Year End Report to the Audit Committee

Tendring District Council

Year end report for the year ended 31 March 2024

—

26 February 2025

KPMG required communications for all entities

Introduction

To the Audit Committee of Tendring District Council

We are pleased to have the opportunity to meet with you on 13 February to discuss the results of our audit of Tendring District Council as at and for the year ended 31 March 2024.

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, presented on 25 April 2024. We will be pleased to elaborate on the matters covered in this report when we meet.

The engagement team

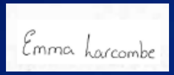
We expect to be in a position to sign our audit opinion on the approval of the financial statements and auditor's representation letter by the 28th of February 2025, provided that the outstanding matters noted on page 3 of this report are satisfactorily resolved.

We will be issuing a disclaimer audit opinion for the reasons outlined on page 4.

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
- Status of our audit and the implications of the statutory backstop.

Yours sincerely,



Emma Larcombe

Director

26 February 2025

How we deliver audit quality

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

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

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

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

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Important notice

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

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

Purpose of this report

This Report has been prepared in connection with our audit of the financial statements of Tendring District Council (the 'Council'), prepared in accordance with [International Financial Reporting Standards ('IFRSs') as adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24, as at and for the year ended 31 March 2024.

This Report has been prepared for the Council's Audit Committee, a sub-group of those charged with governance, in order to communicate matters that are significant to the responsibility of those charged with oversight of the financial reporting process as required by ISAs (UK), and other matters coming to our attention during our audit work that we consider might be of interest, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this Report, or for the opinions we have formed in respect of this Report.

This report summarises the key issues identified during our audit.

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 and implications of the statutory backstop

Page 4 'Our audit and the implications of the statutory backstop' explains the impact of the statutory backstop and our resulting conclusion to issue a disclaimer opinion on the financial statements.

Our audit is not yet complete and matters communicated in this Report may change pending signature of our audit report. We will provide an oral update on the status. Page 6 'Our Audit Findings' outlines the outstanding matters in relation to the audit.
Our conclusions will be discussed with you before our audit report is signed.

This report is addressed to Tendring District Council (the Council). We take no responsibility to any member of staff acting in their individual capacities, or to third parties.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

Our audit and the implications of the statutory backstop

Measures to resolve the backlog

The Government has introduced measures to resolve the local government financial reporting and audit backlog. Amendments have been made to the Accounts and Audit Regulations and NAO's Code of Audit Practice which have allowed auditors to give disclaimed opinions over any open, incomplete audits up to the period ending 31 March 2023. These were required to be delivered by 13th December 2024. For Tendring District Council this has resulted in a disclaimed audit opinion for 2 financial years to and including 2022/23.

Those same amendments to the Accounts and Audit Regulations require the Council to publish its audited 2023/24 financial statements and accompanying information on or before 28 February 2025. In accordance with the Code, as auditors we are required to provide our audit report on those financial statements in sufficient time to enable the Council to publish its audited financial statements by this date, irrespective of if the audit is complete or not.

The Appendix 'Local Audit - Reset and Recovery' provides more detailed information regarding this. The appendix also provides more detail on the implication of this in future audits, in respect of rebuilding assurance.

Impact on our audit of the financial statements

The impact of the above means that for the financial year 2023/24 we have not been able to obtain sufficient appropriate audit evidence in respect of the 2023/24 opening balances and the comparatives balances relating to 2022/23. The work we have performed in 2023/24 is explained on the next page.

As explained in the previously referenced appendix, the level of rebuilding assurance has been limited in 2023/24 as we have determined that there is insufficient time to complete our audit to obtain sufficient appropriate audit evidence, and, in our view, this is pervasive to the financial statements as a whole.

As a result of the above and irrespective of the level of work completed on 2023/24 balances, we intend to issue a disclaimer opinion on the financial statements. See Appendix for an extract of our draft audit opinion on page 29.

Other matters

As required by the ISAs (UK) when we are disclaiming our audit opinion, our audit report will not report on other matters that we would usually report on, most notably the use of the going concern assumption in the preparation of the financial statements; the extent to which our audit was considered capable of detecting irregularities, including fraud; and whether there are material misstatements in the other information presented within the Statement of Accounts.

Although we are disclaiming our audit opinion we have, in this report, reported matters that have come to our attention and, where appropriate, we intend to include in our audit report.

Value for Money

The amendments to the Accounts and Audit Regulations do not impact on our responsibilities in relation to the Council's Value for Money arrangements. We are responsible for forming a view on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources. Page 17 provides a summary of our findings. Further details are also available in our Auditor's Annual Report for 2023/24.

Our audit and the implications of the statutory backstop

Work completed in 2023/24

Our audit plan, presented to you on 25 April 2024 set out our audit approach including our significant risks and other audit risks. We have updated our response to those significant risks, in the pages overleaf, identifying the work we have and have not been able to complete.

Although we are disclaiming our audit opinion, we have reported matters that have come to our attention during the audit and, where appropriate, we intend to include in our audit report.

Specifically in relation to 2023/24 we have completed our work on the following areas in addition to our planning and risk assessment work:

Significant risks

- Management override of controls

Other areas

- Investment property
- Short Term Investments
- Cash and cash equivalents (23/24 opening and closing balances)
- Short and Long Term Borrowing
- Other Long Term Liabilities – Pensions
- Property, Plant and Equipment Additions
- In-year Expenditure
- In-year Income
- Housing Revenue Account Income and Expenditure Statement
- Collection Fund Income

We have been unable to complete our work on the following areas:

- Opening balances;
- Movements in usable and unusable reserves for the year ended 31 March 2024;
- Other work areas: carrying amounts of property, plant and equipment, short term creditors, short term debtors, business rates tariff and levy included within taxation and non-specific grant income and expenditure.

Significant challenges with progressing work

Matters which led to significant challenges in performing some elements of the audit included the following:

Quality of audit evidence:

- *Issues with the original listing provided for testing of rental income.*
- *Issues with the valuation of other land and buildings (see Page 15 for further detail)*

Number and scale of issues identified:

- Two significant risks identified on VFM and one subsequent significant weakness

We have considered the impact of these issues on our audit and have discussed fee variations with management. These are outlined on page 34.

We are working with management in advance of the 2024/25 audit to ensure these are addressed where possible.

Rebuilding assurance

We have detailed in Appendix 'Local Audit – Reset and Recover' the process we will follow to rebuild assurance over the coming years to return to an unmodified opinion.

Our audit findings

We have set out below the status of our work and key findings from the work we were able to perform before the backstop date. On page 4 we have discussed the reasons for the disclaimer audit opinion.

Significant audit risks	Page 9
Significant audit risks	**Our findings**
Management override of controls	We identified one control deficiency in relation to the approval of journals
Valuation of post retirement benefit obligations	We have not identified any issues in relation to the assumptions used within the valuation of the LGPS gross pension liability, except for salary increase assumption which is raised as an audit misstatement.
Key accounting estimates	**Page 14**
Valuation of Pension Liabilities/Assets	We involved KPMG actuarial specialists in reviewing the actuarial assumptions. Assumptions were found to be balanced

Number of Control deficiencies	Page 37-39
Significant control deficiencies	1
Other control deficiencies	6

Outstanding matters

Our audit is substantially complete except for the following outstanding matters

- Management representation letter
- Finalise audit report and sign

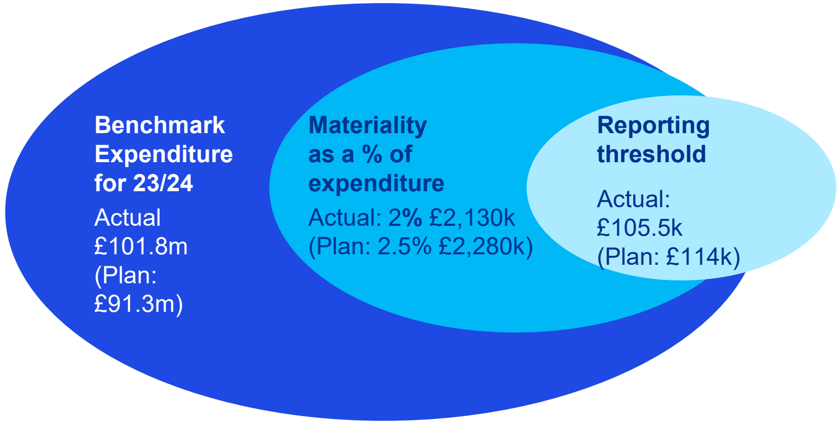
Conclusions on these matters will be reported to the next audit committee following completion of the audit.

Key changes to our audit plan

We have not made any changes to our audit plan as communicated to you on 25 April 2024, other than as follows (excluding the implications of the statutory backstop which are dealt with on page 4):

Materiality

Materiality has been revised because the benchmark, expenditure for the 2023/24 financial year, has increased significantly since planning. We also revised materiality to 2% as opposed to 2.5% in line with industry standards.



Risk	Risk change and effect on audit strategy and plan
Fraud risk from expenditure recognition	The Council's General Fund and HRA reserves have increased in the current year, reducing the fraud risk. We noted that the additions balance in the current year was lower than expected at 5 times performance materiality and would therefore need to be significantly wrong for there to be a material misstatement. Following the completion of our risk assessment procedures, we have rebutted the fraud risk from expenditure recognition.

Significant risks and Other audit risks

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

Our risk assessment draws upon our knowledge of the business, the industry and the wider economic environment in which Tendring District Council operates.

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

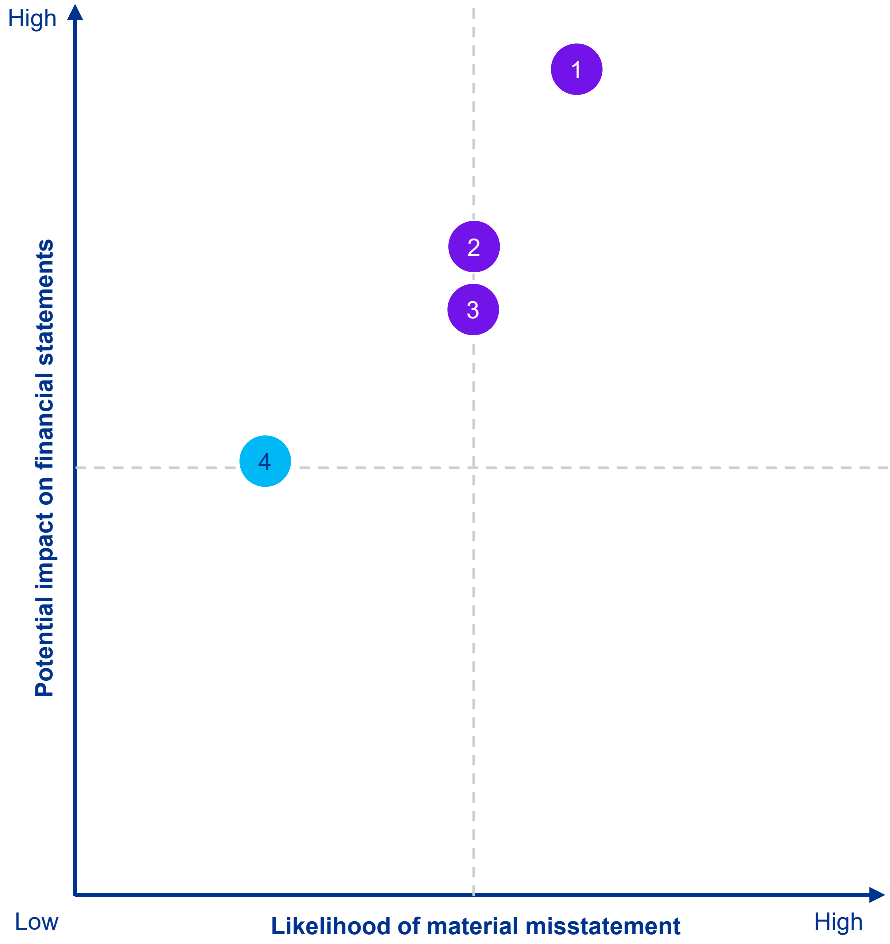
During our audit we identified changes in risks of material misstatement as highlighted on the graph – see also the following slides

In the pages overleaf we have reported the work we have completed on significant risks and other audit risks. Where work has not been completed in line with page 5 – we have not re-produced the slides that we presented in the audit plan.

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

Other audit risks	
4.	Recognition of the surplus on the net pension asset

Key:
- # Significant financial statement audit risks
- Increasing or decreasing risk compared with planning
- # Key audit matter and significant financial statement audit risk
- # Other audit risk
- # Significant financial statement audit risks



Audit risks and our audit approach

1 Management override of controls[a]

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

Significant audit risk

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

Our response

Our audit methodology incorporates the risk of management override as a default significant risk. We have performed the following procedures designed to specifically address this significant risk:

- In line with our methodology, evaluated the design and implementation of controls over journal entries and post closing adjustments.
- Assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates. We note the change in accounting policy for infrastructure assets (coastal defence assets) from 20 years to 75 years following review by DSCEC Ltd.
- Assessed the business rationale and the appropriateness of the accounting for significant transactions that are outside the normal course of business, or are otherwise unusual.
- In line with our audit plan, tested the operating effectiveness of controls over journal entries and post closing adjustments.
- We analysed all journals through the year and focus our testing on those with a higher risk, such as unusual debits and credits to cash and borrowings.

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

Audit risks and our audit approach (cont.)

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

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

Significant audit risk

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

Our findings

While we are disclaiming our audit opinion we are still required to identify our audit findings based on the work performed. We have identified no audit findings:

- We identified 7 journal entries and other adjustments meeting our high-risk criteria – our examination did not identify unauthorised, unsupported or inappropriate entries.
- Our procedures did not identify any significant unusual transactions.
- We did identify a control deficiency in relation to journals approval (see Page 37).

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

Audit risks and our audit approach (cont.)

2 Valuation of post retirement benefit obligations

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

Cautious Neutral Optimistic

Key: Prior year Current year

Significant audit risk

- The valuation of the post retirement benefit obligations involves the selection of appropriate actuarial assumptions, most notably the discount rate applied to the scheme liabilities, inflation rates and mortality rates. The selection of these assumptions is inherently subjective and small changes in the assumptions and estimates used to value the Council's pension liability could have a significant effect on the financial position of the Council
- The effect of these matters is that, as part of our risk assessment, we determined that post retirement benefits obligation has a high degree of estimation uncertainty. The financial statements disclose the assumptions used by the Council in completing the year end valuation of the pension deficit and the year on year movements.
- We have identified this in relation to the following pension scheme memberships: Local Government Pension Scheme
- Also, recent changes to market conditions have meant that more Council 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 planned response

We planned to perform the following procedures designed to specifically address this significant risk,

- Understood the processes the Council have in place to set the assumptions used in the valuation;
- Evaluated the competency, objectivity of the actuaries to confirm their qualifications and the basis for their calculations;
- Performed inquiries of the accounting actuaries to assess the methodology and key assumptions made, including actual figures where estimates have been used by the actuaries, such as the rate of return on pension fund assets;
- Agreed the data provided by the audited entity to the Scheme Administrator for use within the calculation of the scheme valuation;
- Evaluated the design and implementation of controls in place for the Council to determine the appropriateness of the assumptions used by the actuaries in valuing the liability;
- Challenged, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate and mortality/life expectancy against externally derived data;
- Considered the adequacy of the Council's disclosures in respect of the sensitivity of the deficit or surplus to these assumptions;
- Where applicable, assessed the level of surplus that should be recognised by the entity; and
- Assessed the impact of a new triennial valuation model and/or any special events, where applicable.

Audit risks and our audit approach (cont.)

2 Valuation of post retirement benefit obligations (cont.)

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

Cautious Neutral Optimistic

Key: Prior year Current year

Significant audit risk

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

While we are disclaiming our audit opinion we are still required to identify our audit findings based on the work performed. We have identified the following audit findings:

- We assessed the competency and objectivity of the Scheme actuaries and did not identify any reportable findings.
- Our actuaries have performed inquiries of the actuaries and have reviewed the underlying assumptions behind the calculation of the estimate. We have concluded that the overall assumptions are balanced relative to our central rates other than the salary increase assumption which is outside our reasonable range.
- The salary increase assumptions should be set as the employer's best estimate of their long term remuneration policy for their active membership in the fund. The actuary opinion, a prudent risk premium to the salary increase assumption for the purpose of calculating net asset position of fund. If the assumption was set in line with the Employer's best estimate assumption (in line with CPI) rather than the actuary's assumption (in line with CPI + 1%), we understand this would decrease the DBO by c.£1,600k based on the sensitivities disclosed in the Year-end report. Please refer to page 43 for the audit difference.
- The Actuarial Funding Valuation for the Fund, with an effective valuation date of 31 March 2022, was completed and signed in a prior accounting period. However, given this is a first-year audit, we have considered the impact of the 31 March 2022 valuation. An actuarial experience of £nil was allowed for in the 31 March 2022 IAS 19 results and hence within the accounting DBO. This is within the typical tolerance of 1% - 2% per annum. We have performed a reconciliation of the triennial funding valuation position to the opening IAS 19 figures as at 31 March 2022. Our checks are within our acceptable tolerances.
- We have assessed the level of surplus recognised by the Council and did not identify any reportable findings. The minimum funding contributions are higher than the future service cost and therefore no surplus is recognisable.
- In- line with International Auditing Standards, it is important for management to have ownership over the defined benefit pension valuation, even though this draws upon the expertise of actuarial experts engaged by the pension fund itself. While we are aware that management has discussed the assumptions to be used with the scheme actuary, this review and challenge by management has not been documented for our review in line with the requirements of auditing standards for an effective management review control. We have shared the disclosure recommendations with the management.

ISA required communications for all entities

Audit risks and our audit approach (cont.)

Level of prudence compared to KPMG central assumptions

Audit misstatement | *Cautious* *Balanced* *Optimistic* | *Audit misstatement*

Reasonable range

Overall assessment of assumptions for audit consideration							Balanced	
Underlying assessment of individual assumptions		**Methodology**	**Consistent methodology to prior year?**	**Compliant methodology with accounting standard?**	**Employer**	**KPMG central**	**Assessment**	**Significant assumption**
Discount rate		AA yield curve	✓	✓	4.90%	4.81%	Balanced	✓
CPI inflation		Deduction to inflation curve	✓	✓	2.90%	2.85%	Balanced	✓
Pension increases		In line with CPI	✓	✓	2.90%	2.97%	Balanced	
Salary increases		In line with most recent Fund valuation	✓	See next page	CPI + 1%	In line with long-term remuneration policy	Audit misstatement	
Mortality	Base tables	In line with most recent Fund valuation	✓	✓	110% of SAPS series 3 base tables	In line with best-estimate Fund experience	Balanced	✓
	Future improvements	In line with most recent Fund valuation, updated to use latest available CMI model	✓ See page 11	✓	CMI 2022,1.25% long-term trend rate and default other parameters	CMI 2022,1.25% long-term trend rate and default other parameters	Balanced	✓
Other demographics		In line with most recent Fund valuation	✓	✓	In line with most recent Fund valuation	In line with Fund experience	Balanced	

ISA required communications for all entities

Key accounting estimates and management judgements – Overview

Our view of management judgement

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

Cautious | Neutral | Optimistic

Asset/liability class	Our view of management judgement	Balance (£m)	YoY change (£m)	Our view of disclosure of judgements & estimates	Further comments
Defined benefit plan	Cautious / Neutral / Optimistic: Neutral	137.3	0.6	Needs improvement / Neutral / Best practice: 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 balanced relative to our benchmark range, although salary increase assumption is outside our reasonable range
Defined benefit assets	Cautious / Neutral / Optimistic: Neutral	172.7	19.2	Needs improvement / Neutral / Best practice: Neutral	The pension assets balance has increased by 11% in comparison to prior year. The rate of return confirmed by the pension fund is similar to the actuary's report, hence its on Neutral side.

Audit risks and where our audit approach

3 Valuation of land and buildings

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

Significant audit risk

- The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate current value at that date.
- Land and buildings are valued either at existing use value (EUV) or for specialised assets at Depreciated Replacement cost (DRC) which includes assumptions made by the Valuer for relevant build costs, obsolescence and professional fees costs.
- There is therefore the risk for those assets that are revalued in the year, which involves significant judgement and estimation on behalf of the engaged valuer.

Our planned response

We planned to perform the following procedures designed to specifically address the significant risk associated with the valuation. We have been unable to perform the following procedures specifically designed address the significant risk associated with valuation as a result of the backstop as explained on page 4:

- We will critically assess the independence, objectivity and expertise of the valuers used in developing the valuation of the Council's properties at 31 March 2024;
- We will inspect the instructions issued to the valuers for the valuation of land and buildings to verify they are appropriate to produce a valuation consistent with the requirements of the CIPFA Code.
- We will compare the accuracy of the data provided to the valuers for the development of the valuation to underlying information;
- We will evaluate the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used;
- We will challenge the appropriateness of the valuation of land and buildings; including any material movements from the previous revaluations. We will challenge key assumptions within the valuation as part of our judgement;
- We will agree the calculations performed of the movements in value of land and buildings and verify that these have been accurately accounted for in line with the requirements of the CIPFA Code;
- We will utilise our own valuation specialists to review the valuation report prepared by the Council's valuers to confirm the appropriateness of the methodology utilised; and
- Disclosures: We will consider the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation.

Audit risks and our audit approach (cont.)

3 Valuation of land and buildings (cont.)

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

Significant audit risk

- The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate current value at that date.
- Land and buildings are valued either at existing use value (EUV) or for specialised assets at Depreciated Replacement cost (DRC) which includes assumptions made by the Valuer for relevant build costs, obsolescence and professional fees costs.
- There is therefore the risk for those assets that are revalued in the year, which involves significant judgement and estimation on behalf of the engaged valuer.

Our findings

We have been unable to perform procedures over the significant risk associated with the valuation of land and buildings. This is due to a number of identified issues including:

- The valuer have used the gross external area (GEA) to perform the valuation, rather than gross internal area (GIA) for specialised buildings within other land and buildings and an accurate value of this difference cannot be determined with the time constraints of the backstop date. We have raised a high priority control deficiency in this regard on Page 37.
- The Council do not hold sufficient data such as up to date floor plans for the asset portfolio revalued under other land and buildings. A full review of the Council’s asset portfolio to ensure correct floor area data is held is recommended, we have raised a high priority control deficiency in this regard on Page 33.

ISA required communications for all entities

Other significant matters

Control deficiencies

While we are disclaiming our audit opinion we are still required to identify our audit findings based on the work performed.

We obtain an understanding of internal control to design appropriate audit procedures, but not to express an opinion on the effectiveness of the Council's internal control.

Key:

🔴	These are significant control deficiencies which increase the likelihood and potential magnitude of a material misstatement in the financial statements. We have identified 1 significant control deficiencies in the current year.
🟡	These are matters of sufficient importance to note such as weaknesses which were subsequently corrected and matters that could be significant in the future if left unaddressed. We have identified 3 of such deficiencies in the current year.
🟢	These are less significant weaknesses but which we considered to be of sufficient importance to merit management's attention. We have raised 3 related observations in the current year.

Other land and buildings (recurring)

- Review of valuation of land and buildings: Currently there is not a formalised review of the Council's valuer Wilks Head and Eve output. The Council do not hold sufficient data on the floor areas of their other land and buildings asset portfolio including up to date floor plans. We recommend that the Council undertake a full review of their asset portfolio and ensure up to date data is held on all asset floor areas. We also recommend that the Council undertake a formal review of the valuation on an annual basis.

This deficiency is currently unresolved.

Other matters

Narrative report

While we are disclaiming our audit opinion and not reporting on the narrative report, we have identified the following 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 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.

However, we note that we have not obtained sufficient appropriate audit evidence to issue an unmodified audit opinion. Due to this, and the possible consequential effect on the related disclosures in the Narrative Report, we are unable to determine whether there are material misstatements in the Narrative Report.

Annual Governance Statement

While we are disclaiming our audit opinion and not reporting on the Annual Governance Statement, we have identified the following based on the work performed:

- We have completed the work to consider 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.

However note that we have not obtained sufficient appropriate audit evidence to issue an unmodified audit opinion. Due to this, and the possible consequential effect on the related disclosures in the Annual Governance Statement, we are unable to determine whether there are material misstatements in the Annual Governance Statement.

Whole of Government Accounts

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

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

Independence and Objectivity

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

Audit Fees

Our PSAA 2023/24 audit scale fee for the audit was £162,000 plus VAT. We have discussed proposed fee variations of £31,456 to date with management. Refer to page 34 for more details.

We have not completed any non-audit work at the Council during the year.

Value for money

Value for money

We are required under the Audit Code of Practice to confirm whether we have identified any significant weaknesses in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources irrespective of the statutory backstop as explained on page 4.

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 2 risks of a significant weakness in the Council's arrangements to secure value for money. On the pages overleaf we have set out the risks, our response and findings.

As a result of the work we have identified 1 significant weakness.

Performance improvement observations

As part of our work we have identified 4 Performance Improvement Observations, which are suggestions for improvement but not responses to identified significant weaknesses. These are set out within our Auditor's Annual Report.

Summary of findings

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

Domain	Risk assessment	Summary of arrangements
Financial sustainability	No significant risks identified	No significant weaknesses identified
Governance	2 significant risks identified	Significant weakness identified
Improving economy, efficiency and effectiveness	No significant risks identified	No significant weaknesses identified

We have identified recommendations to significant weaknesses on page 23.

Significant value for money risks

1 Unauthorised expenditure and overspend on capital projects

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

Significant Value for Money Risk

Our risk assessment procedures identified unauthorised expenditure of £386k in 2023/24 on the Spendells capital project. Expenditure and legally binding instructions being given without the necessary budget in place can lead to pressure on the financial sustainability of the Council, specifically in relation to the Housing Revenue Account which is being used to fund the additional required budget to complete the Spendells Project. In addition to this, a number of capital projects have overspent beyond their budget in 2023/24.

A Further Update on Spendells House and Review of Budget and Reference under Section 5 of the Local Government and Housing Act 1989 to review the unauthorised expenditure in-year was taken to Cabinet on 24 May 2024. As well as unauthorised expenditure, the cost of the project has significantly escalated beyond the existing budget. We do note that a full independent investigation is underway and the Council have been transparent in their reporting of the issue. In response, a letter to all Senior Officers was also sent out by the Chief Executive speaking to the issue of unauthorised expenditure and the importance of following process to follow where overspends are expected or required.

Additionally, the Council have held a Senior Management Forum in September 2024 to refresh senior management on their roles and responsibilities, including budgets and financial procedure rules, procurement rules and the consequences of getting this wrong.

The unauthorised expenditure in the year, combined with the overspends on a number of capital projects, raises the risk that there were not adequate arrangements in place in 2023/24 in relation to governance.

Our response

Response

We performed the following procedures:

Review the process in place in 2023-24 for budget overspend to take place

Understand the failure in control that led to the overspend and unauthorised expenditure

Review and understand the actions the Council have taken since the issue was raised.

Our findings

Findings

We note that the unauthorised expenditure highlights that appropriate governance procedures to monitor approved expenditure on projects were not in place during 2023/24. We will therefore raise a significant weakness in relation to this. We note that with the upcoming Capital Programme and Levelling Up funding, there is increased potential value for money risk in the future.

Conclusion

Based on the findings above we have determined that there is a significant weakness in arrangements relating to Governance.

Significant value for money risks

2 Failure to deliver projects on time and within budget

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

Significant Value for Money Risk

Description

The Internal Audit team during their Project Management review, noted improvement is required due to major issues identified around multiple instances of projects failing to be delivered on time and within budget. Due to the nature of these projects, the values involved, and potential for further overspends, as well as the scale of the Council's capital programme and funding in the short and medium term, we have noted a significant risk around governance.

Due to the scale of overruns on capital projects, including Spendells and Sunspot, it will only take a few projects to create disproportionate variances which the Council needs to cover and we note this may require HRA reserves to be used.

The main internal audit findings included a lack of updates for major projects, failure to complete projects on time and within budget and a lack of central software to track project progress. We note that the Council have an action plan in place to address the internal audit findings, including a new Project Report, officer training on the requirements of the constitution and a new Project Board. Significant progress has been made against these actions, including investment in developing a project delivery unit agreed by Cabinet in July 2024 and a formal response sent to all officers setting out the rules, regulations and standards when managing projects to be sent out by the project lead once appointed.

The scale of overruns on capital projects and the internal audit findings noted on project management raises the risk that there were not adequate arrangements in place in 2023/24 in relation to governance.

Our response

Response

We performed the following procedures:

Understand the internal audit findings in relation to Project Management

Review the action plan the Council have put in place to respond to the internal audit findings

Understand and review the progress made against the actions agreed

Our findings

Findings

The report from internal audit had two major findings, however, there is an adequate action plan in place to address the issues found and therefore, we will not raise a significant weakness. However, with the significant weakness identified in relation to unauthorised expenditure and the upcoming Capital Programme and Levelling Up funding, it is important that the actions agreed with internal audit are put in place to ensure future projects are robustly managed.

Conclusion

Based on the findings above we have not identified a significant weakness in arrangements relating to Governance.

Recommendations

We raised the following recommendations in response to significant weaknesses identified in our value for money procedures.

#	Recommendation	Management Response
1	The Council is undertaking a formal investigation into how the unauthorised expenditure arose, but this is yet to be concluded at the date of our report. We recommend that the Council concludes its investigation as soon as possible and ensures that appropriate governance arrangements are in place to monitor the implementation of the recommendations arising from the investigation.	The outcome of the investigation into Spendells is due to be finalised and reported to members shortly, and any emerging recommendations to strengthen the Council's project management / governance arrangements will be considered as timely as possible.

03
Tendring District Council Appendices

Year ended 31 March 2024

—

26 February 2025

Appendices

Contents	Page

Local Audit - Reset and Recovery

Background

It has been widely reported the level of delays in Local audit had grown to an unacceptable level. As a result, Central Government has been working with the Financial Reporting Council (FRC), as incoming shadow system leader and other system partners to develop proposals to address issues in the local audit. These consist of three stages:

Phase 1: **Reset** involving clearing backlog of historical audit opinions.

Phase 2: **Recovery** from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycle.

Phase 3: **Reform** involving address systemic challenge in the local audit system and embedding timely financial reporting and audit.

Implementation of Reset and Recovery

The Accounts and Audit (Amendment) Regulations 2024, introduced backstop dates by which local bodies must publish audited accounts and the NAO have also issued the revised 'Code of Audit Practice 2024 **Code of Audit Practice** that requires auditors to give an opinion in time to enable local bodies to comply with the backstop date. The table overleaf identifies the backstop dates and the status of your audits where impacted.

The NAO has also published Local Audit Rest And Recovery Implementation Guidance (LARRIGs), which have been prepared and published with the endorsement of the FRC and are intended to support auditors in meeting their requirements under the Act https://www.nao.org.uk/code-audit-practice/guidance-and-information-for-auditors

Local Audit - Reset and Recovery

Financial year	Date
Up to 2022/23	13 December 2024
2023/24	28 February 2025
2024/25	27 February 2026
2025/26	31 January 2027
2026/27	30 November 2027
2027/28	30 November 2028

Recovery period and audit work

The implication of receiving a modified opinion in 2020/21 and a disclaimed audit opinion for 2 financial years to and including 2022/23 means that for the financial year 2023/24 we have not been able to rely on the opening balances from 2022/23.

To obtain sufficient appropriate audit evidence over opening balances, auditing standards identify two approaches. One of those is to use the working papers and other information available on the prior year audit file, which as noted above has not been possible as the outgoing auditor has not been able to complete their audit. An alternative approach is the performance of specific audit procedures to obtain evidence regarding opening balances.

The LARRIGs, in particular LARRIG 05 *Rebuilding assurance following a disclaimed audit opinion,* was only finally published in September 2024 and further guidance, mentioned in the LARRIG in the format of a case study was only released in December 2024.

We also note there is an ongoing sector wide process, convened by the Financial Reporting Council (FRC) with other stakeholders to determine the appropriate level of work to perform to obtain sufficient appropriate audit evidence over opening balances. This, along with the backstop date for 2022/23 being only 2 months prior to that of the 2023/24 period, has limited the extent of building back assurance that has been possible in 2023/24.

During our audit of 2023/24 we have completed certain work on the closing balances for 2023/24 and in year transactions (see pages 4 to 6) and this will contribute to rebuilding assurance.

The table overleaf identifies an indicative pathway to returning to an unmodified opinion. However, it must be noted this is only an indicative pathway and the speed of progress will depend on a range of factors including the level of work required to provide assurance on opening balances, in particular PPE balances and reserves balances.

Local Audit – Reset and Recovery

Rebuilding assurance

Given the importance and complexity of reserves balances and management, a detailed risk assessment will be undertaken to understand the level of work required to obtain sufficient appropriate audit evidence on the reserves balances.   As noted on the previous page, there is an ongoing sector wide process with other stakeholders to determine the appropriate level of work to perform to obtain sufficient appropriate audit evidence over opening balances.

We note there may be other factors which impact on the speed of this work – such as the support provided by the audited entity and availability and quality of audit evidence. Where such support is not provided and the availability and quality of audit evidence is not present this will significantly impact on the time taken to build back assurance and the likely cost of such a process in terms of audit fees. As we complete our debrief with management, we can discuss how assurance can be gained on individual account balances and ultimately lead to a position that unmodified opinions can be issued in future years.

Indicative pathway based is reproduced from the LARRIGs

2023/2024	Disclaimer of Opinion	Auditors will begin work to rebuild assurance, gaining sufficient assurance over some, but not all, closing balances. No assurance will be possible over brought forward balances from 2022-23 or comparatives, therefore this will lead the audit to be disclaimed as it cannot be concluded that the financial statements are free from material and pervasive misstatement.
2024/2025	Disclaimer of Opinion / Qualified (Except For)	Auditors will now have obtained sufficient evidence over most, if not all, closing balances in 2024-25, but does not yet have assurance over the brought forward balances that were not audited in 2023-24. This will likely lead the auditor to disclaim, however where auditors have gained assurance over in-year movements, they may be able to issue a qualified opinion instead.
2025/2026	Qualified (Except For)	Auditors should have assurance over the opening and closing balances plus in year movements, but may not have sufficient assurance over the comparative figures. This will likely lead to a qualification by limitation of scope to exclude assurance over the comparative figures – a material, but not pervasive misstatement.
2026/2027 2027/2028	Unmodified	It is expected that most audits, will have assurance over opening balances, closing balances, in-year movements and prior year comparatives. This will result in an unmodified opinion being issued.

Extract of our draft audit opinion

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TENDRING DISTRICT COUNCIL

REPORT ON THE AUDIT OF THE COUNCIL'S FINANCIAL STATEMENTS

Disclaimer of opinion

We were engaged to audit the financial statements of Tendring District Council ("the Council") for the year ended 31 March 2024 which comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet, Cash Flow Statement, Collection Fund Income an Expenditure Statement, Housing Revenue Account and the related notes, including the Expenditure and Funding Analysis and the accounting policies in note 2.

We do not express an opinion on the financial statements. Due to the significance of the matters described in the Basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

The Accounts and Audit (Amendment) Regulations 2024 (the "Amendment Regulations") require the Council to publish its financial statements and our opinion thereon for the year ended 31 March 2024 by 28 February 2025 (the "Backstop Date").

We have been unable to obtain sufficient appropriate audit evidence over a number of areas of the financial statements as we have been unable to perform the procedures that we consider necessary to form our opinion on the financial statements ahead of the Backstop Date. These areas were the carrying amounts of property, plant and equipment, short term creditors, short term debtors, business rates tariff and levy included within taxation and non-specific grant income and expenditure, and the balance of, and movements in, usable and unusable reserves for the year ended 31 March 2024.

In addition, we have been unable to obtain sufficient appropriate evidence over the disclosed comparative figures for the year ended 31 March 2023 due to the Backstop Date. Therefore, we were unable to determine whether any adjustments were necessary to the opening balances as at 1 April 2023 or whether there were any consequential effects on the Council's income and expenditure for the year ended 31 March 2024.

Any adjustments from the above matters would have a consequential effect on the Council's net assets and the split between usable reserves, including the Housing Revenue Account, and unusable reserves as at 31 March 2024 and 31 March 2023, the Collection Fund and on its income and expenditure and cash flows for the years then ended.

In addition, included within other land and buildings are specialised buildings valued at depreciated replacement cost with a reported carrying amount of £20.355m as at 31 March 2024 that have been valued on the basis of the gross external areas of the assets concerned, rather than the gross internal areas. As a result, the valuation of these assets, and the associated amount recorded in the revaluation reserve, are overstated as at 31 March 2024. Because of the time constraints created by the Backstop Date, the Council has not instructed the valuer to carry out a detailed analysis of the valuations to determine the amount by which the value of the relevant assets has been overstated at that date. As no detailed analysis has been performed, it is not practicable for us to quantify the effect of this departure on the financial statements.

Extract of our draft audit opinion (cont.)

Fraud and breaches of laws and regulations – ability to detect

As stated in the Disclaimer of opinion section of our report, we do not express an opinion on the financial statements due to the reasons described in the Basis for disclaimer of opinion section of our report.

Other information

The Director of Finance and IT is responsible for the other information, which comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Any opinion on the financial statements would not cover the other information and we do not express an opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge.

Due to the significance of the matters described in the Basis for disclaimer of opinion section of our report, and the possible consequential effect on the related disclosures in the other information, whilst in our opinion the other information included in the Statement of Accounts for the financial year is consistent with the financial statements, we are unable to determine whether there are material misstatements in the other information.

Director of Finance and IT and Audit Committee's responsibilities

As explained more fully in the statement set out on page [X], the Director of Finance and IT is responsible for the preparation of financial statements in accordance with CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 and that give a true and fair view. They are also responsible for: such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they have been informed by the government of the intention to either cease the services provided by the Council or dissolve the Council without the transfer of its services to another public sector entity.

The Audit Committee of the Council is responsible for overseeing the Council's financial reporting process.

Auditor's responsibilities

Our responsibility is to conduct an audit of the financial statements in accordance with International Standards on Auditing (UK), and to issue an auditor's report. However, due to the significance of the matter described in the Basis for disclaimer of opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.

We have fulfilled our ethical responsibilities under, and are independent of the Council in accordance with, UK ethical requirements including the FRC Ethical Standard.

Extract of our draft audit opinion (cont.)

REPORT ON OTHER LEGAL AND REGULATORY MATTERS

Report on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice published by the National Audit Office in November 2024 on behalf of the Comptroller and Auditor General (the "NAO Code of Audit Practice"), we are required to report to you if we identify any significant weaknesses in the arrangements that have been made by the Council to secure economy, efficiency and effectiveness in its use of resources.

Except for the matters explained below, we have nothing to report in this respect.

Significant Weakness - Governance

We have identified a significant weakness relating to Governance. Unauthorised expenditure of £386k in 2023/24 has been identified on the Spendells capital project. In addition to this, a number of capital projects, including Spendells, have overspent their budget in 2023/24. The unauthorised expenditure highlights that appropriate governance procedures to monitor approved capital expenditure on projects were not in place during 2023/24.

Recommendation

The Council is undertaking a formal investigation into how the unauthorised expenditure arose, but this is yet to be concluded at the date of our report. We recommend that the Council concludes its investigation as soon as possible and ensures that appropriate governance arrangements are in place to monitor the implementation of the recommendations arising from the investigation.

Respective responsibilities in respect of our review of arrangements for securing economy, efficiency and effectiveness in the use of resources

The Council is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are required under section 20(1) of the Local Audit and Accountability Act 2014 to be satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively. We are also not required to satisfy ourselves that the Council has achieved value for money during the year.

We planned our work and undertook our review in accordance with the NAO Code of Audit Practice and related statutory guidance, having regard to whether the Council had proper arrangements in place to ensure financial sustainability, proper governance and to use information about costs and performance to improve the way it manages and delivers its services. Based on our risk assessment, we undertook such work as we considered necessary.

Statutory reporting matters

We are required by Schedule 2 to the NAO Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 and Schedule 7 of the Local Audit and Accountability Act 2014; or
- we make written recommendations to the Council under Section 24 and Schedule 7 of the Local Audit and Accountability Act 2014; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014; or

Extract of our draft audit opinion (cont.)

- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in this respect.

THE PURPOSE OF OUR AUDIT WORK AND TO WHOM WE OWE OUR RESPONSIBILITIES

This report is made solely to the members of the Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our audit work has been undertaken so that we might state to the members of the Council, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

DELAY IN CERTIFICATION OF COMPLETION OF THE AUDIT

As at the date of this audit report, we have not yet completed our work in respect of the Council's Whole of Government Accounts consolidation pack for the year ended 31 March 2024.

Until we have completed this work, we are unable to certify that we have completed the audit of the financial statements of the Tendring District Council for the year ended 31 March 2024 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the NAO Code of Audit Practice.

Emma Larcombe

for and on behalf of KPMG LLP

Chartered Accountants

15 Canada Square, E14 5GL

26 February 2025

Required communications

Our response to these required communications reflects the status of the audit at the point of the backstop.

Type		Response
Our draft management representation letter	OK	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2024.
Adjusted audit differences	OK	There were nil adjusted audit differences.
Unadjusted audit differences	OK	The aggregated surplus impact of unadjusted audit differences would be nil.
Related parties	OK	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit Committee	OK	There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	OK	We communicated to management in writing all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified during the audit that had not previously been communicated in writing on 13 February 2025.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	OK	No actual or suspected fraud involving Council management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements identified during the audit.
Issue a report in the public interest	OK	We are required to consider if we should issue a public interest report on any matters which come to our attention during the audit.

Type		Response
Significant difficulties	OK	No significant difficulties were encountered during the audit.
Modifications to auditor's report	X	Our audit opinion will be disclaimed. See page 29 for further details.
Disagreements with management or scope limitations	OK	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	OK	No material inconsistencies were identified related to other information in the annual report, Strategic and Directors' reports. The Strategic report is fair, balanced and comprehensive, and complies with the law.
Breaches of independence	OK	No matters to report. The engagement team have complied with relevant ethical requirements regarding independence.
Accounting practices	OK	Over the course of our audit, we have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.
Significant matters discussed or subject to correspondence with management	OK	There were no significant matters arising from the audit.
Certify the audit as complete	OK	We have not yet certified the audit as complete because our work on payroll, members allowances and cash opening balances is outstanding.
Provide a statement to the NAO on your consolidation schedule	OK	We will issue our report to the National Audit Office following the completion of our work.

Fees

Audit fee

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

Entity	2023/24 (£'000)
Statutory audit	162
ISA315r	9
VFM	8
Other	4
Disclaimer	5
TOTAL	**188**

Billing arrangements

- Fees have been billed in accordance with the milestone completion phasing that has been communicated by the PSAA.
- As per PSAA's Scale Fees Consultation, the scale fees did not include new requirements of ISA315 revised (risk of material misstatement).
- We have also charged additional fees for rental income, housing benefits income and expenditure and value for money significant risks.
- Additional fees will be subject to the fees variation process as outlined by the PSAA.

Confirmation of Independence

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

To the Audit and Risk Committee members

Assessment of our objectivity and independence as auditor of Tendring District Council

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

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

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

General procedures to safeguard independence and objectivity

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

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

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

There are no non-audit services applicable.

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

	2023/24
	£'000
Statutory audit	162
ISA315r	9
VFM	8
Other	4
Disclaimer	5
Total Fees	**188**

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 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 Director and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee 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

Emma Larcombe

KPMG LLP

Control Deficiencies

Although we are disclaiming our audit opinion we have reported recommendations as a result of our work in the current year are as follows:

Priority rating for recommendations		
1 **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.	3 **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	1	Review of valuation of land and buildings: Currently there is not a formalised review of the Council's valuer Wilks Head and Eve output. The Council do not hold sufficient data on the floor areas of their other land and buildings asset portfolio including up to date floor plans. We recommend that the Council undertake a full review of their asset portfolio and ensure up to date data is held on all asset floor areas. We also recommend that the Council undertake a formal review of the valuation on an annual basis.	This will be reviewed as part of the preparation of the 2024/25 Statement of Accounts, but it is acknowledged that it may have to undertaken on a phased approach over more than one year given the expected scale of the associated work involved. Updates will be provided to Members as necessary.
2	2	Review of journals: There is no documentation to the review of journals other than the initials of the reviewer. All journals posted below £100k have no approval or review process. We recommend that the Council formalise their review process for journals including full documentation of the review e.g. purpose of the journal, as well as review of some journals below the threshold.	It is important to highlight that journals are only undertaken by finance officers within the Corporate Finance Team rather than a wider issue across the Council and journals involve the movement of money internally between budget lines. Although it is accepted that there is a risk of misstatement to the accounts via the journals process, there are already complementary controls in place that adequately address such risks and therefore it is not proposed to consider the implementation of this recommendation.

Control Deficiencies (cont.)

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
3	2	As part of our VFM work we identified capital projects with budgetary overspends which were flagged as part of an Internal Audit review as well as unauthorised expenditure on a capital project. We consider this to indicate an internal control environment weakness in regards to the establishment of structures, reporting lines and appropriate authorities and responsibilities in the pursuit of objectives. Please refer to Page 23 for our recommendation.	In respect of the reference to capital project overspending, unlike the Spendells project where unauthorised expenditure was incurred, these relate to projects where the associated budgets would have increased as necessary via the Council's existing governance arrangements. The overspending reference therefore relates to increases made to the associated budgets ahead of expenditure being incurred which would have been subject to separate standalone decisions or via the regular Financial Performance Reports presented to Cabinet. Such reports would have set out the reasons for the increase.
4	2	During our VFM work, we identified an instance of unauthorised expenditure and have raised a significant weakness in this regard. The Council were conducting an external investigation into the reasons the unauthorised expenditure was able to occur, however, this was not concluded at the time of us completing our value for money work and reporting and we will therefore raise a control deficiency in relation to the timeliness of the investigation being concluded and recommend it is concluded as soon as possible.	The outcome of the investigation into Spendells is due to be finalised and reported to Members shortly, and any emerging recommendations to strengthen the Council's project management / governance arrangements will be considered as timely as possible.
5	3	Declarations of interest (DOI): KPMG had requested up to date DOI for each councillor to agree to interests recorded in the Register of interests for related party purposes. The council does not hold an up to date DOI from two councillors due to non-response. We recommend that the Council continue to reiterate the importance of each councillor providing an up to date DOI annually.	This issue relates to the email sent out to Members at the end of each financial year reminding them to confirm that their DOI's are up to date that in turn informs the associated reporting within the Statement of Accounts where encesary. It is not necessarily that their DOI's are not up to date but a matter of them confirming that is the case or otherwise at the end of each year. The importance of the required action from Members will be included within the upcoming request at the end of 2024/25.
6	3	Payroll reconciliation: Differences were noted between the payroll report and general ledger during our testing of the remuneration report, we therefore recommend that the Council perform a reconciliation between the payroll report and general ledger for the purposes of the salary bandings disclosed within the officers remuneration report to understand any reconciling items.	It is important to emphasise that a reconciliation of the payroll system and the general ledger is undertaken, with this recommendation therefore referring to a specific reconciliation relating to the officers' remuneration note within the Statement of Accounts as referenced. The recommendation action will be undertaken in respect of the upcoming preparation of the 2024/25 Statement of Accounts.
7	3	Management review of actuarial assumptions: We inquired with the audited entity to understand the pension process. We understood that the Finance Head reviews the assumptions and methodologies used in the calculation of the FRS 102 Report. This is based on their understanding of the pension scheme, the accounting standard and the business process and circumstances. The documentation is not formalised and may consist of email or corresponding and verbal confirmations. However, the audited entity was not able to provide the evidence of performing the control. We recommend that management produce formal documentation of their review of the assumptions and methodologies used in the calculation of the FRS 102 Report.	Although a review is undertaken as referred to, formal documentation will be produced in respect of the upcoming preparation of the 2024/25 Statement of Accounts.

Control Deficiencies (cont.)

We have also follow up the recommendations from the previous years audit, in summary:

Total number of recommendations	Number of recommendations implemented	Number outstanding (repeated below):
2	4	2

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Current Status (February 2025)
1	1	Other land & buildings (DRC method): The council could not provide the floor plans to substantiate the GIAs used in arriving at the value of the buildings. The existing floor plans were not retained by the Council post-valuation. The GIAs are key inputs and without any evidence, the value of the assets could be materially misstated. The council should ensure that an appropriate Business Disaster Recovery Plan is in place. This will make certain that all updated floor plans are stored and retained adequately for all the areas of buildings measured professionally.	Please see response set out on page 37. The reference to Business Disaster recovery plan will be explored further with the External Auditor to better understand the specific risks that is this is seeking to address.	Not yet implemented based on our recommendation, see Page 34 for further information.
2	3	Related parties – out of date declarations: Two (2) councillors had out of date declarations and updates were not obtained in March 2021. This was then subsequently raised to the client and up to date declarations were obtained post-year end. There is a risk that transactions between related parties are not identified, disclosed and are not arm's length. We recommend that management should monitor the declaration process regularly to ensure that up to date declarations are obtained by year end.	Please see response to item 5 on page 38.	Not yet implemented based on our recommendation, see Page 38 for further information.

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

Ongoing impact of the revisions to ISA (UK) 240

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

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

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

Our assessment of the risks of material misstatement due to fraud may be found on page 9. We also considered the following matters required by ISA (UK) 240 (revised May 2021, effective for periods commencing on or after 15 December 2021) *The auditor's responsibilities relating to fraud in an audit of financial statements*, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud:

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

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

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

Summary

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

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

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

What impact did the revision have on audited entities?

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

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

Implementing year 1 findings into the subsequent audit plan

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

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

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

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

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

What will this mean for our on-going audits?

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

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

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

ISA (UK) 600 Revised: Summary of changes

Summary

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

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

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

Audit Differences

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit Committee with a summary of unadjusted 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. In line with ISA (UK) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor's report, individually or in aggregate.
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Unadjusted audit difference (£'000s)				
No	Detail	Dr £000	Cr £000	Comment
1	Dr Net Defined benefit plan liabilities	1,600		The salary increase assumption should be set as the Employer's best estimate of their long-term remuneration policy for their active membership in the Fund. Hence, KPMG requested confirmation from the Employer as to whether this is the case. The Employer confirmed that when preparing their medium-term financial forecast, they would use a salary increase assumption set in line with CPI. Therefore, from the Employer's perspective, the actuary has applied a prudent risk premium to the salary increase assumption for the purpose of calculating the net asset/liability position of the fund.
	Cr Remeasurements of defined benefit liability-OCI		1,600	

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