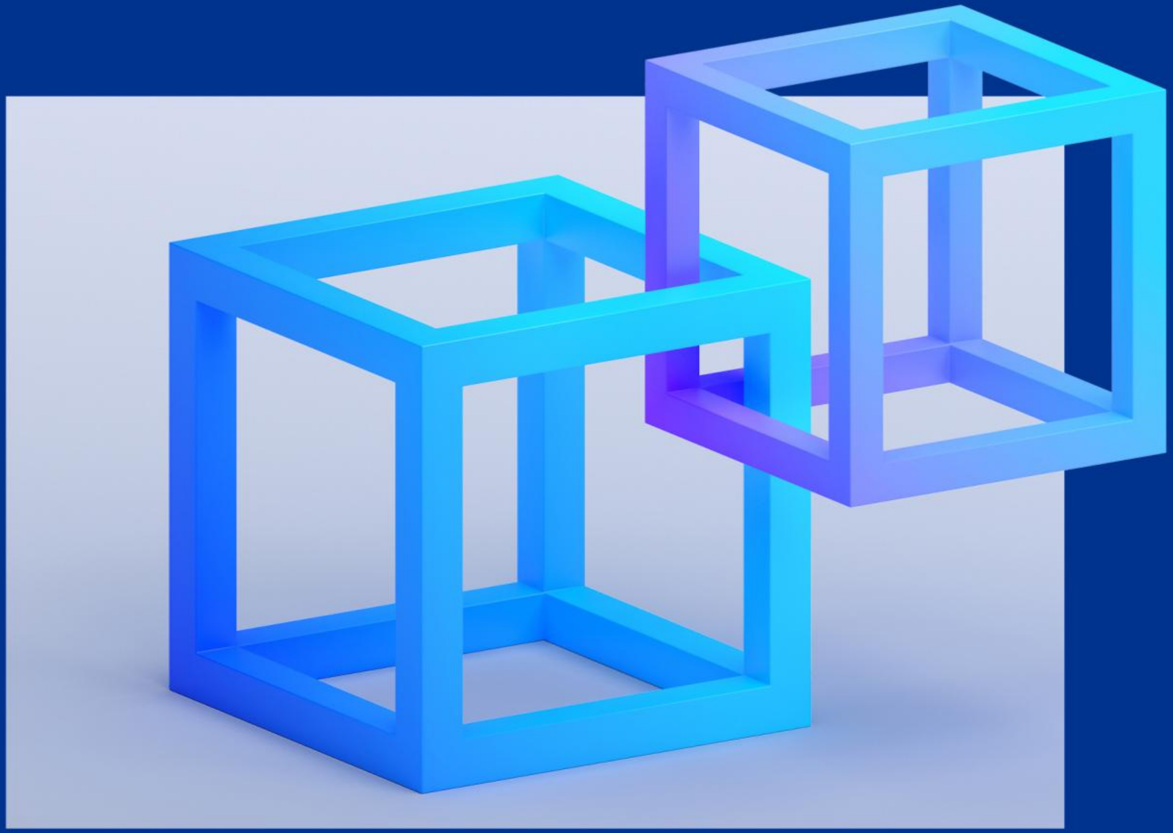
North Hertfordshire District Council



Year End Report to the Finance, Audit and Risk Committee

Year end report for the year ended 31 March 2025

DRAFT

29 January 2026

Introduction

To the Finance, Audit and Risk Committee of North Hertfordshire District Council

We are pleased to have the opportunity to meet with you on 10 February 2026 to discuss the findings and key issues arising from our audit of the financial statements of North Hertfordshire District Council (the 'Authority'), as at and for the year ended 31 March 2025.

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 final audit plan and strategy report, presented on 12 November 2025. We will be pleased to elaborate on the matters covered in this report when we meet.

How we deliver audit quality

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

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

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

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

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Salma Younis (Salma.Younis@kpmg.co.uk), the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with the response, please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Tim Cutler. (tim.culter@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access KPMG's complaints process here: Complaints.

The engagement team

Subject to the approval of the statement of accounts, we expect to be in a position to sign our disclaimed audit report on the approval of those statement of accounts and auditor's representation letter by 27 February 2026, provided that the outstanding matters noted on page 6 of this report are satisfactorily resolved.

There have been no significant changes to our audit plan and strategy.

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,

[Personal signature]

Salma Younis

[Date]

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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 North Hertfordshire District Council (the 'Authority') for the year ended 31 March 2025.

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

This report summarises the key issues identified during our audit but does not repeat matters we have previously communicated to you.

Limitations on work performed

This Report is separate from our audit report and does not provide an additional opinion on the Authority'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 (to the extent it has been possible in the context of our disclaimer of opinion - see page 4).

Status of our audit and the implications of the statutory backstop

Page 4 'The statutory backstop and rebuilding assurance' explains the impact of the statutory backstop and our resulting conclusion to issue a disclaimer opinion on the financial statements

While we are disclaiming our audit opinion on the financial statements, we are still required to identify our audit findings based on the work performed. We have identified findings as reported in our report.

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.

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The statutory backstop and rebuilding assurance

Background

The Government has introduced measures to resolve the legacy local government financial reporting and audit backlog.

Amendments were made to the Accounts and Audit Regulations and NAO's Code of Audit Practice in 2024 which introduced the requirement for audit reports in respect of any open, incomplete audits up to the period ending 31 March 2023 to be published by 13 December 2024. It also introduced a statutory back stop date of 28 February 2025 for the 2023/24 audit. For the Authority this had the impact of a disclaimer of opinion issued by your predecessor auditor for the 2022/23 financial year. We then issued a disclaimer of opinion for 2023/24 on 20 February 2025 to comply with the statutory backstop date for the reasons set out in our Basis of Disclaimer Opinion below.

Work has been ongoing in the sector to develop guidance to help support appropriate audit procedures for audits where further work is required to build back assurance. In addition to Local Audit Rest and Recovery Implementation Guidance (LARRIGs) that were published in 2024 by the NAO, further guidance has now been published by the NAO LARRIG 06 - Special considerations for rebuilding assurance for specified balances following backstop-related disclaimed audit opinions (e.g reserves balances where a disclaimer has been previously issued). We note the LARRIGs are prepared and published with the endorsement of the Financial Reporting Council (FRC) and are intended to support the reset and recovery of local audit in England.

The 2023/24 audit

In our *Basis of Disclaimer Opinion s*ection of our audit report in 2023/24 we reported*:*

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 include, but were not limited to, Collection Fund; property, plant and equipment; investment property; investments; debtors; creditors; housing benefit payments and subsidies; income from council tax and business taxes; capital charges; changes in fair value of investment properties and disclosure of income and expenditure by directorate in the Comprehensive Income and Expenditure Statement 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 Authority's income and expenditure for the year ended 31 March 2024.

Any adjustments from the above matters would have a consequential effect on the Authority's net assets and the split between usable reserves 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.

The 2024/25 audit

On Page 5, we set out what work we have been able and not been able to complete in respect of the 2024/25 financial statements, as being able to audit the closing balance sheet is an essential element of rebuilding assurance.

We are yet to start our rebuilding assurance risk assessment, this is planned for the 2025/26 audit. Once this is complete, we will report separately the findings. The reasons we have not started our rebuilding assurance risk assessment are as follows:

- the impending backstop date;
- we have not been able to complete the audit work over the opening balances and movements in usable and unusable reserves related to 2024/25; and
- Audit team and Council officer capacity. The focus has been on supporting the 2024/25 audit.

Impact on our audit report on the financial statements

Given our work to rebuild assurance is not complete and due to the statutory backstop date of 27 February 2026, we have determined that there is insufficient time to obtain sufficient appropriate audit evidence over the split of useable and unusable reserves as at 31 March 2025 or 31 March 2024 ahead of the backstop, and, in our view, this is pervasive to the Authority's financial position as at 31 March 2025.

Further to this there are a number of areas of the financial statements where we have determined we will be unable to obtain sufficient appropriate audit evidence, as we will be unable to perform the procedures that we consider necessary to form our opinion on the financial statements ahead of the Backstop Date. As a result of the pervasiveness of the above, we intend to issue a disclaimer of opinion on the financial statements as a whole.

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The statutory backstop and rebuilding assurance

Other matters

As required by the ISAs (UK) when we are disclaiming our audit opinion on the financial statements as a whole, 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 Authority's Value for Money arrangements, specifically we are responsible for reporting if we have identified any significant weaknesses in the arrangements that have been made by the Authority to secure economy, efficiency and effectiveness in its use of resources. We also provide a summary of our findings in the commentary in this report.

Page 21 provides a summary of our findings. Further details are also available in our Auditor's Annual Report for 2024/25.

Work completed in 2024/25

Our final audit plan, presented to you on 12 November 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 work we have and have not been able to complete.

Although we expect to issue a disclaimer of 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. Our audit is not yet complete. The status below sets out the current status of our work. We will provide an oral update on the status. Our conclusions will be discussed with you before our audit report is signed.

Specifically in relation to 2024/25 we have completed our work on the following areas in addition to our planning and risk assessment work:

Significant risks

- Valuation of land and buildings (see pages 8 - 9)
- Valuation of investment property (see pages 10 - 11)
- Valuation of post retirement benefit obligations (see pages 12 – 13)
- Management override of controls (see pages 14 – 15)

Other areas

- General ledger migration

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

- Split of usable and unusable reserves for the year ended 31 March 2025;
- The disclosed comparative figures for the Authority's balance sheet as at 31 March 2024 and the income and expenditure for the year then ended.

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Our audit findings

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

Significant audit risks	Page 8 - 15
Significant audit risks	**Our findings**
Valuation of land and buildings	We completed our planned procedures and we did not identify any material misstatements relating to this area.
Valuation of investment properties	We completed our planned procedures and we did not identify any material misstatements relating to this area.
Valuation of post retirement benefit obligations	We completed our planned procedures and we did not identify any material misstatements relating to this area.
Management override of controls	We completed our planned procedures and we did not identify any material misstatements relating to this area.

Uncorrected Audit Misstatements		Page 29
Understatement/ (overstatement)	**£m**	**%**
Revenues	0	0
(Deficit) for the Year	(0.87)	(13.8)
Net assets	(0.87)	(0.6)

Misstatements in respect of Disclosures	Page 30
Misstatement in respect of Disclosures	**Our findings**
Accounting policies	Misstatement due to missing disclosures which are required per the CIPFA Code.

Number of Control deficiencies	Page 31-36
Significant control deficiencies	0
Other control deficiencies	12
Prior year control deficiencies remediated	4

Outstanding matters

There are a number of outstanding matters prior to us signing our audit report, including

- Resolving minor audit queries
- Subsequent event inquiries
- Ongoing senior team file review
- Receipt of the signed management representation letter
- Finalising audit report and signing

Significant risks and Other audit risks

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

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

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

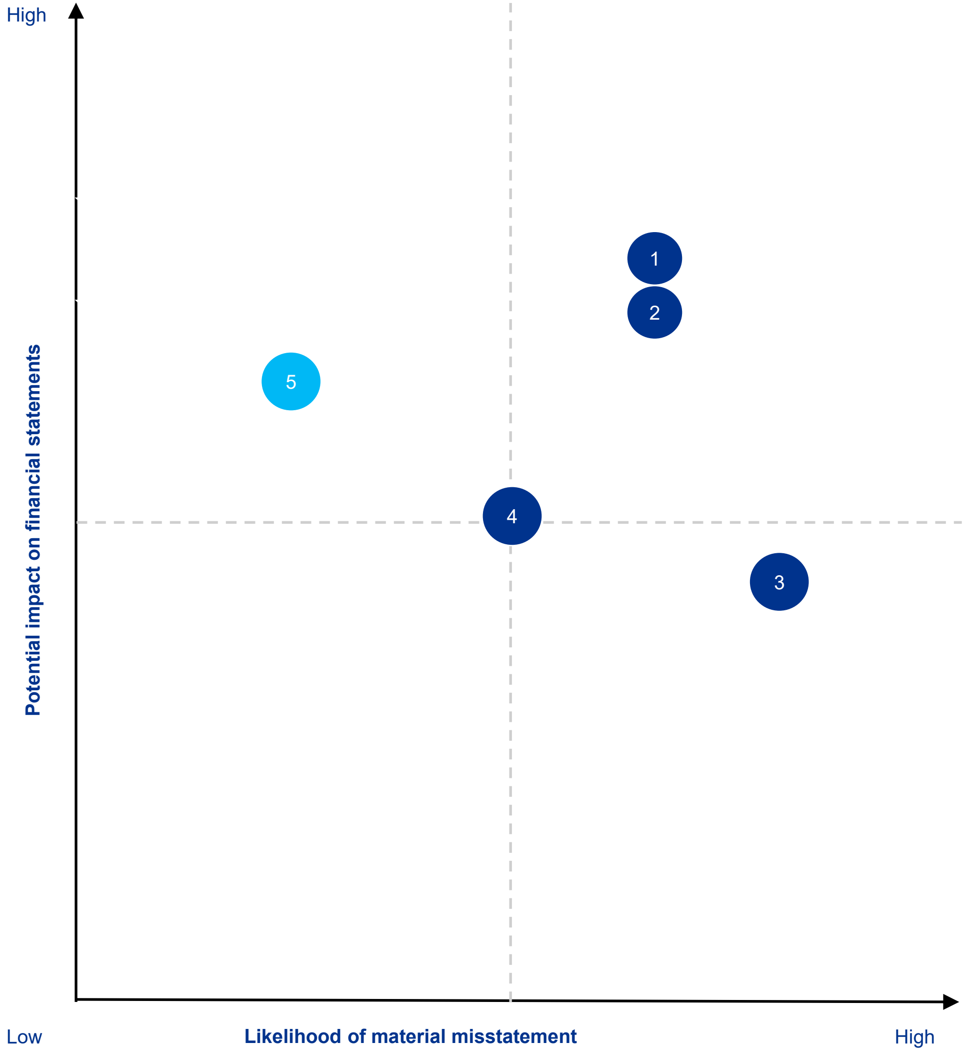
In the pages overleaf we have reported the work we have completed on significant risks and other audit risks.

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

Other audit risks	
5.	General ledger migration

Key: # Significant financial statement audit risks

Other audit risk



Audit risks and our audit approach

1 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. The Council has adopted a rolling revaluation model which sees all land and buildings revalued over a five-year cycle.

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

A further risk is presented for those assets that are revalued in the year, which involves significant judgement and estimation on behalf of the engaged valuers (Lambert Smith Hampton for operational assets and Reynolds Butler for surplus assets).

From our risk assessment of the elements within the valuations estimate, we have focused our significant risk over the BCIS (Building Cost Information Service) indices and location factor for the Depreciated Replacement Cost (DRC) valuations, and the rental income and yield assumptions used for the Existing Use Value (EUV) valuations.

Our response

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

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

1 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. The Council has adopted a rolling revaluation model which sees all land and buildings revalued over a five-year cycle.

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From our risk assessment of the elements within the valuations estimate, we have focused our significant risk over the BCIS indices and location factor for the Depreciated Replacement Cost valuations, and the rental income and yield assumptions used for the Existing Use Value valuations.

Our findings

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

- We found no issues to note with the independence, objectivity and the expertise of the valuers.
- We verified that the instructions to the valuer were appropriate to produce a valuation consistent with the requirements of the CIPFA Code.
- We have agreed the accuracy of the data used for development of the valuation to underlying information and concluded that the data was reliable.
- Auditing standards require us to report that the design and implementation of the management review control relating to this area is ineffective in line with the ISA definition. Whilst the ISAs acknowledge that it is difficult for management to design controls that address subjectivity and estimation uncertainty in a manner that effectively prevents, or detects and corrects, material misstatements, we have raised a recommendation relating to this risk. See recommendation 1 on page 31.
- We have challenged the appropriateness of the valuation of the land and buildings including the key assumptions, BCIS indices and location factor for the DRC valuations, and the rental income & yield assumptions used for the EUV valuations and found no issues to note.
- We have reperformed the calculations of the movements in value of land and buildings and identified that the upward revaluation movements of £48k for Churchgate Shopping Centre was credited directly to the Revaluation Reserve without first reversing prior impairment losses previously recognised. We have raised a recommendation relating to this misstatement. See recommendation 12 on page 35.
- Our inquiries to the valuer verified that the methodology was consistent with the requirements of the RICS Red Book and the CIPFA Code.
- We have determined that the disclosures concerning the key judgements and degree of estimation uncertainty involved in arriving at the valuation to be appropriate.

Audit risks and our audit approach (cont.)

2 Valuation of investment property

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

Significant audit risk

The Code defines an investment property as one that is used solely to earn rentals or for capital appreciation or both. Property that is used to facilitate the delivery of services or production of goods as well as to earn rentals or for capital appreciation does not meet the definition of an investment property. The portfolio had a value of £27.7m as at 31 March 2025.

There is a risk that investment properties are not being held at fair value, as is required by the Code. At each reporting period, the valuation of the investment property must reflect market conditions. Significant judgement is required to assess fair value and management experts are often engaged to undertake the valuations.

From our risk assessment of the elements within the valuations estimate, we have focused our significant risk over the rental income approach methodology and the yield assumptions.

Our response

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

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

Audit risks and our audit approach (cont.)

2 Valuation of investment property

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

Significant audit risk

The Code defines an investment property as one that is used solely to earn rentals or for capital appreciation or both. Property that is used to facilitate the delivery of services or production of goods as well as to earn rentals or for capital appreciation does not meet the definition of an investment property. The portfolio had a value of £27.7m as at 31 March 2025.

There is a risk that investment properties are not being held at fair value, as is required by the Code. At each reporting period, the valuation of the investment property must reflect market conditions. Significant judgement is required to assess fair value and management experts are often engaged to undertake the valuations.

From our risk assessment of the elements within the valuations estimate, we have focused our significant risk over the rental income approach methodology and the yield assumptions.

Our findings

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

- We found no issues to note with the independence, objectivity and the expertise of the valuer.
- We verified that the instructions to the valuer were appropriate to produce a valuation consistent with the requirements of the CIPFA Code.
- We have agreed the accuracy of the data used for development of the valuation to underlying information and concluded that the data was reliable.
- Auditing standards require us to report that the design and implementation of the management review control relating to this area is ineffective in line with the ISA definition. Whilst the ISAs acknowledge that it is difficult for management to design controls that address subjectivity and estimation uncertainty in a manner that effectively prevents, or detects and corrects, material misstatements, we have raised a recommendation relating to this risk. See recommendation 1 on page 31.
- We have challenged the appropriateness of the valuation of investment properties including the key assumptions, rental income approach methodology and the yield assumptions. We have reperformed the calculations of the movements in value of investment properties and verified that these have been accurately accounted for in line with the requirements of the CIPFA Code.
- Our inquiries to the valuer verified that the methodology was consistent with the requirements of the RICS Red Book and the CIPFA Code.
- We have determined that the disclosures concerning the key judgements and degree of estimation uncertainty involved in arriving at the valuation to be appropriate.

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Audit risks and our audit approach (cont.)

3 Valuation of post retirement benefit obligations

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

Cautious | Neutral | Optimistic

Significant audit risk

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

Our response

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

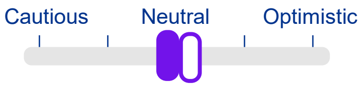
- Understand the processes the Council has in place to set the assumptions used in the valuation;
- Evaluate the competency, objectivity of the actuaries to confirm their qualifications and the basis for their calculations;
- Perform inquiries of the accounting actuaries to assess the methodology and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

Key:
Prior year | Current year

Audit risks and our audit approach (cont.)

3 Valuation of post retirement benefit obligations

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



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

Key:
Prior year Current year

Our findings

- We have confirmed that the Fund's appointed actuaries, both individual and firm, hold appropriate professional qualifications, being Fellows of the Institute of Actuaries (UK), and are therefore suitably qualified to perform actuarial valuations and prepare IAS19 disclosure reports.
- The actuarial methodology applied in the current year is consistent with the prior year and aligns with the Council's reporting framework. We have reviewed the key actuarial assumptions adopted by Council and compared them to KPMG Central Rates. Overall, the assumptions are considered balanced. While the CPI inflation assumption is cautious than KPMG Central Rates, however it remains within KPMG's reasonable range.
- Auditing standards require us to report that the design and implementation of the management review control relating to this area is ineffective in line with the ISA definition. Whilst the ISAs acknowledge that it is difficult for management to design controls that address subjectivity and estimation uncertainty in a manner that effectively prevents, or detects and corrects, material misstatements, we have raised a recommendation relating to this risk. See recommendation 2 on page 31.
- We have performed testing over key input data used in the Defined Benefit Obligation (DBO) valuation, including benefits paid and contributions. No material exceptions were noted, and the data was found to be materially accurate.
- The scheme reports a net surplus of £26.8 million as at 2025 (2024: £7.1 million). We have assessed the appropriateness of the accounting treatment of this surplus under IFRIC 14. This included evaluating management's rationale and the supporting assessment by KPMG actuaries. We concur with the conclusion reached, which is consistent with the prior year's treatment.
- We have performed testing over Defined benefits assets. A material variance of £867k was noted and an uncorrected misstatement has been raised. See adjustment 1 on page 29 for details.

Audit risks and our audit approach (cont.)

4 Management override of controls[a]

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

Significant audit risk

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

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

Our response

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

We will perform the following procedures designed to specifically address the significant risk associated with management override of controls:

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

Audit risks and our audit approach (cont.)

4 Management override of controls[a]

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

Significant audit risk

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

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

Our findings

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

- We evaluated the estimates over valuation of land and building, investment properties and pension liabilities and did not identify any indicators of management bias. See page 18 for further detail.
- We confirmed that the selection and application of accounting policies are consistent with the CIPFA Code.
- Auditing standards require us to report that the design and implementation of the journals review process in place within the Council's general ledger system is ineffective in line with the ISA definition. Whilst the ISAs acknowledge that it is difficult for management to design controls that address subjectivity and estimation uncertainty in a manner that effectively prevents, or detects and corrects, material misstatements, we have raised a recommendation relating to this risk. See recommendation 3 on page 32.
- We confirmed that the methods and underlying assumptions used to prepare accounting estimates, compared to the prior year, are appropriate.
- We did not identify any new significant unusual transactions.
- We searched for fraudulent journal entries using specific high risk criteria identified from our risk assessment work. We identified 5 journal entries and other adjustments meeting the high-risk criteria – our examination did not identify any inappropriate entries. No post close journals were directly tested as none were material in value or considered unusual.

Audit risks and our audit approach (cont.)

5 General Ledger Migration

Other audit risk

Risk: The data migrated from the old to new general ledger system are incomplete or inaccurate

The Council migrated its general ledger software in August 2024.

This migration poses a risk of incomplete or inaccurate data having been migrated over and therefore a risk of there being inaccurate ledger balances and inaccurate preparation of the year-end financial statements.

As the timing of the migration was during the financial year, there is also an increased risk relating to the control environment as different processes will have in operation before and after the migration.

Our response

We will perform the following procedures:

- We will understand and evaluate the design and implementation of controls in place around the migration to ensure the complete and accurate transfer of data;
- We will consider the impact the migration will have on our understanding of the business processes and perform additional risk assessment procedures to ensure that we have appropriately and sufficiently documented its impact;
- We will understand the changes to the IT environment and involve KPMG IT audit specialists where applicable;
- We will test the migration of data to ensure completeness and accuracy of the transferred data; and
- We will verify the accuracy of the opening trial balance of the new general ledger system and reconcile it to the closing trial balance of the old general ledger system to confirm that the ledger balances have accuracy transferred across.

Audit risks and our audit approach (cont.)

5 General Ledger Migration

Other audit risk

Risk: The data migrated from the old to new general ledger system are incomplete or inaccurate

The Council migrated its general ledger software in August 2024.

This migration poses a risk of incomplete or inaccurate data having been migrated over and therefore a risk of there being inaccurate ledger balances and inaccurate preparation of the year-end financial statements.

As the timing of the migration was during the financial year, there is also an increased risk relating to the control environment as different processes will have in operation before and after the migration.

Our findings

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

- We assessed the design and implementation of the controls around the data migration to be effective.
- We have performed additional walkthroughs and risk assessment procedures which had a change in process due to the ledger migration. No issues were identified.
- We involved KPMG IT audit specialists to understand and document the changes in the IT environment.
- We did not identify any issues over the completeness and accuracy of the transferred data.
- We did not identify any issues over the accuracy of the opening trial balance of the new general ledger system which fully reconciled to the closing trial balance of the old general ledger system.

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.

Key: Prior year / Current year

Asset/liability class	Our view of management judgement (Cautious – Neutral – Optimistic)	Balance (£m)	YoY change (£m)	Our view of disclosure of judgements & estimates (Needs improvement – Neutral – Best practice)	Further comments
PPE – Land and Buildings	Current year: Neutral	75.8	(2.0)	Current year: Neutral	We have considered the Council's valuation exercise over land and buildings undertaken in year. The method, data assumptions and their application are in line with sector norms and our understanding of the Council.
Investment Property	Current year: Neutral	27.7	0.9	Current year: Neutral	We have considered the Council's valuation exercise over investment properties undertaken in year. The method, data assumptions and their application are in line with sector norms and our understanding of the Council.
Post retirement benefit obligation	Current year: Neutral; Prior year: Neutral	(143.5)	(16.8)	Current year: Neutral; Prior year: Neutral	We have assessed the accounting results, including the individual balance sheet, comprehensive income and expenditure statement and the sensitivity of the defined benefit obligation (DBO) to changes in key assumptions. Overall, the DBO estimate has been found to be balanced
Pension assets	Current year: Neutral; Prior year: Neutral	150.6	(2.9)	Current year: Neutral; Prior year: Neutral	We have assessed the accounting results, including the individual balance sheet, comprehensive income and expenditure statement and the sensitivity of the fair value of plan assets to changes in key assumptions. Overall, the pension assets estimate has been found to be balanced.

Other matters

Narrative report

As Finance, Audit and Risk 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.

Our responsibility is to read the other information, which comprises the information included in the Statement of Accounts other than the financial statements and our auditor's report thereon and, in doing so, consider whether, based on our financial statements audit work, the other information is materially misstated or inconsistent with the financial statements or our audit knowledge.

Due to the significance of the matters leading to our expected disclaimer of opinion, 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 is consistent with the financial statements, we expect to be unable to determine whether there are material misstatements in the other information.

Whole of Government Accounts

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

We are yet to receive instructions from NAO regarding WGA.

Independence and Objectivity

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

Audit Fees

We have set out audit fees, as set by PSAA and fee variations on page 25.

We have also completed non audit work at the Authority during the year on the Housing benefit grant certification and have included in the appendix on page 27 confirmation of safeguards that have been put in place to preserve our independence.

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 Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

In discharging these responsibilities, we include a statement within our audit report 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.

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

As noted on the right, our VFM risk assessment procedures identified two potential risks of a significant weakness in the Authority's arrangements to secure value for money. Within our Auditor's Annual Report we have set out our response to those risks.

We have no recommendations to report.

Summary of findings

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

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

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

Performance improvement observations

As part of our work we have identified one Performance Improvement Observation, which are suggestions for improvement but not responses to identified significant weaknesses – see page 22.

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Value for Money: Performance improvement observations

The performance improvement observations raised as a result of our work in respect of identified or potential significant value for money risks in the current year are as follows:

Priority rating for observations		
❶ **Priority one:** Observations linked to issues where, if not rectified, these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	❷ **Priority two:** Observations linked to issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately, but the weakness remains in the system.	❸ **Priority three:** Observations linked to 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	❷	**Partnership arrangements** In December 2021, the Authority made an agreement with a High Needs accommodation provider, initially resulting in subsidy loss for the Authority. The provider registered as a Housing Association in May 2023, aiming to access higher Housing Benefit rates and to eliminate subsidy loss to the Authority. However, the provider's Regulator of Social Housing status remained 'for-profit' despite assurances from the provider that it would change, leading to the Authority to suspend benefit payments in March 2025. There are ongoing proceedings between the Authority and the provider, following the Authority withholding payment of benefits. At the time of entering the agreement, the Authority did not specify a date by which the provider needed to achieve this status, nor did it set this requirement in writing. **Recommendation** Management are taking a report to Cabinet in November 2025 on this matter. We recommend that any learning identified is taken on board to avoid similar issues in the future.	**Management Response:** We are taking a report to Cabinet in November to provide full details and seek a decision on next steps. **Responsible Officer:** Directors for Resources and Regulatory **Due Date:** November 2025 **UPDATE**: The Cabinet report was considered and a decision was taken. Progress has been made by the provider, but their ongoing status has not yet been resolved by the Regulator. We are keeping this under review and having regular meetings with the provider.

Appendices

Contents

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Required communications

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 2025.
Adjusted audit differences	OK	There was one adjusted audit differences with a surplus impact of nil. See page 30.
Unadjusted audit differences	OK	The aggregated surplus impact of unadjusted audit differences would be £867k. In line with ISA 450 we request that you adjust for these items. However, they will have no effect on the opinion in the auditor's report, individually or in aggregate. See page 29.
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 communicate.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	OK	No actual or suspected fraud involving Authority 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	OK	No significant difficulties were encountered during the audit.
Modifications to auditor's report	X	Our audit opinion will be disclaimed. See pages 4 -5 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 statement of accounts.
Breaches of independence	OK	No matters to report. The engagement team and others in the firm have complied with relevant ethical requirements regarding independence.
Accounting practices	OK	Over the course of our audit, we have evaluated the appropriateness of the Authority'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	No significant matters arising from the audit were discussed, or subject to correspondence, with management.
Certify the audit as complete	X	We are required to certify the audit as complete when we have fulfilled all of our responsibilities relating to the accounts and use of resources as well as those other matters highlighted above. We will issue our certificate once we have received confirmation from the National Audit Office that their audit of the Whole of Government Accounts is complete and therefore all our work in respect of the Authority's Whole of Government Accounts consolidation pack is complete.
Whole of government accounts	X	As required by the National Audit Office (NAO) we carry out specified procedures on the Whole of Government Accounts (WGA) consolidation pack. We are yet to receive instructions from NAO regarding WGA.

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Fees

Audit fee

Our fees for the year ending 31 March 2025 are set out in the table below (note all fees are exclusive of VAT).

Entity	**2024/25 (£'000)**	*2023/24 (£'000)*
Scale fee as set by PSAA	£164.3	*£149.5*
Amount of scale fee to be charged for the work completed	£164.3	*£149.5*
VFM additional risk fee variation approved by PSAA / subject to be PSAA approval	TBC	*£15.7*
Technical accounting issues fee variation approved by PSAA / subject to be PSAA approval	TBC	*£3.2*
Building back assurance fee variation approved by PSAA / subject to be PSAA approval	TBC	*£0.8*
ISA 315R fee variation approved by PSAA / subject to be PSAA approval	TBC	*£11.5*
Disclaimer fee variation approved by PSAA / subject to be PSAA approval	TBC	*£5.0*
TOTAL FEE PAYABLE	TBC	*£185.7*

Billing arrangements

- Fees have been billed in accordance with the milestone completion phasing that has been communicated by the PSAA.
- Note some fees are subject to PSSA determination and will therefore be confirmed on that determination

Confirmation of Independence

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

To the Finance, Audit and Risk Committee members

Assessment of our objectivity and independence as auditor of North Hertfordshire 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

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out on the table overleaf.

Confirmation of Independence (cont.)

Disclosure	Description of scope of services	Principal threats to Independence	Safeguards Applied	Basis of fee	Value of Services Delivered in the year ended 31 March 2025 £000	Value of Services Committed but not yet delivered £000
1	Housing benefit grant certification	Management Self review Self interest	• Standard language on non-assumption of management responsibilities is included in our engagement letter. • The engagement contract makes clear that we will not perform any management functions. • The work is performed after the audit is completed and the work is not relied on within the audit file. • Our work does not involve judgement and are statements of fact based on agreed upon procedures. • Work performed by a different team.	Fixed	£32,300	£0

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 0.2:1. We do not consider that the total non-audit fees create a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

	2024/25
	£'000
Scale fee	£164.3
Fee variation subject to be PSAA approval	TBC
Other Assurance Services	£32.3
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 Finance, Audit and Risk Committee.

Confirmation of audit independence

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

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

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

Yours faithfully

KPMG LLP

Uncorrected audit misstatements

Given we are disclaiming our audit opinion as described on page 4 there may be other audit misstatements our audit procedures would have identified if we completed our audit procedures as initially planned. In this section, we have reported uncorrected audit misstatements that we have identified.

Under UK auditing standards (ISA (UK) 260) we are required to provide the Finance, Audit and Risk Committee with a summary of uncorrected audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are ‘clearly trivial’, which are not reflected in the financial statements. 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. As communicated previously with the Finance, Audit and Risk Committee, details of all adjustments greater than £85k are shown below:

Uncorrected audit misstatements (£’000s)				
No.	**Detail**	**CIES Dr/(Cr)**	**Balance Sheet Dr/(Cr)**	**Comments**
1	Dr Remeasurements of the net defined benefit liability Cr Fair value of plan assets	867 -	- (867)	Management included an estimated value for the return on planned assets within their draft financial statements, based on the report provided by the actuary. However, upon reviewing the audited financial statements of the Hertfordshire Pension Fund, we noted that the actual rate of return for 2023/24 was misstated. As a result, plan assets as at 31 March 2025 are overstated by £867k.
Total		**£867**	**(£867)**	

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Corrected audit misstatements

Given we are disclaiming our audit opinion as described on page 4 there may be other audit misstatements our audit procedures would have identified if we completed our audit procedures as initially planned. In this section, we have reported corrected audit misstatements that we have identified.

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

Corrected audit misstatements (£'000s)				
No.	**Detail**	**CIES Dr/(Cr)**	**Balance Sheet Dr/(Cr)**	**Comments**
1	Dr Short term creditors	-	818	Our testing over debtors identified an interest debtor accrual of £818k which had been incorrectly classified. This resulted in an overstatement of debtors and an understatement of creditors.
	Cr Short term debtors	-	(818)	
Total		**£0**	**£0**	

Corrected misstatements in respect of disclosures		
No.	**Detail**	**Comments**
1	Accounting Policies	Paragraph 3.3.1.1 of the Code requires that authorities follow the requirements of IAS 8 Accounting Policies. The draft statement of accounts omitted the required accounting policies for changes to revenue for non-current assets.

KPMG

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

❶ **Priority one:** issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.

❷ **Priority two:** issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.

❸ **Priority three:** issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
1	❷	**Management review of valuation assumptions for land and buildings and investment properties** Auditing standards require us to report that the design and implementation of the management review control relating to this area is ineffective in line with the ISA definition. The ISAs acknowledge that it is difficult for management to design controls that address subjectivity and estimation uncertainty in a manner that effectively prevents, or detects and corrects, material misstatements. We note that although the Council has processes in place to help ensure that the valuation of land and buildings is based on best estimate, supported by reasonable assumptions, these processes do not meet the required threshold of an MRC. We recommend that should management wish to meet this requirement they will need to carry out a predictive review of the methodology and assumptions that are being proposed to calculate the valuation held by the Council.	**Management Response:** The control level determined by the ISA definition is noted. However, it is not good value for money for the Council to achieve that standard. The Council employs valuers with expertise and ensures that they have the required skills and qualifications. To meet this ISA threshold would mean that the Council would (either through Officers or commissioned externally) have to duplicate a large proportion of this work. **Officer:** Director: Resources **Due Date:** N/A
2	❷	**Management review of actuarial assumptions** Auditing standards require us to report that the design and implementation of the management review control relating to this area is ineffective in line with the ISA definition. The ISAs acknowledge that it is difficult for management to design controls that address subjectivity and estimation uncertainty in a manner that effectively prevents, or detects and corrects, material misstatements. We acknowledge Management reviews the actuarial assumptions following advice from an external actuarial specialist however the control does not meet the stringent requirements as defined by the FRC in its auditing standards; the review control lacks precision and is not documented and therefore the design is not considered to be an effective control. We recommend that should management wish to meet this requirement they will need to carry out a predictive review of the methodology and assumptions that are being proposed to calculate the pension liabilities held by the Council.	**Management Response:** The control level determined by the ISA definition is noted. However, it is not good value for money for the Council to achieve that standard. The Council does not have the expertise in this area. To meet this ISA threshold would mean that the Council would need to commission an actuary to duplicate a large proportion of this work. **Officer:** Director: Resources **Due Date:** N/A

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:

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
3	2	**Management review of journals** Auditing standards require us to report that the design and implementation of the journals review process in place within the Council's general ledger system is ineffective in line with the ISA definition. The auditing standards requires the Council to consider as part of the journals review process, the documentation requirements for the objective being tested, consideration of the data and its reliability, the expected precision and allowable deviations present in the control, the consistency of application and the predictability of inputs, the criteria for investigation and follow up and the outcome of such follow ups. The Council has no overarching policy or procedures or SFI which explains the reviewers' role and whilst there should be supporting documentation attached to help support review, it is not an enforced process and as a result we do not have assurance that all journals posted are reviewed in a way which would meet ISA315 requirements. We recommend that should management wish to meet this requirement they will need to carry out and document a detailed review of all journals posted to the general ledger system in line with ISA315 requirements.	**Management Response:** To investigate whether we can implement guidance for approvers that would meet the ISA315 requirements. Approvers are already clear that their role is to check that journals are documented and reasonable. All approvers are staff in the Accounts team and have professional accounting qualifications. There are also subsequent controls e.g. spend outturns compared to budget and providing explanations for variances. **Officer:** Accountancy Manager **Due Date:** 30 September 2026
4	3	**Bank reconciliation – preparation and review** During the walkthrough of the bank reconciliation process, we identified that there is no signature of preparer and reviewer for the bank reconciliation reports to evidence appropriate segregation of duties. During our bank reconciliation testing at year-end, we identified that there were no monthly bank reconciliations for Lloyds bank account between August 2024 to February 2025 due to the system migration and the cashiering function did not go live until 31 October 2025. Furthermore, we identified that Council did not prepare bank reconciliations for the Santander bank accounts throughout the year. However, we acknowledge that there are very limited number of low value transactions within the Santander bank accounts. Without regular reviewed bank reconciliations, there is a risk that the Council's cash position is misreported resulting in cashflow implications. We would recommend that the Council should complete bank reconciliation monthly and the reports should be signed by both preparers and reviewers appropriately to confirm the cash recorded correctly with bank statements. We also recommend to set a proper and formal bank reconciliation process for all the bank accounts to ensure all the cash amount are recorded appropriately in the ledger.	**Management Response:** Bank reconciliations will be fully up to date by the end of February. By then reconciliations will then take place on a daily basis. The finance system requires separation of duties between carrying out the reconciliation and the checking role, and this is recorded on the system. The Santander account is already reconciled at the point when the balance is automatically moved across to the main account, but we have added in an extra check to the account as well **Officer:** Responsibility Controls, Risk and Performance Manager **Due Date:** 1 March 2026

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:

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
5	3	**Housing Benefit Subsidy Reconciliation** We identified that monthly housing benefit subsidy reconciliations were not reviewed and signed in a timely manner after each month end. This could result in the Council not receiving the expected subsidy for that month. There is a risk that there is a reduction in the Council's ability to provide financial support to Housing Benefit claimants if the subsidy received is less than expected. We would recommend that the Council should complete housing benefit subsidy reconciliations monthly and the reports should be signed by both preparers and reviewers appropriately to monitor the housing benefit subsidy position.	**Management Response:** Agreed to completing in a timely manner and ensuring that it is documented who had carried out the preparing and reviewing. **Officer:** Director: Resources **Due Date:** 30 June 2026
6	3	**Payroll contracts accuracy** Through our review of an employment amendment letter, it was identified that the annual salary amount on the letter did not match the payroll system or payslips. The amendment letter had been signed by the HR team and by the employee. Although the HR team confirmed that the amount in amendment letter was an error and the actual paid amount in payslip was correct, there is still a risk that employees are not paid accurately. We would recommend that the Council implements a formal review process to ensure the employment contracts are promptly updated following any amendments. This process could include documented evidence of review and approval by an authorised individual prior to the updated contracts being reflected in the payslip system. Additionally, regular reconciliations between employment contracts and payroll data should be performed to confirm consistency and accuracy with any inconsistencies being rectified immediately.	**Management Response: TBC** **Officer: TBC** **Due Date: TBC**
7	3	**Payroll contract retention** While performing the walkthrough for payroll amendments, it was noticed that the employment contracts were not signed and retained appropriately for previous financial periods (2023/24). The missing signed contract may lead to insufficient evidence to match the contract with the payroll system and payslip calculation as well as potential legislation issues. We would recommend that the Authority should review and confirm that the contracts are signed by employees before they are fully onboarded. Also, the contracts should be stored in the system appropriately.	**Management Response: TBC** **Officer: TBC** **Due Date: TBC**

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:

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
8	3	**Expenditure cut-off** During the audit, we identified two expenditure transactions totalling £13.2k that had not been accounted for in the correct accounting period. The expenditure related to services provided which span across two financial years, but the expenditure was not split to only recognise the portion which relates to 2024/25. Instead, the expenditure was wholly recognised in 2024/25. One of these invoices relates to an annual subscription and for a few years management have taken the decision to recognise the full costs in the year the invoice is received as opposed to the year it relates to. There is a risk that without a formal manual control carried out at the year-end to identify such transactions, expenditure could be materially misstated. We recommend as part of strong financial hygiene that management perform an annual control to identify any expenditure that bridges year-end, accounting for them as accruals or prepayments where appropriate.	**Management Response:** To ensure budget managers are aware of the requirements in relation to transactions that straddle between years. Although plan to continue with the current approach (where relevant) for annual transactions where there is insignificant variability in the amount. To investigate the workload in reviewing larger value transactions (over £10k) near to year end. Applying a threshold as accruals are subject to materiality limits. **Officer:** Accountancy Manager **Due Date:** 30 June 2026
9	3	**Impairment Review** Through our inquiries of the Council’s processes for revaluation of land and buildings, we identified that management did not perform an annual formal impairment review of the assets which hadn’t been revalued in that financial year. We do note that the Council had an informal impairment review process in place. Without a formal impairment review for non-revalued assets, there is an increased risk that the carrying value of property, plant and equipment could be materially misstated. We recommend that management implements formal impairment review for assets which aren’t included in the current year’s revaluation cycle to ensure that the net book value at which general fund property, plant and equipment is reflective of its current condition and value.	**Management Response:** This is now discussed at the Asset Management Officer Group, for regular updates on any issues that could impair asset values. **Officer:** N/A **Due Date:** N/A
10	3	**Overstatement of Debtors and Creditors** During our creditors testing, we identified a group of transactions which was posted to creditors to defer revenue recognised from the billing of income in 2024/25 but relates to 2025/26. Although there is no impact on the net asset position, this accounting treatment results in an overstatement of debtors and creditors. We recommend that in future periods, management should post a reversal of the initial journal rather than a creditor transactions which inflates the gross assets and gross liabilities.	**Management Response:** Further discussions on treatment to take place as part of closing the 2025/26 Accounts, and we will implement agreed approach. **Officer:** Accountancy Manager **Due Date:** 30 June 2026

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:

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
11	3	**Late submission of draft accounts** Under Regulation 9 of the Accounts and Audit Regulations 2015, the Authority is required to publish its draft annual Statement of Accounts by 31 May each year. The Government introduced amendments to the Accounts and Audit Regulations which required the Authority to publish its unaudited 2024/25 financial statements and accompanying information on or before 30 June 2025. The 2024/25 draft accounts were published on the Council's website for public inspection on the 10 July 2025. We acknowledge that the Authority has been affected by the mid-year general ledger migration and audit backlog. We recommend that the finance team should develop a work plan to produce the 2025/26 financial statement audits which allows publication in line with the regulatory requirements. Progress against this work plan should be monitored and reported on to senior leadership. This is more prevalent for the 2025/26 audit as the reporting deadline will be 31 January 2027 rather than the end of February.	**Management Response:** As we have not been implementing a new finance system in 2025/26 we fully expect to meet the 30 June draft accounts date. Without that additional workload we can use previous plans to meet that date **Officer:** Director: Resources **Due Date:** 30 June 2026
12	3	**Accounting of upwards revaluation of assets** We identified that the upward revaluation movements of £48k for Churchgate Shopping Centre was credited directly to the Revaluation Reserve without first reversing prior impairment losses previously recognised. This treatment is non-compliant with the Code's requirement that impairment reversals must be recognised through the I&E reserve before any remaining gain is taken to the Revaluation Reserve. There is a risk of misstated reserves and non-compliant asset valuation entries. Management should implement a control to ensure prior impairments are identified and fully reversed before allocating any residual increase to the Revaluation Reserve.	**Management Response: TBC** **Officer: TBC** **Due Date: TBC**

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):
4	4	1

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Current Status (January 2026)
Financial Statements Audit				
1	3	**Late submission of draft accounts** The 2023/24 draft accounts were published on the Council's website for public inspection on the 18 September 2024. This was 3 months after the statutory deadline of 31 May 2024. We understand this was due to competing pressures for the finance team due to multiple ongoing audits. Following resolution of the historical outstanding financial statement audits, the finance team should develop a work plan for the production of the 2024/25 financial statement audits which allows publication in line with the regulatory requirements. Progress against this work plan should be monitored and reported on to senior leadership. We are raising a control deficiency over this for best practice recommendation for regulatory compliance.	We have had plans for completion of the Draft Statement of Accounts in place for a number of years, but these were affected by the unique set of events for the 23/24 Accounts. For the 24/25 Accounts we will revert to the established plans (to be updated for our new finance system and any other required changes) which will support completion by the end of June deadline. Any risks to completing the deadline will be reported to the Service Director: Resources and Leadership Team.	Partially implemented. The Council published its unaudited Statement of Accounts for 2024/25 on 10 July 2025 to discharge the statutory responsibilities under the Accounts and Audit Regulations 2015. This was after the 30 June 2025 deadline. We acknowledge that the Authority has been affected by the mid-year general ledger migration and audit backlog. However, we note that this is a marked improvement on the 2023/24 unaudited accounts publication date of 18 September 2024.
2	3	**IT policies** We inquired with management to understand the use of IT policies, we noted that key policies supporting IT operations such as privileged access policy, information security policy, and phishing incident response plan were in the process of being developed. A change management policy had not been drafted. These policies have not been previously approved. As the council did not have approved final policies in place at the time of our review our during the majority of the 23/24 financial year we have identified this as a control deficiency. The Council should ensure these policies are finalised as a priority and publicised to ensure ongoing compliance with their requirements.	All the policies are being finalised with a target date of the end of March 2025.	Implemented.

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Control Deficiencies (cont.)

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

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Current Status (January 2026)
Value for Money Audit				
3	3	**Contract compliance review** From inquiry and review of internal audit as part of our VFM procedures, it was identified that the delivery on the Churchgate lease management contract was not being effectively monitored (e.g. late payments, contract not signed, and compliance queries not being responded to in a timely manner). We recommend the Council perform a review of its contract management arrangements to identify the cause of these issues and to revise its processes to avoid similar deficiencies arising in the future.	The agreed actions from the SIAS report have been implanted as part of the new contract that has been awarded. We have also highlighted more generally the importance of effective contract management.	Implemented.
4	3	**Member completion of training** As part of our VFM procedures, we noted that Member uptake on training was below the expected completion targets. We recommend a formal plan is developed to assist members in understanding what training is available and when it is expected to be completed by. Completion of this training should then be monitored and reported on. The Council should consider factors which are driving lower uptake, whether they be messaging, reminders or as a content on the training itself. Messaging around potential consequences for non-compliance should be strengthened.	We will emphasise the need to complete training and use our Councillor Member Training Champions. We will also make use of our new Learning Management System to better report (and then act) on training gaps. We are seeing improvements in take-up of training.	Implemented.
5	3	**Fully depreciated assets** Following our review of the accounts, we have noted that there are a lot of assets which are already fully depreciated. We recommend that Council should perform a detailed review of their assets with nil net book value to assess whether these assets are still in use.	We will review this for FY2025.	Implemented.

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FRC's areas of focus

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

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

Key expectations for 2024/25 annual reports

Overview

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

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

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

Pre-issuance checks and restatements

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

Risks and uncertainties

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

Financial reporting framework

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

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

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

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FRC's areas of focus (cont.)

Impairment of assets

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

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

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

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

Cash flow statements

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

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

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

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

Climate

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

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

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

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

Financial instruments

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

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

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

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

Judgements and estimates

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

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

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

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

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FRC's areas of focus (cont.)

Revenue

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

Presentation

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

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

Income taxes

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

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

Strategic report

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

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

Fair value measurement

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

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

Thematic reviews

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

UK's largest private companies

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

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

Retail sector focus

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

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

2024/25 review priorities

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

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

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