. We have therefore completed our work on the Whole of Government Accounts and have no issues to report to the Audit Committee.

We will submit an updated assurance statement on completion of the audit and following review of 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 2023/24 scale fee for the audit, as set by PSAA, was **£372,000** plus VAT. Our fee variations are laid out on page 28 and are subject to agreement with the PSAA.

We also complete non-audit work at the Council on certification of the Pooling Housing Capital receipts return and have included confirmation of safeguards that have been put in place to preserve our independence in the appendices.

02

Value for money

Value for money

For 2023/24 our value for money reporting requirements have been designed to follow the guidance in the Audit Code of Practice.

Our responsibility 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 pages.

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 continue to 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 your previous auditor's 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 property 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:

Process

Understanding the entity's arrangements
- Financial statements planning
- Internal reports, e.g. IA
- Management Inquiries
- External reports, e.g. regulators
- Assessment of key processes
- Annual report

Evaluation of entity's value for money arrangements
- Targeted follow up of identified value for money significant risks
- Continual update of risk assessment

Value for money conclusion and reporting
- Conclusion whether significant weaknesses exist

Outputs

Risk assessment to Audit Committee

Our risk assessment will provide a summary of the procedures undertaken and our findings against each of the three value for money domains. This will conclude on whether we have identified any significant risks that the entity does not have appropriate arrangements in place to achieve VFM.

Value for money assessment

We will report by exception as to whether we have identified any significant weaknesses in arrangements.

Public commentary

Our draft public commentary will be prepared for the Audit Committee alongside our annual report on the accounts.

Public commentary

The commentary is required to be published alongside the annual report.

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.

Based on these procedures performed 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 Authority for each of the relevant domains:

Domain	Significant risk identified?
Financial sustainability	Significant risk identified
Governance	2 Significant risks identified
Improving economy, efficiency and effectiveness	No significant risks identified

As a result of our risk assessment, we have identified a significant risk associated with financial sustainability and 2 significant risks related to governance. We have taken our full value for money report to the February 2025 meeting.

03
Southend on Sea City Council
Appendices

Appendices

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Required communications

Type		Response
Our draft management representation letter	OK	We have requested one specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2024. This is in relation to the data breach that occurred during the year.
Adjusted audit differences	OK	One adjusted audit difference has been identified and is laid out on page 31.
Unadjusted audit differences	OK	No unadjusted audit differences have been identified
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, (See page 32-36)
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	If we identify that potential unlawful expenditure might be incurred, then we are required to make a referral to your regulator. 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	The no significant matters arising from the audit were discussed, or subject to correspondence, with management.
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. . It has been confirmed with the NAO that no completion certificate can be issued on any local authority entity until the Comptroller and Auditor General has signed their opinion on the Whole of Government Accounts for the relevant financial year.
Provide a statement to the NAO on your consolidation ooledule		We have confirmed that, for Southend on Sea City Council, the threshold at which detailed testing is required has not been exceeded. We have therefore completed our work on the Whole of Government Accounts and have no issues to report to the Audit Committee.

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 (£)	*2022/23 (£)*
Statutory audit	372,012	*125,000**
Fee variations**		
ISA315r	15,690	-
Delays	4,000	-
Pension issues identified	19,184	-
Data breach and subsequent consultation	6,000	-
Value for Money significant risks	13,260	-
TOTAL	430,146	*125,000*

**fee charged by Deloitte - your predecessor auditor.*

***subject to agreement with the PSAA*

Billing arrangements

- Fees have been billed in accordance with the milestone completion phasing that has been communicated by the PSAA.
- Statutory audit fees are consistent with the position reported previously with our auditplan.
- 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 are subject to the fees variation processas outlined by the PSAA.

Fee variations

- ISA 315r – This is a new standard applicable in the year that requires additional risk assessment procedures. These fees will be baked in to the base fee for 2024/25
- Delays in providing information – there were some delays in receiving information from the audited entity (outside of finance) which caused audit delays and resulted in tasks being picked up by multiple different staff which lead to inefficiencies. We will work with Management to minimise the risk of this reoccurring in the 2024/25 audit.
- Pensions accounting complexities – we identified two separate issues as part of our work over the pension's disclosures. These were linked to the treatment of pass through costs and the non-capping of the pension surplus in the prior year. We would not anticipate these costs to be recurring.
- Data breach – we were made aware of a data breach in the year under audit and due to this breach in laws and regulations additional work and consultation with specialists was required.
- Value for money significant risks – we identified three significant risks in relation to value for money and were required to perform additional testing over these areas

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 Southend on Sea City 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 [except for those detailed below where additional safeguards are in place].

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

Summary of non-audit services

Description of scope of services	Principal Threats to independence	Safeguards applied	Basis of fee	Value of services delivered in the year ended 31/3/23
Pooling Housing Capital Receipts Return	Assumption of management responsibilities Self interest	Standard language on non-assumption of management responsibilities is included in our engagement letter. The level of fees is not considered to cause a significant self interest threat	Fixed	£6k

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 0.01: 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	430
Other Assurance Services	6
Total Fees	**436**

Application of the FRC Ethical Standard 2019

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

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

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

Independence and objectivity considerations relating to other matters

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

Confirmation of audit independence

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

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

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

Yours faithfully

KPMG LLP

Audit misstatements

Uncorrected Audit Misstatements

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit Committee with a summary of uncorrected audit differences (including disclosures) identified during the course of our audit. No uncorrected audit misstatements to note.

Corrected Audit Misstatements

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit Committee with a summary of corrected audit differences (including disclosures) identified during the course of our audit. We identified the following audit misstatements which have a current year, and prior year impact

Corrected audit differences (£'000s)

No.	Detail	SOCI Dr/(cr)	SOFP Dr/(cr)	Reserves Dr/(Cr)	Comments
1	Dr Re-measurement of Net Pension Liability	£126,243			At 31 March 2023, a surplus of £122,531k was recognised in full on the balance sheet. If a consistent methodology had been applied at 31 March 2023 to the approach adopted at 31 March 2024, our expectation is that the surplus in respect of the funded liabilities of £126,243k at 31 March 2023 would have been restricted to £Nil, and the unfunded liabilities would have been disclosed separately as an additional liability of £3,712k. This has no impact on the general fund.
	Cr Other Long Term Assets – Pensions		(£122,531)		
	Cr Other Long Term Liabilities – Pensions		(£3,712)		
	Cr Unusable Reserves (Pensions Reserve)			£126,243	
Total		**£126,243**	**(£126,243)**	**£126,243**	

We have also identified disclosure misstatements within the senior staff remuneration note, the restatements of operating segment results within the financial statements and the pensions note all of which have been corrected by management.

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	❸	**Policies not reviewed in line with their review dates** As part of our work over the understanding of the business environment we identified that a number of policies including the counter fraud, bribery and corruption policy, the counter money laundering policy, and the whistleblowing policy had not been reviewed in line with their "next review" date and were several years overdue a review. There is a risk that these documents do not remain relevant **Recommendation** KPMG understands that management treat this date as an aspirational review date rather than a firm review date however we suggest that policies are reviewed and updated in a timely manner.	The entity has confirmed that they will change the stated review date to suggested review date in future.

Control Deficiencies

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
2	3	**Management has no control to review SOC reports of contacted third parties supporting financially relevant IT system** KPMG noted from inquiries with Claire Forster (Head of IT Delivery) and Aaron Townsend (IT Infrastructure & Operations) on 23/03/2024 that management had no control in place to review and evidence the review of SOC reports of service organisations that have access to financially relevant databases and technology layers. **Recommendation** Management should consider establishing a controls framework that includes the review of third party reports to better understand and address risks posed to the council by service organisation	The entity have confirmed that they are looking into improving their risk management over third-parties
3	3	**IT procedures** Our risk assessment procedures noted that there were areas management could improve on to better strengthen security across the entity. KPMG also noted that at the time of our review, management were in the process of updating their procedures which will be reviewed as part of our FY25 procedures **Recommendation** Management should consider. Implementing procedures that result in security updates being implemented promptly	The entity has confirmed that they have implemented changes to their IT procedures that address the risks noted.

Control Deficiencies (cont.)

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
4	2	**Management review of actuarial calculation and assumptions report** We note that management perform a review of the actuarial reports however the documentation is not formalised consisting of email correspondence and verbal confirmations. We have seen evidence of this challenge process by through management's challenge of the outgoing auditors view of capping of the surplus. This control does not meet the requirements of the auditing standards for a "management review control" and as such we are unable to place reliance on this control. **Recommendation** Due to the nature of this control finding we do not raise a recommendation.	Due to the nature of this finding no management response is required
5	3	**Insufficient Review over Journals Authorization** We note the Council has a high-level review control in place over journals authorisation. However as these controls exist within the system and the level of challenge is evidenced is not sufficiently high to meet the requirements of a "management review control" defined by the auditing standards we are unable to conclude that they are designed and implemented effectively and are unable to place reliance on these controls. We note this is the case for all manual journal types and also for batch input file journal types where no record is maintained of who requested and approved a journal. **Recommendation** Due to the nature of this control finding we do not raise a recommendation.	Due to the nature of this finding no management response is required

Control Deficiencies (cont.)

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
6	3	**Value for money – horizon scanning and risk awareness** It was noted through our value for money work that risk awareness and horizon scanning was not business as usual for all directorates. This increases the chances of the council being hit with a downside that it was not aware of. **Recommendation** We recommend all directorates set aside time as part of the risk management process for horizon scanning and risk awareness.	Risk management and horizon scanning are integrated within the business of the Corporate Leadership Team (CLT). CLT review and assess emerging national, regional and local drivers which may negatively/positively impact council service delivery. Within Directorates, annual service plans embed risk awareness and understanding as part of the development and monitoring of directorate risk registers. Officer: Policy and Performance Team. Due Date: October 2025
7	3	**Value for money – evidence of challenge in meeting minutes** It was noted through our value for money work that the level of challenge and discussion visible in the minutes of the Audit Committee and the Policy and Resources Scrutiny Committee did not accurately reflect the levels applied during the meeting. There is a risk that an individual reviewing the publicly available minutes would not be aware that proper scrutiny had been applied to the decisions. **Recommendation** It is recommended that minutes are reviewed to ensure that they demonstrate an accurate reflection of the challenge applied to decision.	This recommendation will be considered by the Director Law and Governance who will report back to the Chief Executive and, if required, Audit Committee. Officer: Director Law and Governance (Monitoring Officer) Date: May 2025

Control Deficiencies (cont.)

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
8	3	**Value for money – processes around litigation and claims** It was noted through our value for money work that there is no consistent centralised process in place at the council for capturing and monitoring litigation and claims against the authority with these instead being managed by individual directorates on an “as and when” basis. There is therefore no overall view of litigation and claims which could mean themes or recurring issues may not be fully captured on a timely basis. **Recommendation** It is recommended that the council put in place a process to ensure they collate all claims in a central place and evaluate these in a consistent manner.	Current arrangements will be reviewed with a view to making it easier to consolidate all litigation and claims. A business case has already been prepared for the procurement of a new Legal Case Management System for implementation during 2025/26. This will enable an automated comprehensive list of legal cases to be maintained and status reports can be generated as required. Officer: Director Law and Governance (Monitoring Officer) Date: September 2025
9	2	**Value for money – overspend in children’s services** It was noted through our value for money work that there has been an overspend in children’s services for the past few years primarily as a result of the high cost of placements. There is a risk that the spend on this area could prevent the council delivering a balanced budget **Recommendation** We recommend that the council explore options to reduce either demand or cost of placements whilst ensuring they continue to deliver appropriate care.	Clear understanding and ownership of the issues and challenges have been reported via the regular financial reporting arrangements within the Council. Within the 2025/26 budget report to 11 February 2025 meeting of Cabinet a programme of specific actions was approved. This included: • A focus group on Children’s residential placements to be led by the Leader supported by the Cabinet Members for Children’s and Finance Assets & Investments. • Workstreams within the Council’s Transformation programme focussing on Children’s Social Care Demand Management and Commissioning/Contract Management. • Regular reports on progress will be presented throughout 2025/26 to the new focus group, Transformation Board and publicly to Cabinet in June, September, November and January. Officers: Executive Director Children and Public Health, Executive Director Finance and Resources (Section 151 Officer) Due Date: Progress to be reported throughout 2025/26

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 7 and 8. 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]/[Based on our assessment, we have identified 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

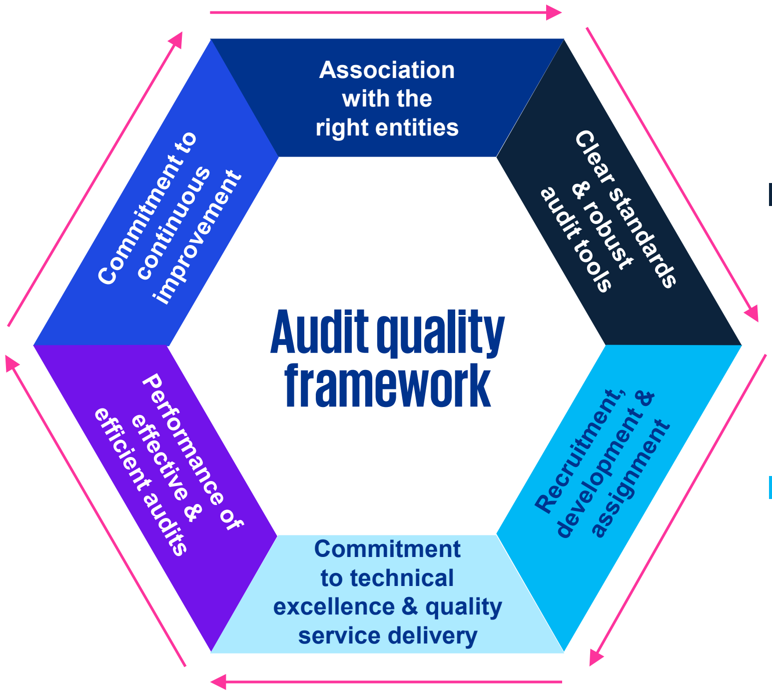
- Comprehensive effective monitoring processes
- Significant investment in technology to achieve consistency and enhance audits
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

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

KPMG

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