All amendments made post presenting to the audit committee on 8 July 2024 have been made in Green.

Boston Borough Council

Report to the Audit and Governance Committee

Final External Audit Plan & Strategy for the year ending 31 March 2024

1 October 2024

Introduction

To the Audit and Governance Committee of Boston Borough Council

We are pleased to have the opportunity to meet with you to discuss our audit of the consolidated financial statements of Boston Borough Council for the year ending 31 March 2024.

We have been appointed as your auditors by Public Sector Audit Appointments Ltd. The audit is governed by the provisions of the Local Audit and Accountability Act 2014 and in compliance with the NAO Code of Audit Practice. The NAO is consulting on a new Code of Audit Practice for 2023/24, therefore this plan will remain draft until the finalisation of that Code.

This report outlines our indicative risk assessment and planned audit approach. We provide this report to you in advance of the meeting to allow you sufficient time to consider the key matters and to formulate your questions.

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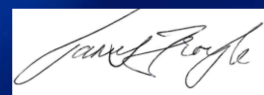
The engagement team

James Boyle, ACA, is the Engagement Director on the audit. He has approximately 15 years' of audit experience.

James shall lead the engagement and is responsible for the audit opinion.

Other key members of the engagement team include Rosie Kelly (Engagement Manager) and Dan Wiley (In-charge) with 8 years' and 3 years' of experience respectively.

Yours sincerely,



James Boyle

Director - KPMG LLP

30 September 2024

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 controls; and
- All of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

We depend on well planned timing of our audit work to avoid compromising the quality of the audit. This is also heavily dependent on receiving information from management and those charged with governance in a timely manner. The audit undertaken in the current year is dependent on the finalisation of the previous auditor's work over historical financial statements. We aim to complete all audit work no later than 2 days before audit signing. As you are aware, we will not issue our audit opinion until we have completed all relevant procedures, including audit documentation.

Restrictions on distribution

This report is intended solely for the information of those charged with governance of Boston Borough Council and the report is provided on the basis that it should not be distributed to other parties; that it will not be quoted or referred to, in whole or in part, without our prior written consent; and that we accept no responsibility to any third party in relation to it.

Overview of planned scope including materiality

Our materiality levels

We will determine materiality for the consolidated 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 forecasted 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 £761k (65% of materiality) driven by the fact that this is a first year audit which increases the risk associated with the engagement.

We will report misstatements to the audit committee including:

- Corrected and uncorrected audit misstatements above £59k.
- 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.

Control environment

The impact of the control environment on our audit is reflected in our planned audit procedures.

File review

Where appropriate, we will undertake an appropriate prior year file review dependent on the final opinion issued by the previous auditors.

Group and Parent Materiality

	Group*	Parent
Materiality for the financial statements as a whole	£1.17m (2.4% of actual expenditure)	£1.16m (2.2% of actual expenditure)
Procedure designed to detect individual errors at this level	£761k	£754k
Misstatements reported to the Audit and Governance Committee	£59k	£58k

**We have revised our parent materiality due to the benchmark changing from forecasted to the actual expenditure. This has resulted in a lower materiality than originally planned.*

Overview of planned scope including materiality (cont.)

Timing of our audit and communications

- We will maintain communication led by the Engagement Director and Manager throughout the audit. We set out below the form, timing and general content of our planned communications:
- Formal kick-off meeting with management in December 2023 where we discussed the indicative nature, scope and timing of our audit procedures;
- Audit and Governance Committee meeting in July 2024 where we present our draft indicative audit plan;
- Status meetings with management throughout the year where we communicate progress on the audit, any misstatements, control deficiencies and significant issues; and
- We will be formally communicating dates for audit completion at a future Committee.

Using the work of others and areas requiring specialised skill

We outline below where, in our planned audit response to audit risks, we expect to use the work of others such as Internal Audit or require specialised skill/knowledge to perform planned audit procedures and evaluate results.

Others	Extent of planned involvement or use of work
Internal Audit	We will review the work of Internal Audit as part of our risk assessment procedures but will not place reliance on their work.
KPMG Pensions Centre of Excellence (PCoE)	We plan to use our KPMG Pensions Centre of Excellence to assist us in considering the appropriateness of the key assumptions used in deriving the pension asset and liability balances reported in the financial statements.
KPMG Revaluation Team (REVCoE)	We plan to use our REVCoE team to assist us in considering the appropriateness of the the annual revaluation process of the Council’s relevant estate.

Significant risks and other audit risks

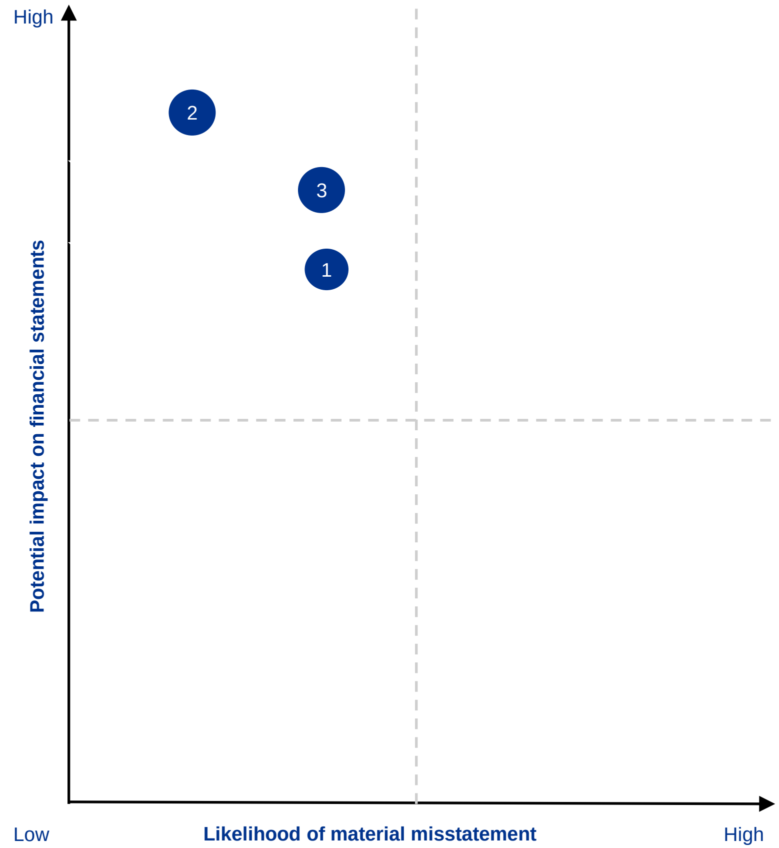
Our risk assessment draws upon our understanding of the applicable financial reporting framework, knowledge of the business, the sector and the wider economic environment in which Boston Borough Council operates.

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

Due to the current levels of uncertainty in the legislative environment surrounding the delivery of Local Government financial statements and the current progress of delivery of historic audits and corresponding timelines for completion, there is an increased likelihood of significant risks emerging throughout the audit cycle that are not identified (or in existence) at the time we planned our audit. Where such items are identified we will amend our audit approach accordingly and communicate this to the Audit and Governance Committee.

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

Key: # Significant financial statement audit risks



Value for money

We are required to provide commentary on the arrangements in place for ensuring Value for Money is achieved at the Authority and report on this via our Auditor's Annual Report. This will be published on the Authority's website and includes a commentary on our view of the appropriateness of the Authority's arrangements against each of the three specified domains of Value for Money: financial sustainability; governance; and improving economy, efficiency and effectiveness.

We have outlined the result of our risk assessment procedures on page 14.

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 Authority performs a full revaluation exercise of all Land & Buildings each year. The aggregate value of Land and Buildings that require valuing is £35m *(valuation as at 31 March 2023).*
- For the year-ended 31 March 2024 the Council is utilising an internal valuer to undertake the valuation, Edward Cox (MRICS registered valuer).
- As per the draft 2023/24 financial statements, the value of the Council's land and buildings as at 31 March 2024 was £36.3m, of which £33.8m were subject to valuation. Two assets were purchased in year totalling £2.5m that were not subject to valuation. From the valuation report, £29.4m (87%) of the revalued land and buildings are valued using the Depreciated Replacement Cost (DRC) Model.
- Due to the level of estimation uncertainty associated with the relevant key assumptions used in the DRC model, specifically obsolescence, BCIS indices and location factors used by the valuer, when valuing the relevant elements of the Authority's estate, this creates a risk that the year-end carrying value of these assets differs materially from their fair value.

Note: The remaining land and buildings are valued using the fair value in use at £4.4m as at 31 March 2024. This is made up of 34 assets with an average value of £130k. We have not identified a significant risk for these assets. Our significant risk focuses on the DRC assets only.

Planned 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 Edward Cox, the internal valuer used in developing the valuation of the Council's relevant estate at 31 March 2024;
- We will inspect the instructions issued to the valuers for the valuation of land and buildings to verify they are appropriate to produce a valuation consistent with the requirements of the CIPFA Code;
- We will 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 relevant land and buildings, including any material movements from the previous revaluations;
- We will challenge the key assumptions within the valuation;
- Disclosures: We will consider the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation.

Audit risks and our audit approach (cont.)

2 Management override of controls (a)

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

Significant audit risk

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

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

Planned response

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

- 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.
- We will analyse all journals through the year and focus our testing on those with a higher risk, as defined by our high risk criteria.
- We will assess the controls in place for the identification of related party relationships and test the completeness of the related parties identified. We will verify that these have been appropriately disclosed within the financial statements.

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, pension increase 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.

Planned response

We will perform the following procedures:

- Understand the processes the Council has in place to review 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 actuaries to assess the key assumptions made;
- 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, pension increase rate and mortality/life expectancy against externally derived data where possible;
- Consider the adequacy of the Council's disclosures in respect of the sensitivity of the deficit/surplus to these assumptions; and
- Where applicable, assess the level of surplus that should be recognised by the entity.

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, despite the Council submitting a balanced budget ahead of the financial year, in the quarter three finance report, the forecasted surplus is £162k.

This is not indicative of a position that would provide an incentive to manipulate expenditure recognition and the nature of expenditure has not identified any specific opportunities and/or risk factors to facilitate the manipulation of expenditure recognised.

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
Council tax	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. Therefore it is highly unlikely for there to be a material error in the population due to the limited incentive and/or opportunity to manipulate the income.
Business rates	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. Therefore it is is highly unlikely for there to be a material error in the population due to the limited incentive and/or opportunity to manipulate the income.
Fees and charges	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.
Grant income	Predictable income receipted 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.
Other Income	This income is made up of various high volume but low value income streams including car parking income, rental income, green waste collection income, planning income etc.	From our initial analysis based on the nine months up to 31/12/2023, the majority of this income is supported by sales invoice and cash receipt. These streams have simple recognition criteria and can be traced easily to cash receipt. Due to the individual transactions being high volume and low value, we anticipate that it is highly unlikely for there to be a material error in the population due to the lack of opportunity to manipulate the income.

Mandatory communications

Type	Statements
Management's responsibilities (and, where appropriate, those charged with governance)	Prepare financial statements in accordance with the applicable financial reporting framework that are free from material misstatement, whether due to fraud or error. Provide the auditor with access to all information relevant to the preparation of the financial statements, additional information requested and unrestricted access to persons within the entity.
Auditor's responsibilities	Our responsibilities set out through the NAO Code (communicated to you by the PSAA) and can be also found on their website, which include our responsibilities to form and express an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.
Auditor's responsibilities – Fraud	This report communicates how we plan to identify, assess and obtain sufficient appropriate evidence regarding the risks of material misstatement of the financial statements due to fraud and to implement appropriate responses to fraud or suspected fraud identified during the audit.
Auditor's responsibilities – Other information	Our responsibilities are communicated to you by the PSAA and can be also found on their website, which communicates our responsibilities with respect to other information in documents containing audited financial statements. We will report to you on material inconsistencies and misstatements in other information.
Independence	Our independence confirmation at page 37 discloses matters relating to our independence and objectivity including any relationships that may bear on the firm's independence and the integrity and objectivity of the audit engagement partner and audit staff.

Mandatory communications - additional reporting

Going concern

Under NAO guidance, including Practice Note 10 - A local authority's financial statements shall be prepared on a going concern basis; this is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future. Transfers of services under combinations of public sector bodies (such as local government reorganization) do not negate the presumption of going concern.

However, financial sustainability is a core area of focus for our Value for Money opinion.

Additional reporting

Your audit is undertaken to comply with the Local Audit and Accountability Act 2014 which gives the NAO the responsibility to prepare an Audit Code (the Code), which places responsibilities in addition to those derived from audit standards on us. We also have responsibilities which come specifically from acting as a component auditor to the NAO. In considering these matters at the planning stage we indicate whether:

Work is completed throughout our audit and we can confirm the matters are progressing satisfactorily (OK)	We have identified issues that we may need to report	Work is completed at a later stage of our audit so we have nothing to report

We have summarised the status of all these various requirements at the time of planning our audit below and will update you as our work progresses:

Type	Status	Response
Our declaration of independence	OK	No matters to report. The engagement team and others in the firm, as appropriate, have complied with relevant ethical requirements regarding independence.
Issue a report in the public interest		We are required to consider if we should issue a public interest report on any matters which come to our attention during the audit. We have not identified any such matters to date.
Provide a statement to the NAO on your consolidation schedule		This "Whole of Government Accounts" requirement is fulfilled when we complete any work required of us by the NAO to assist their audit of the consolidated accounts of DLUHC.
Provide a summary of risks of significant weakness in arrangements to provide value for money		We are required to report significant weaknesses in arrangements. Work to be completed at a later stage.
Certify the audit as complete		We are required to certify the audit as complete when we have fulfilled all of our responsibilities relating to the accounts and use of resources as well as those other matters highlighted above. This will be completed at a later stage.

Boston Borough Council

Value for money risk assessment

Year ended 31 March 2024

Value for money

For 2023/24 our value for money reporting requirements have been designed to follow the guidance in the Audit Code of Practice.

Our responsibility is to conclude on significant weaknesses in value for money arrangements.

The main output is a narrative on each of the three domains, summarising the work performed, any significant weaknesses and any recommendations for improvement.

We have set out the key methodology and reporting requirements on this slide and provided an overview of the process and reporting on the following page.

Risk assessment processes

Our responsibility remains to assess whether there are any significant weaknesses in the Council's arrangements to secure value for money. Our risk assessment will continue to consider whether there are any significant risks that the Council does not have appropriate arrangements in place.

In undertaking our risk assessment we will be required to obtain an understanding of the key processes the Council has in place to ensure this, including financial management, risk management and partnership working arrangements. We will complete this through review of the Council's documentation in these areas and performing inquiries of management as well as reviewing reports, such as internal audit assessments.

Reporting

Our approach to value for money reporting aligns to the NAO guidance and includes:

- A summary of our commentary on the arrangements in place against each of the three value for money criteria, setting out our view of the arrangements in place compared to industry standards;
- A summary of any further work undertaken against identified significant risks and the findings from this work; and
- Recommendations raised as a result of any significant weaknesses identified and follow up of previous recommendations.

The Council will be required to publish the commentary on its website at the same time as publishing its annual report online.

Financial sustainability

How the body manages its resources to ensure it can continue to deliver its services.

Governance

How the body ensures that it makes informed decisions and property manages its risks.

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.

Value for money

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

Process

Understanding the entity's arrangements → **Evaluation of entity's value for money arrangements** → **Value for money conclusion and reporting**

Understanding the entity's arrangements:

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

Evaluation of entity's value for money arrangements:

- Targeted follow up of identified value for money significant risks
- Continual update of risk assessment

Value for money conclusion and reporting:

- Conclusion whether significant weaknesses exist

Outputs

Risk assessment to Audit and Governance Committee

Our risk assessment will provide a summary of the procedures undertaken and our findings against each of the three value for money domains. This will conclude on whether we have identified any significant risks that the entity does not have appropriate arrangements in place to achieve VFM.

Value for money assessment

We will report by exception as to whether we have identified any significant weaknesses in arrangements.

Public commentary

Our draft public commentary will be prepared for the Audit and Governance Committee alongside our annual report on the accounts.

Public commentary

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

Summary of risk assessment

Summary of risk assessment

As set out in our methodology we have evaluated the design of controls in place for a number of the Council's systems, reviewed reports from external organisations and internal audit and performed inquiries of management. These procedures are consistent with prior year.

Based on these procedures the table below summarises our assessment of whether there is a significant risk that appropriate arrangements are not in place to achieve value for money at the Council for each of the relevant domains:

Domain	Significant risk identified?
Financial sustainability	No significant risk identified
Governance	No significant risk identified
Improving economy, efficiency and effectiveness	No significant risk identified

Value for money arrangements

Financial sustainability

In assessing whether there was a significant risk of financial sustainability we reviewed:

- The processes for setting the 2023/24 financial plan to ensure that it is achievable and based on realistic assumptions;
- Processes for ensuring consistency between the financial plan set for 2023/24 and the workforce and operational plans;
- How the 2023/24 efficiency plan was developed and monitoring of delivery against the requirements;
- The process for assessing risks to financial sustainability;
- Processes in place for managing identified financial sustainability risks; and
- Performance for the year to date against the financial plan.

Summary of risk assessment

<u>Setting the 2023/24 financial plan</u>

- The budget setting report for 2023/24 comprises a five year financial strategy. The foreword to the budget sets out the challenges the Council is facing, including inflationary pressures and significant changes in resident, customer and business needs. The spending plan shows budgeted gross expenditure of £68m. To meet a balanced budget, the Council identified an efficiency requirement of £664k for the year.
- The Council involves relevant stakeholders, from across the Council, as part of the budget setting process via budget setting meetings and meetings with Members. The budget setting report was presented to the Audit and Governance Committee on 30 January 2023. The minutes stated an all member briefing would be held to allow members to fully understand the budget ahead of the Cabinet meeting on 22 February 2023.
- Budget assumptions are clearly outlined within the budget setting report. These assumptions are subject to challenge at the Audit and Governance Committee, and Cabinet before they are presented to Council for approval. The capital programme is also reviewed alongside the budgets to ensure it is consistent with the wider-budget setting process. For 2023-24, this was approved by the Council on 6 March 2023.
- Management updates the budgets via reforecasts at the end of each quarter, based on the actuals-to-date, to present the most accurate position in the quarterly finance updates and thus providing assurance that key financial assumptions, upon which the original budget was based, are monitored and revised throughout the year, with any changes reported into the governance structure accordingly.
- Through our document review of the papers presented to the Full Council as part of the budget setting process, we noted this did not include Group figures so does not include the financial performance of its jointly owned entity, Public Sector Partnerships Ltd (PSPS) **(recommendation one – page 31).**

Value for money arrangements

Financial sustainability

In assessing whether there was a significant risk of financial sustainability we reviewed:

- The processes for setting the 2023/24 financial plan to ensure that it is achievable and based on realistic assumptions;
- Processes for ensuring consistency between the financial plan set for 2023/24 and the workforce and operational plans;
- How the 2023/24 efficiency plan was developed and monitoring of delivery against the requirements;
- The process for assessing risks to financial sustainability;
- Processes in place for managing identified financial sustainability risks; and
- Performance for the year to date against the financial plan.

Summary of risk assessment

Developing the 2023/24 efficiency plan

- The Council identified an efficiency target of £664k in the approved budget.
- A significant challenge to the Council's budget is the Drainage Board Levy. The levy has risen 14% in 2023-24 to £2.4m. The Council has forecasted a steady increase in these rising to £2.8m by 2027-28. From our minute review of the Full Council in September 2023, the members were in full support of forming a Special Interest Group with partnership Councils and other Councils facing the same issue and collectively applied to the Local Government Association to work to seek a new funding mechanism for this costs.
- As described on the previous page, management updates the budgets and forecasts through the quarterly finance reports. As part of this exercise, when management identifies certain budgets are not required, these are offset against the savings target. During quarter one, the Council had identified £602k of potential savings against the savings target of £664k – however the forecasted deficit also needed to be considered to identify additional savings to break-even. At quarter three, the Council had met £580k of the original £664k savings target, but were forecasting a surplus of £162k therefore less pressure on the entity in the final quarter.
- The Council has a Innovation, Transformation and Efficiency Board. This is chaired by the Section 151 officer. There is a terms of reference dated May 2023 in place which outlines that the purpose of the Board is to develop, coordinate and manage innovation, transformation and efficiency activity across the Council and ensure that service improvements and savings are delivered in line with the Delivery Plan and Medium-Term Financial Plan.

Consistency between the financial plan for 2023/24 and workforce and operational plans

- The budget setting report is presented to the Audit and Governance Committee, Executive Board and the Full Council alongside other key strategies for the entity such as the: Capital Strategy, Treasury Management Policy Statement, Treasury Management Strategy, MRP Policy and Annual Investment Strategy, Medium Term Financial Plan (5 years) and the Annual Delivery Plan.
- These are all developed, challenged and approved at the same time to ensure all the activities of the Council are aligned prior to the start of the financial year.

Value for money arrangements

Financial sustainability

In assessing whether there was a significant risk of financial sustainability we reviewed:

- The processes for setting the 2023/24 financial plan to ensure that it is achievable and based on realistic assumptions;
- Processes for ensuring consistency between the financial plan set for 2023/24 and the workforce and operational plans;
- How the 2023/24 efficiency plan was developed and monitoring of delivery against the requirements;
- The process for assessing risks to financial sustainability;
- Processes in place for managing identified financial sustainability risks; and
- Performance for the year to date against the financial plan.

Summary of risk assessment

Assessing risks to financial sustainability

- The Council has a Risk Management Framework in place. The Council has a strategic risk register, and a risk management report is presented to the Audit and Governance Committee on a quarterly basis. The Council has identified a strategic risk relating to the long-term balancing of the budget and related constraints.
- As part of the budget setting process, the budget includes the Medium Term Financial Plan (5 years). As such the projected budgets allows management and the full Council to assess the risk to achieving a balanced budget in the immediate, short and medium term. From the approved budget, the savings requirement of the Council is £1.1m in 2024-25 and £1.3m in 2025-26, £1.4m in 2026-27 and £1.4m in 2027-28, outlining the challenges the Council continues to face in the upcoming years in relation to the identification of recurrent efficiency savings.
- The Governance relating to risk management, and assessing risks is detailed on page 21.

Processes in place for managing identified financial sustainability risks

- At quarter three, the budget has a risk score of 15 (High) which remains unchanged throughout the year. The Council is tolerating this risk so the target risk score is also 15 (High). The Council will continue operating financial controls, monitoring and reporting, however there are no additional actions to be taken to mitigate this risk.
- The Governance relating to budget monitoring is detailed on page 24.

Performance for the year to date against the financial plan

- At the time of writing we have reviewed the quarter three finance report up to 31 December 2023. As part of this report, the Council was forecasting a surplus of £162k, due to the discount received on the early repayment of the Public Works Loan Board (PWLB). This is offset with other income streams behind budget such as car parking income (due to seasonal variances and reduced visitor numbers) and planning income (due to reduced planning applications for both individuals and property developers).
- We have confirmed through our minute review, the financial performance of the entity is reported consistently in the format of a finance report that is presented to the Audit and Governance Committee, Cabinet and Full Council during the year.

Value for money arrangements

Financial sustainability

In assessing whether there was a significant risk of financial sustainability we reviewed:

- The processes for setting the 2023/24 financial plan to ensure that it is achievable and based on realistic assumptions;
- Processes for ensuring consistency between the financial plan set for 2023/24 and the workforce and operational plans;
- How the 2023/24 efficiency plan was developed and monitoring of delivery against the requirements;
- The process for assessing risks to financial sustainability;
- Processes in place for managing identified financial sustainability risks; and
- Performance for the year to date against the financial plan.

Summary of risk assessment Continued

- The Council is currently behind their capital plan, reporting capital spend at the end of quarter three of £3m against a full year budget of £35m. The Council's largest projects have been delayed, the Leisure and Mayflower projects, due to initial tenders being over budget.
- The Council is forecasting capital spend for 2023-24 to be £8m. Re-forecasting of the capital plan is allowing slippage of £28m into future years. Reporting on the capital plan is included in the quarterly finance reports.

Risk assessment conclusion

Based on the risk assessment procedures performed we have not identified a significant risk associated with financial sustainability.

Value for money arrangements

Governance

In assessing whether there was a significant risk relating to governance we reviewed:

- Processes for the identification, monitoring and management of risk;
- Controls in place to prevent and detect fraud;
- The review and approval of the 2023/24 financial plan by the Authority, including how financial risks were communicated;
- How the Authority ensures decisions receive appropriate scrutiny;
- Processes for monitoring performance against budgets and taking actions in response to adverse variances;
- How compliance with laws and regulations is monitored; and
- Processes in place to monitor officer compliance with expected standards of behaviour, including recording of interests, gifts and hospitality.

Summary of risk assessment

Identification, monitoring and management of risk

- The Council has a Risk Management Framework in place. The policy, although formal, does not have a review date. This has well-documented processes in place to identify, monitor and manage risk. This outlines the Council's overriding attitude to risk: to operate in a culture that is open to all potential options in which all risks are identified, understood and proportionately managed, rather than avoided.
- The Council manages risk at three governance levels: strategic, operational and project management. Each has their own risk management responsibilities as outlined in the Risk Management Framework. At the time of writing we understand the entity is holding risk workshops with the Deputy Chief Executives and their Assistant Directors to review strategic, operational, partnership and fraud risks for quarter four reporting, as at the end of March 2024. We have confirmed quarterly risk reports have been reported to the Audit and Governance Committee throughout 2023/24, and the quarter four report included fraud risks.
- The Council maintains a Strategic Risk Register to identify and assess the severity of risks using a matrix model which takes into account the impact and likelihood of the risk. A risk management report covering the strategic risks is presented to the Audit and Governance Committee quarterly and is attended by the s151 Officer. The minutes of the Audit and Governance meetings are presented to the Council meetings and is attended by the Chief Executive and s151 Officer.
- In the risk management report, each strategic risk has a lead risk owner, with a current risk score and a target risk score. Where planned actions/mitigations are documented in the report, these are general rather than specific, with no due dates **(recommendation two – page 31)**
- For example, in the quarter two risk management report presented to the A&G Committee on 20 November 2023, there was a risk (BBC14) "*Identification and suitability of future depot accommodation"* that had a risk score of 20 (critical). The planned mitigation detailed in the report was *"report in development for mitigating actions".* In the quarter three report presented to the Cabinet on 27 March 2024, despite a decrease in the risk score due to a correction to the initial score from 20 to 15 (high), the planned mitigation is "*future options are being investigated*". Management have not identified specific mitigations in a timely manner to effectively manage this high risk.

Value for money arrangements

Governance

In assessing whether there was a significant risk relating to governance we reviewed:

- Processes for the identification, monitoring and management of risk;
- Controls in place to prevent and detect fraud;
- The review and approval of the 2023/24 financial plan by the Authority, including how financial risks were communicated;
- How the Authority ensures decisions receive appropriate scrutiny;
- Processes for monitoring performance against budgets and taking actions in response to adverse variances;
- How compliance with laws and regulations is monitored; and
- Processes in place to monitor officer compliance with expected standards of behaviour, including recording of interests, gifts and hospitality.

Summary of risk assessment

Controls in place to prevent and detect fraud

- The Council has relevant policies in place, for example, Code of Conduct for all members and staff, Disciplinary Policy, Whistleblowing Policy and Conflicts of Interests.
- We note the Anti-Fraud and Corruption Policy that was provided to us was dated 2018 and was marked as draft. Management have not been able to provide us with a final version.
- Our inquiries with management identified the maintenance of the register of interests occurs annually. From our walkthrough of the process, this commenced on 18 March 2024 with a request for declarations from the Senior Leadership Team and Councillors. Councillors were provided with guidance at the same time of the request. The declaration forms are designed to capture interests of the individuals and their family members.
- The Council has a draft Anti-Fraud and Corruption Policy dated May 2018. We were unable to obtain a final version of this policy. However, the Council has commissioned an external review of arrangements. The Council undertook a counter-fraud mapping exercise in quarter four of 2023/24 with internal audit which is detailed further below.

Internal audit

- At the time of presenting our draft audit plan, Internal Audit was undertaking counter-fraud mapping in three key areas: Procurement, Assets and Revenues and Benefits for quarter four reporting, as at the end of March 2024. From attendance at the Audit and Governance Committee on 8 July 2024 we note this is now complete. Fraud risk registers have been created and internal audit has advised on updating and reviewing the Council's counter fraud policies. Therefore we expect fraud risks to be monitored as business as usual from 2024/25.
- The Council engages Lincolnshire County Council as their internal auditors. They are independent to the Council and provide assurance over their internal controls, including core financial controls. The Head of Internal Audit (HoIA) opinion 2023-24 was adequate. Therefore, this does not give rise to an indication of significant weakness in the Council's arrangements.

Value for money arrangements

Governance

In assessing whether there was a significant risk relating to governance we reviewed:

- Processes for the identification, monitoring and management of risk;
- Controls in place to prevent and detect fraud;
- The review and approval of the 2023/24 financial plan by the Authority, including how financial risks were communicated;
- How the Authority ensures decisions receive appropriate scrutiny;
- Processes for monitoring performance against budgets and taking actions in response to adverse variances;
- How compliance with laws and regulations is monitored; and
- Processes in place to monitor officer compliance with expected standards of behaviour, including recording of interests, gifts and hospitality.

Summary of risk assessment

Controls in place to prevent and detect fraud (cont.)

- From our inquiries with Internal Audit in December 2023, we became aware an internal investigation was underway following suspected fraud at one of the Council's in the South East Lincolnshire Council Partnership (SELCP). We acknowledge fraud was not suspected at Boston Borough Council. As a result, an internal audit report was commissioned by management which resulted in a 'No Assurance' opinion being provided in relation to the Financial Procedures and Procurement Card Policy over the use of Procurement cards (P-cards) across the SELCP. At the time of the report, Boston had 46 registered cardholders with an average spend of £1k per card per year, therefore the maximum estimated error for the use of P-Cards is approximately £46k.
- The report was received by the Audit and Governance Committee in March 2024 along with a substantial management response. The report identifies required actions management has agreed to implement, the actions have due dates and responsible officers. These actions are followed up and reported to the Audit and Governance Committee by Internal Audit as part of their follow-up review thus providing sufficient action taken on a report of significant weakness in internal control.
- Since this review we have assurances from attendance at the Audit and Governance Committee meeting in March 2024 that the partnership is implementing a new P-card solution that is more accessible and easier for colleagues to use – along with updated communications, guidance and training.
- Due to the action we have seen from management in response to this issue, the immaterial total value of annual estimated P-Card expenditure (£46k) and evidence of sufficient reporting through the governance structure, we have not identified a significant weakness to our VFM opinion.
- Internal audit performed a Procurement Card Audit follow-up that completed in August 2024. The audit report found that P-card Governance has improved since the no assurance report was issued. The follow-up report gives an adequate assurance opinion.

Value for money arrangements

Governance

In assessing whether there was a significant risk relating to governance we reviewed:

- Processes for the identification, monitoring and management of risk;
- Controls in place to prevent and detect fraud;
- The review and approval of the 2023/24 financial plan by the Authority, including how financial risks were communicated;
- How the Authority ensures decisions receive appropriate scrutiny;
- Processes for monitoring performance against budgets and taking actions in response to adverse variances;
- How compliance with laws and regulations is monitored; and
- Processes in place to monitor officer compliance with expected standards of behaviour, including recording of interests, gifts and hospitality.

Summary of risk assessment

Review and approval of the 2023-24 financial plan

- The budget had appropriate scrutiny and approval within the Committee structure. We confirmed via minute review that the budget was presented to the Audit and Governance Committee (30 January 2023), the Cabinet (22 February 2023) and approved by the Council (6 March 2023) before the start of the 2023-24 financial year.
- The approved budget has a section for Risk and Sensitivity (Section 13) which outlines the key risks to achieving the balanced budget. There is a corresponding strategic risk on their register called ‘Budget’ (BBC05). The risk is around the long-term balancing of the budget and related constraints. This risk is monitored and reported through the Audit and Governance Committee. The current risk score (15 – High) is the same as the target risk score, therefore the Council is tolerating this risk and no additional mitigations will be put in place.

Budget Monitoring

- Financial performance is monitored against budget. As part of our risk assessment, we have reviewed the quarterly Finance Reports and Treasury Management updates reported to the Audit and Governance Committee and Council in 2023-24.
- The Council was reporting a deficit at quarters one and two of £366k and £511k respectively. At quarter three, the forecasted position improved to a forecasted surplus of £162k. This is largely due to the early repayment of the Public Work Loan Board in October 2023 with a discount realised of £306k. This is offset by adverse variances in other income streams such as planning income and car parking income forecasts of £203k and £274k respectively.
- Budget managers must complete a quarterly monitoring action plan for the budgets they are responsible for. This is a standard proforma detailing concerns/issues raised by their business partner plus standard required checks on grants, reserves and contracts. Any required actions are listed with a responsible officer and deadline. This should be signed by the business partner and the budget manager. For our planning and risk assessment, we obtained two of the monthly budget monitoring plans for December 2023. These were dated 10 and 12 January respectively. These were both completed, explained variances and included actions with due dates. However, these were only signed by the business partner and not the budget manager **(recommendation three – page 32).** However, the reports are completed with sufficient detail to explain the variances.

Value for money arrangements

Governance

In assessing whether there was a significant risk relating to governance we reviewed:

- Processes for the identification, monitoring and management of risk;
- Controls in place to prevent and detect fraud;
- The review and approval of the 2023/24 financial plan by the Authority, including how financial risks were communicated;
- How the Authority ensures decisions receive appropriate scrutiny;
- Processes for monitoring performance against budgets and taking actions in response to adverse variances;
- How compliance with laws and regulations is monitored; and
- Processes in place to monitor officer compliance with expected standards of behaviour, including recording of interests, gifts and hospitality.

Summary of risk assessment

Monitoring compliance with laws and regulations

- The Council has a legal service who is responsible for regularly reviewing regulatory change. Service areas are also responsible for being aware of new regulatory changes in their area and these are communicated for implementation as appropriate.
- Furthermore, all papers in relation to key decisions such as plans, proposals and procurements for senior officer groups or member committees are required to consider the implications of constitutional and legal, corporate priorities, reputation, equality/human rights/safeguarding and environmental legislation as standard. We have seen this proforma is used consistently as part of our minute review of the Audit and Governance Committee, Cabinet and Council. Management inquiries have confirmed there have been no breaches of legislation or regulatory standards that has led to an investigation by any legal or regulatory body during the year.

Monitoring officer compliance with expected standards of behaviour

- All councillors are bound by the Constitution which is derived from statute and decisions of the Council. All councillors are required to agree to the Constitution and the Monitoring Officer, as the delegated official, is responsible for overseeing training, awareness and complaints surrounding the Code of Conduct.
- The Council's Code of Conduct communicates values and expected behaviours of staff. This is communicated to staff as part of the recruitment process and is available on the staff intranet. This also covers requirements with regards to gifts and hospitality and conflicts of interests.
- The Council has a Whistleblowing policy in place to raise concerns of behaviour that do not meet the Code of Conduct. This sets out the actions the Council will take in the event of a whistleblowing incident.

Value for money arrangements

Governance

In assessing whether there was a significant risk relating to governance we reviewed:

- Processes for the identification, monitoring and management of risk;
- Controls in place to prevent and detect fraud;
- The review and approval of the 2023/24 financial plan by the Authority, including how financial risks were communicated;
- How the Authority ensures decisions receive appropriate scrutiny;
- Processes for monitoring performance against budgets and taking actions in response to adverse variances;
- How compliance with laws and regulations is monitored; and
- Processes in place to monitor officer compliance with expected standards of behaviour, including recording of interests, gifts and hospitality.

Summary of risk assessment

Ensuring decisions receive appropriate scrutiny

- The Council clearly outlines the rules of procedure within Part Four of the Constitution. This also includes the definition of, and requirements to be followed for key decisions.
- Our risk assessment procedures and management inquiries confirm that the Council has appropriate arrangements in place to ensure scrutiny, challenge and transparency of decision making.
- Key decision making is subject to discussion and scrutiny at Cabinet level and relevant sub-committees, followed by formal approval by the Council. All key decision records are available to view on the Council's website (unless restricted due to sensitive nature). We have reviewed evidence of this through a review of meeting minutes and corresponding papers for the amendment of the Council's Capital Programme, reflecting the funds required to deliver five new properties under the Local Authority Housing programme. The business case relating to this decision was sufficiently detailed, including commentary on economic considerations, financial impact and overall benefits. This was initially presented to the Cabinet on 2 August 2023 and then to the Full Council on 18 August 2023.

Risk assessment conclusion

Based on the risk assessment procedures performed we have not identified a significant risk associated with governance.

Value for money arrangements

Improving economy, efficiency and effectiveness

In assessing whether there was a significant risk relating to improving economy, efficiency and effectiveness we reviewed:

- The processes in place for assessing the level of value for money being achieved and where there are opportunities for these to be improved;
- How the performance of services is monitored and actions identified in response to areas of poor performance; and
- The monitoring of outsourced services to verify that they are delivering expected standards.

Summary of risk assessment

Assessing the level of VFM being achieved and improvement opportunities

- On 1 October 2021, the Council formed the South & East Lincolnshire Councils Partnership (SELCP) with Boston Borough Council and South Holland District Council.
- For 2023-24, the SELCP has an Annual Delivery Plan (ADP) that was approved alongside the budget by the Council on 6 March 2023. The activities flow from the Partnerships three-year work programme, agreed by each Council. This includes strategic ambition, corporate and local priorities. Minutes from the Council meeting on 6 March 2023 show the budget setting process considered using the SELCP as a driver for innovation and efficiency.
- The first SELCP sub-regional strategy has been approved by each of the three Councils in 2023-24. This covers 2024-25 to 2028-29 which reflects the original business case of the Partnership, which identified opportunities to increase the efficiency and effectiveness across each of the three Councils.

Performance of services

- The Council has a Performance and Governance Framework in place. Quarterly monitoring reports are presented to the Executive Board. The report is a standard template that is updated for each quarter including key performance indicators (KPIs) with commentary to support performance and rating based on the achievement of targets (red/amber/green). The report also includes risks with scores and any changes since the last report within the appendices.
- As per the quarter three performance report, the Council has a target of a maximum percentage of planning decisions that were subject to an extension of 30%, however the Council had extensions on 33% of planning decisions. We reviewed the performance actions and this confirmed the service is in the early stage of a service review of structures, vacancies, capacity and required resource across the SELCP. The current action was to continue monitoring performance regularly, and work with teams to ensure extensions are not sought unnecessarily. Due to the close proximity of meeting this target, we consider this to be a proportionate response.
- The Council has a section on their website where the public can have their say through the *"Compliments, complaints & feedback section"* that highlight areas performing well and areas that require improvement.

Value for money arrangements

Improving economy, efficiency and effectiveness

In assessing whether there was a significant risk relating to improving economy, efficiency and effectiveness we reviewed:

- The processes in place for assessing the level of value for money being achieved and where there are opportunities for these to be improved;
- How the performance of services is monitored and actions identified in response to areas of poor performance; and
- The monitoring of outsourced services to verify that they are delivering expected standards.

Summary of risk assessment

- There is no evidence of reporting of Group performance within the minutes for the meetings we have reviewed throughout the period to date (A&G, Cabinet and the Council), **(recommendation one – page 31).**

Engagement with other stakeholders and wider partners

- The Council works closely with other organisations locally to support delivering economy, efficiency and effectiveness, namely with East Lindsey District Council and South Holland District Council as part of the SELCP.
- The Council has a Housing and Homelessness Task Group across the SELCP with the aim of maximising collective resources and support decision making regarding housing in each sovereign Council. The Group works together to implement the Homelessness Action Plan.
- From our minute review of the Full Council, in the year the Council have accepted an agreement to work collaboratively with Lincolnshire Integrated Care Board (ICB) to develop a business case and strategy to support a proposal to facilitate the delivery of a new health facility for Boston Borough. The project would build on existing work being undertaken with the ICB, NHS and Greater Lincolnshire One Public Estate (OPE).

Performance of partnerships

- The Council's largest partnership is the South & East Lincolnshire Partnership. The Council has an annual delivery plan that is monitored by the Joint Strategy Board to support the Partnership in delivering on its priorities, as well as sovereign Council ambitions.
- The Council receives a six monthly update on the South & East Lincolnshire Partnerships Performance report. We confirmed through minute review this was presented to the Council in September 2023 and March 2024. In the March 2024 report, this is reporting end of quarter three position. Of the 226 activities in the ADP for the year, 78% are already complete or on plan. Delivery is being managed and reported by Assistant Directors. Where an action is off-plan in terms of delivery, mitigations are put in place, with some actions rolled forward to the 24/25 plan where required.

Value for money arrangements

Improving economy, efficiency and effectiveness

In assessing whether there was a significant risk relating to improving economy, efficiency and effectiveness we reviewed:

- The processes in place for assessing the level of value for money being achieved and where there are opportunities for these to be improved;
- How the performance of services is monitored and actions identified in response to areas of poor performance; and
- The monitoring of outsourced services to verify that they are delivering expected standards.

Summary of risk assessment

Monitoring of outsourced services

Public Sector Partnerships Ltd (PSPSL)

- The Council outsources their finance function to PSPS, a local authority trading company owned by the three Council's in the SELCP. An independent review of the finance service delivery arrangements provided by PSPS for the delivery to the three Councils comprising the South & East Lincolnshire Partnership was prepared by CIPFA in October 2023, commissioned by PSPS. An action plan has been put in place to continue to improve efficiency and effectiveness of arrangements.
- As part of the scoping, PSPS identified four main areas of focus for the review: Client Service Delivery, Client Relationship and Engagement, Resourcing Skills Recruitment and Retention, and Technology. The findings were categorised under these headings and 13 recommendations were made. We have confirmed all recommendations made in the review were included on the Improvement Action Plan. Recommendations were not given priority ratings (e.g. high/medium/low) but they have been assigned an owner and implementation date. We have seen evidence of a Review Action Plan completed in January and April 2024.
- There was a focus on the lack of any formal Service Level Agreement (SLA) in place to outline responsibilities, with a recommendation made for one to be drafted and put in place. The April 2024 action plan confirms the SLA is now complete and is in place for 2024/25.
- Due to the action we have seen from management in regard to commissioning of an external report and creating an action plan covering all recommendations made, we are satisfied this does not result in a significant weakness for VFM arrangements. We also note, the Council has themselves identified a key risk within the budget setting report for 2023-24, that PSPS may be unable to deliver an effective service within the agreed price. The likelihood rated as low, and impact medium. This risk remains unchanged in the 24-25 budget indicating the risk is ongoing.

Value for money arrangements

Improving economy, efficiency and effectiveness

In assessing whether there was a significant risk relating to improving economy, efficiency and effectiveness we reviewed:

- The processes in place for assessing the level of value for money being achieved and where there are opportunities for these to be improved;
- How the performance of services is monitored and actions identified in response to areas of poor performance; and
- The monitoring of outsourced services to verify that they are delivering expected standards.

Summary of risk assessment

Monitoring of outsourced services

Parkwood Leisure Limited

- In 2023-24 the Council outsourced their leisure operating contract with Parkwood Leisure Limited. Through inquiry, there are key performance indicators in the contract. We will comment on the effectiveness of the Council's monitoring within the final annual audit report.

Risk assessment conclusion

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

Recommendations raised and followed up

The recommendations raised as a result of our Value for Money arrangements 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.

Value for Money arrangements

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
1	❷	**Reporting of group performance** Through our document review of the papers presented to the Full Council as part of the budget setting process, we noted that reporting did not include Group figures and as such did not include the financial performance of its jointly owned entity, Public Sector Partnerships Ltd (PSPS). **Risk** There is a risk that the Council does not have sufficient oversight of the financial performance of the Group as a whole, on a regular basis. This reduces the Council's opportunity to react to adverse financial performance and directly impacts the quality of decision making to deliver a sustainable financial plan for the Group. **Recommendation** We recommend the Council implements consolidated Group performance into the quarterly finance reports presented in the Governance structure.	**Management response** PSPS is a contract cost and the contract price is included within the budget and quarterly finance reports to Cabinet.
2	❷	**Risk Management Reporting** In the quarterly risk management report, each strategic risk has a lead risk owner, with a current risk score and a target risk score. Where planned actions/mitigations are documented in the report, these are general rather than specific, with no due dates. **Risk** There is a risk that actions/mitigations are not effectively identified and monitored, thereby impacting on the Council's ability to effectively manage strategic risks.	**Management response** Agreed, we will review the mitigating actions in line with the Risk Management Framework to ensure they are SMART and clearly identify a target date. **Officer** Group Manager – Insights and Transformation' **Due Date:** September 2024

Recommendations raised and followed up

The recommendations raised as a result of our Value for Money arrangements work in the current year are as follows:

Value for Money arrangements			
#	**Risk**	**Issue, Impact and Recommendation**	**Management Response / Officer / Due Date**
	2	**Risk Management Reporting (continued)** **Recommendation** We recommend the Council review the mitigating actions in line with their Risk Management Framework to ensure they are SMART, in particular, clearly identify a target date for each mitigating action. The entity should also highlight the overdue actions in the quarterly risk management report.	
3	3	**Budget Monitoring Action Plans** Budget managers must complete a quarterly monitoring action plan for the budgets they are responsible for. This is a standard proforma detailing concerns/issues raised by their business partner plus standard required checks on grants, reserves and contracts. Any required actions are listed with a responsible officer and deadline. This should be signed by the business partner and the budget manager. For our planning and risk assessment, we obtained two of the monthly budget monitoring plans for December 2023. These were dated 10th and 12th January respectively. These were both completed, explained variances and included actions with due dates. However, these were only signed by the business partner and not the budget manager. However, the reports are completed with sufficient detail to explain the variances. **Risk** There is a risk the budget monitoring action plans are not scrutinised by the budget manager and as a result the actions identified are not effectively monitored. **Recommendation** We recommend the budget monitoring reports are signed by the business partner and budget manager, in line with the designed process by the Council.	**Management response** Agreed, we will ensure budget reports are signed by the business partner and budget manager **Officer** Strategic Finance Manager (PSPS) **Due Date:** September 2024

Appendix

		Page

Audit team and rotation

Your audit team has been drawn from our specialist local government audit department and is led by key members of staff who will be supported by auditors and specialists as necessary to complete our work. We also ensure that we consider rotation of your audit partner and firm.

James Boyle is the director responsible for our audit. He will lead our audit work, attend the Audit and Governance Committee and be responsible for the opinions that we issue.

Rosie Kelly is the manager responsible for our audit. She will co-ordinate our audit work, attend the Audit and Governance Committee and ensure we are co-ordinated across our accounts and Value for Money work.

Dan Wiley is the in-charge responsible for our audit. He will be responsible for our on-site fieldwork. He will complete work on more complex section of the audit.

To comply with professional standard we need to ensure that you appropriately rotate your external audit partner. There are no other members of your team which we will need to consider this requirement for:

This will be James' first year as your engagement lead. They are required to rotate every five years, extendable to seven with PSAA approval.

Audit cycle & timetable

Our schedule 2023 – 2024

We have worked with management to generate our understanding of the processes and controls in place at the Authority in it's preparation of the Statement of Accounts.

We have agreed with management an audit cycle and timetable that reflects our aim to sign our audit report by December 2024 at the latest.

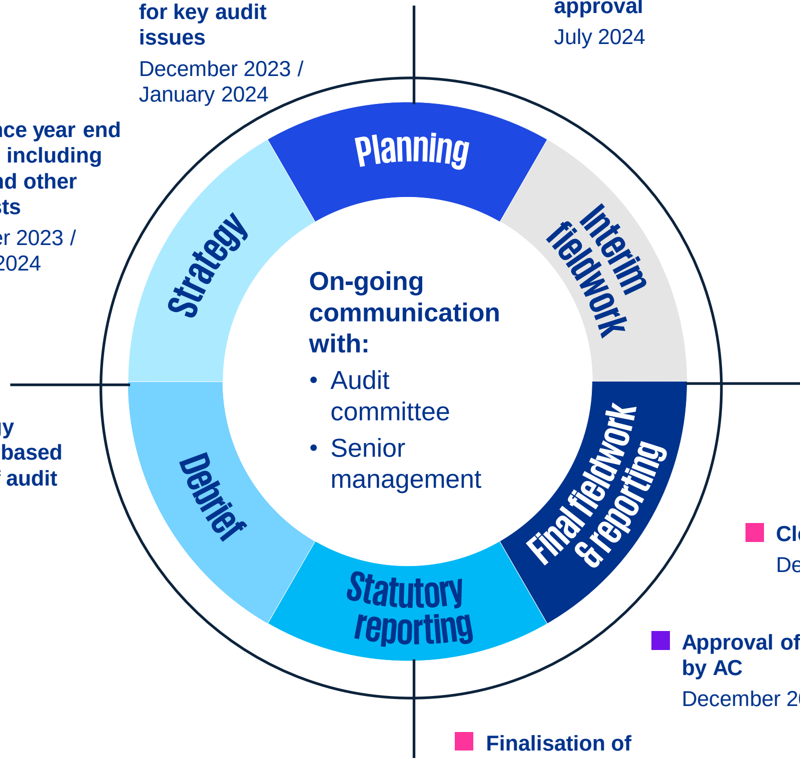
This being the first year of KPMG as auditor we have undertaken greater activities to understand the Council at the planning stage. This level of input may not be required in future years and may change our audit timings.

Given the large amount of consultation happening in regard to the scope and timing of local government this audit schedule **may be subject to change**.

Planning meeting with management for key audit issues
December 2023 / January 2024

Audit plan discussion and approval
July 2024

Commence year end planning including tax, IT and other specialists
December 2023 / January 2024



Audit strategy discussions based on debrief of audit
January 2025

Final fieldwork
July 2024

Clearance meetings
December 2024

Approval of accounts by AC
December 2024

Finalisation of accounts
December 2024

Key:
- Timing of AC communications
- Key events

Fees

Audit fee

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

Entity	2023/24 (£'000)
Statutory audit	131
ISA315 (R) / ISA 240 additional fees	15
TOTAL	**146**

Billing arrangements

Fees will be billed in accordance with the milestone completion phasing that has been communicated by the PSAA.

Basis of fee information

Our fees are subject to the following assumptions:

- The entity's audit evidence files are completed to an appropriate standard (we will liaise with you separately on this);
- Draft statutory accounts are presented to us for audit subject to audit and tax adjustments;
- Supporting schedules to figures in the accounts are supplied;
- The entity's audit evidence files are completed to an appropriate standard (we will liaise with management separately on this);
- A trial balance together with reconciled control accounts are presented to us;
- All deadlines agreed with us are met;
- We find no weaknesses in controls that cause us to significantly extend procedures beyond those planned;
- Management will be available to us as necessary throughout the audit process; and
- There will be no changes in deadlines or reporting requirements.

We will provide a list of schedules to be prepared by management stating the due dates together with pro-formas as necessary.

Our ability to deliver the services outlined to the agreed timetable and fee will depend on these schedules being available on the due dates in the agreed form and content.

Any variations to the above plan will be subject to the PSAA fee variation process.

Confirmation of Independence

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

To the Audit and Risk Committee members

Assessment of our objectivity and independence as auditor of Boston Borough 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

We have considered the fees charged by us to the Authority 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 0.27:1. We do not consider that the total non-audit fees create a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

	2023/24
	£'000
Statutory audit	146
Other Assurance Services	55
Total Fees	**201**

Confirmation of Independence (cont.)

Disclosure	Description of scope of services	Principal threats to independence	Safeguards Applied	Basis of fee	Value of Services Delivered for the year ended 31 March 2024 £'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.	Fixed & Time	55

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 0.27:1. We do not consider that the total non-audit fees create a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

	2023/24
	£'000
Statutory audit	146
Other Assurance Services	55
Total Fees	**201**

Application of the FRC Ethical Standard 2019

We communicated to you previously 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

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.

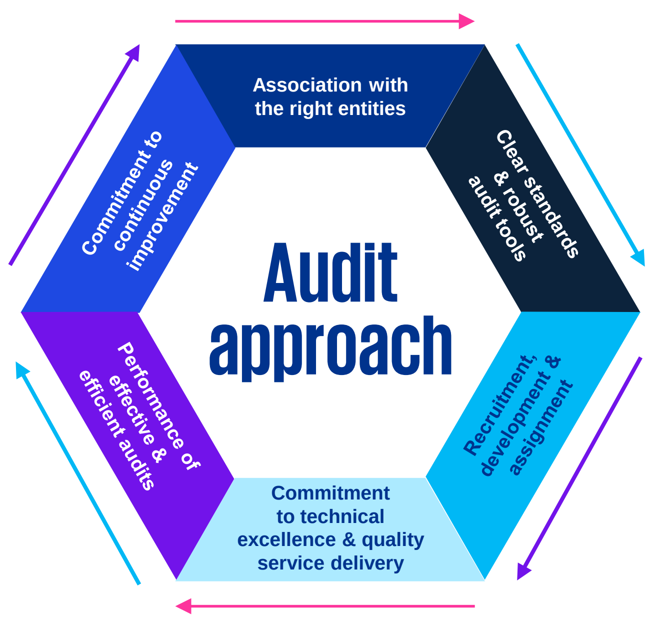
To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework.

Responsibility for quality starts at the top through our governance structures as the UK Board is supported by the Audit Oversight 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 entities 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 and specialists

ISA (UK) 315 Revised: Overview

Summary

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

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

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

What impact did the revision have on audited entities?

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

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

Implementing year 1 findings into the subsequent audit plan

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

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

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

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

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

What will this mean for our on-going audits?

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

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

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

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

Ongoing impact of the revisions to ISA (UK) 240

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

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

Area	Our approach following the revisions
Risk assessment procedures and related activities	1) Increased focus on applying professional scepticism – the key areas affected are: • the need for auditors not to bias their approach towards obtaining evidence that is corroborative in nature or excluding contradictory evidence; • remaining alert for indications of inauthenticity in documents and records, and • investigating inconsistent or implausible responses to inquiries performed. 2) Requirements to perform inquiries with individuals at the entity are expanded to include, amongst others, those who deal with allegations of fraud. 3) We will determine whether to involve technical specialists (including forensics) to aid in identifying and responding to risks of material misstatement due to fraud.
Internal discussions and challenge	We will have internal discussions among the audit team to identify and assess the risk of fraud in the audit, including determining the need for additional meetings to consider the findings from earlier stages of the audit and their impact on our assessment of the risk of fraud.

FRC's areas of focus

The FRC released their [Annual Review of Corporate Reporting 2021/22] in October 2022, along with a [summary of key matters] for the coming year, primarily targeted at CEOs, CFOs and Audit Committee chairs. In addition, they released six thematic reviews during the year which should be considered when preparing financial reports.

The reports identify where the FRC believes companies should be improving their reporting. Below is a high level summary of the key topics. We encourage management and those charged with governance to read further on those areas which are significant to the group.

Reporting in uncertain times

Last year's Annual Review of Corporate Reporting from the FRC was prepared in the context of the current heightened economic and geopolitical uncertainty. The challenges of the Covid-19 pandemic, Russia's invasion of Ukraine and slowing of global economies has led to inflationary pressure worldwide and rising interest rates.

This makes meaningful disclosure more important than ever, and the FRC has stressed the need for companies to move beyond simply complying with the minimum requirements of the relevant accounting and reporting frameworks. They expect companies to provide high-quality, decision-useful information for investors, with companies continually assessing evolving risks and ensuring these are clearly explained in annual reports.

The potential effects of uncertainty on recognition, measurement and disclosure are numerous, and companies will need to think carefully about the impacts of uncertainty, in particular inflation, on their reporting. The Annual Review gives a number of examples including:

Strategic report: the impact of inflation on the business model, changes to principal risks and uncertainties, and the impact of inflation on stakeholders.

Discount rates: inputs need to follow a consistent approach in incorporating the effects of inflation.

Material assumptions: where inflation assumptions represent a source of significant estimation uncertainty, the FRC expects companies to provide explanation of how these have been calculated and sensitivity disclosures if appropriate.

Pension schemes: explain the effect of uncertainty on investment strategy and associated risks.

Climate-related reporting

Climate-related reporting has advanced significantly this year as premium listed entities are required by the Listing Rules to provide disclosures consistent with the Taskforce on Climate-Related Disclosures (TCFD) recommendations. This follows the expansion of the Streamlined Energy and Carbon Reporting (SECR) rules last year, which require quoted companies and large unquoted companies and LLPs to provide emissions reporting.

Climate has therefore been an area of ongoing focus for the FRC, with a thematic reviews in both 2021 and 2022 on aspects of climate reporting. From reviews of TCFD disclosures in the year, the FRC has highlighted five areas of improvement for companies to consider going forwards:

Granularity and specificity: disclosures should be granular and specific both to the company and the individual disclosure requirement, including a clear link to financial planning.

Balance: discussion of climate-related risks and opportunities should be balanced, and companies should consider any technological dependencies.

Interlinkage with other narrative disclosures: companies should ensure clear links between TCFD disclosures with other narrative disclosures in the annual report.

Materiality: companies should clearly articulate how they have considered materiality in the context of their TCFD disclosures.

Connectivity between TCFD and financial statements disclosures: the FRC may challenge those that disclose significant climate risks or net zero transition plans in narrative reporting, but do not explain how this is taken into account in the financial statements.

FRC's areas of focus (cont.)

Cash flow statements

This continues to be a particular area of concern as it is a recurring source of errors identified by the FRC, with 15 companies restating their cash flow statements in the review period as a result of the FRC's enquiries.

Companies are encouraged to consider the guidance in the 2020 thematic review on this topic, and to ensure that robust pre-issuance reviews of the financial statements have been undertaken.

Cash flows must be classified as operating, investing or reporting in line with the requirements of the standard, and amounts reported should be consistent with disclosures elsewhere in the report and accounts including the elimination of non-cash transactions.

Several errors identified by the FRC related to the parent company cash flow statement, and it should ensured that this statement also complies with the requirements of the standard.

Financial Instruments

Companies should ensure that disclosure is sufficient to enable users to evaluate the nature and extent of risks arising from financial instruments and the approach taken to risk management.

These disclosures should include the approach and assumptions used in the measurement of expected credit losses, and details of concentrations of risk. In times of economic uncertainty, disclosure of methods used to measure exposure to risks, and details of hedging arrangements put in place for interest rates or inflation are all the more important.

In addition, accounting policies should be provided for all material financing and hedging arrangements and any changes in these arrangements. Where companies have banking covenants, information about these should be provided (unless the likelihood of a breach is considered remote).

Income taxes

Where material deferred tax assets are recognised by historically loss-making entities, disclosures should explain the nature of the evidence supporting their recognition. In addition, any connected significant accounting judgements or sources of estimation uncertainty will also need to be disclosed.

On tax more generally, the FRC expects companies to ensure that tax-related disclosures are consistent throughout the annual report and accounts, and material reconciling items in the effective tax rate reconciliation are adequately explained.

For groups operating in several jurisdictions, effective tax reconciliations may be more meaningful if they aggregate reconciliations prepared using the domestic rate in each individual jurisdiction, with a weighted average tax rate applied to accounting profit.

Strategic report and other Companies Act 2006 matters

The strategic report needs to articulate the effects of economic and other risks facing companies, including inflation, rising interest rates, supply chain issues and labour relations. Mitigation strategies should be explained, with links, where relevant, to information disclosed elsewhere in the annual report.

Business reviews should discuss significant movements in the balance sheet and cash flow statement, and should not be limited to just an explanation of financial performance in the period.

The FRC has also identified instances of companies not complying with legal requirements around distributions, and companies are reminded of the need to file interim accounts to support distributions in excess of the distributable profits shown in the relevant accounts.

Revenue

Accounting policies should be provided for all significant performance obligations and should address the timing of revenue recognition, the basis for over-time recognition, and the methodology applied.

Inflationary features in contracts with customers and suppliers and the accounting for such clauses are under increased focus this year.

Alternative performance measures ('APMs')

APMs should not be presented with more prominence, emphasis or authority than measures stemming directly from the financial statements, and should be reconciled to the relevant financial statements line item.

FRC's areas of focus (cont.)

Provisions and contingencies

Companies should give clear and specific descriptions of the nature and uncertainties for material provisions or contingent liabilities, the expected timeframe and the basis for estimating the probable or possible outflow.

Inputs used in measuring provisions should be consistent in the approach to incorporating the effects of inflation, and details of related assumptions should be provided if material.

Presentation of financial statements and related disclosures

Material accounting policy information should be clearly disclosed, and additional company-specific disclosures should be provided when compliance with IFRS requirements is insufficient to adequately explain transactions.

Judgements and estimates

Economic uncertainty increases the likelihood of companies needing to make significant judgements when preparing financial statements. The FRC highlights two specific examples – going concern assessments and accounting for inflationary features in contracts – where disclosure is key.

More generally, the FRC highlights the need for disclosures to clearly distinguish between estimates with a significant risk of a material adjustment to the carrying amounts of assets/liabilities within the next year, and other sources of estimation uncertainty.

Significant estimates, and the associated disclosures should be updated at the balance sheet date. Sensitivity disclosures should be meaningful for readers, for example by sensitising the most relevant assumptions, and explaining any changes in assumption since the previous year.

Impairment of assets

Economic uncertainty may have a significant impact on impairment assessments, and this is an area where queries raised from the FRC could have been avoided by clearer disclosure.

Companies need to explain the sensitivity of recoverable amounts to changes in assumptions, especially where the range of possible outcomes has widened. This should include explanation of the effect of economic assumptions, such as reduction in customer demand and increased cost.

Inflation should be treated consistently in value in use calculations. Nominal cash flows are discounted at a nominal rate, and real cash flows are discounted at a real rate.

Lastly, the FRC stresses the importance of consistency between impairment reviews/disclosures and other disclosures in the annual report.

Thematic reviews

The FRC released six thematic reviews on corporate reporting last year, and companies are encouraged to consider the guidance in those reviews, where relevant, to enhance their financial reporting. The topics covered are:

- TCFD disclosures and climate in the financial statements
- Judgements and estimates
- IFRS 3 Business Combinations
- Discount rates
- Deferred Tax Assets (IAS 12)
- Earnings per Share (IAS 33)

2022/23 review priorities

The FRC has indicated that its 2022/23 reviews will focus on the extent to which companies' disclosures address risks and uncertainty in the challenging economic environment, including those relating to climate change. Companies need to clearly articulate the impact of these risks on their strategy, business model and viability. In particular, the FRC intends to prioritise reviews of companies operating in the following sectors:

- Travel, hospitality and leisure
- Construction materials
- Retail
- Gas, water and multi-utilities

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