



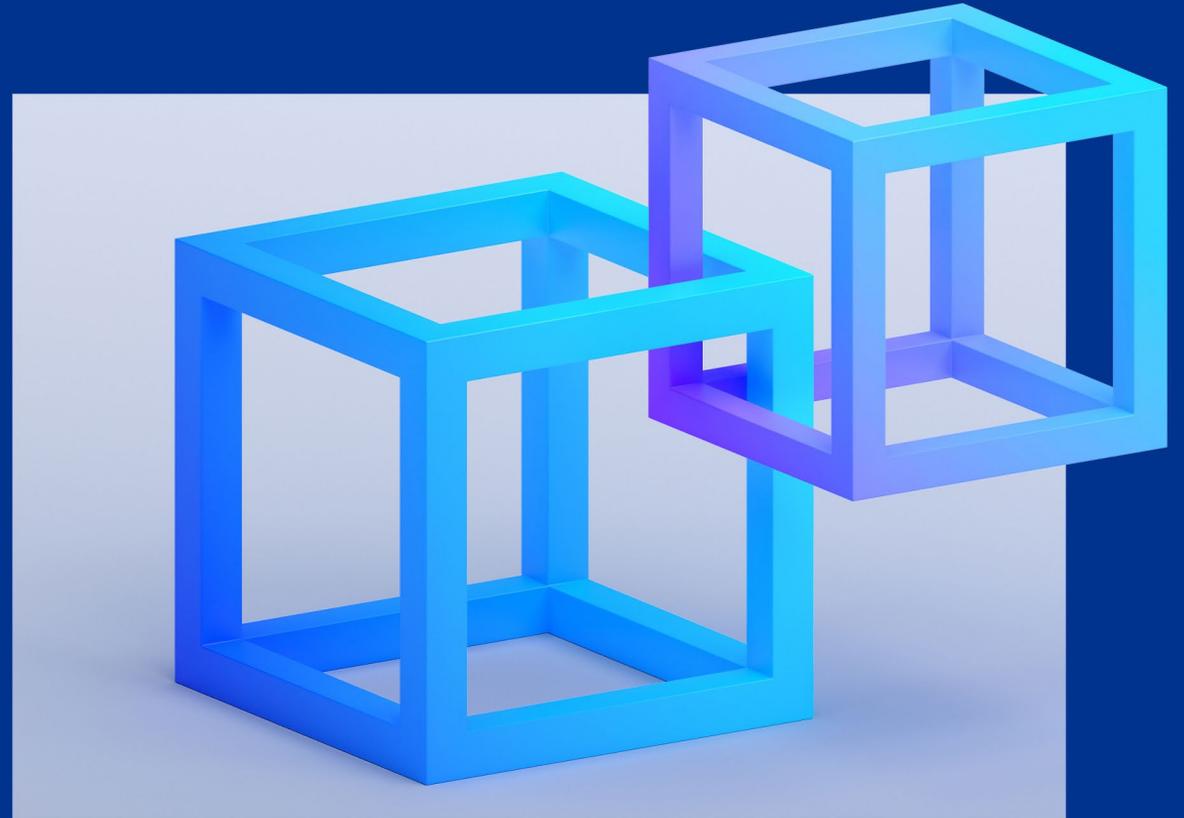
# Lancaster City Council

Year End Report to the Audit Committee

Year end report for the year ended 31 March 2025

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March 2026



# Introduction

## To the Audit Committee of Lancaster City Council

We are pleased to have the opportunity to meet with you on 18 March 2026 to discuss the findings and key issues arising from our audit of Lancaster City Council 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. 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 Richard Lee ([Richard.Lee@KPMG.co.uk](mailto:Richard.Lee@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](mailto: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 audit report on the approval of those statement of accounts and auditor's representation letter, provided that the outstanding matters noted on page 7 of this report are satisfactorily resolved.

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,



Richard Lee

18 March 2026

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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 Lancaster City Council (the 'Council') for the year ended 31 March 2025.

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

This report summarises the key issues identified during our audit.

## Limitations on work performed

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

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

The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit (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 7 '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.

# The statutory backstop and rebuilding assurance

## Background

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

Last year, amendments were made to the Accounts and Audit Regulations and NAO's Code of Audit Practice 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 Council this had the impact of a disclaimer of opinion issued by your predecessor auditor for 3 financial years up to and including 2022/23. We will issue a disclaimer of opinion for the 2023/24 financial statements audit.

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

Once our audit work is complete, we expect to report the following in our Basis of Disclaimer Opinion section of our audit report for 2023/24:

The Accounts and Audit (Amendment) Regulations 2024 (the "Amendment Regulations") require the Authority to publish its financial statements. These areas include, but were not limited to: the financial statements and our opinion thereon for the year ended 31 March 2024 by 28 February 2025 (the "Backstop Date") or as soon as reasonably practicable after the Backstop Date.

We have been unable to obtain sufficient appropriate audit evidence over a number of areas of the financial statements as we have been unable to perform the procedures that we consider necessary to form our opinion on the financial statements by the publication date of carrying

amount of property, plant and equipment, and investment property; short term debtors; short term creditors; other services expenses; fees, charges and other service income; net income from council tax, non-domestic rates, district rate income; government grants and contributions; disclosures of related party transactions, the Housing Revenue Account and Collection Fund Statements 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 by the publication date of the financial statements. 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, including the Housing Revenue Account, and unusable reserves as at 31 March 2024 and 31 March 2023, the Collection Fund and on its income and expenditure and cash flows for the years then ended.

## The 2024/25 audit

On page 6, 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. We will commence this work once we have issued our audit report on the 2024/25 financial statements. Once our risk assessment is complete, we will report separately the findings.

# The statutory backstop and rebuilding assurance

## 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 Council'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. These are detailed on page 6.

As a result of the pervasiveness of the above, we intend to issue a disclaimer of opinion on the financial statements as a whole.

## 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 Council'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 Council 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 18 provides a summary of our findings. Further details are also available in our Auditor's Annual Report for 2024/25.

# The statutory backstop and rebuilding assurance

## Work completed in 2024/25

This report sets out our audit approach, including our significant risks and other audit risks. We have updated our responses to those significant risks in the pages overleaf, identifying the work we have and have not been able to complete.

Although we will be issuing 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.

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 post retirement benefit obligations.

### Other areas

- Cash and cash equivalents
- Borrowings

We have been unable to complete our work on a number of areas, including but not limited to:

- Split of usable and unusable reserves for the year ended 31 March 2025;
- Work associated with significant risks on:
  - Valuation of land and buildings
  - Valuation of investment property
  - Management override of controls
- Other work areas: short term debtors; short term creditors; other services expenses; fees, charges and other service income; net income from council tax, non-domestic rates, district rate income; government grants and contributions; disclosures of related party transactions, the Housing Revenue Account and Collection Fund Statements and the balance of, and movements in, usable and unusable reserves for the year ended 31 March 2025.
- The disclosed comparative figures for the Council's income and expenditure for the year ended 31 March 2024, and the comparative figures in the balance sheet as at 31 March 2024 as disclosed in the 'Basis of Disclaimer Opinion' section of our 2023/24 audit report (see page 4).

## Significant challenges with progressing work

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

- Although the Council published its 2024/25 draft accounts by the statutory deadline, the prior year audit had not been completed by the February 2025 backstop date. This significantly compressed the timetable for the 2024/25 audit, restricted our ability to complete audit work in a timely manner, and resulted in limitations on the audit evidence available to support our opinion.

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

We are working with management in advance of the 2025/26 audit to ensure the audit can be completed in a more timely manner.

# 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 10-11

Significant audit risks	Our findings
Valuation of land and buildings	We were unable to complete the procedures we considered necessary to obtain sufficient appropriate audit evidence in relation to this area.
Valuation of investment properties	We were unable to complete the procedures we considered necessary to obtain sufficient appropriate audit evidence in relation 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 were unable to complete the procedures we considered necessary to obtain sufficient appropriate audit evidence in relation to this area.

## Key accounting estimates Page 14-15

Valuation of land and buildings	We were unable to complete the procedures we considered necessary to obtain sufficient appropriate audit evidence in relation to this area.
Valuation of investment property	We were unable to complete the procedures we considered necessary to obtain sufficient appropriate audit evidence in relation to this area.
Valuation of post retirement benefit obligations	We assessed the assumptions underpinning the valuation as optimistic relative to our central rates but within our reasonable range.

## Number of Control deficiencies Page 28-34

Significant control deficiencies	0
Other control deficiencies	1
Prior year control deficiencies remediated	3

## Outstanding matters

There are a number of outstanding matters we need to allow us to sign our audit report, including:

- Investments
- Audit Consultations
- Subsequent events updates
- Finalisation of VFM work
- Final quality reviews
- Signed Statement of Accounts to KPMG
- Management representation letter
- Finalise audit report and sign

# Overview of materiality

## Our materiality levels

We determined materiality for the financial statements at a level which could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

We used a benchmark of expenditure which we consider to be appropriate given the sector in which the entity operates, its ownership and financing structure, and the focus of users.

We considered qualitative factors such as the business environment and lack of shareholders when determining materiality for the financial statements as a whole.

To respond to aggregation risk from individually immaterial misstatements, we design our procedures to detect misstatements at a lower level of materiality £1.95m / 65% of materiality driven by our expectations of normal level of undetected or uncorrected misstatements in the period. We also adjust this level further downwards for items that may be of specific interest to users for qualitative reasons.

## We have reported misstatements to the audit committee including:

- Corrected and uncorrected audit misstatements above £150k.
- Errors and omissions in disclosure (corrected and uncorrected) and the effect that they, individually in aggregate, may have on our opinion.
- Other misstatements we include due to the nature of the item.

## Materiality



**Council Materiality**

**£3m**

**2.24% of the Council's prior year Expenditure £134m**  
(2023/24: £2m)

# Significant risks and Other audit risks

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

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

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

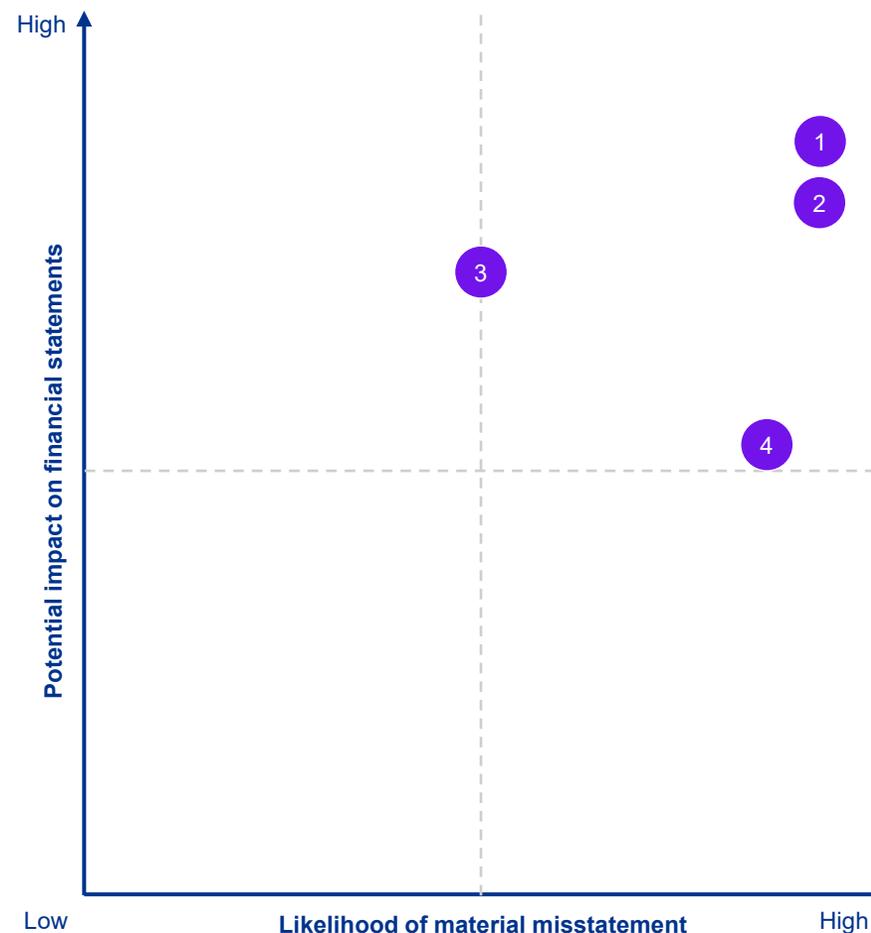
In the pages overleaf we have reported the work we have completed on significant risks and other audit risks. Where work has not been completed in line with page 6 – we have not reproduced the slides that we presented in the audit plan.

## Significant risks

1. Valuation of land and buildings
2. Valuation of investment property
3. Management override of controls <sup>a</sup>
4. Valuation of post retirement benefit obligations

**Key:** # Significant financial statement audit risks

<sup>a</sup> significant risk that auditing standards require us to assess on all audit engagements.



# Audit risks and our audit approach

1

## 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.
- 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 surpluses and minimum funding requirements are complicated and requires actuarial involvement.

Key:

Prior year Current year



### Our response

We have performed the following procedures :

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

# Audit risks and our audit approach

## 1 Valuation of post retirement benefit obligations (cont.)

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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Key:  
  Prior year   Current year



### 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:

- As in the prior year, we were unable to identify a suitable and formal management control in respect of key assumptions and inputs that would address the risk that inappropriate assumptions and information have been used by the actuary when calculating the defined benefit obligation. Management believes that the controls in place are sufficient, but we will report if there are any significant process changes in future periods.
- Our specialists have assessed the overall assumptions used by the actuary to be optimistic, but within the reasonable range. All of the individual assumptions were assessed to be balanced with the exception of CPI inflation, which was assessed as optimistic, but within the reasonable range. As the assumptions are within range and this is a difference in estimation approach rather than an error, we have not requested that an amendment is made to the reported balance.
- Our specialists have assessed the asset ceiling calculations and we have concluded that management's proposal to restrict the surplus in respect of funded obligations to nil is appropriate.

# Audit risks and our audit approach

## Expenditure – rebuttal of Significant Risk

Practice Note 10 states that the risk of material misstatement due to fraudulent financial reporting may arise from the manipulation of expenditure recognition, is required to be considered. Having considered the risk factors relevant to the Council and the nature of expenditure within the Council, we have determined that a significant risk relating to expenditure recognition is not required.

Specifically, notwithstanding ongoing financial pressures, the Council's stable reserve position is not indicative of circumstances that would create an incentive to manipulate expenditure recognition. In addition, the nature of expenditure reviewed has not identified any specific risk factors.

# Audit risks and our audit approach

## Revenue – Rebuttal of Significant Risk

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. Due to the nature of the revenue within the sector we have rebutted this significant risk. We have set out the rationale for the rebuttal of key types of income in the table below.

Description of Income	Nature of Income	Rationale for Rebuttal
<b>Council tax</b>	This is the income received from local residents paid in accordance with an annual bill based on the banding of the property concerned.	The income is highly predictable and is broadly known at the beginning of the year, due to the number of properties in the area and the fixed price that is approved annually based on a band D property: it is highly unlikely for there to be a material error in the population.
<b>Business rates</b>	Revenue received from local businesses paid in accordance with an annual demand based on the rateable value of the business concerned.	The income is highly predictable and is broadly known at the beginning of the year, due to the number of businesses in the area and the fixed amount that is approved annually: it is highly unlikely for there to be a material error in the population.
<b>Fees and charges</b>	Revenue recognised from receipt of fixed fee services, in line with the fees and charges schedules agreed and approved annually.	The income stream represents high volume, low value sales, with simple recognition. Fees and charges values are agreed annually. We do not deem there to be any incentive or opportunity to manipulate the income.
<b>Grant income</b>	Predictable income received primarily from central government, including for housing benefits.	Grant income at a local authority typically involves a small number of high value items and an immaterial residual population. These high value items frequently have simple recognition criteria and can be traced easily to third party documentation, most often from central government source data. There is limited incentive or opportunity to manipulate these figures.

# Key accounting estimates and management judgements- Overview

## Our view of management judgement

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

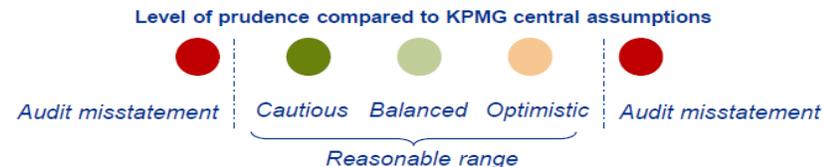


Asset/liability class	Our view of management judgement	Balance (£m)	YoY change (£m)	Our view of disclosure of judgements & estimates	Further comments
<b>LGPS gross assets</b> Fair value of plan assets	Cautious   Neutral   Optimistic 	244.2	3.5	Needs improvement   Neutral   Best practice 	We have assessed the asset returns adopted by the Fund and the consistency of asset allocation and share of scheme assets year on year. The fair value was found to be neutral and within our acceptable range.
<b>LGPS gross liabilities</b> Present value of obligations		170.5	(22.8)		Our actuarial specialists have assessed the overall assumptions used by management in valuing the pension liabilities. No issues were noted in the judgements made in the valuation of pension liabilities. The present value of was found to be optimistic, but within reasonable range.
<b>LGPS IFRIC 14</b> Surplus restrictions and minimum funding		73.7	26.4		Our actuarial specialists have assessed the asset ceiling calculation and agree with management's view that the proposal to restrict the surplus in respect of funded obligations to nil.

Key:  
 Prior year Current year

# Key accounting estimates

## Present value of defined benefit obligations



Overall assessment of assumptions for audit consideration							●	
							Optimistic	
Underlying assessment of individual assumptions		Methodology	Consistent methodology to prior year?	Compliant methodology with accounting standard?	Employer	KPMG	Assessment	Key assumptions
Discount rate		AA yield curve	✓	✓	5.80%	5.75%	●	✓
CPI inflation		Deduction to inflation curve	✓	✓	2.60%	2.74%	●	✓
Pension increases		In line with CPI + 0.1%	✓	✓	2.70%	2.68%	●	
Salary increases		Employer best estimate	✓	✓	CPI plus 1.5%	In line with long-term remuneration policy	●	✓
Mortality	Base tables	In line with most recent Fund valuation, with adjusted scaling factors due to the adoption of updated model for mortality improvements and SAPS S4 tables	✓	✓	Males: 106%/112% of the SAPS Series 4 tables (pensioners/non-pensioners) Females: 101% of the SAPS Series 4 Middle tables	In line with Fund best-estimate	●	✓
	Future improvements	In line with most recent Fund valuation, updated to use latest CMI model	✓	✓	CMI 2023, 1.5% long-term trend rate and default other parameters	CMI 2023, 1.25% long-term trend rate and default other parameters	●	✓
Other demographics		In line with most recent Fund valuation	✓	✓	Members assumed to take 75% of the maximum tax-free cash at retirement	In line with Fund experience	●	

# Other matters

## Narrative report

As Audit Committee members you confirm that you consider that the Narrative Report, including the Annual Governance Statement, 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 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 are 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. This declaration has been completed, and no further matters have arisen during the year.

## Audit Fees

We have set out audit fees, as set by PSAA and fee variations on page 22.

We have also completed non audit work at the Council during the year on Housing Benefits grant certification and pooling for housing capital receipts return. We have included in appendix on page 24 confirmation of safeguards that have been put in place to preserve our independence.

**01**

# **Value for money**

# Value for Money

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

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. The report is required to be published on your website alongside the publication of the annual report and accounts.

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

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

Within our Auditor's Annual Report we have set out recommendations in response to those significant risks.

## Summary of findings

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

Domain	Risk assessment	Summary of arrangements
Financial sustainability	1 significant risk identified	1 significant weakness identified
Governance	2 significant risks identified	2 significant weaknesses identified
Improving economy, efficiency and effectiveness	No significant risks identified	No significant weaknesses identified

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

## Performance improvement observations

We have not identified any new Performance Improvement Observations (PIO) from our review. We have followed-up on one PIO raised in the prior year – which has not yet been implemented. Please see details on next page.

# Value for Money: Performance improvement observations

Below we have set out our findings from following up performance improvement observations raised in prior period:

Priority rating for observations		
<b>1</b>	<b>Priority one:</b> 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.	<b>2</b>
		<b>Priority two:</b> 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.
		<b>3</b>
		<b>Priority three:</b> 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	Update as of March 2026
1	<p><b>2</b> During our review, we noted that the Council does not maintain a formal tender waiver register.</p> <p>The absence of a comprehensive tender waiver register limits transparency and oversight of procurement activities. This increases the risk of non-compliance with procurement regulations, potential value for money concerns, and the possibility that waivers are granted without appropriate justification or approval. It may also hinder the Council's ability to demonstrate effective governance.</p> <p>We recommend that the Council establish and maintain a central tender waiver register. This register should record all contract exceptions, including the contract value, reason for the waiver, and details of the approval process. Regular review and oversight of the register will help strengthen procurement controls, ensure compliance with internal policies and external regulations, and enhance transparency and accountability in the Council's procurement practices.</p>	<p>The Procurement Team hold copies of all completed waivers within their central files.</p> <p>Procurement Team has also established a central waiver register and will provide regular reporting on the waiver register to Senior Leadership Team.</p>	<p>Based on our review, we did not identify evidence that the Council maintained a tender waiver register as at 31 March 2025.</p> <p><b>Status: Not implemented</b></p>

# Appendix

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# Required communications

Type	Response
<b>Our draft management representation letter</b>	<input checked="" type="checkbox"/> 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.
<b>Adjusted audit differences</b>	<input checked="" type="checkbox"/> OK There were two adjusted audit differences with nil impact on the surplus.
<b>Unadjusted audit differences</b>	<input checked="" type="checkbox"/> OK There were no unadjusted audit differences from our audit procedures to date.
<b>Related parties</b>	<input type="checkbox"/> X We have been unable to complete our work on related parties for the reasons on pages 6.
<b>Other matters warranting attention by the Audit Committee</b>	<input checked="" type="checkbox"/> 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.
<b>Control deficiencies</b>	<input checked="" type="checkbox"/> OK We communicated to management in writing all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified during the audit that had not previously been communicated in writing.
<b>Actual or suspected fraud, noncompliance with laws or regulations or illegal acts</b>	<input checked="" type="checkbox"/> OK No actual or suspected fraud involving Council management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements identified during the audit.
<b>Issue a report in the public interest</b>	<input checked="" type="checkbox"/> 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.
<b>Significant difficulties</b>	<input checked="" type="checkbox"/> OK No significant difficulties were encountered during the audit.
<b>Modifications to auditor's report</b>	<input type="checkbox"/> X Our audit opinion will be disclaimed. See page 5 for further details.

Type	Response
<b>Disagreements with management or scope limitations</b>	<input checked="" type="checkbox"/> OK The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
<b>Other information</b>	<input checked="" type="checkbox"/> OK No material inconsistencies were identified related to other information in the statement of accounts.
<b>Breaches of independence</b>	<input checked="" type="checkbox"/> OK No matters to report. The engagement team have complied with relevant ethical requirements regarding independence.
<b>Accounting practices</b>	<input type="checkbox"/> X Over the course of our audit, we have not evaluated the appropriateness of the Council 's accounting policies, accounting estimates and financial statement disclosures and therefore have nothing to report here.
<b>Significant matters discussed or subject to correspondence with management</b>	<input checked="" type="checkbox"/> OK None.
<b>Certify the audit as complete</b>	<input type="checkbox"/> 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.  As at the date of this audit report, we are unable to confirm that we have completed our work in respect of the Authority's Whole of Government Accounts consolidation pack for the year ended 31 March 2025 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the NAO Code of Audit Practice. This is because the audit for the year ended 31 March 2024 has not yet been certified as complete due to outstanding objections, and additional objections have been received in respect of the year ended 31 March 2025 which also remain unresolved. We have concluded that these objections do not have a material impact on the presentation of the financial statements or on our work relating to VFM arrangements. In addition, we have not received confirmation from the NAO that their work on WGA is complete.
<b>Whole of government accounts</b>	<input type="checkbox"/> 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.

# 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)
Statutory Audit	177	161
Amount of scale fee to be charged for the work completed	TBC	TBC
ISA315R fee variation	-	TBC
VFM significant weaknesses proposed fee variation	TBC	TBC
Disclaimer fee variation	TBC	TBC
<b>TOTAL FEE PAYABLE</b>	<b>177</b>	<b>161</b>

*\*Fee variations outlined here are subject to discussion with management and approval by PSAA.*

## 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 Audit Committee members

### Assessment of our objectivity and independence as auditor of Lancaster City Council

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

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

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

### General procedures to safeguard independence and objectivity

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

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

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

### 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	Value of Services Committed but not yet delivered
1	Housing benefit grant certification	Management Self review Self interest	<ul style="list-style-type: none"> <li>Standard language on non-assumption of management responsibilities is included in our engagement letter.</li> <li>The engagement contract makes clear that we will not perform any management functions.</li> <li>The work is performed after the audit is completed and the work is not relied on within the audit file.</li> <li>Our work does not involve judgement and are statements of fact based on agreed upon procedures.</li> </ul>	Fixed	-	£26,198
2	Pooling for housing capital receipts return	Management Self review Self interest	<ul style="list-style-type: none"> <li>Standard language on non-assumption of management responsibilities is included in our engagement letter.</li> <li>The engagement contract makes clear that we will not perform any management functions.</li> <li>The work is performed after the audit is completed and the work is not relied on within the audit file.</li> <li>Our work does not involve judgement and are statements of fact based on agreed upon procedures.</li> </ul>	Fixed	£7,230	Nil

# 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	177
Agreed fee variations	TBC
Other Assurance Services	33
<b>Total Fees</b>	<b>210</b>

## Application of the FRC Ethical Standard 2019

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

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

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

## Independence and objectivity considerations relating to other matters

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

## Confirmation of audit independence

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

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

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

Yours faithfully



KPMG LLP

# Uncorrected audit misstatements

We have not identified any unadjusted audit differences during the audit to date.

# Corrected audit misstatements

Given we are disclaiming our audit opinion as described on page 5 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 Joint Audit 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	SOCI Dr/(cr)	SOFP Dr/(cr)	Comments
1	Dr Bank Current account	-	£848	We identified a classification misstatement whereby cash and cash equivalents were incorrectly recognised as short-term investments. Management has corrected this by appropriately reclassifying these balances as cash and cash equivalents.
	Cr Short term investments	-	(£848)	
2	Dr Bank Current account	-	£1,262	Our audit identified that BACS payments were treated as settled creditors at year-end, despite the payments still being in transit and not yet discharged to suppliers. Management has therefore reversed the premature settlement and reinstated the corresponding cash balance in the financial statements.
	Cr Short term creditors	-	(£1,262)	
<b>Total</b>		<b>£0</b>	<b>£0</b>	

We also identified presentational audit differences which have been updated by the management – the most significant of which are:

- Defined Benefit pension scheme – Presentational amendments were made to enhance pension disclosures, including the addition of financial and demographic assumptions, updates to narrative disclosures, and other related presentational changes.
- Presentational changes – Narrative disclosures and corresponding figures within the financial statement notes have been revised following our casting and consistency review of the annual report, to ensure coherence and alignment of current and prior period financial information throughout the document.

# Control Deficiencies

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

## Priority rating for recommendations

- 1** **Priority one:** issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.
- 2** **Priority two:** issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.
- 3** **Priority three:** issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
1	<b>2</b>	<p><b>Related Parties</b></p> <p>During our walkthrough of the related parties process, we identified that no formal register of interests is maintained for chief officers. To produce the related parties disclosure note in the financial statements, management directly review the declaration forms.</p> <p>The lack of formal register of interests, increases the risk of error and omission when compiling the related party's disclosure note, resulting in potential misstatements.</p> <p>We recommend that management produce a formal register of interests for chief officers. This should be regularly updated on the receipt of signed declaration forms. This will reduce the risk of error when compiling the related parties disclosure.</p> <p>It will also ensure there is a complete list of related parties available when approving significant transactions with related parties.</p>	<p>Whilst no central register/ spreadsheet is formally maintained for Chief Officer register of interests all Chief Officer are required to made annual declarations including nil returns. Any declarations made are cross referenced against income and expenditure systems and any transactions considered against materiality for both parties.</p>

# Control Deficiencies

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):
7	3	4

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Current Status (March 2026)
1	<b>1</b>	<p><b>Critical Delays and Governance Weaknesses Impacting Audit Completion</b></p> <p>During the audit, we encountered significant challenges due to a lack of timely engagement from management. Key issues included substantial delays in providing planning and risk assessment information, persistent delays in responding to audit queries and emails, and the late production of the financial statements. These delays created a knock-on effect that hindered the completion of planning and risk assessment procedures and postponed the commencement of the final audit phase.</p> <p>Furthermore, information required to support the VFM conclusion was not provided until April 2025, despite initial requests being made in November 2023.</p> <p>Delays in management's engagement—particularly in providing planning information, responding to audit queries, and producing financial statements—significantly disrupted the audit timetable. The late provision of VFM evidence, received over a year after initial requests, meant the audit team could not obtain sufficient appropriate evidence. Consequently, a disclaimer of opinion was issued on the financial statements.</p> <p>The Council should implement a structured audit readiness plan with clear timelines, designated responsible officers, and escalation procedures. Management should improve responsiveness by assigning a dedicated audit liaison and providing regular updates to senior leadership and the Audit Committee. Early preparation of VFM evidence is essential to avoid delays and ensure compliance with statutory reporting requirements.</p>	<p>The specific challenges the Council has faced are well documented and the s151 Officer has presented a Statement of Accounts Update at each Audit Committee meeting since November 2021.</p> <p>At its meeting 20th March 2024 the Audit Committee endorsed the s151 Officers proposal to delay publication of the 2023/24 Statement of Accounts until August 2024 so that the priority would be to focus on concluding the outstanding statements ahead of the February 2025 deadline.</p> <p><a href="#">Agenda for Audit Committee on Wednesday, 20th March 2024, 6.00 p.m. - Lancaster City Council</a></p>	<p>Based on our review, while the Council met the statutory publication deadline for the 2024/25 draft financial statements, the audit of the 2023/24 financial statements was not concluded by the statutory backstop date, which adversely impacted the commencement and progression of the 2024/25 audit.</p> <p>However, we note that, during this period, additional value for money enquiries required significant management input, and management was awaiting KPMG's response in relation to management's proposed approach to addressing the MRR.</p> <p>As at 31 March 2025, the Council had not evidenced that a structured audit readiness plan was in place, including clearly defined timelines and designated responsible officers. Accordingly, the recommendation remains outstanding.</p> <p><b>Status: Outstanding</b></p>

# Control Deficiencies

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Current Status (March 2026)
1	<b>1</b>	<b>Critical Delays and Governance Weaknesses Impacting Audit Completion</b> <i>(Continued)</i>	<p>The s151 Officers prioritisation of these accounts rather than 2023/24 audit allowed the Finance Team the space required to address and successfully clear the 3 years of outstanding Statement of Accounts (2020/21, 2021/22 and 2022/23) whilst fulfilling its statutory duties around revenue and capital budget setting, medium term financial planning, council tax setting etc. These are substantial pieces of work starting mid-October and concluding February each year. which conflicted with the audit backstop deadline 25th February 2025.</p> <p>The Finance Team have recently recruited and increased resilience across key areas and so going forward every effort will be made to ensure that the audits are concluded in a timely manner.</p> <p>However, should similar timing conflicts arise given and the repercussions of failing to set its budget or levy council tax the s151 Officer will always recommend the prioritisation of these over the audit of the Council's financial statements.</p>	

# Control Deficiencies (Cont.)

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Current Status (March 2026)
2	2	<p><b>Inappropriate valuation date for land and buildings and investment properties</b></p> <p>Based on our review of the valuation process for land and buildings and investment properties, we identified that assets subject to revaluation during the year are valued as at the first day of the financial year (1 April), rather than at the balance sheet date (31 March). There was no evidence provided to demonstrate that the valuations were subsequently updated or reviewed to reflect any material changes in value as at year-end. This approach does not align with the requirements of the CIPFA Code of Practice, which requires that valuations reflect the carrying or fair value of assets as at the balance sheet date.</p> <p>Valuing assets at the start of the financial year without updating or assessing for material changes at year-end increases the risk that the carrying value of PPE and investment properties in the financial statements may be materially misstated. This could result in non-compliance with the CIPFA Code requirements and material misstatements in the financial statements.</p> <p>We recommend that management engage the valuer to perform valuations as at the balance sheet date. This will help ensure that asset valuations are materially accurate and compliant with the applicable financial reporting framework.</p>	<p>CIPFA's Statement of Recommend Practice does not specify the 31<sup>st</sup> March as a valuation date.</p> <p>Whilst there is a risk that valuations may have materially changed between the 1<sup>st</sup> April and 31<sup>st</sup> March the Council does undertake desktop reviews of its significant assets which fall outside of its 3 year cycle. Officers will explore applying the 31<sup>st</sup> March with the valuer as a valuation date from 31<sup>st</sup> March 2026. However, it must be noted that this could affect in-year revaluations (such as HRA quinquennial review).</p>	<p>There has been no change in the underlying process from the prior year and, accordingly, this recommendation remains outstanding. Management has stated that the valuation date for land and buildings will be aligned to 31 March for the 2025/26 financial year; however, as at the date of our review, we have not performed audit procedures in respect of the 2025/26 period to confirm implementation of this change.</p> <p><b>Status: Outstanding</b></p>
3	2	<p><b>Management review of actuarial assumptions</b></p> <p>Based on our walkthrough of the pension assumption review process, we identified that there is no criteria or threshold developed for investigation/identification of outliers for pension assumptions.</p> <p>Management have stated that they do review the output of the actuary, however there is no evidence of the review. Thus, there is not sufficiently well-defined process in place for it to meet the criteria of an effective review control.</p> <p>The accounting of defined benefit liabilities is complex and small changes in pension assumptions are likely to have a material impact in the financial statements, so the likelihood that a material misstatement could occur is high.</p> <p>Considering this is a significant audit risk area, we would recommend that management formalise its process around review of actuarial assumption. This should include developing objective criteria against which the review can be performed. Evidence should be retained to demonstrate the review has taken place.</p>	<p>The Pension Fund engage Mercers Actuarial Services to undertake the various pensions valuations and provide details of a number of areas such as asset/ liability details, past and current cost.</p> <p>Mercers are suitably independent and quailed to undertake this work and so whilst management can undertake rudimentary review the level of detail and the benefit of such a review will be limited.</p>	<p>There has been no change in the underlying process from the prior year and, accordingly, this recommendation remains outstanding.</p> <p><b>Status: Outstanding</b></p>

# Control Deficiencies (Cont.)

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Current Status (March 2026)
4	2	<p><b>Pension Scheme Valuation Process</b></p> <p>The valuation process does not consistently incorporate early and proactive engagement with the LGPS actuary. This gap increases the likelihood of challenges in meeting the technical requirements of relevant accounting standards, particularly IFRIC 14, which continues to be a critical area of regulatory focus.</p> <p>The absence of early and proactive engagement with the LGPS actuary increases the risk of material misstatement in the financial statements. This risk is particularly significant in relation to IFRIC 14 adjustments, which previously resulted in a restatement of the 22/23 financial year accounts. Without strengthened processes, there remains a possibility that similar issues could recur, leading to compliance breaches and potential delays in financial reporting.</p> <p>Management should adopt a more proactive and structured approach to the valuation of the defined benefit pension scheme by engaging with the LGPS actuary earlier in the reporting cycle. This will allow sufficient time to address complex issues and ensure compliance with applicable accounting standards.</p>	<p>The Council's officers requested guidance on interpretation of presentation of the pension asset in 2022/23. Unfortunately, given the situation within the audit regime this guidance was not provided.</p> <p>It was only until the 2023/24 audit that clarification was provided by our current auditors, resulting in the restatement of 2022/23, presented within these Statement of Accounts.</p> <p>Although the creation of a pension asset is new, the accounting requirements via the asset ceiling are now established and should not pose an issue going forward. Should there be any significant change to Pensions Accounting we will engage with our auditors as and when required.</p>	<p>Based on our review, we have not identified similar issue with respect to 2024/25. Therefore, this observation is assessed as resolved.</p> <p><b>Status: Implemented</b></p>
5	2	<p><b>Journals Segregation of Duties (SoD) control</b></p> <p>Based on walkthrough procedures performed, we have noted that journal posting controls were relaxed following the pandemic to improve operational efficiency. Consequently, certain members of the Finance Team who regularly post journals are no longer required to obtain prior authorisation before posting entries to the general ledger. This change has effectively removed segregation of duties for these individuals, creating a significant control gap.</p> <p>The absence of segregation of duties increases the risk that fraudulent or erroneous journals could be posted without detection. This vulnerability could result in material misstatements within the financial statements, compromising the accuracy and reliability of financial reporting.</p> <p>Management should reinstate robust system-based segregation of duties within the journal posting process, retaining evidence of independent review. Specifically, individuals responsible for preparing and posting journals should not have sole authority to post entries without independent review and approval.</p>	<p>This issue has been noted in previous audits and although significant compensatory controls exist to prevent misstatement the facility within CIVICA has been removed and all journals require authorisation.</p>	<p>There has been no change in the underlying process from the prior year and, accordingly, this recommendation remains outstanding. Management has stated that segregation-of-duties controls over journals were implemented from 1 April 2025; however, as at the date of our review, we have not performed audit procedures over the implementation period to confirm the effective operation of this control.</p> <p><b>Status: Outstanding</b></p>

# Control Deficiencies *(Cont.)*

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Current Status (March 2026)
6	3	<p><b>Payroll Reconciliation</b></p> <p>During our review of the payroll reconciliation process, we noted that while reconciliations were consistently prepared and signed off as completed, there was no evidence of timely review and approval by an independent reviewer. In at least one instance, the reconciliation was only reviewed several months after the period end, indicating that the control was not operating effectively within an appropriate timeframe.</p> <p>The lack of timely review and approval of payroll reconciliations undermines the effectiveness of this key control. Without prompt oversight, there is an increased risk that errors, omissions, or irregularities in payroll processing may go undetected, potentially leading to financial misstatements or non-compliance with internal control requirements.</p> <p>We recommend that management formalise the payroll reconciliation process by ensuring that all reconciliations are not only prepared but also reviewed and approved in a timely manner. This should include clearly defined timelines for review, documented evidence of approval (including date and reviewer identity), and periodic monitoring to ensure compliance with internal control expectations.</p>	<p>The formal review of all month end reconciliation including payroll is undertaken with 10 working days of month end and documented as appropriate.</p>	<p>Based on our walkthrough procedure, we have not identified similar issue with respect to 2024/25. Therefore, this observation is assessed as resolved.</p> <p><b>Status: Implemented</b></p>

# Control Deficiencies *(Cont.)*

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Current Status (March 2026)
7	3	<p><b>Counter-fraud Sanction policy</b></p> <p>The Counter Fraud Sanction Policy is dated February 2023 and states that it is subject to annual review. However, the scheduled review due in February 2024 had not been carried out at the time of our audit. There was no evidence of an updated version or documented rationale for the delay in the review process.</p> <p>Failure to review and update key governance policies in line with stated timelines may result in outdated procedures that do not reflect current regulatory requirements, organisational changes, or emerging fraud risks. This could weaken the organisation's fraud response framework and reduce the effectiveness of its deterrence and enforcement mechanisms.</p> <p>Management should ensure that all policies, particularly those related to fraud prevention and enforcement, are reviewed in accordance with their stated review cycles. A centralised policy management process should be implemented to monitor review dates, assign responsibilities, and ensure timely updates. Where delays are unavoidable, a documented justification and revised timeline should be maintained.</p>	<p>Council has a number of policies which fall within the Committee's remit.</p> <p>(a) Anti-Fraud, Corruption and Bribery Policy (b) Money Laundering, and (c) Sanctions Policy</p> <p>Each of the above policies was subject to different review frequency's and so at its meeting 19th November 2024 agreed to the s151 Officer's request to harmonise the various review dates and bring these policies annually to its March meeting.</p> <p>In addition to these well-established specific counter fraud policies there are a number of documents which sit alongside and support the Council's anti-fraud and corruption framework each with differing approval routes, these include: (1) Raising Concerns Policy (2) Officers and Members Codes of Conduct (3) Contract Procedure Rules (4) Financial Procedure Rules</p> <p>This approach enables the Committee to have fuller oversight over all the applicable policies that form the Council's Anti-Fraud and Corruption Framework and allows Audit Committee to discharge its duty as Those Charged with Governance in a more efficient and effective manner.</p> <p>Although not reviewed within the stated timeframe the Audit Committee were made aware of the situation and the supporting rational. An Anti-Fraud, Corruption and Bribery and Sanction policy was in place across the Council during the period. In 2022/23 the Council established a central record of its policies and quarterly emails are sent to the relevant Officers</p>	<p>Based on our review, we note that the policy was last reviewed in July 2024. Accordingly, this observation is assessed as resolved.</p> <p><b>Status: Implemented</b></p>

# KPMG's Audit quality framework

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

To ensure that every director and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework.

Responsibility for quality starts at the top through our governance structures as the UK Board is supported by the Audit Oversight (and Risk) Committee, and accountability is reinforced through the complete chain of command in all our teams.

## ■ Commitment to continuous improvement

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

## ■ Performance of effective & efficient audits

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

## ■ Commitment to technical excellence & quality service delivery

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



## ■ Association with the right entities

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

## ■ Clear standards & robust audit tools

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

## ■ Recruitment, development & assignment of appropriately qualified personnel

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



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