West London Waste Authority

DRAFT - Report to the Audit Committee

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

14 May 2024

Introduction

To the Audit Committee of West London Waste Authority

We are pleased to have the opportunity to meet with you on 01 July 2024 to discuss our audit of the financial statements of West London Waste Authority 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 risk assessment and planned audit approach. Our planning activities are still ongoing and we will communicate any significant changes to the 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 formulate your questions.

The engagement team

Jessica Hargreaves shall lead the engagement and is responsible for the audit opinion.

Other key members of the engagement team include Mark Twyford (Lead Manager) and Piyush Malhotra (Manager).

Yours sincerely,

Jessica Hargreaves

Director - KPMG LLP

1 July 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.

Overview of planned scope including materiality

Our materiality levels

We determined materiality for the entity 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 total revenue which we consider to be appropriate given the sector in which the entity operates, its ownership and financing structure, and the focus of users of the financial statements.

We considered qualitative factors such as ownership structure, debt arrangements, business environment and EPS sensitivities when determining materiality for the financial statements as a whole.

To respond to aggregation risk from individually immaterial misstatements, we design our procedures to detect misstatements at a lower level of materiality £1,390k at 75% of materiality driven by our expectations of normal level of undetected or uncorrected misstatements in the period. We also adopt a qualitative perspective in addition to quantitative materiality for items that may be of specific interest to users, such as officers' remuneration.

We will report misstatements to the audit committee including:

- Corrected and uncorrected audit misstatements above £93k.
- 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. Our planned audit procedures reflect findings raised in the previous year and management's response to those findings.

- For example, we anticipate that we will adopt a controls-based approach on these accounts – cash.

File review

We have undertaken an appropriate prior year file review.

Entity Materiality

	Entity
Materiality for the financial statements as a whole	£1,860k 2.5% of revenue
Procedure designed to detect individual errors at this level	£1,390k
Misstatements reported to the Audit Committee	£93k

Entity Materiality
£1,860k
2.5% of entity revenue £74,571k

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:

- Kick-off meeting with management in June 2024 where we present our draft audit plan outlining our audit approach and discuss management's progress in key areas;
- Audit Committee meeting in July 2024 where we present our final audit plan;
- Status meetings with management in July/August 2024 where we communicate progress on the audit plan, any misstatements, control deficiencies and significant issues;
- Closing meeting with management in September 2024 where we discuss the auditor's report and any outstanding deliverables;
- Approval of the financial statements in September 2024, where we communicate audit misstatements and significant control deficiencies; and
- Biannual private meetings can also be arranged with the Committee chairs upon request.

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 reporting prepared by Internal Audit, but we do not plan to place any reliance on their work.
KPMG Valuations Specialists	We will engage KPMG valuation specialist support in assessment of the valuations of the waste authorities land and building assets.
KPMG Actuaries	Our engaged KPMG Actuaries will carry out assessment procedures to verify the valuation of the scheme liabilities.

Significant risks

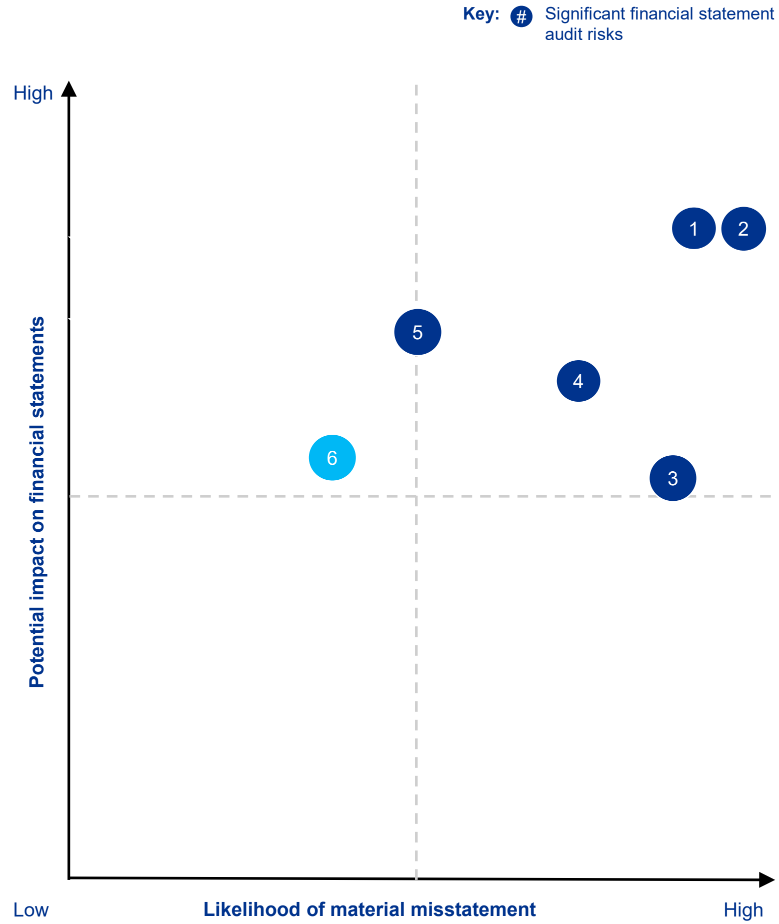
Our risk assessment draws upon our understanding of the applicable financial reporting framework, knowledge of the business, the sector and the wider economic environment in which West London Waste Authority operates.

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

Significant risks	
1.	Valuation of land and buildings at Fair Value
2.	Valuation of Public Private Partnership Contracts
3.	Valuation of post retirement benefit obligations
4.	Accuracy of Miscellaneous Income and Expenditure
5.	Management override of controls

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



Value for money

We are required to provide commentary on the arrangements in place for ensuring Value for Money is achieved at the Waste Authority and report on this via our Auditor's Annual Report. This will be published on the Waste Authority's website and include a commentary on our view of the appropriateness of the Waste 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 15.

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 Land and Building assets are to be valued at fair value at each financial year end. The Authority has adopted a rolling revaluation model which sees all land and building assets revalued at least once every five years, or on a more regular basis where there are indicators of material movement. The valuation of land and building assets involves significant judgement and estimation. As at 31 March 2023 the Authority held Land and Building assets valued at £229,611k against a value of £239,984k at 31 March 2022.

As at 31 March 2024, the Authority is not proposing to engage an external valuer to perform a fair value assessment, nor is the Authority planning to apply any indexation uplift to the prior year valuation. The Authority last engaged an external third party, Vail Williams, to perform a valuation exercise as at 31 March 2022. This creates a risk that the carrying value of assets not revalued in year, differs materially from the year end net book value.

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 Vail Williams (engaged valuer), the valuers used in developing the valuation of the Waste Authority's properties at 31 March 2022 (the most recent valuation);
- We will develop our own assessment of the fair value of the Authority's land and building assets as at 31 March 2024, utilising external market indicators, assessing whether there are any indicators of material movement between the fair value and carrying value of the assets.
- We will inspect the instructions issued to the valuers for the 31 March 2022 valuation of land and buildings to verify they are appropriate to produce a valuation consistent with the requirements of the CIPFA Code.
- We will utilise our own valuation specialists to review the valuation report prepared by the Waste Authority's valuers to confirm the appropriateness of the methodology and assumptions utilised. They will then perform a roll-forward assessment for the 31 March 2023 and 31 March 2024 balances;
- 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 Valuation of Public Private Partnership Contracts

An inappropriate amount is estimated and recorded for the Public Private Partnership Contracts liability

Significant audit risk

- Public Private Partnership (PPP) and similar contracts are agreements to receive services, where the responsibility for making available the Property, Plant and Equipment needed to provide the services passes to the contractor. The Authority has a PPP arrangement with WLER. This is a PPP for the construction and operation of the Severn Energy Recovery Centre (SERC). As at 31 March 2023 the Authority held a current liability of £4,257k and a non-current liability of £96,156k in regard to the scheme (£4,166k and £100,412k at 31 March 2022 respectively).
- As the Authority is deemed to control the services that are provided under its PPP scheme, the Authority carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.
- The original recognition of these assets at fair value (based on the cost to purchase the Property, Plant and Equipment) is balanced by the recognition of a liability for amounts due to the contractor to pay for the capital investment. Our risk is in regard to the liability, which is driven by multiple assumptions input into a complex model. The appropriateness of these assumptions and the accuracy of the model drive our risk of error in regard to the liability.
- Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as Property, Plant and Equipment owned by the Authority and measured at current value. As such any risk is covered under our procedures outlined on page 6 – our risk outlined here pertains specifically to the PPP liability.

Planned response

We will perform the following procedures:

- Assessment of the PPP Model through utilisation of our spreadsheet approach builder as a basis on which to ascertain the unique model inputs and formulae.
- Assessment of the reasonableness of the assumptions built into the PPP model, through engagement of KPMG specialists.
- Review of the design and implementation of controls in regard to review of the PPP model
- Review the planned entries and disclosures for the Authority's 2023/24 accounts and ensure that they are reported in line with the standards.
- Agreement of all payments made in the year in regard to the PPP scheme.
- Assessment of unexpected postings to the PPP account as part of our assessment of management override of controls.

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 Authority is a member of the London Pension Fund Local Government Pension Scheme. As at 31 March 2023, WLWA's share of LGPS was in a surplus of £1,309k , up from a deficit of £8,022k at 31 March 2022. The gross value of pension assets and liabilities are expected to be highly material.
- The valuation of the post retirement benefit obligations involves the selection of appropriate actuarial assumptions, most notably the discount rate applied to the scheme liabilities, inflation rates and mortality rates. The selection of these assumptions is inherently subjective and small changes in the assumptions and estimates used to value the Waste Authority's pension liability could have a significant effect on the financial position of the Waste Authority.
- 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 Waste Authority in completing the year end valuation of the pension deficit and the year on year movements.
- Also, recent changes to market conditions have meant that more Councils and Authorities 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 Waste Authority has in place to set the assumptions used in the valuation;
- Evaluate the competency and objectivity of the actuaries to confirm their qualifications and the basis for their calculations;
- Perform inquiries of the accounting actuaries to assess the methodology and key assumptions made, including actual figures where estimates have been used by the actuaries, such as the rate of return on pension fund assets;
- Agree the data provided by the audited entity to the Scheme Administrator for use within the calculation of the scheme valuation;
- Evaluate the design and implementation of controls in place for the Waste Authority to determine the appropriateness of the assumptions used by the actuaries in valuing the liability;
- Challenge, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate and mortality/life expectancy against externally derived data;
- Confirm that the accounting treatment and entries applied by the Group are in line with IFRS and the CIPFA Code of Practice;
- Consider the adequacy of the Waste Authority's disclosures in respect of the sensitivity of the deficit or surplus to these assumptions;
- Where applicable, assess the level of surplus that should be recognised by the entity.
- Consider, and if necessary, challenge the Authority's estimate of the recognisable surplus; and
- Consider the adequacy of the Authorty's disclosures in respect of the assumptions or judgements made in determining the level of recognisable surplus.

Audit risks and our audit approach (cont.)

4 Revenue Recognition - Accuracy of Miscellaneous Income and Expenditure (Risk of Error)

An inappropriate amount is recognised in regard to the income and associated expenditure derived from third party PPP income

Significant audit risk

There is an assumed significant risk in regard to fraudulent revenue recognition. We have rebutted this risk – as noted on Page 12.

We have however noted a significant risk of error in regard to the third party PPP income recognised under Miscellaneous Income. The total balance for the year ending 31 March 2023 was £19,100k, against a balance of £10,700k at 31 March 2022. This income is derived from energy sales to third parties through the PPP, and has increased based on the risk in energy prices.

There is a significant risk of error based in the complexity of the calculation, which is derived from changing market data.

This risk duplicates into the associated expenditure which is the contractual share of the income due to the Boroughs, this was £12,700k at 31 March 2023, and £6,500k at 31 March 2022.

Planned response

We will perform the following procedures designed to specifically address the significant risk associated with the calculation of the income and associated expenditure:

- Evaluate the design and implementation of controls in regard to the PPP contract income share.
- Verify the income recognised to the PPP contract; that the threshold for income recognition has been met, and that the income above this threshold has been correctly apportioned.
- Recalculate the income recognised to verified market rates.
- Verify the expenditure distributed to the Boroughs per the contract rate.
- Incorporate journals testing in regard to unexpected postings to Miscellaneous Income.

Audit risks and our audit approach (cont.)

5 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 Waste Authority's normal course of business, or are otherwise unusual.
- We will analyse all journals through the year using data and analytics and focus our testing on those with a higher risk, such as journals impacting income recognition, cash, PPE, Investment Property and Pensions.

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 Waste Authority and the nature of expenditure within the Waste Authority, we have determined that a significant risk relating to expenditure recognition is not required.

Specifically, the financial position of the Waste Authority/entity, (whilst under pressure) 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 risk factors.

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 in regard to all revenue accounts with the exception of Miscellaneous Income. 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
Trade Waste	This is income generated from the processing of Trade Waste.	The income is not considered to be materially significant. While the balance in prior period at £2,334k would be considered to be material, we would not consider it to present a fraud risk on the basis of the income accruing at a relatively even rate throughout the year and its relativity to materiality.
Agency	Income derived from a charge to one of the Constituent Councils for management of their Household Recycling and Reuse Site.	The income balance is expected to be immaterial.
Levies on Constituent Councils	Levy income charged per agreement with the Constituent Councils covered by the Waste Authority for the delivery of Waste Services.	The income stream is highly predictable and based on components of fixed levies and measurable additional charges as per agreements.

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.

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 23 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.

West London Waste Authority

DRAFT - Value for money risk assessment

Our approach

Year ended 31 March 2024

1 July 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 to conclude on significant weaknesses in value for money arrangements is unchanged.

The main output remains 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 Waste Authority's arrangements to secure value for money. Our risk assessment will continue to consider whether there are any significant risks that the Waste Authority 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 Waste Authority has in
place to ensure this, including financial management, risk management and partnership working arrangements. We will complete this through review of the Waste Authority's documentation in these areas and performing inquiries of management as well
as reviewing reports, such as internal audit assessments.

Reporting

As with the prior year 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 Waste Authority 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 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 Committee alongside our annual report on the accounts.

Public commentary

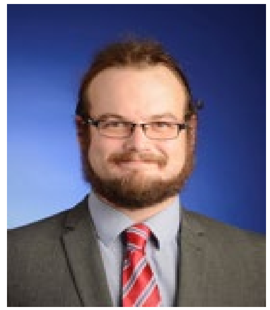
The commentary is required to be published alongside the annual report.

Appendix

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.

Jessica Hargreaves is the director responsible for our audit. They will lead our audit work, attend the Audit Committee and be responsible for the opinions that we issue.



Mark Twyford is the lead manager responsible for our audit. They will co-ordinate our audit work, attend the Audit Committee and ensure we are co-ordinated across our accounts and use of funds work.

Piyush Malhotra is the manager responsible for our audit. They will co-ordinate our audit work and ensure we are co-ordinated across our accounts and use of funds work.

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

Audit cycle & timetable

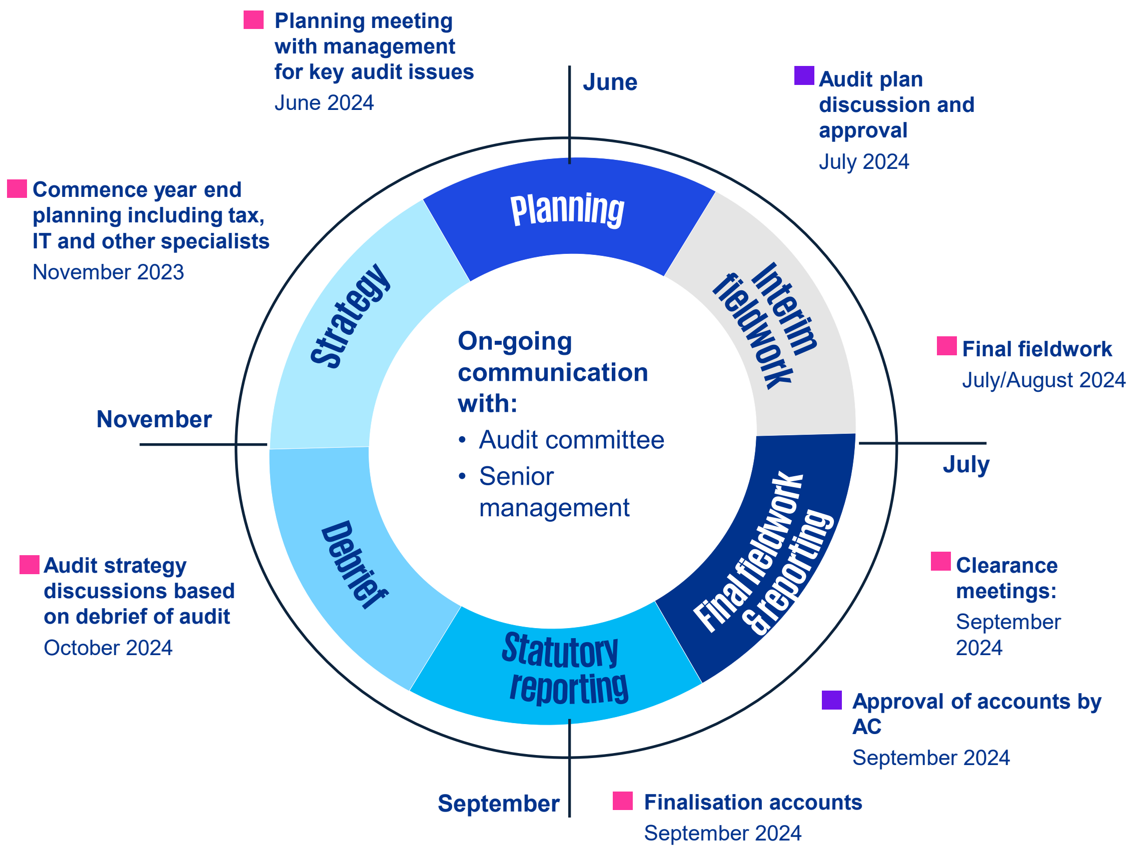
Our schedule
Nov 2023 – Dec 2024

We have been working with management to generate our understanding of the processes and controls in place at the Waste 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 September 2024.

This being the first year of KPMG as auditor we have undertaken greater activities to understand the Waste Authority 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**.



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)	*2022/23 (£'000)*
Statutory audit	103	62
ISA315r	TBC	-
ISA240	TBC	-
TOTAL	**TBC**	**62**

**fee charged by EY - your predecessor auditor.*

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 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 Committee members

Assessment of our objectivity and independence as auditor of [entity name]

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.

Confirmation of Independence (cont.)

Summary of fees

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

Fee ratio

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

	2023/24
	£'000
Statutory audit	103
ISA 315r	TBC
ISA 240	TBC
Total Fees	**TBC**

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 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 Committee and should not be used for any other purposes.

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

Yours faithfully

Jessica Hargreaves

KPMG LLP

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 entity.

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.)

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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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