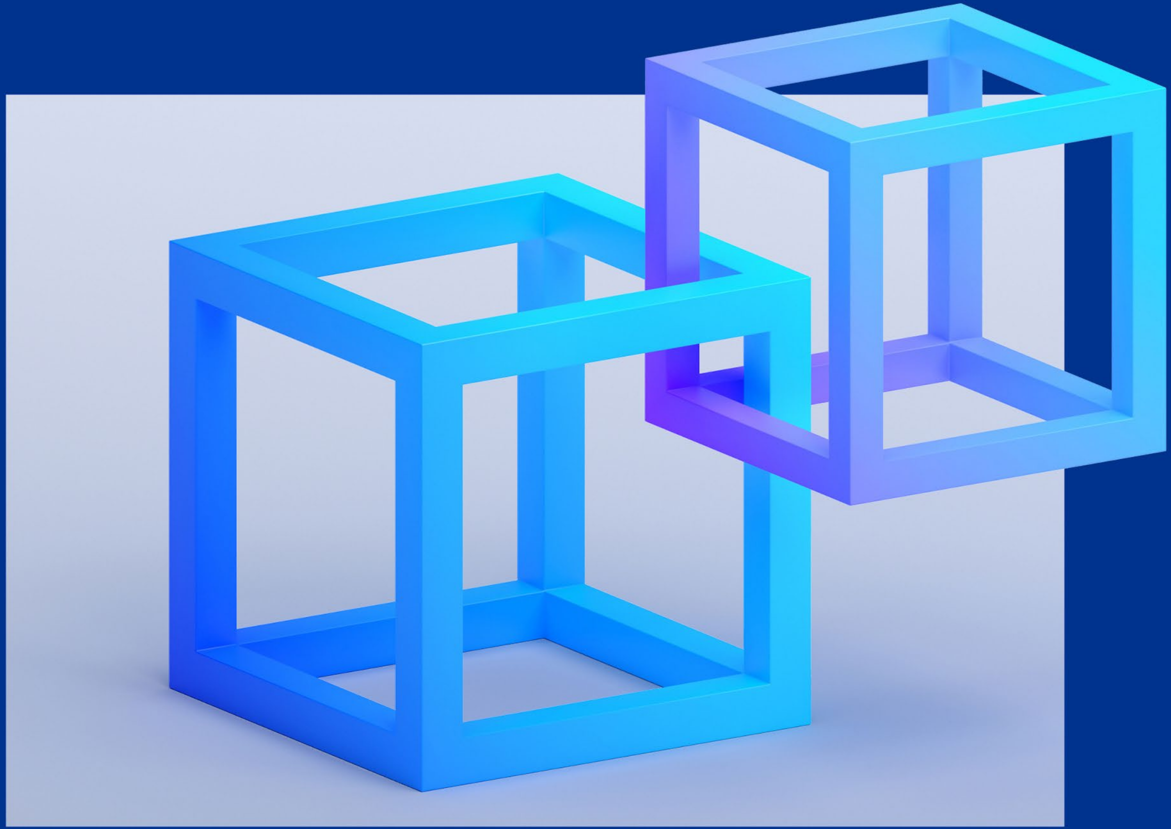
Southend on Sea City Council



Year End Report to the Audit and Governance Committee

Year end report for the year ended 31 March 2025

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13 January 2026

Introduction

To the Audit and Governance Committee of Southend on Sea City Council

We are pleased to have the opportunity to meet with you on the 20 January 2026 to discuss the results of our audit of the consolidated financial statements of Southend on Sea City Council for the year ended 31 March 2025. This report is provided as an update to the report presented to the Committee on 20 October 2025. This report reflects the final findings of our 2024/25 financial statements audit.

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 the 16 July 2025. We will be pleased to elaborate on the matters covered in this report when we meet.

Contents

Contents	Page
Introduction	2
Important notice	3
Our audit findings	4
Changes to our audit plan	5
Significant risks and Other audit risks	6
Audit risks and our audit approach	7
Key accounting estimates and management judgement	18
Other matters	20
Value for money	21
Appendix	33

How we deliver audit quality

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

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

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

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

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Jessica Hargreaves (Jessica.Hargreaves@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). After this, if you are still dissatisfied with how your complaint has been handled you can access KPMG's complaints process here: Complaints.

The audit status

The audit is complete, and we issued an unmodified Auditor's Report on your financial statements on the 13 January 2026.

There have been no significant changes to our audit plan and strategy other than those described on page 5.

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,

Jessica Hargreaves

Director – KPMG LLP

13 January 2026

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, prepared in accordance with International Financial Reporting Standards ('IFRSs') as adapted Code of Practice on Local Authority Accounting in the United Kingdom 2024/25, as at and for the year ended 31 March 2025.

This Report has been prepared for the Council's Audit and Governance 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 16 July 2025.

Limitations on work performed

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

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

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

Status of our audit

Our audit is complete.

Restrictions on distribution

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

Our audit findings

Significant audit risks	Page 7-11
Significant audit risks	**Our findings**
Inappropriate capitalisation of expenditure as additions to fixed assets	We have completed our testing of the capitalised expenditure (additions) over Infrastructure assets and PPE and right of use assets and do not have any findings to report.
Management override of controls	Our work over journals is complete and we have raised one recommendation on page 39. We have not identified any indicators of management bias in our testing of accounting estimates
Valuation of post retirement benefit obligations	Our testing is complete. 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.

Number of Control deficiencies	Page 39-41
Significant control deficiencies	0
Other control deficiencies	4
Prior year control deficiencies remediated	3

Misstatements in respect of Disclosures	Page 38
Misstatement	**Our findings**
Officers' Remuneration	A number of low value misstatements have been identified and corrected

Uncorrected Audit Misstatements		Page 38
Understatement/ (overstatement)	**£m**	**%**
(Deficit) for the Year	0	0
Total assets	0	0
Total usable reserves	0	0

Key accounting estimates	Page 18-19
Present value of Defined benefit obligations, assets and the asset ceiling	We assessed the overall assumptions underpinning the valuation to be **balanced**.
Property, Plant & Equipment – Heritage Assets valuation	Our procedures identified some of the assumptions underpinning the valuation to be **optimistic**, however we are assured these do not result in a material misstatement in the valuation.
Property, Plant & Equipment – Council Dwellings	We note Southend has indexed the value of these assets through to February 2025 rather than March 2025. This meant they have been indexed by 3.3% rather than 4.6%. We therefore consider that this estimate is **cautious**.
Property, Plant & Equipment - Other Land & Buildings valued under DRC in the year	Our procedures over the valuation of Property, Plant & Equipment – Other Land & Buildings valued under the Depreciated Replacement Cost (DRC) basis found some of the assumptions to be **optimistic**, however we are assured these do not result in a material misstatement in the valuation.
Fair value of financial instruments	We assessed the overall assumptions underpinning the valuation to be **balanced**.

Changes to our audit plan

We have not made any changes to our audit plan as communicated to you on 16 July 2025, other than as follows:

Risk	Effect on audit plan	Effect on audit strategy and plan
Valuation of land and building – valued under EUV	Based upon the completion of our iterative risk assessment procedures throughout the audit we have determined that the only large EUV asset to be revalued in the year is the civic centre and this has not materially changed in value. As such we reassessed our risk downwards and considered the risk of material misstatement within the valuation of these assets to not be significant.	We reduced the volume of procedures planned to be performed over this risk. We performed the following procedures: • 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 the valuation date; • 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; and • 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.
Fraud risk from expenditure recognition	On receipt of the draft financial statements we revisited our risk assessment. We noted that additions to heritage assets and right of use assets are low and immaterial in value for the 24/25 financial year. We therefore scoped these assets out of our significant risk. This significant risk was now only relevant to Infrastructure, PPE.	We have not performed any procedures over the additions to heritage assets or right of use assets.

Significant risks and Other audit risks

We discussed the significant risks which had the greatest impact on our audit with you when we were planning our audit.

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

During our audit we identified changes in risks of material misstatement as documented on page 5.

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

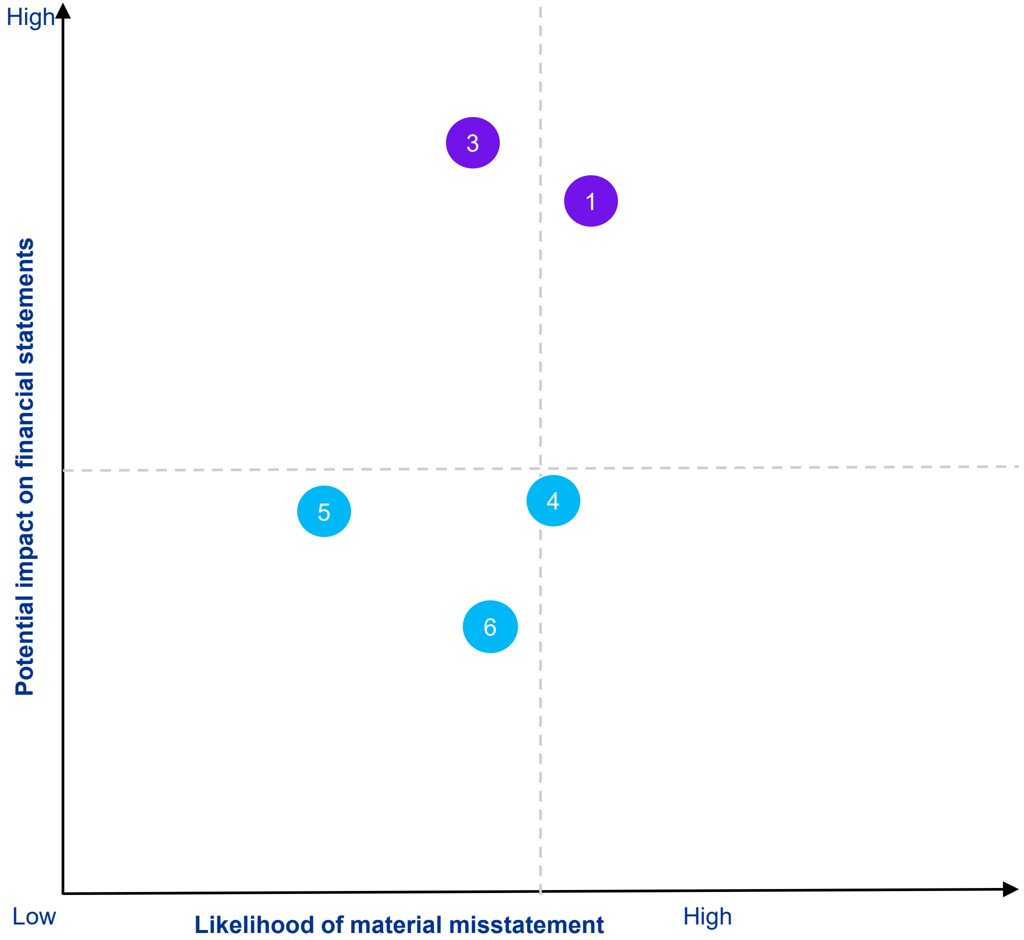
Significant risks	
1.	Inappropriate capitalisation of expenditure as fixed asset additions
2.	Management override of controls[a]
3.	Valuation of post retirement benefit obligations

Other audit risks	
4.	Valuation of land and building – DRC
5.	Valuation of land and building – Council dwellings
6.	Valuation of land and building – Heritage assets

Key:

- # Significant financial statement audit risks
- # Other audit risk

[a] A significant risk that auditing standards require us to assess on all audit engagements. This is pervasive and so is not shown on the graph



Audit risks and our audit approach

1 Fraud risk from expenditure recognition

Risk that additions to property, plant and equipment and infrastructure 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 expenditure.

The incentive for fraudulent financial reporting arises from the need to meet budgetary constraints and avoid negative consequences such as reduced usable reserves and increased pressure on budgets.

The opportunity for manipulation is created by the substantial capital programmes managed by the Council, which may allow for inappropriate capitalisation of revenue expenditure.

Our response

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

- We evaluated the design and implementation of controls for classifying expenditure as capital;
- We inspected the capital programme for schemes which indicate they are revenue in nature; and
- We selected a sample of expenditure capitalised during the year and agreed it back to supporting evidence to ensure it was appropriate to capitalise.

Our findings

- We have nothing to report in terms of the controls put in place at the council;
- Our work over the capitalised expenditure in the year is complete and we have not identified any issues. Our sample testing did not identify any concerns over the existence and accuracy of capitalised assets.

Audit risks and our audit approach

2 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 response.

Our audit methodology incorporates the risk of management override as a default significant risk. We performed the following procedures in response to this risk:

- In line with our methodology, we evaluated the design and implementation of controls over journal entries and post closing adjustments.
- Evaluated the selection and application of accounting policies.
- Assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare significant accounting estimates.
- Assessed accounting estimates for biases by evaluating whether judgements and decisions in making accounting estimates, even if individually reasonable, indicated a possible bias.
- Where applicable, 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 using data and analytics and focused our testing on those with a higher risk, such as unusual journals impacting expenditure recognition.

Audit risks and our audit approach (cont.)

2 Management override of controls(cont.)[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

- We did not identify any changes compared to the prior year to the methods and underlying assumptions used to prepare significant accounting estimates
- We evaluated significant accounting estimates, and did not identify any indicators of management bias.
- Our procedures did not identify any significant unusual transactions.
- We used our data and analytics tools to identify journals meeting our high risk criteria, and material post close journals and we identified one journal to test.
- We have raised one control finding over the number of adjustments posted outside of the finance system. Further details of this is included on page 40.
- We note that journal authorisation is performed manually for both manual and BIF journals, as the system lacks automated assignment to approvers. This increases the risk of unauthorised postings or approvals by incorrect users. Whilst this Management Review Control may be achieving the control objective set by management (we have not confirmed this), it does not meet the control requirements as defined by auditing standards. We have therefore brought this to management's attention.

Audit risks and our audit approach

3 Valuation of LGPS post retirement benefit obligations

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

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.
- Also, recent changes to market conditions have meant that more councils are finding themselves moving into surplus in their Local Government Pension Scheme (or surpluses have grown and have become material). The requirements of the accounting standards on recognition of these surplus are complicated and requires actuarial involvement.

Our response

We have performed the following procedures :

- Understood the processes the Council has 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 fund 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;
- 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;
- Considered the adequacy of the Council's disclosures in respect of the sensitivity of the deficit balance to these assumptions; and .

In addition to the procedures outlined above that were specifically designed to address the significant risk, we also performed the following procedures to support our conclusion on post-retirement benefit obligations.

- Agreed the data provided by the audited entity to the Scheme Administrator for use within the calculation of the scheme valuation;
- Confirmed that the accounting treatment and entries applied by the Group are in line with IFRS and the CIPFA Code of Practice; and
- We assessed the level of surplus that should be recognised by the entity.

Also, as the new triennial valuation is still in progress, we have not performed any procedures in this regard during our 2024/25 audit.

Audit risks and our audit approach (cont.)

3 Valuation of LGPS post retirement benefit obligations (cont.)

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

Cautious | Neutral | Optimistic

Significant audit risk

- The valuation of the post retirement benefit obligations involves the selection of appropriate actuarial assumptions, most notably the discount rate applied to the scheme liabilities, inflation rates and mortality rates. The selection of these assumptions is inherently subjective and small changes in the assumptions and estimates used to value the Council's pension liability could have a significant effect on the financial position of the Council.
- 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.
- Also, recent changes to market conditions have meant that more councils are finding themselves moving into surplus in their Local Government Pension Scheme (or surpluses have grown and have become material). The requirements of the accounting standards on recognition of these surplus are complicated and requires actuarial involvement.

Our findings

- We assessed the competency and objectivity of the Scheme actuaries and did not identify any reportable findings.
- 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.
- KPMG actuaries have performed inquiries of the Authority's 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.
- In addition to the findings identified in relation to significant risk, we have also undertaken an assessment of the Council's contractual agreements pertaining to the outsourcing of certain statutory public services. As part of this process, Council employees previously responsible for delivering these services are transferred to third-party corporate entities. Our evaluation of these 'pass through arrangements' with third-party entities has determined that the resulting obligations are within the scope of IFRS 9 and do not fall under IAS '19Employee Benefits'. Based on our review, we confirm that the Council has appropriately accounted for these arrangements with South Essex Homes Limited and Southend Care Ltd in its financial statements.
- We acknowledge that there is a review of key assumptions by management but we do not place reliance on this control due to the lack of precision and documentation. Whilst this Management Review Control may be achieving the control objective set by management (we have not confirmed this), it does not meet the control requirements as defined by auditing standards. We have discussed our findings with the managemnet.

Key:
Prior year Current year

Audit risks and our audit approach

4 Valuation of land and buildings - DRC

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

Other audit risk

The Council's asset base consists of council dwellings, land, buildings of a specialised nature and non-specialised buildings. Each of these assets are required to be revalued using different valuation methodology.

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 specialised Land and Buildings valued under the Depreciated Replacement Cost method. The value at 31 March 2025 of assets that underwent a full DRC revaluation in the year is £58.7m.

We have identified a risk in relation to the fair value determined for properties subject to a full revaluation in the year and in particular the assumptions used within the valuation model that will contain uncertainty and management judgement.

We note that this is an other audit risk rather than a significant risk due to the low ratio of the value of the assets subject to a full revaluation against our materiality threshold.

Our response

We have performed the following procedures designed to specifically address the other audit 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 the valuation date;
- We inspected the instructions issued to the valuers for the valuation of land and buildings to verify they are appropriate to produce a valuation consistent with the requirements of the CIPFA Code.
- We compared the accuracy of the data provided to the valuers for the development of the valuation to underlying information;
- We challenged the appropriateness of the valuation of land and buildings; including any material movements from the previous revaluations;
- We benchmarked assumptions within the valuation and challenged management where deviations from our expectation are identified; and
- We agreed the calculations performed of the movements in value of land and buildings and verified that these had been accurately accounted for in line with the requirements of the CIPFA Code.

Audit risks and our audit approach (cont.)

4 Valuation of land and buildings (cont.) - DRC

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

Cautious | Neutral | Optimistic

Other audit risk

The Council's asset base consists of council dwellings, land, buildings of a specialised nature and non-specialised buildings. Each of these assets are required to be revalued using different valuation methodology.

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 specialised Land and Buildings valued under the Depreciated Replacement Cost method. The value at 31 March 2025 of assets that underwent a full DRC revaluation in the year is £58.7m.

We have identified a risk in relation to the fair value determined for properties subject to a full revaluation in the year and in particular the assumptions used within the valuation model that will contain uncertainty and management judgement.

We note that this is an other audit risk rather than a significant risk due to the low ratio of the value of the assets subject to a full revaluation against our materiality threshold.

Our findings

Our audit work over Valuation of land and building valued through the DRC method is complete.

- We have raised one control finding in relation to the independence of the valuer Whybrow and Dodds on page 40.
- We have not noted any assets with material movements from the net book value at 31 March 2024 but have challenged management and their valuers on the reasons for the largest percentage movements in valuation of individual assets.
- We have verified that the movements in value of land and buildings have been accurately accounted for in line with the requirements of the CIPFA Code.
- We have benchmarked the assumptions within the valuation and have challenged management and their valuer where deviations from our expectations have been identified. We have concluded that management's specialist applied a rate of 19% to reflect professional fees within the valuation of the assets. We consider the rate adopted to be outside of KPMG's acceptable range . KPMG benchmarking identifies an upper limit of 15%. Adopting a rate of 15% does not materially alter the valuer of the identified assets and therefore does not result in a material difference between KPMG's view and management's experts view. However, we consider the valuation to be optimistic.

Key:
Prior year | Current year

Audit risks and our audit approach

5 Valuation of land and buildings – Council Dwellings

The carrying amount of revalued Council Dwellings differs materially from the fair value

Cautious Neutral Optimistic

Other audit risk

The Council's asset base consists of council dwellings, land, buildings of a specialised nature and non-specialised buildings. Each of these assets are required to be revalued using different valuation methodology.

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 (£449m at 31 March 2025)

These assets were subject to a full revaluation in 2020/21.

In the year to 31 March 2025, the Council has applied an indexation uplift to the carrying value of council dwelling assets. This creates a risk that the indexation applied may result in a value which is materially different from the fair value of these assets.

Our response

We have performed the following procedures designed to specifically address the other audit 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 dwellings at the valuation date;
- We inspected the instructions issued to the valuers for the valuation of council dwellings to verify they are appropriate to produce a valuation consistent with the requirements of the CIPFA Code.
- We challenged the appropriateness of the valuation of council dwellings; including any material movements from the previous revaluations;
- We performed benchmarking over the indexation assumption within the valuation model;
- We agreed the calculations performed of the movements in value of council dwellings and verified that these had 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 degree of estimation involved in arriving at the valuation

Key:
Prior year Current year

Audit risks and our audit approach (cont.)

5 Valuation of land and buildings (cont.) – Council Dwellings

The carrying amount of revalued Council Dwellings differs materially from the fair value

Other audit risk

The Council's asset base consists of council dwellings, land, buildings of a specialised nature and non-specialised buildings. Each of these assets are required to be revalued using different valuation methodology.

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 (£449m at 31 March 2025)

These assets were last subject to a full revaluation in 2020/21.

In the year to 31 March 2025, the Council has applied an indexation uplift to the carrying value of council dwelling assets. This creates a risk that the indexation applied may result in a value which is materially different from the fair value of these assets.

Our findings

- We have raised one control finding in relation to the independence of the valuer Whybrow and Dodds on page 40.
- We consider management's expert to have appropriate expertise and instruction to carry out the valuation;
- We have concluded our substantive audit procedures on the valuation of council dwellings and have determined that the overall assumptions are neutral however management have adopted a methodology that does not include indexing to the year end. This is not in line with the requirements of the standards and therefore we consider this to be cautious. We have therefore noted this method to be cautious although we note it does not cause a material misstatement.

Audit risks and our audit approach

6 Valuation of land and buildings – Heritage Assets

The carrying amount of revalued Heritage Assets differs materially from the fair value

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 Heritage Assets (£28m at 31 March 2025)

During the 24/25 financial year, the Southend pier has been subject to a full revaluation and a carrying value of £25m determined as at 31 March 2025. This is a unique asset and therefore the valuation of this asset is complex. There is a risk that the valuation determined is materially under or overstated.

Due to the size of the balance our risk is isolated to the pier.

Our response

We have performed the following procedures designed to specifically address the other audit 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 Heritage assets at the valuation date;
- We inspected the instructions issued to the valuers for the valuation of heritage assets 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;
- With the help of our valuation specialist, we challenged the appropriateness of the valuation methodology applied to the valuation of the pier and assumptions involved in this valuation.;
- We agreed the calculations performed of the movements in value of Heritage Assets 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 degree of estimation involved in arriving at the valuation.

Audit risks and our audit approach (cont.)

6 Valuation of land and buildings (cont.) – Heritage Assets

The carrying amount of revalued heritage Assets 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 Heritage Assets (£28m at 31 March 2025)

During the 24/25 financial year, the Southend pier has been subject to a full revaluation and a carrying value of £25m determined as at 31 March 2025. This is a unique asset and therefore the valuation of this asset is complex. There is a risk that the valuation determined is materially under or overstated.

Due to the size of the balance our risk is isolated to the pier.

Our findings

- We have raised one control finding in relation to the independence of the valuer Whybrow and Dodds on page 40.
- We consider management's expert to have appropriate expertise and instruction to carry out the valuation;
- The KPMG Revaluation Centre of Excellence team have raised a challenge with management's expert to justify two key assumptions where significant judgement is applied:
  - Fees percentage included in the valuation: The reported fees percentage for heritage assets are approximately 19% which is higher than we see elsewhere in the sector. Notably, this fee percentage includes demolition costs, which are typically not included in the fees.
  - Obsolescence Assumption: The applied obsolescence rate assumes the pier has lost 65% of the value of a new pier. KPMG have challenged management's expert to provide a clear rationale for this figure, reflecting the asset condition and usage characteristics.

Due to the judgemental nature of these assumptions, and the explanations received from management's valuer we have not raised an audit misstatement in relation to the heritage assets but we have noted the estimate is optimistic.

Key:
Prior year | Current year

Key accounting estimates and management judgements– Overview

Our view of management judgement

Our views on management judgments with respect to accounting estimates are based solely on the work performed in the context of our audit of the financial statements as a whole. We express no assurance on individual financial statement captions.

Asset/liability class	Our view of management judgement (Cautious – Neutral – Optimistic)	Balance (£m)	YoY change (£m)	Our view of disclosure of judgements & estimates (Needs improvement – Neutral – Best practice)	Further comments
Defined benefit Plan assets- Fair value	Prior year: Neutral; Current year: Neutral	737.6	30.4	Prior year: Neutral; Current year: Neutral	The pensions assets balance has increased by 4% in comparison to prior year. The actual rate of return confirmed by the pension fund is in line with the actuary's report, hence the assumption was neutral.
Defined benefit obligations – Present value	Prior year: Neutral; Current year: Neutral	(460.3)	(59.4)	Prior year: Neutral; Current year: Neutral	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 asset ceiling	Prior year: Neutral; Current year: Neutral	(277.3)	(89.8)	Prior year: Neutral; Current year: Neutral	KPMG specialist have assessed the change in the effect of the 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:
Prior year Current year

Key accounting estimates and management judgements– Overview (cont.)

Key: Prior year Current year

Asset/liability class	Our view of management judgement (Cautious / Neutral / Optimistic)	Balance (£m)	YoY change (£m)	Our view of disclosure of judgements & estimates (Needs improvement / Neutral / Best practice)	Further comments
Property, Plant & Equipment Council Dwellings subject to indexation in the year		449	12		Southend state that rather than indexing these assets to the year end they only index the value of these assets to February 2025 due to availability of information when producing the draft statement of accounts in time to meet the publication timeline. This meant they have been indexed by 3.3% rather than 4.6% (rate calculated by KPMG at March 2025). We therefore consider that this estimate is cautious
Property, Plant & Equipment Other land and buildings valued under the DRC		161	(20)		This estimate is considered optimistic due to the professional fees percentage adopted by the Council's valuation specialist. The rate adopted and used within the calculation is higher than the industry standard range. This results in a higher valuation but does not lead to a material misstatement. We consider the disclosures around the estimates to be acceptable but in need of improvement. Further details are on page 13.
Property, Plant & Equipment Heritage Assets valued under the DRC model		28	(2)		This estimate is considered optimistic due to the professional fees percentage adopted by the Council's valuation specialist. The rate adopted and used within the calculation is higher than the industry standard range. This results in a higher valuation but does not lead to a material misstatement. We consider the disclosures around the estimates to be acceptable but in need of improvement. Further details are on page 17.
Financial Instruments Fair value of financial instruments		77	(4)		The estimate uses primarily observable inputs and market value of similar instruments and therefore we consider this to be balanced. Due to the simple nature of this estimate we consider management's disclosures to be appropriate.

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 2024/25 (‘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 2024/25 Annual Governance Statement and confirmed that:

- It complies with Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE; and
- 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 are yet to receive instructions from NAO regarding WGA.

Independence and Objectivity

ISA 260 also requires us to make an annual declaration that we are in a position of sufficient independence and objectivity to act as your auditors, which we completed at planning and no further work or matters have arisen since then.

Audit Fees

Our fee for the 2024/25 audit, as set by PSAA is **£400,884** plus VAT (£372,000 in 2023/24).

See page 35 for details and status of fee variations.

We have also completed non audit work at the Council during the year on Pooling Housing Capital receipts and have included in appendix page 37 confirmation of safeguards that have been put in place to preserve our independence.

01

Value for money

Value for money Approach

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	Governance	Improving economy, efficiency and effectiveness
How the body manages its resources to ensure it can continue to deliver its services.	*How the body ensures that it makes informed decisions and properly manages its risks.*	*How the body uses information about its costs and performance to improve the way it manages and delivers its services.*

Value for money Approach

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

Process

Understanding the Council's arrangements

- Financial statements planning
- Internal reports, e.g. IA
- Mgmt. Inquiries
- External reports, e.g. regulators
- Assessment of key processes
- Annual report

→ **Evaluation of Council'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 and Governance 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 Council 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 and Governance Committee alongside our annual report on the accounts.

Public commentary

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

Value for money Findings

We are required under the Audit Code of Practice to confirm whether we have identified any significant weaknesses in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

In discharging these responsibilities, we include a statement within the opinion on your accounts to confirm whether we have identified any significant weaknesses. We also prepare a commentary on your arrangements that is included within our Auditor's Annual Report, which is required to be published on your website alongside your annual report and accounts.

Commentary on arrangements

We have prepared our Auditor's Annual Report and a copy of the report is included within the papers for the Committee alongside this report. The report is required to be published on your website alongside the publication of the annual report and accounts.

Response to risks of significant weaknesses in arrangements to secure value for money

As noted on the right, we have identified two risks of a significant weakness in the Council's arrangements to secure value for money. Overleaf we have set out our response to those risks.

We have no recommendations to report.

Summary of findings

We have set out in the table below the outcomes from our procedures against each of the domains of value for money:

Domain	Risk assessment	Summary of arrangements
Financial sustainability	significant risk identified	No significant weaknesses identified
Governance	significant risk identified	No significant weaknesses identified
Improving economy, efficiency and effectiveness	No significant risks identified	No significant weaknesses identified

Further detail is set out in our Auditor's Annual Report.

Performance improvement observations

We have not identified any Performance Improvement Observation, which are suggestions for improvement but not responses to identified significant weaknesses.

Significant Value for money Risk

1 Financial sustainability of Children's Services in relation to the cost of care placements

Risk that value for money arrangements may contain a significant weakness linked to Financial Sustainability

Significant Value for Money Risk

The Children's Services directorate has reported expenditure of £6.1m adverse to budget in 2024/25.

There is a recurring overspend observed from 2022/23 - 2024/25 in the Childrens Services Directorate. This is primarily driven by the large and increasing cost of external child-care placements and a shortage of in-house fostering placements.

Our response

We have performed the following procedures:

1. Understood the process for identifying cost savings for future financial periods and considered how the Council plans to address future financial performance, including the process and input into development of the 2025/26 medium term financial strategy (MTFS).

2. Considered the development of the Council arrangements in place to establish the required efficiency programme and savings to achieve short and medium term financial sustainability with regards to Children in Care placements.

3. We have reviewed the Council's process for reporting of the issue to Cabinet, the action plan being implemented to address the overspend and the minutes of the meetings to address the high cost of placements focussing on how the Council ensures cost savings do not impact on quality.

Our findings

The Council are aware of the budget pressures. This has been highlighted in their financial performance reports that are sent to the cabinet and the MTFS which went through the Policy and Resources Scrutiny Committee, the cabinet and then the Council. The MTFS included relevant data on children in care in Southend over time, relevant Council comparators, the number of children in each type of care and the associated cost. We note the adverse position to budget has reduced from £6.6m (20.3% of the Children's Services budget) in 2023/24 to £6.1m (12.3% of the budget) in 2024/25 indicating positive movement and effective response to the financial sustainability risk. This is further demonstrated through our risk assessment procedures where we note budget monitoring training has been provided to leaders to improve management of financial risks and response to opportunities.

Based on the findings above we have not identified any significant weaknesses in arrangements as we deem there to have been adequate reporting and monitoring of this spend during the 2024/25 reporting year. We do however note that this continues to be an area of financial pressure for the Council and that continued action will be required to manage this risk.

Significant Value for money Risk

2 Governance over provision of service in the Councils role as landlord for Social Housing properties

Risk that value for money arrangements may contain a significant weakness linked to Governance

Significant Value for Money Risk

During the financial year the Regulator for Social Housing has issued a regulatory judgement that there are serious failings in the landlord delivering the outcomes of the consumer standards and significant improvement is needed.

A risk exists due to the failure to provide suitable governance as a landlord for the 6,000+ homes where Southend City Council acts as landlord.

Our response

We have performed the following procedures:

1. Performed inquiries to document the Councils response to the implementation of new social housing consumer standards in April 2024.
2. Understanding of the Safety and Quality, Neighbourhood and Community standards and assessed the failings against regulatory requirements.
3. Review of the Councils Regulation and Inspection Preparation report to address potential risks over new consumer standards.
4. Understanding of the judgement ruled by the Social Housing Regulator, the basis for the ruling and performed inquiries on the Councils response to regulatory findings.
5. Review and assessment of the Council's improvement plan in response to the ruling reported to Cabinet and proposed the actions.

Our findings

The Council responded to newly implemented consumer standards early in the financial year to address potential risk areas in provision of service through their role as landlord.

The Council had self-assessed their services with a grading of C2, noting areas for improvement and the Consumer Standards Improvement Plan was created in the financial year to address these areas.

The Council have received a grading of C3 from the Regulator for Social Housing, and this will be highlighted in their directorate risk register for Environment and Place, and reports that are sent to the Cabinet.

In response to the ruling, we note a robust update to the Improvement Plan to mitigate further findings, and note demonstrable progress against findings reported by the regulator.

Based on the findings above we have not identified a significant weakness in arrangements We note the council have responded to the regulatory judgement effectively to mitigate future risks in value for money in their role as landlord.

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

- The budget setting process is underpinned by the Councils Financial Regulations. We discussed the process with the executive directors of multiple Service Lines and note that the process is consistent throughout the Council. The budget is challenged at the Policy and Resources Scrutiny committee, before going to Cabinet and then the Council.
- We have assessed relevant strategic and operational plans to identify key changes and potential risks to continuing operations at the Council.
- The council prepares the Medium Term Financial Forecast and Strategy (MTFS). The MTFS is the key financial planning document which is used to inform business and resources planning and shows how spending needs to be balanced with the amount of available funding. This is used to identify budget gaps and to give the Council sufficient time to address them.
- Councils are required by law to maintain adequate reserves. The Council’s general fund reserve has remained stable over recent years with the Council replenishing £1m of it's General Fund balance during 2024/25. The general fund balance as at 31st March 2025 is £11m with total usable reserves of £183,028m.
- The Council made a deficit on provision of services for the year of £7.485m compared to a deficit in the 2023/24 year of £32.556m
- The Councils revised budget for Children, Young People and SEND was £49.5m for 2024/25. The outturn showed a negative variance against budget of £6.1m. The Finance Performance Report July 2025 taken to September Cabinet estimates a continued overspend of £6.4m, as at period 4 2025/26.

Risk assessment conclusion

Based on the risk assessment procedures performed we have identified a significant risk associated with financial sustainability. The Children’s Services directorate has had overspends in 2022/23, 2023/24 and in 2024/25. As of the July 2025 Finance Performance Report. The Council is projected to have an adverse variance to budget in 2025/26 of £7m.

This is primarily driven by the large and increasing cost of external child-care placements and a shortage of in-house fostering placements

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

- The Risk Management Policy Statement & Strategy which is the key element of the entity's risk management process. The Council receive a quarterly horizon scanning report considering emerging local and national trends and their potential impact on the council. This is discussed at the executive directorate level and risks are captured on the Corporate Risk Register, monitored quarterly throughout the year.
- We have completed service line inquiries to further our understanding of the governance structure at the Council and determine how each service line identifies, controls, and monitors risks. We inquired how the service line involve stakeholders to identify its risks and how the service line escalate risks to the authority-wide risk register.
- The Audit and Governance Committee monitors fraud through committee meetings where the Counter Fraud Workplan is presented. We note the Council has a Counter Fraud, Bribery and Corruption Policy and Strategy.
- We have assessed the completeness of risks captured in the Corporate Risk Register and the adequacy of detail against each documented risk. The register is reported to the Policy and Resources Overview & Scrutiny Committee and the Cabinet. We have reviewed meeting minutes for November 2024 and June 2025 Cabinet meetings demonstrating monitoring and scrutiny of progress against risks present on the register.
- We have performed a review of laws and regulations and assessed the Councils awareness and handling of litigation, claims and assessments is completed on a case-by-case basis within the relevant directorates, as opposed to a centrally managed system. We note implementation of a new case management system is underway in response to a performant improvement observation issued in the prior year. Refer to page 32.
- There are clear policies in place regarding the expected behaviours for staff and members and we have assessed a number of these including the Employee Code of Conduct, the whistleblowing policy and the declarations of interest policy.
- In 2025/26, the Regulator for Social Housing issued a regulatory judgement noting serious failings in the landlord delivering the outcomes of the consumer standards and significant improvement is needed. We performed inquiries to understand the Councils monitoring procedures to identify risks of failing to meet regulatory standards and documented our assessment of the governance structure in place to respond to the risks.

Risk assessment conclusion

Based on the risk assessment procedures performed we have identified a significant risk associated with governance. We consider a risk exists due to the failure to provide suitable governance as a landlord for the 6,000+ homes where Southend City Council acts as landlord.

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

- Reporting financial performance to Cabinet occurs at September, November, January and the following June through the financial performance report. Assessment of economy, efficiency and effectiveness is evidenced through reporting to the cabinet
- The Medium-Term Financial Strategy provides context to sector pressures and summarises efficiency plans, future commitments to value for money, and key risks. The document details the Councils response to each of these and prospective plans to improve performance in delivery of a services whilst mitigating the impact of identified risks.
- A new constitution has been implemented in January 2025 which details how the Council operates and is governed to support achieving the corporate aims, objectives and priorities for its constituents. The latest updates to the constitution were made in July 2025.
- The Key performance Indicators are aligned to the four corporate priorities set out within the Corporate plan 2024-28.
- Key Performance Indicators are used to monitor the performance of the Council and the services it provides to residents. The Council have a large range of KPIs they monitor across multiple areas of the business and we are satisfied that these measure financial and other performance measures.
- The Council is subject to reporting from external bodies such as Ofsted, Care Quality Commission, HM Inspectorate of Probation, Regulator of Social Housing and the Information Commissioners Office. The Care Quality Commission rated Adult Social Care as "good", and the outcome of the Ofsted ILACS inspection judged overall effectiveness to be "good". Subsequent to the year end the Council received a C3 rating from the Regulator of Social Housing and we have considered the governance process around this on page 28. Through our review of reports received we have noted an appropriately robust response to reportable findings, where received, to the relevant governance committees.

Risk assessment conclusion

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

Performance improvement observations – follow up from prior year

The following observations were raised in the prior year:

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date	Update as of October 2025
1	3	**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. We recommend all directorates set aside time as part of the risk management process for horizon scanning and risk awareness. **KPMG update October 2025** We consider the Performance Improvement Observation to have been implemented through our review of the Councils Risk Management Framework.	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: October 2025	**Implemented** Our Corporate Leadership Team (CLT) continue to receive a quarterly horizon scanning report which considers emerging national and local trends and their potential impact on the council, its services and our communities. Service planning continues across the organisation. Service Plans are agreed at an Executive Directorate level and more detailed plans at Director/Head of Service level. The Service Plans include embedded risk registers, which are reviewed quarterly at Departmental Management Team meetings and then through an escalation process to CLT if risks need to be escalated or de-escalated or for new risks to be included. The council is also supported by Zurich, one of the council's insurance companies: Zurich provided guidance and independent advice on the refresh of the Corporate Risk Management Framework and Toolkit, and continue to provide support and advice as part of their social value agreement within their contract.

Performance improvement observations – follow up from prior year

The following observations were raised in the prior year:

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date	Update as of October 2025
2	3	**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 and Governance 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. It is recommended that minutes are reviewed to ensure that they demonstrate an accurate reflection of the challenge applied to decision. **KPMG update October 2025** We consider the Performance Improvement Observation to have been implemented after review of meeting minutes demonstrating sufficient challenge.	This recommendation will be considered by the Director Law and Governance who will report back to the Chief Executive and, if required, Audit and Governance Committee. Officer: Director Law and Governance (Monitoring Officer) Due: May 2025	**Implemented** The Monitoring Officer has looked into this and is of the view that the style of Minutes employed at Southend-on-Sea City Council is compliant and proportionate. She, together with the Democratic Services Manager will undertake sample checks from time-to-time as part of aft monitoring of the position and to provide additional reassurance.

Performance improvement observations – follow up from prior year

The following observations were raised in the prior year:

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date	Update as of January 2026
3	3	**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. 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. **KPMG update October 2025** We consider the recommendation to remain ongoing. KPMG note the progress made to date and the consideration that litigations and claims are addressed adequately, however the implementation of the new case management system has not operated throughout 2024/24. We will monitor progress throughout 2025/26.	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) Due: September 2025	**Ongoing** On 8 October 2025 the Council's Corporate Leadership Team agreed an external legal spend and engagement protocol which has now been rolled out across the Organisation. This will provide consistent and centralised oversight by the in-house team for all legal work except for any claims that are made against the Council's range of insurance policies. The Council already has an established system for recording and monitoring all insurance claims. The legal case management system is still out for procurement – there has been a delay due to the need for assistance and advice from a third-party external organisation. Estimated contract award is now the first quarter of financial year 2026/2027.

Appendix

Contents

	Page
Required communications	34
Fees	35
Confirmation of Independence	36
Uncorrected audit misstatements	38
Corrected audit misstatements	38
Control Deficiencies	39
FRC’s areas of focus	41
KPMG’s Audit quality framework	44

Required communications

Type	Response
Our draft management representation letter	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2025
Adjusted audit differences	We have identified one adjusted audit differences with nil impact on the result for the period. See page 38.
Unadjusted audit differences	There are no uncorrected audit misstatements.
Related parties	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 and Governance Committee	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	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.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	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.
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.

Type	Response
Significant difficulties	No significant difficulties were encountered during the audit
Modifications to auditor's report	None
Disagreements with management or scope limitations	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	No material inconsistencies were identified related to other information in the statement of accounts.
Breaches of independence	No matters to report. The engagement team and others in the firm, have complied with relevant ethical requirements regarding independence.
Accounting practices	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	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. The following work is outstanding to allow us to certify the audit: Whole of Government Accounts; and confirmation from the National Audit Office that all assurances required for their opinion on Whole of Government Accounts have been received.

Fees

Audit fee

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

Entity	2024/25 (£'000)	*2023/24 (£'000)*
Scale fee as set by PSAA	401	372
Fee variations subject to PSAA approval		
Technical Accounting issues	-	6
ISA315r*	-	16
VFM additional risk	4	13
PPAs	-	19
Quality or preparation issues	14	4
IFRS16 leases	4	-
ISA600r – Group accounts	2	
ISA600r - Schools	2	-
TOTAL	**427**	**430**

All quoted fee variations relating to 2023/24 reflect the final values approved by PSAA.

All fee variations quoted in respect of 2024/25 have been or remain subject to discussion with management and remain subject to PSAA approval.

* Built into the statutory audit fee for 2024/25

Quality and preparation issues were experienced in our audit of the Council's consolidation, income and expenditure and heritage asset balances. Our audit of these areas took longer than budgeted for due to delays in receipt of the working papers and supporting evidence requested for our sample testing, working papers provided for audit not reconciling to the financial statements and insufficient documentation provided to support judgements and assumptions resulting in further inquires being required. At the time of issuing this report, we continue to discuss these findings with management.

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 audit plan.
- Additional fees are subject to the fees variation process as outlined by the PSAA.

Confirmation of Independence

We confirm that, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and that the objectivity of the Director 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 March 2025
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 0.3: 1. We do not consider that the total non-audit fees create a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

	2024/25
	£'000
Scale fee	401
Proposed Fee Variations	26
Other Assurance Services	6
Total Fees	**433**

Application of the FRC Ethical Standard 2019

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

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

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

Independence and objectivity considerations relating to other matters

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

Confirmation of audit independence

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

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

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

Yours faithfully

KPMG LLP

Uncorrected audit misstatements

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit and Governance Committee with a summary of uncorrected audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial', which are not reflected in the financial statements. There are no uncorrected audit misstatements.

Corrected audit misstatements

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

- Small errors within the Officers' Remuneration Disclosure have been identified and corrected.

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.	② **Priority two:** issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	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	②	**Failure to consider entities that are significantly influenced or controlled by the Councillor/Officers during the Related Party processes** During the walkthrough of the related party process, we noted that the wording issued by management on the declarations of interest is not code compliant and may result in management only considering transactions with Councillors and Officers. Entities significantly influenced by these individuals are not considered, which may result in incomplete identification of related party relationships and transactions. This limits the effectiveness of the control in meeting the requirements of relevant auditing standards. **Recommendation** We recommend that management update the wording on the declaration of interest to be code compliant and identify all individuals and entities that meet the definition of related parties under IAS24.	Disclosure note 44 (Related Parties) sets out not only the nature of the related party transactions with Members and Officers, but also sets out the entities that either have significant influence over the Council or the entities over which the Council has significant influence or works in partnership with. The disclosure note includes related party considerations for Central Government, the NHS Mid and South Essex integrated Care Board, Members and Officers acting as Board members of any of the Council's group entities, Members appointments as the Council's representatives on outside bodies and entities controlled or significantly influenced by the Council. Given these arrangements, we do not believe this has led to incomplete identification of related party relationships and transactions. We will liaise with KPMG to establish appropriate Code compliant declaration wording to be issued as part of the preparation of the 2025/26 accounts. Officer: Pete Bates Due Date: March 2026

Control Deficiencies

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
2	3	**Post-Close Adjustments outside the Financial System** A significant number of post-close adjustments were identified through the Income & Expenditure (I&E) portfolio workings, which were processed outside the core financial system. These adjustments—totalling £32 million in Expenditure across 35 spreadsheet columns, and £24.6 million in Income across 24 spreadsheet columns—were manually maintained and not subject to system-based controls or automated validations. Although management review procedures are in place, the absence of formalised controls over these manual adjustments increases the risk of undetected errors and contributes to a higher volume of audit effort. **Recommendation** We recommend management seek to understand why they require such a large number of adjustments outside of the system and whether it is feasible to post these within the system as this would reduce manual error risk, and strengthen the integrity of the financial reporting process.	The Council's financial system is set up in the best way to produce the monthly management accounts. The Council only produces its statutory accounts (including the Comprehensive Income and Expenditure Statement) once a year and that involves using the management accounts as the starting point then overlaying the various statutory accounting adjustments. Depending on the nature of the adjustments, some are posted to the financial system and others are manually applied on a spreadsheet working paper. The Council is aware of the manual error risk that this potentially creates and is exploring the implementation of the Financial Planning and Analysis module of the system to facilitate this process in a more automated way. In the meantime, the current arrangements will be strengthening by enhanced senior officer review of any manually applied adjustments.
3	3	**Valuation specialist rotation** Whybrow confirm they have been valuing Southend's assets since 2017 (8 years) with no change in lead signatory. While valuer rotation is not mandatory in the public sector, it is recommended that valuers rotate at least every seven years as good practice, to avoid overfamiliarity and a lack of independence within these judgemental vauations **Recommendation** We recommend management consider putting in place safeguards to avoid overfamiliarity and a lack of independence arising from a long standing relationship with the valuer.	We will liaise with the valuer regarding any appropriate safeguards that can be put in place, including whether it is possible for them to change their lead signatory. Please note that this can only be fully implemented from the 2026/27 Statement of Accounts as, although not complete, a lot of the work on the valuations for 2025/26 has already been undertaken by that valuer. Officer: Pete Bates Due Date: March 2027

Control Deficiencies

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
4	3	**Finance leases not on fixed asset register** We noted that most assets historically held under finance leases are not included on the fixed asset register system "RAM". This has continued for the right of use assets which are not included on RAM. There is therefore a risk that management are unable to reconcile the fixed asset register to the trial balance and financial statements. **Recommendation** We recommend management ensure all assets owned are included on RAM.	We will give due consideration to the balance between the level of resource needed to implement this recommendation and the risk involved. Our capital and fixed assets finance lead is very experienced and knowledgeable and we think the risk of management not being able to reconcile our fixed asset register to our trial balance and financial statements is low. This area has always been successfully reconciled in prior years Officer: Pete Bates Due Date: March 2026

FRC's areas of focus

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

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

Key expectations for 2024/25 annual reports

Overview

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

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

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

Pre-issuance checks and restatements

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

Risks and uncertainties

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

Financial reporting framework

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

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

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

FRC's areas of focus (cont.)

Impairment of assets

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

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

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

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

Cash flow statements

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

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

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

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

Climate

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

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

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

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

Financial instruments

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

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

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

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

Judgements and estimates

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

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

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

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

FRC's areas of focus (cont.)

Revenue

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

Presentation

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

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

Income taxes

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

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

Strategic report

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

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

Fair value measurement

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

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

Thematic reviews

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

UK's largest private companies

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

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

Retail sector focus

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

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

2024/25 review priorities

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

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

KPMG'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 director 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 (and Risk) Committee, and accountability is reinforced through the complete chain of command in all our teams.

Commitment to continuous improvement

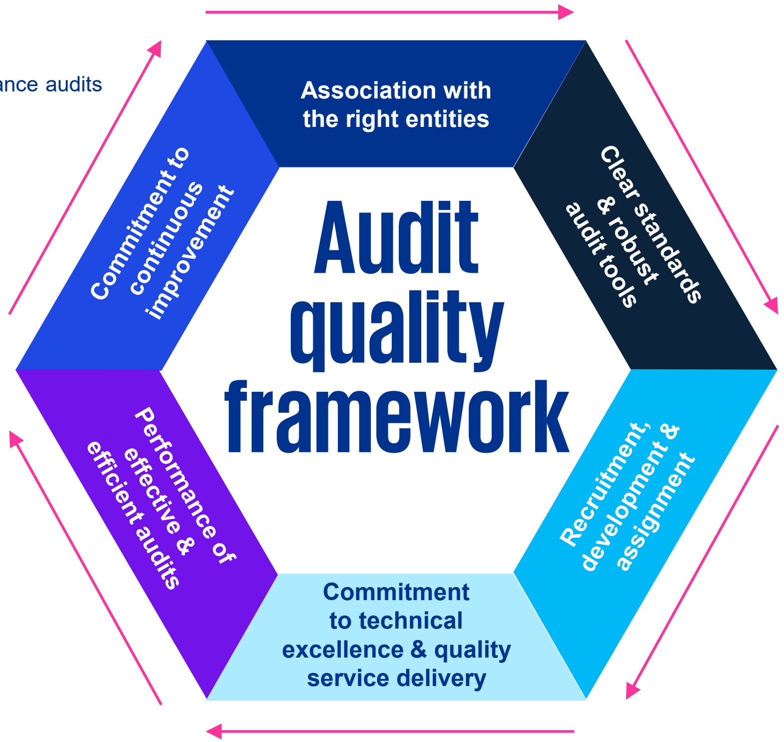
- Comprehensive effective monitoring processes
- Significant investment in technology to achieve consistency and enhance audits
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

Performance of effective & efficient audits

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

Commitment to technical excellence & quality service delivery

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



Association with the right entities

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

Clear standards & robust audit tools

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

Recruitment, development & assignment of appropriately qualified personnel

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

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