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APPENDIX 1

KPMG

Year End Report to the Performance, Governance and Audit Committee

Maldon District Council

Year end report for the year ended 31 March 2024

—

28 January 2025

Introduction

To the Performance, Governance and Audit Committee of Maldon District Council

We are pleased to have the opportunity to meet with you on 20 February 2025 to discuss the results of our audit of Maldon 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 as a separate paper to the February 2025 Committee meeting. 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,

Jessica Hargreaves

Director

28 January 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.

Contents

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

This report summarises the key issues identified during our audit.

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 Maldon District 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 13 December 2024. For Maldon District Council this has resulted in a disclaimed audit opinion for the two 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.

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 6 provides a summary of our findings. Further details are also available in our Auditor's Annual Report for 2023/24 which has been presented separately to the Committee.

Our audit and the implications of the statutory backstop

Work completed in 2023/24

Our audit plan, presented to you in February 2025 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 procedures 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 only been able to complete our planning and risk assessment work – the reasons for this are identified in the section below. We have not undertaken any controls testing or substantive testing of balances disclosed within the financial statements.

Significant challenges with progressing work

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

Delay in production of the accounts. The 2023/24 draft accounts were published for public inspection on the 15th December. This was 6 and a half months after the statutory deadline of 31 May 2024.

Significant delays:

- Significant delays in management providing required information due to resourcing constraints
- Significant delays due to unavailability of entity staff

We are in process of considering the impact on our audit fees as a result of these challenges.

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

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	
Significant audit risks	**Our findings**
Valuation of land and buildings	We have only been able to complete our planning and risk assessment work and therefore have not completed our planned procedures in response to the significant risks. We have detailed any control observations in the appendices.
Management override of controls	
Valuation of post retirement benefit obligations	
Key accounting estimates	
Valuation of Investment properties	We have only been able to complete our planning and risk assessment work and therefore have not completed our planned procedures over the valuation. We have detailed any control observations in the appendices.

Misstatements in respect of Disclosures

We have noted a number of casting inconsistencies. Management have subsequently updated these and updated the notes.

Number of Control deficiencies	Page 20-30
Understatement/ (overstatement)	
Significant control deficiencies	1
Other control deficiencies	7

Outstanding matters

Our audit is substantially complete except for the following outstanding matters

- Correction of casting errors
- Finalisation of audit queries
- Management representation letter
- Finalise audit report and sign

Significant risks and Other audit risks

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

Our risk assessment draws upon our knowledge of the business, the industry and the wider economic environment in which the 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 risks of material misstatement as highlighted on the graph – see also the following slides

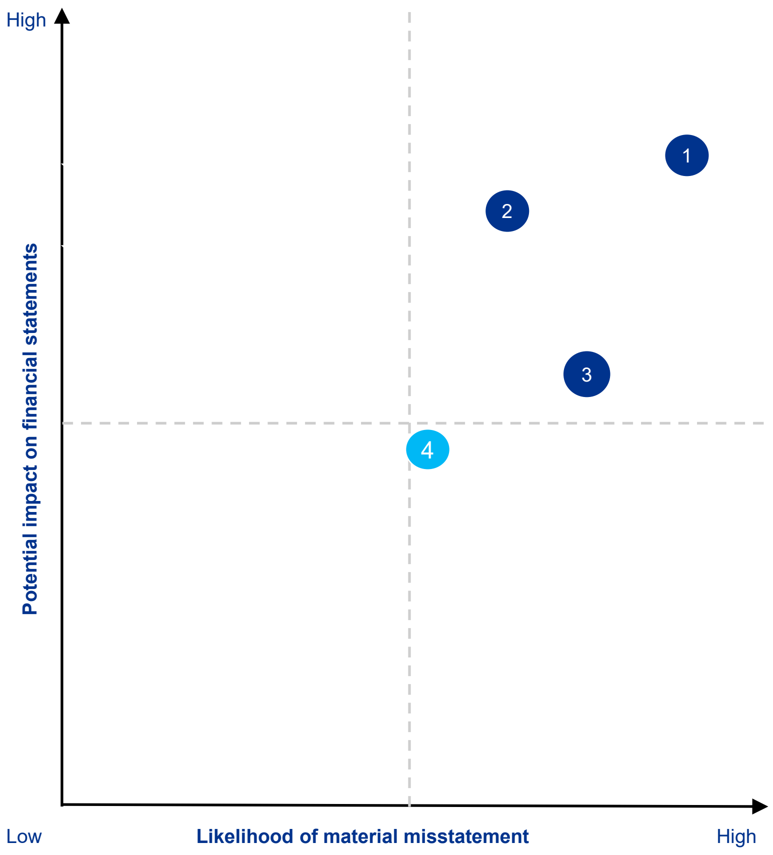
Where work has not been completed – we have not re-produced the slides that we presented in the audit plan.

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

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

Key: # Significant financial statement audit risks

Other audit risk



Other significant matters

Impact on our audit of the financial statements – controls testing

The impact of the backstop date 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. As explained previously, 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 we have not performed detailed testing of the Council's financial controls.

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 deficiency 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
🟢	These are less significant weaknesses but which we considered to be of sufficient importance to merit management's attention.

🔴 Preparation of draft financial statements

The 2023/24 draft accounts were published for public inspection on the 15th December 2024. This was 6.5 months after the statutory deadline of 31 May 2024. These draft accounts were published 5 days after the completion of the 2022/23 financial statements. In the 23/24 draft financial statements published for inspection, the Council reported a material prior period audit misstatement. Since publicising the draft accounts, management have identified a high volume of adjustments to the balance sheet and notes to the accounts.

🟡 Management review of land and buildings

Our risk assessment procedures indicated that the Finance Lead and Estates team perform a high level review of the valuation. However, we could not identify a systematic process by which assets are identified for further investigation. If there is no systematic and precise approach to performing the review, there is a risk that the carrying amount of assets may materially differ to the fair value.

🟡 Management review of actuarial assumptions

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.

Auditing standards define a management review control to include independent assessment of underlying assumptions by management. As part of our risk assessment procedures, we carried out a walkthrough to obtain an understanding of the pension assumption review process. We identified that there is no criteria or threshold developed for investigation/identification of outliers for pension assumptions. Therefore, although they do review the output of the actuary, there is no evidence of the review. Thus, there is not sufficiently well-defined process in place for it to meet the criteria of an effective review control

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 Performance, Governance and 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 not completed the work to consider it complies with Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE; and
- There are inconsistencies between the version reviewed and the significant weakness we have raised.

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 Maldon District Council, the threshold at which detailed testing is required has not been exceeded. We have not completed our work in respect of the WGA consolidation pack, until we have completed this work, we are unable to certify the we have completed the audit of the financial statements.

Independence and Objectivity

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

Audit Fees

Our PSAA 2023/24 audit scale fee for the audit was £143,768**.** We have proposed fee variations with management that are yet to be fully quantified. Refer to page 17 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 two risks of a significant weakness in the Council's arrangements to secure value for money.

As a result of our work we have identified one significant weakness.

Performance improvement observations

As part of our work we have identified a number of Performance Improvement Observations, which are suggestions for improvement but not responses to identified significant weaknesses. These are set out within the appendices of this 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	1 significant risks identified	No significant weaknesses identified
Governance	1 significant risks identified	Significant weaknesses identified
Improving economy, efficiency and effectiveness	No significant risks identified	No significant weaknesses identified

We have identified a recommendation to the significant weakness as explained in our Auditors Annual Report.

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** 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 disclaimed audit opinion for two of 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.

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, 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. We note the challenges identified on page 5 regarding this year's audit. 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. A draft audit opinion will be shared in due course.

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.

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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 do not plan to request any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2024. We will issue a draft of our management representation letter in due course.
Adjusted audit differences		No adjusted audit differences have been identified from our completed procedures. We wish to highlight to the Committee, in the 23/24 draft financial statements published for inspection, the Council reported a prior period audit adjustment. While we have not completed any procedures to confirm the completeness, existence or accuracy of this misstatement we did require additional disclosure to be added to explain this misstatement.
Unadjusted audit differences	OK	The aggregated surplus impact of unadjusted audit differences would be nil.
Related parties	OK	We have been unable to complete our work on related parties for the reasons previously stated.
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, apart from those noted separately.
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.
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. We have not identified any such matters.

Type		Response
Significant difficulties	X	There were significant delays to audit information requests and queries, leading to significant delays to the audit process. We attempted to complete our planning procedures in March 2024. At the request of the council, due to capacity constraints which meant the team were unable to service the audit requests, on both occasions we paused our planning activities. In agreement with the Council, we commenced our planning activities in late November 2024.
Modifications to auditor's report	X	Our audit opinion will be disclaimed.
Disagreements with management or scope limitations	X	The engagement team had no disagreements with management. While we experienced significant delays in the delivery of our audit, management at the Council engaged fully with the audit team and there remained open communication throughout the audit cycle. As such we have not identified a scope limitation to have been imposed by management in regard to obtaining sufficient audit evidence.
Other information	OK	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.
Breaches of independence	OK	No matters to report. The engagement team have complied with relevant ethical requirements regarding independence.
Accounting practices	X	We have not evaluated the appropriateness of the Council's accounting practices.
Significant matters discussed or subject to correspondence with management	OK	The significant matters arising from the audit were discussed, or subject to correspondence, with management.
Certify the audit as complete	OK	We have not yet certified the audit as complete.
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)	*2022/23 (£'000)*
Statutory audit including VFM (scale fee)	144	87[(a)]
ISA315r	12	-
Value for Money Additional work	24	
Audit delays and inefficiencies	TBC	
Additional work to issue a disclaimer	TBC	
TOTAL	TBC	87

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

Billing arrangements

- Fees have been billed in accordance with the milestone completion phasing that has been communicated by the PSAA.
- As per PSAA's Scale Fees Consultation, the scale fees did not include new requirements of ISA315 revised (risk of material misstatement).
- We have also charged additional fees for the matters identified on page 5 that have been agreed with management.
- Additional fees have 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 Maldon District Council

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

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

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

General procedures to safeguard independence and objectivity

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

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

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

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

Summary of non-audit services

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

The ratio of non-audit fees to audit fees for the year is anticipated to be 0:1. We do not consider that the total non-audit fees create a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

	2023/24
	£'000
Scale Fee and agreed fee variations	TBC
Total Fees	**TBC**

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 Director 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

Jessica Hargreaves

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
Financial Statements			
1	2	**Maintenance of a related party register** Our risk assessment procedures indicated that the Council does not hold a register of related parties. This is not in line with good governance practices. Furthermore, it could lead to the council unknowingly transacting with a related party as well as potential incorrect disclosures in the financial statements. We recommend the Authority holds a uses the annual declaration of interests process to create a related party register that holds counterparties that meet the criteria for related parties under accounting standards and performs a review of transactions with these parties to ensure that transactions with related parties can be clearly identified.	The Council already maintains a list of members declaring interests during committee meetings. However, the Finance Team will look into enhancing the process by maintaining a register and carry out a check against company house for potential related parties. **Lead Finance Specialist, May 2025**
2	2	**Inconsistent valuation approach to investment properties** Our review of the approach taken to investment properties noted that certain investment properties are not included in the annual revaluation. Accounting standards, IAS40, requires all investment properties measured at fair value to be subject to a fair value assessment. This is to ensure there is no material difference between the fair value and carrying value of the assets. Management should ensure all investment properties are subject to an annual fair value assessment. This assessment could be undertaken by an external valuer or internally through an indexation impairment assessment.	The Council already value investments properties every year at fair value. After the original valuation in 2023/24, there was some reclassification of operational assets as investment properties. Going forward, the Council will ensure all assets classified as investment property are subject to a fair value assessment. **Lead Finance Specialist, May 2025**

Control Deficiencies

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APPENDIX 1

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#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
Value for Money			
3	2	**Further insights into Corporate Risk Register** Our review of the Corporate Risk Register and related reporting to the Performance, Governance and Audit Committee identified the following: • Risks are not assigned a target risk score, meaning that there is a potential lack of clarity about the desired level of risk mitigation. This can lead to risks not being managed effectively, with the potential for resources being deployed to resolve risks which are acceptable to the Council and therefore resources being misallocated. • The Corporate Risk Register is available on the internal SharePoint to all colleagues, but Council members are unable to access and review this and are presented with a high-level overview only. Not all actions and control points are presented in this overview, and only the final risk score is presented, which could impact decision making. We recommend the Authority sets target risk scores in line with its risk appetite to better align risk management with strategic objectives and to provide a clear framework for evaluating the success of risk management and that reporting of the Corporate Risk Register to the Performance, Governance and Audit Committee is included in sufficient detail for decision making.	**TBC**
4	2	**Policy Management** Our review of key relevant policies in place at the Council identified: • Many policies which had not been updated or reviewed in a number of years. We would expect all policies to be subject to review every 3 years. • No evidence or audit trail to indicate what changes had been made to policies reported as having been recently reviewed or the date of this review • The policies in place did not consistently identify when they would next be subject to review. We recommend the Authority sets out a standardised template for it policies to ensure that the Council can evidenced they have been reviewed every 3-5 years, logs of changes made to the policies are maintained and the date of next review is evident on the document itself. Alongside this, a register should be maintained and regularly monitored to support the Council in knowing what policies are in existence, and they remain in date.	**TBC**
5	2	**Savings plans** Our review of the savings plans and our service line enquiries for 2023-24 identified the following: • Savings plans were primarily from reduction in services and were not always linked to the delivery of the Corporate Plan. • Savings are RAG rated, but there is no formal criteria for what constitutes a Red, Amber or Green Rating, although it is noted that the impact on likelihood and deliverability is considered. • Budgets are not formally signed off by service lines We recommend that further areas for growth are reviewed and included in the savings plans, and that a formal criteria for rating savings is developed for review by the Finance Member Group . We also recommend that budgets are formally signed off by service lines to ensure alignment between financial plans and service delivery.	**Processes in budget setting have been enhanced by a detailed MTFS review during 2024-25. The weakness has already been addressed as part of FY25-26 budget setting process.** **CFO, Implemented.**

Control Deficiencies (cont.)

While we have obtained management responses on the progress of implementing open recommendations raised by your previous auditors, we have not undertaken any detailed testing to verify the responses provided.

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Current Status (January 2025)
1	❶	**Preparation of Draft Financial Statements (2021)** As part of our review of the Statement of Accounts prepared by Management, we have noted deficiencies with regards to the quality of the Statement of Accounts provided for our review. We have noted the following issues in relation to the accounts preparation process: a) Several inconsistencies in the accounting policies disclosed within the financial statements; b) Some inconsistencies between the notes and the Primary Statements; c) Differences noted during our "call and cast" process and various notes not casting appropriately. We recommended that management continues to adopt strengthened quality control and review procedures which could improve on the quality of the statement of accounts which include documented and reviewed internal tie back of the statements to supporting working papers and internal checks of arithmetic accuracy and consistency.	Our SoA model include validation checks for various part of the accounts, such as primary statement to individual note. 23/24 accounts was submitted shortly after 21/22 & 22/23 accounts. Hence we didn't have enough time to resolve validation discrepancies. These discrepancies are predominantly rounding errors.	**This is part of the on-going work to improve the production of the Council's Statement of Accounts. As a result, there will be a detailed Quality Assurance process in place to help deliver the draft Statement of Accounts 2024-25.** **Lead Finance Specialist, May 2025**

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Control Deficiencies (cont.)

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Current Status (January 2025)
2	1	**Journals (2020)** Based on the partial review performed of the financial reporting process during the year, we observed that journal entries could be approved by personnel who reported to the preparer of the journal. Due to the reporting structure which exists within the Council, pressure could placed on the junior personnel to approve the journal without appropriate review being performed on the journal entry due to the preparer of the journal holding a senior role to the approver. We noted also that evidence regarding the review and approval of journals were not consistently maintained by the council during the period. We recommend that management revisits and strengthens the control environment over the journal entry posting and the financial reporting process to lower the inherent risks to an acceptable level by ensuring that journal entries are approved by personnel with the requisite knowledge and experience.		**The Council has a system posting and reviewing journals which has been improved since 2019/20. Each journal documents the preparer & approver names and contains clear evidence as to why the journal is performed.** **The Council also ensure journals are not requested to be approved by someone who is managed directly by the journal preparer.** **Lead Finance Specialist, Implemented.** .
3	2	**Housing benefit expenditure (2022)** As part of our review of the housing benefit (HB) expenditure business process, we noted that the caseworkers were not required to obtain approval of HB payments below a specific threshold. We further noted that there were no additional checks in place to verify the accuracy of payments made during the year. In addition, we observed that the identity verification of claimants was not consistently performed, which could provide the opportunity for fraud within the HB process. We recommend that management revisits the control relating to the housing benefit payment process to ensure adequate checks are in place.	Identity verification was not consistently undertaken during the lockdown period, but this process has now been reinstated. We conduct random sampling and checks across the entire caseload through various DWP initiatives, such as HBAA, to which we are subscribed. Our robust internal QA processes already include identity and bank account processing, as well as payment verification for new and updated records. A review of these processes is currently underway and will be completed in the 2024-25 fiscal year. The recommendation has been noted for consideration as part of this review.	**Now implemented**.

Control Deficiencies (cont.)

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Current Status (January 2025)
4	2	**Property, plant and equipment (2019)** The Council values its property, plant and equipment on an annual basis using a cyclic model. From our review of the process surrounding the review of the valuation report received by the Council from DVS (external valuer), we noted that there was insufficient specialist input to the review process as although the s151 officer who is charged with the review of the report is CIPFA qualified, the involvement of a specialist would ensure that appropriate challenge is raised regarding the appropriateness of the report, and inconsistencies and/or misstatements in the report received from DVS are adequately flagged during the valuation process. Hence, we recommend that management revises the design of the control relating to the review of the valuation report to ensure appropriate involvement and input by an internal valuation specialist as part of the review process.	Lead Asset Specialist and Finance Specialists do review the VOA's valuations for reasonableness and completeness. In 23/24 this was documented.	**Implemented.**
5	3	**Property, plant and equipment (2021)** Per the Council's account policy for Infrastructure assets, the useful economic life (UEL) for its infrastructure assets range from 10 years to 40 years. We noted however from our review of the Council's asset register and discussion with relevant personnel that the Council does not have a clearly documented process for the determination of the useful economic life of its assets with the process relying on the experience of the Asset & Maintenance personnel with minimal documentation being captured as to how the assets UEL have been determined. We therefore recommend that management ensures it incorporates a clearly documented process for the determination of the Useful Economic Lives of its fixed assets	Agreed. As part of the Fixed Asset Register check list, we include a review of all UEL and basis for determination.	**Implemented.**

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Control Deficiencies (cont.)

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Current Status (January 2025)
6	2	**Property, plant and equipment (2022)** Based on our review of the valuation report received by the Council from its value (District Valuation Specialist [DVS]), we have identified the following: a) We have, as in prior years, observed a weakness and lack of rigour in the application of the valuation technique on Springfield Industrial Estate with no explicit regard had to the rent reviews or reversionary value of the asset. Whilst the asset is less significant in value a similar observation may be applied to the valuation of White Horse Lane Car Park for which the long-term rent is the subject of annual RPI-linked uplifts. b) For the sampled revalued assets where the profits method was adopted for the revaluation, the evidence to support the capitalisation rate presented related to properties sold as investments with an existing income stream and not as operational entities with no commentary to support the different risk profile c) The supporting valuation working papers present comparable evidence and a degree of rationale in support of the adopted judgemental valuation inputs. However, this information is not included in the valuation report and the relevance of some of the evidence presented is unclear. In future, valuation reports should include recent and relevant occupational and transactional evidence together with an appropriate explanation to support the inputs adopted, especially in relation to valuations for which there is less evidence is available and benchmarking the key inputs requires a greater degree of judgement by the valuer.	Noted. As per previous years' recommendations, this will be requested from VOA as part of engagement agreement going forward.	**Implemented.**

Control Deficiencies (cont.)

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Current Status (January 2025)
6	2	**Property, plant and equipment (2022) - continued** d) We have previously observed that MDC should ensure that both income and expenditure information should be available to the valuer where an income approach (profits method) is adopted with support and analysis presented by the valuer. For the sample assets, the DVS were only provided with income data. e) Further detail from the valuer should be included in future impairment reviews to ensure transparency and evidence their reasoning for the conclusions stated. Sources of such data would include BCIS data, analysis of movement within the portfolio of similar assets as well as local market commentaries. f) Based on our review of the Springfield Industrial Estate valuation performed by DVS, we observed that there was no explicit consideration of the reversionary value. No analysis was presented to consider the impact of the outstanding rent reviews on the current passing rent, nor the reversionary value either taking account of the buildings or the underlying site value which would revert to MDC on lease expiry. As the reversion is currently between 38 and 40 years into the future, the impact of the approach adopted currently by the DVS is mitigated. As reversion nears, a more forensic review and consideration of the reversionary value of the site would be expected. Thus, we recommend that consideration of outstanding rent reviews and reversionary value should be addressed in future reviews and as the asset nears reversion. g) In our review of the supporting valuation sheets, we observed that the valuer also adopts both the investment method and profits method as a valuation technique to determine the Exiting Use Value (EUV) for specific assets within the portfolio. These are both recognised methods of valuation and can be used as either a primary or secondary valuation method for non-specialised PPE assets as well as assets held as an investment, where accompanied by appropriate assumptions such as vacant possession. We however recommend that the DVS ensures that future valuation reports include reference to all appropriate valuation techniques adopted to provide a more accurate and complete overview of the methodologies applied.	Noted. As per previous years' recommendations, this will be requested from VOA as part of engagement agreement going forward.	**This will be addressed as part of 2024-25 accounts closure process.** **Lead Finance Specialist, May 2025**

Control Deficiencies (cont.)

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Current Status (January 2025)
7	3	**Property, plant and equipment (2022)** From our review of the Council's revalued assets, we noted that the Council had erroneously classified some of its revalued assets as operational assets as opposed to investment assets. We confirmed that these have been subsequently corrected by management in the financial statements, however, we recommend that management revisits its control around the classification of assets. We noted further that the Council had no formal documentation of its internal policies and procedures defining the role and responsibilities of personnel with regards to the management of the Council's assets.	The Council is currently reviewing its assets and implementing a project to create a new Asset Register, which will classify each asset as either operational or investment. This project is scheduled for completion by March 2025. To ensure the ongoing accuracy of the data within the Asset Register, additional controls will be introduced. These controls will include audit trails to document any changes to asset designations, which will be agreed upon by the Assets and Building Services Manager and the Lead Specialist Finance. Furthermore, the Council will review management roles and responsibilities related to Asset Management as part of a broader review, following recent changes to its Senior Management Structure and the appointment of a new Chief Executive and Deputy Chief Executive.	**To be implemented as part of 2024-25 accounts closure.** **Lead Finance Specialist, May 2025**
8	3	**Trade debtors (2022)** Based on the partial test performed on the trade debtors during the 2022 financial period, we noted that invoices of £232k had been cancelled, however, these had not been appropriately adjusted in the 2022 accounting records. We recommend that management revisits the controls process around the review of the period end adjustments to ensure the necessary adjustments are captured in the appropriate accounting period.	As part of the debtor reconciliation process and bad debts provision calculation, debts are periodically reviewed, and accruals are checked to ensure invoices are legitimately outstanding at the end of the year. The age of the debt also considered as part of this exercise	**Implemented.**
9	3	**Trade debtors (2021)** We noted that the entity does not have a formal written policy for determining provisions for doubtful debts against long outstanding accounts receivable. The establishment of an adequate policy will provide clear guidance to management and ensure consistency and ultimately comparability between year of profits and accounts receivable balances, we thus recommend that a written formal policy be established to recognize doubtful debts in each category of accounts receivable	The provision for doubtful debt is already considered for different areas based on the business needs and historic experience of recovery. E.g. parking debt is different from housing benefit overpayment. This is now in the process of being documented.	**Implemented, but will be documented as part of 2024-25 accounts closure.** **Lead Finance Specialist, May 2025**

Control Deficiencies (cont.)

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Current Status (January 2025)
10	1	**Cash and cash equivalents (2021)** From the review performed on the cash & cash equivalent balance, we noted various deficiencies in the cash reconciliation process undertaken during the period, such as: a) Differences between the bank reconciliation and the financial statements; b) Invalid reconciling items which could not be supported or substantiated; c) Monthly reconciliations were not performed on a timely basis, which resulted in significant additional time being required to reconcile and resolve noted errors accumulated from previous months. Although this variances had been subsequently adjusted by management in the financial statements, we have not performed follow up reviews on the adequacy of the adjustments due to the impact of the backstop.	This has improved significantly since 2021: a) Monthly bank reconciliation are taken place on a timely manner and ledger and bank balances are agreed periodically. B) difference in Bank reconciliation are not material and can be justified with evidence. C) there are no invalid reconciliation items for 23/24	**A robust system is in place with preparer and approver for recoding and reconciling cash book entries.** **Therefore, already implemented.**
11	2	**Revenue and Income Grants (2021)** As part of the monitoring process relating to the recognition of revenue, a COVID 19 Grant Income and Expenditure schedule is updated on a monthly basis by the Lead Finance Specialist. We noted however that there is no independent review performed with regards to the accuracy and completeness of the Grant income schedule. Further, there have been no mitigating controls identified which would ensure that the data included in the Delta return is free from misstatement. We recommend that management revises its control process to ensure adequate reviews are performed around the recognition of grant income	Since 2020/21 processes have improved. A Finance Specialist prepares a grant register at the start of the year. This register is used during the budget monitoring process during the financial year to monitor income and expenditure. This grant register is also being reviewed and monitored by the Senior Technical Accountant.	**Implemented.**

Control Deficiencies (cont.)

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Current Status (January 2025)
12	2	**Revenue and Income Grants (2022)** We noted from our review of the grant income process that the Council did not retain evidence of comparing the actual monthly expenditure against the allocated COVID-19 budget. This comparison is crucial for management to monitor spending, identify variances, and take timely corrective action. The absence of this control increases the risk of ineligible or inaccurate expenditures, potentially leading to a misstatement of income. We further noted that the Council did not maintain an updated grant movement schedule classifying grants as ringfenced or unringfenced. This lack of tracking increases the risk of misclassification and misstatement of grant income in the financial statements. We recommend management implements a formal process for monthly budget vs. actual reporting for grants, documenting variance analysis and corrective actions. Additionally, the Council should strengthen the process around grant agreement review and tracking, documenting formal reviews for compliance, developing and maintaining an updated grant movement schedule with ringfenced/unringfenced classifications, and conducting regular reviews for accuracy and completeness.	These returns were regularly reviewed by the Director of Resources, although documentation of such was scarce. Documentation of reviews will be recorded in future.	**Implemented**
13	3	**Operating expenditure (2022)** We noted from our review of the expenditure process that updates to the supplier master file do not require approval, allowing caseworkers to make changes without secondary review. We recommend that management revises and strengthens controls over supplier master file updates, mandating appropriate approval and review procedures to mitigate this risk.	Council has reviewed this and put controls in place to ensure the changes are approved.	**Implemented.**

Control Deficiencies (cont.)

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Current Status (January 2025)
14	2	**Capital Grants Received in advance (2021)** From our review of the Council's revalued assets, we noted that the Council had erroneously classified some of its revalued assets as operational assets as opposed to investment assets. We confirmed that these have been subsequently corrected by management in the financial statements, however, we recommend that management revisits its control around the classification of assets. We noted further that the Council had no formal documentation of its internal policies and procedures defining the role and responsibilities of personnel with regards to the management of the Council's assets.	From 2022 onwards, any S106 income without a clawback clause has been recognised in the CIES. The introduction of a grant register has improved the process of recording and monitoring grants, which ensures the correct accounting treatment is applied.	**Implemented**
15	3	**Operating expenditure (2022)** We noted from our review of the expenditure balance that the Council had not allocated operating expense to the relevant accounting period. We recommend management revisits the control process around the recognition of expenses to ensure appropriate cut-off at the end of each accounting period.	As per accounts closure timetable, there will be a specific task to conduct a cut off review to identify items that should fall under the correct accounting period e.g. March (P12) or April (P1).	**To be carried out during FY24-25 Accounts closure.**
16	1	**General IT Control (2022)** User access reviews are performed over every system, however in the form of a 'risky login' report, which shows Amber or Red logins which are then reviewed on ad-hoc basis. We noted however, that this control was incorporated as a detective control, and did not prevent unauthorised or inappropriate access. We noted also that there was an attempted fraud during the period (May 2022), howbeit unsuccessful, we recommend that management revisits the relevant IT controls and ensure appropriate cybersecurity trainings are provided to employees.	The Council is currently carrying out a review of various systems and this will include log-in access. Cyber security training module is now in use.	**To be reviewed during 2025.**

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 6. 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.

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APPENDIX 1

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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.	

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