

South Cambridgeshire District Council

Report to the Strategy to the Audit and
Corporate Governance Committee - **DRAFT**

Preliminary External Audit Strategy for the year
ending 31 March 2024

16 May 2024

Introduction

To the Audit Committee of South Cambridgeshire District Council

We are pleased to have the opportunity to meet with you on 16 May 2024 to discuss our audit of South Cambridgeshire District Council (“the council”) for the year ending 31 March 2024. 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.

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.

This report outlines our initial audit strategy as our risk assessment work and audit handover from predecessor auditors is ongoing. We will communicate our full Audit Plan and Strategy to your July/August meeting. We provide this report to you in advance of the meeting to allow you sufficient time to consider the key matters and formulate your questions.

Contents	Page
Overview of planned scope including materiality	3-4
Significant risks and Other audit risks	5-6
Mandatory communications	7-8
Appendix	12

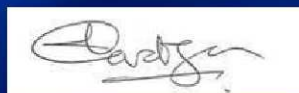
The engagement team

Andrew Cardoza is the engagement Director on the audit. He has more than 25 years of Public sector audit experience across Infrastructure, Healthcare and Local Government.

Other key members of the engagement:

- Debbie Stokes (Senior Manager);
- Arpit Saraf (Audit Manager); and
- Shaniah Wilkes (Assistant Manager).

Yours sincerely,



Andrew Cardoza
Director, KPMG LLP

16 May 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. 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 South Cambridgeshire District 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 determined materiality for the entity's financial statements at a level which could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. We used a benchmark of expenditure (using prior year draft accounts) which we consider to be appropriate given the sector in which the entity operates and financing structure, and the focus of users.

We considered qualitative factors such as business environment, financing and debt arrangements 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. Our assessment of this risk is based on a number of factors that includes findings from our risk assessment procedures. We will communicate this threshold as part of our Audit Plan and Strategy report.

We will report misstatements to the Audit and Corporate Governance Committee including:

- Corrected and uncorrected audit misstatements above £90,500.
- 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 such as misstatements in senior officer's remuneration.

Control environment

The impact of the council's control environment on our audit is reflected in our planned audit procedures. Our planned audit procedures reflect findings raised in the previous year and management's response to those findings.

File review

We will undertake an appropriate prior year file review of the predecessor auditor and update our materiality considerations where and/or if necessary as a result.

Group and Council Materiality

Council

Materiality for the financial statements as a whole

£1.8m

(2% of expenditure)

We will report group materiality in due course.



Overview of planned scope including materiality (cont.)

Timing of our audit and communications

- We will maintain communication led by the engagement partner and senior manager throughout the audit. We set out below the form, timing and general content of our planned communications:
- Kick-off meeting with management in May 2024 where we present our draft audit plan outlining our audit approach and discuss management's progress in key areas.
- Audit and Corporate Governance Committee meeting on 16 May 2024 where we present our initial audit strategy.
- Audit and Corporate Governance Committee meeting in July 2024 where we present our final audit plan and strategy following conclusion of our risk assessment procedures by July 2024.
- Status meetings with management, where we communicate progress on the audit plan, any misstatements, control deficiencies and significant issues.
- Post discussions with management, we will aim to deliver a 2023/24 audit opinion by the end of January 2025.
- Closing meeting with management in December 2024/ January 2025 where we discuss the auditor's report and any outstanding deliverables.
- Audit and Corporate Governance Committee meeting in December 2024/January 2025 where we communicate audit misstatements and significant control deficiencies.
- Biannual private meetings can also be arranged with the Committee chair if there is interest.

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 Real Estate Valuation Centre of Excellence	We will use KPMG valuation specialists to support our assessment of the surplus assets held at fair value by the Council. KPMG's Real Estate Valuation Centre of Excellence will also support our work over the other valuations undertaken by the Council.
KPMG Actuarial Specialist	We will use KPMG Actuarial specialists to evaluate the assumptions used as part of the valuation of the Council's gross pension liability.

Audit cycle & timetable

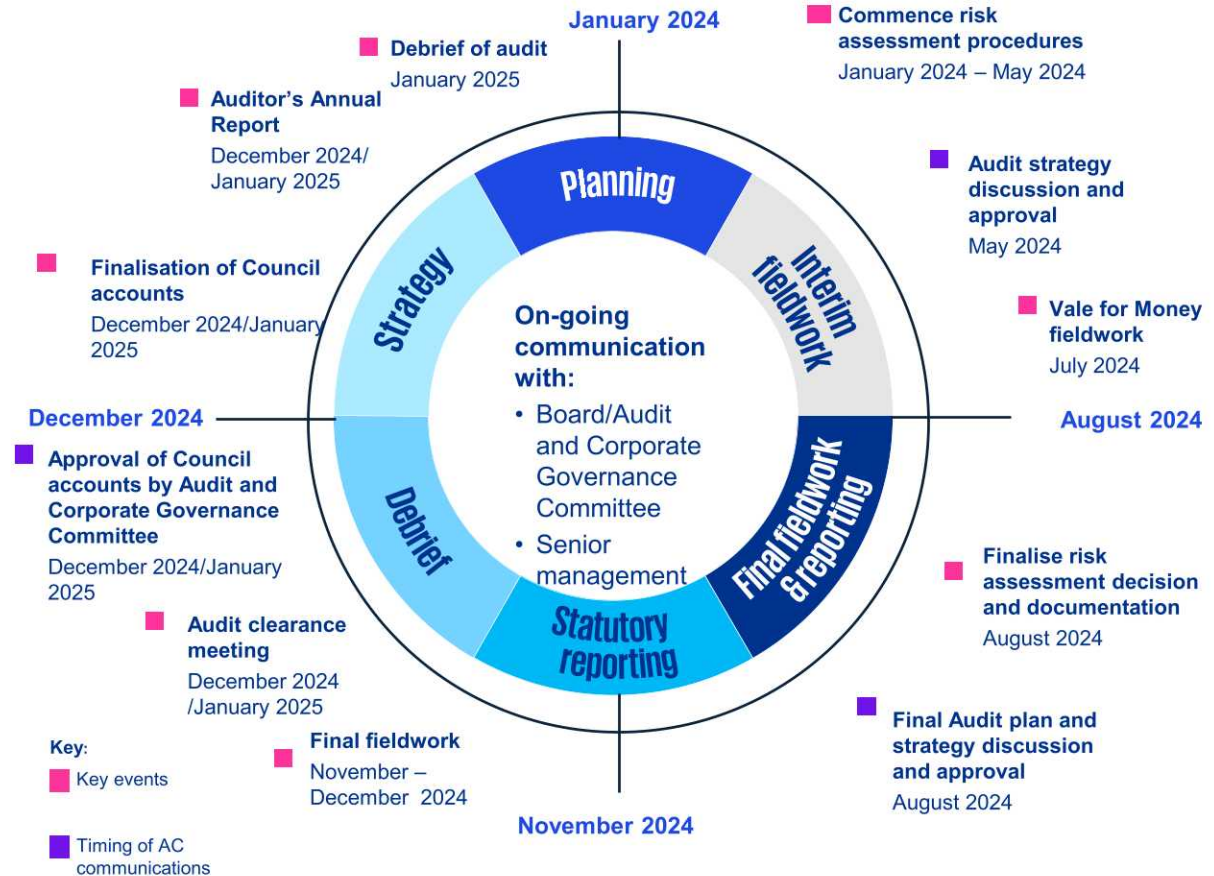
Our schedule

We have worked with management to generate our understanding of the processes and controls in place at the Council in its 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 31 December 2024.

This being the first year of KPMG as auditor we have undertaken greater activities to understand the Council at the planning stage. This will 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 audit **this schedule is subject to change.**



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 South Cambridgeshire District Council operates.

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

Due to the current levels of uncertainty 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 Corporate Governance Committee.

Value for money

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

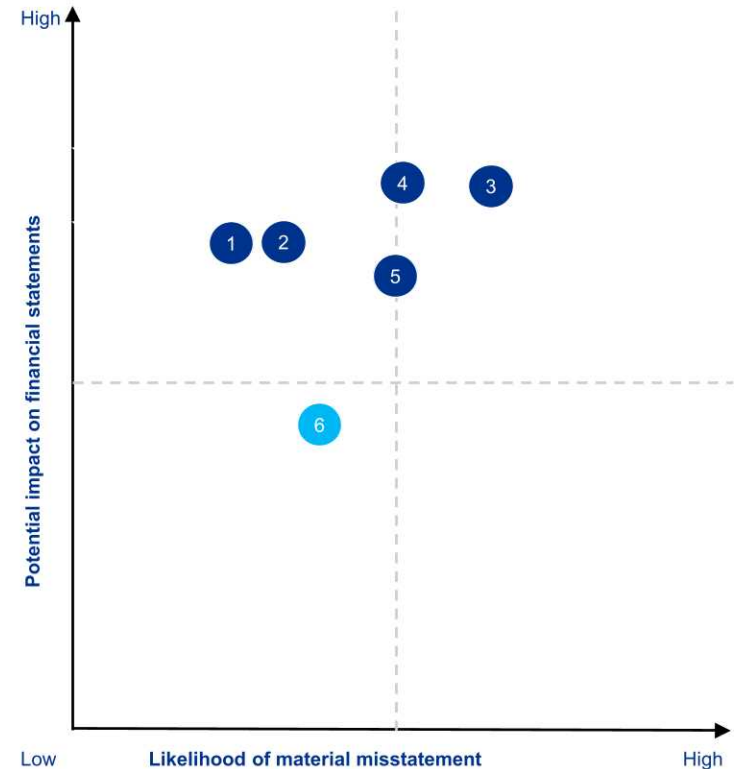
We are yet to complete our VFM risk assessment and this will be reported to a future Audit and Corporate Governance Committee however we have begun a series of meetings with Executive Directors to understand the risks within their areas of operation at the Council.

Significant risks

1. Valuation of land and buildings
2. Valuation of investment properties
3. Valuation of post retirement benefit obligations
4. Management override of controls
5. Expenditure recognition

Other audit risks

6. Preparation of Group Accounts



Key: # Significant financial statement audit risks # Other audit risk






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. 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		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.

Key Work is completed throughout our audit and we can confirm the matters are progressing satisfactorily



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



Mandatory communications

Type	Statements
Management’s responsibilities (and, where appropriate, those charged with governance)	<p>Prepare financial statements in accordance with the applicable financial reporting framework that are free from material misstatement, whether due to fraud or error.</p> <p>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.</p>
Auditor’s responsibilities	<p>Our responsibilities are 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.</p>
Auditor’s responsibilities – Fraud	<p>This report communicates how we plan to identify, evaluate 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.</p>
Auditor’s responsibilities – Other information	<p>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.</p>
Independence	<p>Our independence confirmation at page 15 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.</p>

Value for money risk assessment

Our Approach

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 pages.

Risk assessment processes

Our responsibility is 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 your previous auditor's 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.

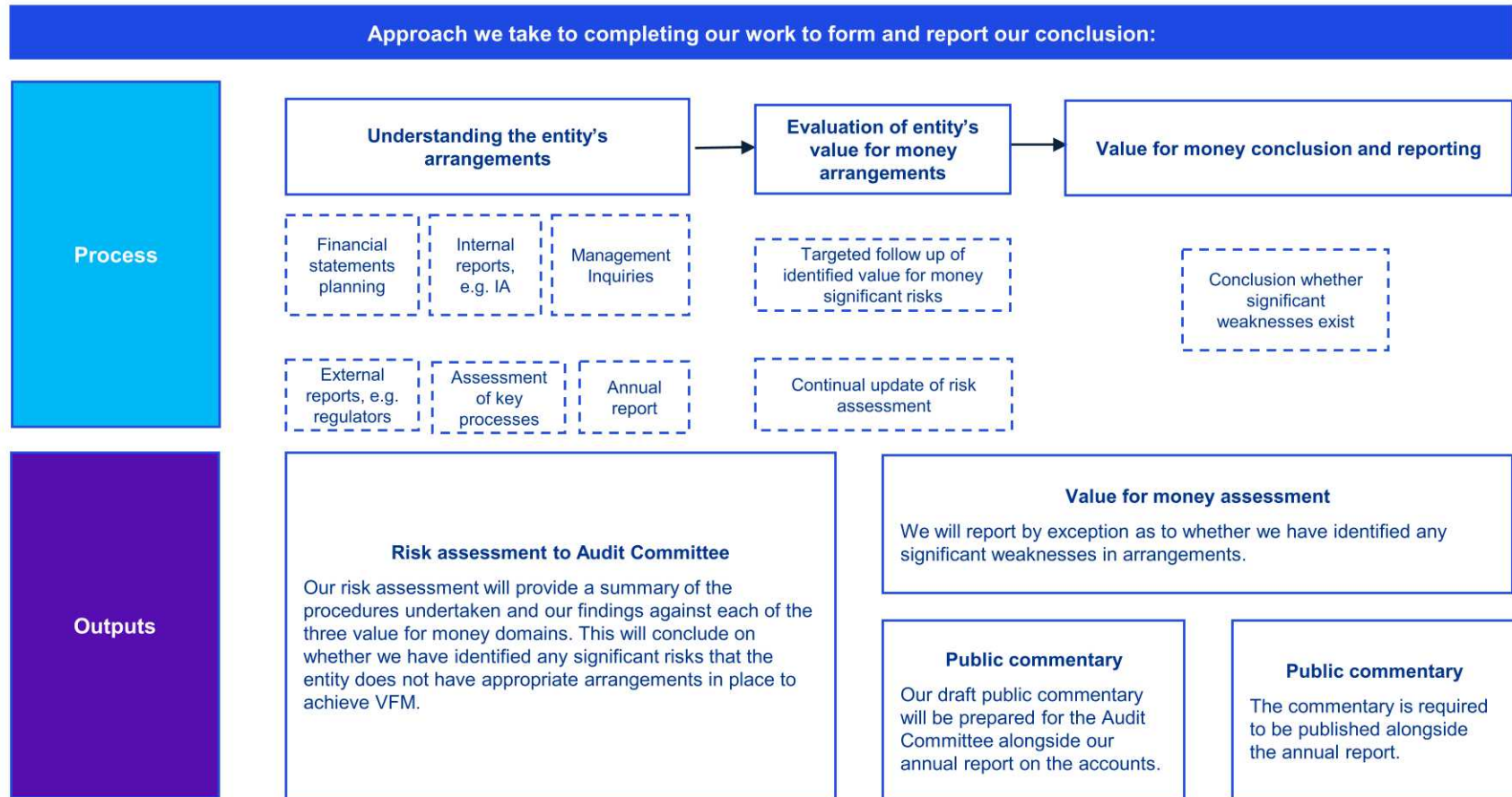
Governance

How the body ensures that it makes informed decisions and properly 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



We will report the outcome of our VFM risk assessment in due course and we will provide our full risk assessment at a future Audit Committee.

Appendix

A	Audit team	13
B	Fees	14
C	Confirmation of independence	15-16
D	KPMG's Audit quality framework	17

Audit team

Your audit team has been drawn from our specialist public sector 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.



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



Debbie Stokes is the senior manager responsible for our audit. She will co-ordinate our audit work, attend the Audit and Corporate Governance Committee and ensure we are co-ordinated across our accounts and value for money work.



Shaniah Wilkes is the in-charge responsible for our audit for the second year. She will be responsible for our on-site fieldwork. She will complete work on more complex section of the audit.

In addition our KPMG team in the UK is supported by colleagues from India – namely: **Arpit Sarraf** – Manager

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 the Director's first year as your engagement lead. They are required to rotate every five years, extendable to seven with PSAA approval.

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)	2021/22 (£'000)
Statutory audit	165	*
ISA315r	TBC	
ISA240	TBC	
TOTAL	165	

**fee charged by EY as predecessor auditor (not yet finalised).*

As per PSAA's Scale Fees Consultation, the fees do not include new requirements of ISA315 revised (risk of material misstatement); or ISA 240 (auditor's responsibilities relating to fraud. The fees also assume no significant risks are identified as part of the Value for Money risk assessment. Additional fees in relation to these areas will be subject to the fees variation process as outlined by the PSAA.

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 South Cambridgeshire District Council'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;
- Supporting schedules to figures in the accounts are supplied;
- 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 Corporate Governance Committee members

Assessment of our objectivity and independence as auditor of South Cambridgeshire District Council

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

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

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

General procedures to safeguard independence and objectivity

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

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

The conclusion of the audit engagement partner as to our compliance with the FRC Ethical Standard in relation to this audit engagement is subject to review by an engagement quality control reviewer, who is a director not otherwise involved in your affairs.

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

Summary of non-audit services

There are no non-audit services applicable.

Confirmation of Independence

Summary of fees

We have considered the fees charged by us to the Group and its affiliates for professional services provided by us during the reporting period.

Fee ratio

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

	2023/24
	£'000
Statutory audit	165
Other services	-
Total Fees	165

Application of the FRC Ethical Standard 2019

Your previous auditors will have 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 for the year 2023/24 we were not providing any non-audit or additional services that are 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 Corporate Governance 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 Corporate Governance 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

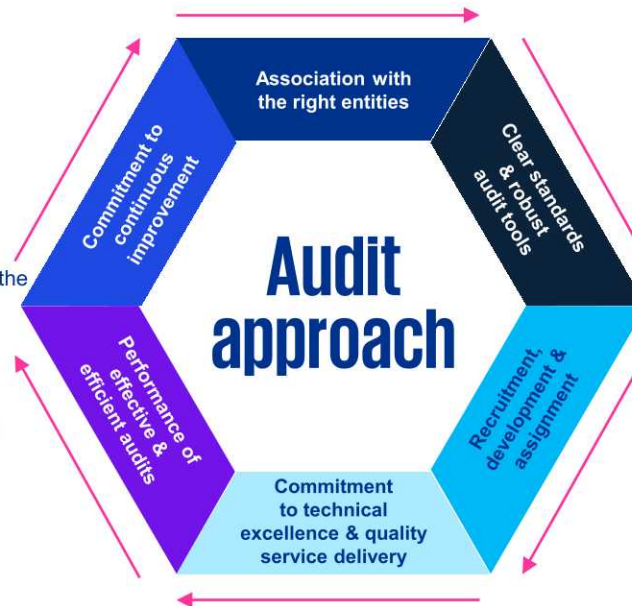
- Comprehensive effective monitoring processes
- Significant investment in technology to achieve consistency and enhance audits
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

■ 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



kpmg.com/uk

Some or all of the services described herein may not be permissible for KPMG audited entities and their affiliates or related entities.

© 2024 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.