

# Cambridge City Council Audit Plan

Year ending 31 March 2024

26 March 2024





Civic Affairs Committee  
Cambridge City Council  
The Guildhall  
Peas Hill  
Cambridge  
CB2 3QJ

26 March 2024

Dear Civic Affairs Committee Members

#### **External Audit Plan - 2023/24**

Attached is our Audit Plan for the forthcoming meeting of the Civic Affairs Committee. The purpose of this report is provide the Civic Affairs Committee of Cambridge City Council (the Council) with a basis to review our proposed audit approach and scope for the 2023/24 audit, in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements, but also to ensure that our audit is aligned with the Committee's service expectations.

This report summarises our assessment of the key issues which drive the development of an effective audit for the Council. We have aligned our audit approach and scope with these. The report also considers the likely impact of Government proposals to clear the backlog in local audit and put the local audit system on a sustainable footing. The joint statement on the update to proposals to clear the backlog and embed timely audit recognises that timely, high-quality financial reporting and audit of local bodies is a vital part of our democratic system. Not only does it support good decision making by local bodies, by enabling them to plan effectively, make informed decisions and manage their services, it ensures transparency and accountability to local taxpayers. All stakeholders have a critical role to play in addressing the audit backlog.

The Civic Affairs Committee, as the Council's body charged with governance, has an essential role in ensuring that it has assurance over both the quality of the draft financial statements prepared by management and the Council's wider arrangements to support the delivery of a timely and efficient audit. Where this is not done it will impact the level of resource needed to discharge our responsibilities. We will consider and report on the adequacy of the Council's external financial reporting arrangements and the effectiveness of the Civic Affairs Committee in fulfilling its role in those arrangements as part of our assessment of Value for Money arrangements, and consider the use of other statutory reporting powers to draw attention to weaknesses in those arrangements where we consider it necessary to do so.

(continued)

We draw Civic Affairs Committee members and officers attention to the Public Sector Audit Appointment Limited's Statement of Responsibilities (paragraphs 26-28) which clearly set out what is expected of audited bodies in preparing their financial statements (see Appendix A).

This report is intended solely for the information and use of the Civic Affairs Committee and Management of Cambridge City Council, and is not intended to be and should not be used by anyone other than these specified parties. We welcome the opportunity to discuss this report with you on 13 May 2024 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

A handwritten signature in blue ink that reads "MARK HODGSON". The signature is written in a cursive style and is contained within a light grey rectangular box.

Mark Hodgson

Partner

For and on behalf of Ernst & Young LLP

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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated July 2021)" issued by the PSAA (<https://www.psa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/>) sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Civic Affairs Committee and management of Cambridge City Council. Our work has been undertaken so that we might state to the Civic Affairs Committee and management of Cambridge City Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Civic Affairs Committee and management of Cambridge City Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.





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# Overview of our 2023/24 audit strategy



# Overview of our 2023/24 audit strategy

## Context for the 2023/24 audit - Department for Levelling-up, Housing and Communities (DLUHC) and Financial Reporting Council (FRC) measures to address local audit delays

Timely, high-quality financial reporting and audit of local bodies is a vital part of our democratic system. It supports good decision making by local bodies and ensures transparency and accountability to local taxpayers. There is general agreement that the backlog in the publication of audited financial statements by local bodies has grown to an unacceptable level and there is a clear recognition that all stakeholders in the sector will need to work together to address this. DLUHC has worked collaboratively with the FRC, as incoming shadow system leader, and other system partners, to develop measures to clear the backlog. The proposals, which have been developed to maintain auditor independence and enable compliance with International Standards on Auditing (UK) (ISAs (UK)), consist of three phases:

- ▶ Phase 1: Reset involving clearing the backlog of historic audit opinions up to and including financial year 2022/23 by 30 September 2024.
- ▶ Phase 2: Recovery from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles.
- ▶ Phase 3: Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.

To support the further development and testing of the measures, consultations are taking place to receive further feedback and inform the decision on how to proceed. Specifically:

- ▶ DLUHC has launched a consultation on changes to the Accounts and Audit Regulations 2015 to insert statutory backstop dates for historic financial statements and for the financial years 2023/24 to 2027/28.
- ▶ The National Audit Office (NAO) has launched a consultation on amending the Code of Audit Practice to :
  - ▶ Require auditors to issue audit opinions according to statutory backstop data for historic audits, and place specific duties on auditors to co-operate during the handover period for the new PSAA contract for the appointment of local authority auditors covering the years 2023/24 to 2027/28.
  - ▶ Allow auditors to produce a single value for money commentary for the period to 2022/23 and use statutory reporting powers to draw significant matters to the attention of councils and residents.
- ▶ The Chartered Institute of Public Finance and Accountancy (CIPFA) is expected to launch consultation on temporary changes to the accounting code for preparation of the financial statements. The proposed temporary changes to the financial reporting framework have an impact on both how the financial statements are prepared and our audit procedures necessary to gain assurance.

As a result of the system wide implementation of backstop dates, it is likely we will disclaim the opinion on the Council's 2022/23 accounts. The proposed disclaimer of the Council's 2022/23 accounts will impact both the audit procedures we need to undertake to gain assurance on the 2023/24 financial statements and the form of our audit report in 2023/24 and subsequent years during the recovery phase.

The changes proposed by the consultations therefore will have a significant impact on both the scope of the 2023/24 audit and our assessment of risk. We will continue to provide updates to the Civic Affairs Committee as the audit progresses and our final assessment on the scope and nature of procedures we will undertake becomes clearer. We have highlighted those areas where we consider it most likely that the proposed measures will impact our audit approach and scope as part of this Audit Plan.





# Overview of our 2023/24 audit strategy

## Responsibilities of Council management and those charged with governance

For the planned measures to be successful and the current backlog to be addressed it is vital that all stakeholders properly discharge their responsibilities.

The Council's Section 151 Officer is responsible for preparing the statement of accounts in accordance with proper practices and confirming they give a true and fair view of the financial position at the reporting date and of its expenditure and income for the year ended 31 March 2024. To allow the audit to be completed on a timely and efficient basis it is essential that the financial statements are supported by high quality working papers and audit evidence and that Council resources are readily available to support the audit process, within agreed deadlines. The Civic Affairs Committee, as the Council's body charged with governance, has an essential role in ensuring that it has assurance over both the quality of the draft financial statements prepared by management and the Council's wider arrangements to support the delivery of a timely and efficient audit. Where this is not done, we will:

- ▶ Consider and report on the adequacy of the Council's external financial reporting arrangements as part of our assessment of Value for Money arrangements.
- ▶ Consider the use of other statutory reporting powers to draw attention to weaknesses in Council financial reporting arrangements where we consider it necessary to do so.
- ▶ Seek a fee variation for the cost of additional resources needed to discharge our responsibilities. We have set out this and other factors that will lead to a fee variation at Appendix B of this report together with, at Appendix A, paragraphs 26-28 of PSAA's Statement of Responsibilities which clearly set out what is expected of audited bodies in preparing their financial statements.
- ▶ Impact the availability of audit resource available to complete the audit work in advance of any applicable backstop dates.

# Overview of our 2023/24 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Civic Affairs Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

## Audit risks and areas of focus

Risk/area of focus	Risk identified	Change from PY	Details
Misstatement due to fraud or error	Fraud risk	No change in risk or focus	There is a risk that the financial statements as a whole are not free from material misstatement whether caused by fraud or error. We perform mandatory procedures regardless of specifically identified fraud risks.
Inappropriate capitalisation of revenue expenditure including Revenue Expenditure Funded from Capital Under Statute (REFCUS)	Fraud Risk	No change in risk or focus	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>Linking to our fraud risk identified above, we have determined that a way in which management could override controls is through the inappropriate capitalisation of revenue expenditure to understate revenue expenditure reported in the financial statements, given the extent of the Council's capital programme and Revenue Expenditure Funded from Capital Under Statute.</p>
Investment Property Valuations	Significant risk	No change in risk or focus	The Council's investment property is a material balance (£162 million at 31 March 2023) disclosed on the Council's balance sheet. There is a significant level of judgement around assumptions within valuations, especially where these assumptions rely on market data or income based measures, given difficulties in estimating future income.
Accounting for Net Pension Assets	Significant risk	Increase in risk since 21/22	<p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme.</p> <p>Under IAS 19, there is a limit on the size of the net pension asset that can be recognised on the balance sheet. This is referred to as the asset ceiling. As the Council are now in a net asset position, there are additional accounting considerations compared to 2021/22, hence a higher level of risk of misstatement.</p> <p>Accounting for the scheme liabilities involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>



# Overview of our 2023/24 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Civic Affairs Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

## Audit risks and areas of focus

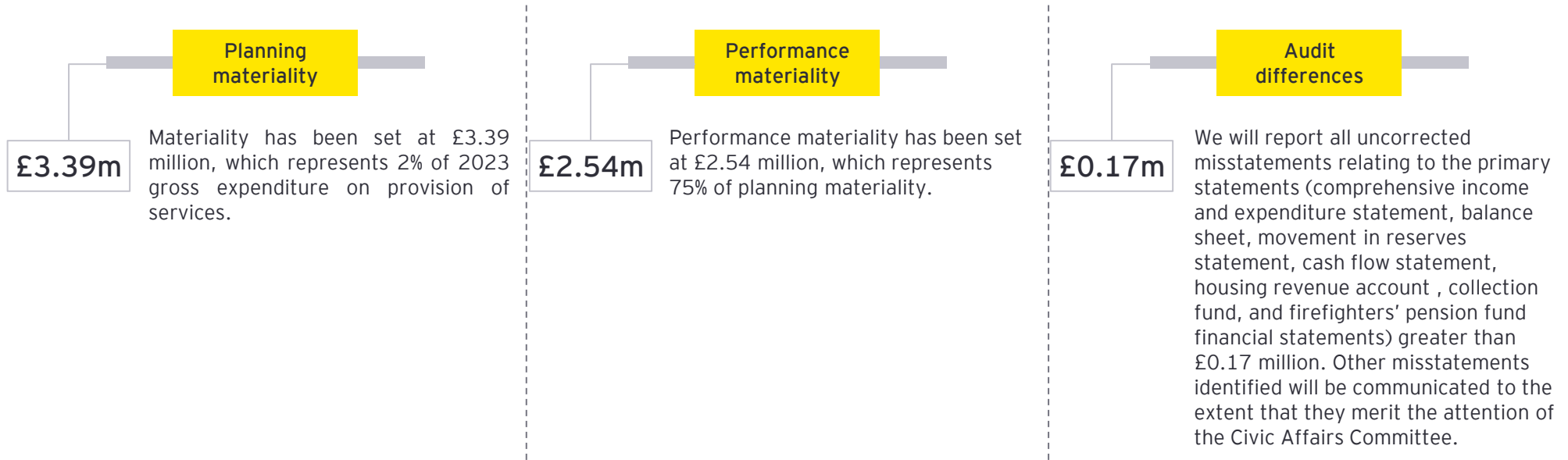
Risk/area of focus	Risk identified	Change from PY	Details
Bad debt provision and recoverability of receivables	Inherent risk	No change in risk or focus	The provision for bad debts is an estimate, and calculation requires management judgement. We would expect the Council to revisit their provision for bad debt calculation at year end and assess the appropriateness of the estimation technique. Therefore, we have raised an inherent risk for this in our audit strategy.
Group Accounting	Inherent risk	No change in risk or focus	The Council prepares consolidated Group statement of accounts. The Council will need to undertake its annual assessment of the group structure to determine the procedures required to consolidate the relevant component entities. We will consider the need to engage with the auditors of the significant components to understand and evaluate any risks they have recognised on the 2023/24 audits and what impact this has on our risk procedures in relation to the group accounts.
Provision for HRA Liabilities	Inherent risk	<b>New risk in 23/24</b>	In 2023, the Council identified a possible breach of regulations relating to rental charges on housing stock which could potentially lead to refunds being made to those who had previously been overcharged. The computations in determining the liability for excess charges will involve assumptions and judgments, as well as considerations of completeness, hence this has been classified as an inherent risk.
Valuation of Land and Buildings	Inherent risk	<b>Reduced level of risk compared to 2021/22</b>	Other Land and Buildings (OLB) constitutes a significant balance in the Council's accounts (£150 million at 31 March 2023). These assets are subject to valuation changes, impairment reviews and depreciation charges. Significant judgemental inputs and estimation techniques are required to calculate the year-end balances. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates. The Council engaged a new valuer in 2021/22 and as we did not have significant issues with these valuations, we have returned the level of risk to inherent, rather than significant.
Council dwellings valuation	Inherent risk	No change in risk or focus	Council dwellings represent a significant balance in the Council's accounts (£784 million at 31 March 2023) and are subject to valuation changes, impairment reviews and depreciation charges. As the value of council houses are significant, and the outputs from the valuer are subject to estimation, there is a higher inherent risk that balances may be under/overstated or the associated accounting entries incorrectly posted.

The outcome of consultation on the planned measures to address local audit delays and related proposed temporary changes to CIPFA's Code of Practice on Local Authority Accounting are likely to impact our assessment of audit risks and our response to them. We will continue to keep the Civic Affairs Committee updated on our assessment of any changes to audit risk as this becomes clearer.

# Overview of our 2023/24 audit strategy

## Group and Council Materiality

Materiality has been set for both the audit of the Council and Group as shown below:



We also identify areas where misstatement at a level lower than our overall materiality might influence users and develop an audit strategy specific to these areas, including:

- ▶ Remuneration disclosures including Member allowances: we will agree all disclosures to source data, and member allowances to the agreed and approved amounts; and
- ▶ Related party transactions: we will test the completeness of related party disclosures and the accuracy of all disclosures by checking to supporting evidence.

The outcome of consultation on the planned measures to address local audit delays and the likely issue of a disclaimer on the Council's 2022/23 financial statements and any guidance subsequently issued may continue to impact on our assessment of materiality for the 2023/24 audit. We will keep the Civic Affairs Committee updated on any changes to materiality levels as the audit progresses.



# Overview of our 2023/24 audit strategy

## Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- ▶ Our audit opinion on whether the financial statements of the Council give a true and fair view of the financial position as at 31 March 2024 and of the income and expenditure for the year then ended; and
- ▶ Our commentary on your arrangements to secure value for money in your use of resources for the relevant period. We include further details on VFM in Section 3.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- ▶ Strategic, operational and financial risks relevant to the financial statements;
- ▶ Developments in financial reporting and auditing standards;
- ▶ The quality of systems and processes;
- ▶ Changes in the business and regulatory environment; and,
- ▶ Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

Taking the above into account, and as articulated in this Audit Plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to those risks. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". Therefore to the extent any of these or any other risks are relevant in the context of the Council's audit, we set those within this Audit Plan and we will continue to discuss these with management as to the impact on the scale fee.





# Overview of our 2023/24 audit strategy

## Audit scope (Cont.)

### ***Effects of climate-related matters on financial statements***

Public interest in climate change is increasing. We are mindful that climate-related risks may have a long timeframe and therefore while risks exist, the impact on the current period financial statements may not be immediately material to the Council. It is, nevertheless, important to understand the relevant risks to make this evaluation. In addition, understanding climate-related risks may be relevant in the context of qualitative disclosures in the notes to the financial statements and value for money arrangements.

We make inquiries regarding climate-related risks on every audit as part of understanding the entity and its environment. As we re-evaluate our risk assessments throughout the audit, we continually consider the information that we have obtained to help us assess the level of inherent risk.

### ***Audit scope and approach***

We intend to take a substantive audit approach.

The Government proposals to re-establish the local authority framework on a more sustainable basis and the outcome of the related consultations are likely to have an impact on the scope of the audit. In particular, where we may not have assurance over 2022/23 financial year, this is likely to have an impact on our assessment of materiality and our ability to issue an unmodified opinion early in the recovery phase. We draw your attention to the audit scope section 5 of this audit plan where we set out our current understanding of some of the likely impact of the proposals on our scope and approach for your 2023/24 audit. We will continue to provide updates on the impact of these changes to the Civic Affairs Committee where necessary to do so.

# Overview of our 2023/24 audit strategy

## Value for Money

We are required to consider whether the Council has made 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

Planning on Value for Money and the associated risk assessment is focused on gathering sufficient evidence to enable us to document our evaluation of the Council's arrangements, to enable us to prepare a commentary under three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

We will provide a commentary on the Council's arrangements against three reporting criteria:

- ▶ Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services;
- ▶ Governance - How the Council ensures that it makes informed decisions and properly manages its risks; and
- ▶ Improving economy, efficiency and effectiveness - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

The commentary on the Council's value for money arrangements will be included in the Auditor's Annual Report.

## Timeline

A timetable has been agreed with Management to complete the audit fieldwork in June and July 2024. In Section 07 we include a provisional timeline for the audit. All parties need to work together to ensure this timeline is adhered to.

## Key Audit Partner and senior audit team



### Partner - Mark Hodgson

Mark will be continuing his role as the Engagement Partner for 2023/24.



### Senior Manager - Jacob McHugh

Jacob will be continuing his role as the Engagement Manager for 2023/24.



## 02 Audit risks



# Our response to significant risks

We have set out the significant risks (including fraud risks denoted by\*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

## Misstatements due to fraud or error\*

### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We identify and respond to this fraud risk on every audit engagement.

### What will we do?

- ▶ Identifying fraud risks during the planning stages.
- ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud
- ▶ Discussing with those charged with governance the risks of fraud in the entity, including those risks that are specific to the entity's business sector (those that may arise from economic industry and operating conditions)
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud
- ▶ Determining an appropriate strategy to address those identified risks of fraud
- ▶ Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements
- ▶ Undertake procedures to identify significant unusual transactions
- ▶ Consider whether management bias was present in the key accounting estimates and judgments in the financial statements

Having evaluated this risk we have considered whether we need to perform other audit procedures not referred to above. We concluded that those procedures included under 'Inappropriate capitalisation of revenue expenditure' are required (See next page).

# Our response to significant risks

We have set out the significant risks (including fraud risks denoted by\*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

## Inappropriate capitalisation of revenue expenditure including Revenue Expenditure Funded from Capital Under Statute (REFCUS)\*

### Financial statement impact

We have assessed that the risk of misreporting revenue outturn in the financial statements is most likely to be achieved through:

- ▶ Revenue expenditure being inappropriately recognised as capital expenditure at the point it is posted to the general ledger.
- ▶ Expenditure being classified as revenue expenditure financed as capital under statute (REFCUS) when it is inappropriate to do so.
- ▶ Expenditure being inappropriately transferred by journal from revenue to capital codes on the general ledger at the end of the year.

If this were to happen it would have the impact of understating revenue expenditure and overstating Property, Plant and Equipment (PPE) / Investment Property (IP) additions and/or REFCUS in the financial statements.

### What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We have assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure.

### What will we do?

- ▶ Test Property, Plant and Equipment (PPE) / Investment Property (IP) additions to ensure that the expenditure incurred and capitalised is clearly capital in nature.
- ▶ Assess whether the capitalised spend clearly enhances or extends the useful life of asset rather than simply repairing or maintaining the asset on which it is incurred.
- ▶ Consider whether any development or other related costs that have been capitalised are reasonable to capitalise i.e. the costs incurred are directly attributable to bringing the asset into operational use.
- ▶ Test REFCUS, if material, to ensure that it is appropriate for the revenue expenditure incurred to be financed from ringfenced capital resources. Based on our work at the planning stage of the audit we do not expect there to be material REFCUS in the year.
- ▶ Seek to identify and understand the basis for any significant journals transferring expenditure from revenue to capital codes on the general ledger at the end of the year.

# Our response to significant risks

We have set out the significant risks (including fraud risks denoted by\*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

## Investment Property Valuations

### Financial statement impact

The value of Investment Property represents a significant balance in the Authority's accounts and is subject to valuation based on market information. Given potential impacts of market uncertainty, this may limit the valuer's scope in determining reasonable estimates within the valuation model of investment properties at 31 March 2024. This leads to a risk of material uncertainty in the valuations of Investment Property within the Council's financial statements.

### What is the risk?

The Council's investment property portfolio is a material balance (£162 million at 31 March 2021) disclosed on the Council's balance sheet.

Individual asset markets may react differently to ongoing uncertainties and considerations must be given to ensure sufficient and appropriate market data is used for valuations in 23/24. There is a significant level of judgement around assumptions within valuations, especially where these assumptions rely on market data or income based measures, given difficulties in estimating future income.

### What will we do?

- ▶ Consider the work performed by the valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Sample test key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- ▶ Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE. We will also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- ▶ Review assets not subject to valuation in 2023/24 to confirm that the remaining asset base is not materially misstated;
- ▶ Consider changes to useful economic lives as a result of the most recent valuation; and
- ▶ Test accounting entries have been correctly processed in the financial statements.



# Our response to significant risks

We have set out the significant risks (including fraud risks denoted by\*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

## Accounting for Net Pension Assets

### Financial statement impact

The value of net pension asset is material and required to be subject to asset ceiling test. The financial statements could be materially misstated if the Council fails to comply with the requirements of IAS 19 regarding pension assets ceiling.

### What is the risk?

The Local Authority Accounting Code of Practice and IAS19 require the Council / Authority to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by the Council. The Council's pension fund net asset is a material estimated balance and the Code requires that this amount be disclosed on the Council's balance sheet. At 31 March 2023 this totalled £6.9 million (Assets: £298.4million; Liabilities: £291.6 million). Under IAS 19, there is a limit on the size of the net pension asset that can be recognised on the balance sheet. This is referred to as the asset ceiling. As a result of the complexities involved in determining the asset ceiling, we have identified pension fund assets as a significant risk.

The information disclosed is based on the IAS 19 report issued to the Council / Authority by the actuary to the Council / Authority. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

### What will we do?

- ▶ Review and challenge how the Council has computed the asset ceiling for net pension assets in order to determine its reasonableness and accuracy
- ▶ Liaise with the auditors of Cambridgeshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Cambridge City Council;
- ▶ Assess the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used, by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all local government sector auditors, and by considering any relevant reviews by the EY actuarial team; and
- ▶ Evaluate the reasonableness of the Pension Fund actuary's calculations by comparing them to the outputs of our own auditor's specialist's model; and
- ▶ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.
- ▶ We will consider outturn information available at the time we undertake our work after production of the Council's draft financial statements, for example the year-end actual valuation of pension fund assets. We will use this to inform our assessment of the accuracy of estimated information included in the financial statements and whether any adjustments are required

# Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

## What is the risk/area of focus, and the key judgements and estimates?

### Bad debt provision and recoverability of receivables

The provision for bad debts is an estimate, and calculation requires management judgement. We would expect the Council to revisit their provision for bad debt calculation at year end and assess the appropriateness of this estimation technique. Given that there might be some subjectivity to the recoverability of debtors the Council will need to consider the level of any provision for bad debts. We have therefore raised as an inherent risk in our audit strategy

### Group Accounting

The Council prepares group accounts and will therefore need to undertake its annual assessment of the group structure to determine the procedures it needs to undertake to consolidate the relevant component entities.

## Our response: Key areas of challenge and professional judgement

We will:

- ▶ Review the calculation of the bad debt provision for reasonableness and accuracy; and
- ▶ Consider the recoverability of debts by testing a sample of trade receivables

We will:

- ▶ Review the Council's assessment of its group structure;
- ▶ Consider the need to liaise with the component auditors to understand any risks that they are recognising;
- ▶ Evaluate any risks at component level on the group accounts;
- ▶ Issue instructions to the component auditors we intend to place reliance on; and
- ▶ Review the consolidation adjustments and group accounts.

## What else will we do?

We will consider any evidence through the course of the audit that debts may be less likely to be recovered. Where possible, we will test debtors to the underlying cash receipt to provide assurance of the recoverability of these balances.

We will consider any balances that we may need to perform our own audit procedures on, if insufficient assurance can be obtained through our review of the component auditor work.

# Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

## What is the risk/area of focus, and the key judgements and estimates?

### Provisions for HRA Liabilities

The Council identified a historic breach of regulations relating to rental charges on housing stock. This involves misinterpretations in how rent has been calculated and charged, which has led to the overcharge of rent to some tenants. Consequently, the council will need to refund overpayments of rent to current and previous tenants. The refund will involve computations which include assumptions and judgments, therefore we have raised this as an inherent risk. There are also completeness considerations attached given the length of time that the cases span over and the availability of Council records to identify all overpayment instances.

## Our response: Key areas of challenge and professional judgement

We will:

- ▶ Consider and review the computation performed by the Council;
- ▶ Assess the completeness of information available to the Council to make a reliable estimate; and
- ▶ Challenge the judgements and assumptions made by the Council in doing the computation.

## What else will we do?

We will review the legal advice obtained by the Council to determine the nature of the historic overpayments. We will understand and review the process for identifying claimants and how this constitutes the full population of overpayments across the full time period.

### Valuation of other land and buildings

Other Land and Buildings (OLB) represents a significant balance in the Council's accounts (£150 million at 31 March 2023) and is subject to valuation changes, impairment reviews and depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end balances held in the balance sheet.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.

We will:

- ▶ Sample test key asset information used by the valuer in performing their valuation;
- ▶ Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code. We will consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- ▶ Review assets not subject to valuation in 2023/24 to confirm that the remaining asset base is not materially misstated; and
- ▶ Test accounting entries have been correctly processed in the financial statements.

We will also consider the work performed by the valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work, and determine whether we need to utilise our own valuation specialists.





# Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

## What is the risk/area of focus, and the key judgements and estimates?

### Council dwellings valuation

Council dwellings represent a significant balance in the Council's accounts (£784 million at 31 March 2023) and are subject to valuation changes, impairment reviews and depreciation charges. As the value of council dwellings are significant, and the outputs from the its valuer are subject to estimation, there is a higher inherent risk balances may be under/overstated or the related accounting entries incorrectly posted.

## Our response: Key areas of challenge and professional judgement

We will:

- ▶ Test a sample of beacon valuations to comparable sales to ensure that the approach is reasonable; and
- ▶ Consider specifically the use of indices to derive the 31 March valuation.

## What else will we do?

We will also consider the work performed by the valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work, and determine whether we need to utilise our own valuation specialists.



03

## Value for Money risks



# Value for Money

## Council's responsibilities for Value for Money

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

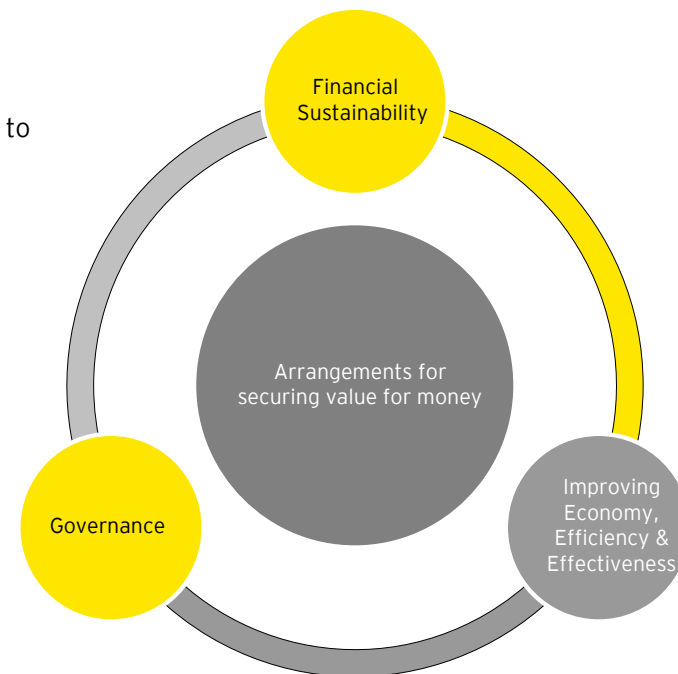
As part of the material published with the financial statements, the Council is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on arrangements for securing value for money from the use of resources.

## Auditor Responsibilities

Under the NAO Code of Audit Practice we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- ▶ Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services.
- ▶ Governance - How the Council ensures that it makes informed decisions and properly manages its risks.
- ▶ Improving economy, efficiency and effectiveness - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.





## Planning and identifying risks of significant weakness in VFM arrangements

The NAO's guidance notes requires us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Council's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

In considering the Council's arrangements, we are required to consider:

- ▶ The Council's governance statement;
- ▶ Evidence that the Council arrangements were in place during the reporting period;
- ▶ Evidence obtained from our work on the accounts;
- ▶ The work of inspectorates and other bodies; and
- ▶ Any other evidence source that we regard as necessary to facilitate the performance of our statutory duties.

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement. However, the NAO states that a weakness may be said to be significant if it:

- ▶ Exposes - or could reasonably be expected to expose - the Council to significant financial loss or risk;
- ▶ Leads to - or could reasonably be expected to lead to - significant impact on the quality or effectiveness of service or on the Council's reputation;
- ▶ Leads to - or could reasonably be expected to lead to - unlawful actions; or

Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

We should also be informed by a consideration of:

- ▶ The magnitude of the issue in relation to the size of the Council;
- ▶ Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves (where applicable), or impact on budgets or cashflow forecasts;
- ▶ The impact of the weakness on the Council's reported performance;
- ▶ Whether the issue has been identified by the Council's own internal arrangements and what corrective action has been taken or planned;
- ▶ Whether any legal judgements have been made including judicial review;
- ▶ Whether there has been any intervention by a regulator or Secretary of State;
- ▶ Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- ▶ The impact on delivery of services to local taxpayers; and
- ▶ The length of time the Council has had to respond to the issue.



# Value for Money

## Responding to identified risks of significant weakness

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to the Civic Affairs Committee.

## Reporting on VFM

Where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the Code requires that we should refer to this by exception in the audit report on the financial statements.

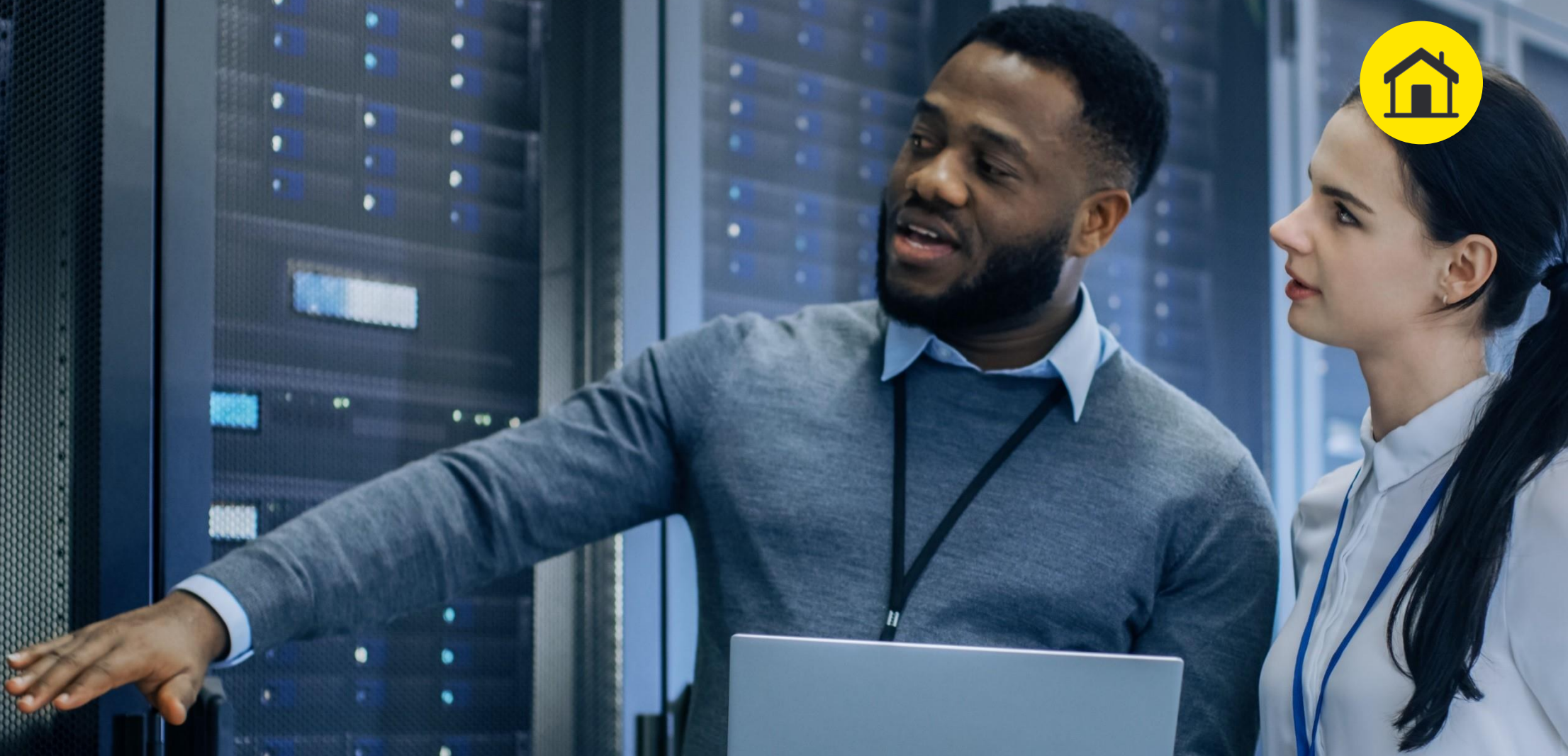
In addition, the Code requires us to include the a commentary on your value for money arrangements in the Auditor's Annual Report. The Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Council's attention or the wider public. This may include matters that we do not consider to be significant weaknesses in your arrangements but should be brought to your attention. This will include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

## Status of our 2023/24 VFM planning

We have yet to complete our detailed VFM planning assessment, as this forms part of our audit procedures throughout the audit. However, one area of focus will be on the arrangements that the Council has in place in relation to financial sustainability.

We will update the Civic Affairs Committee at a future meeting on the outcome of our VFM planning and our planned response to any additional identified risks of significant weaknesses in arrangements.





# 04 Audit materiality

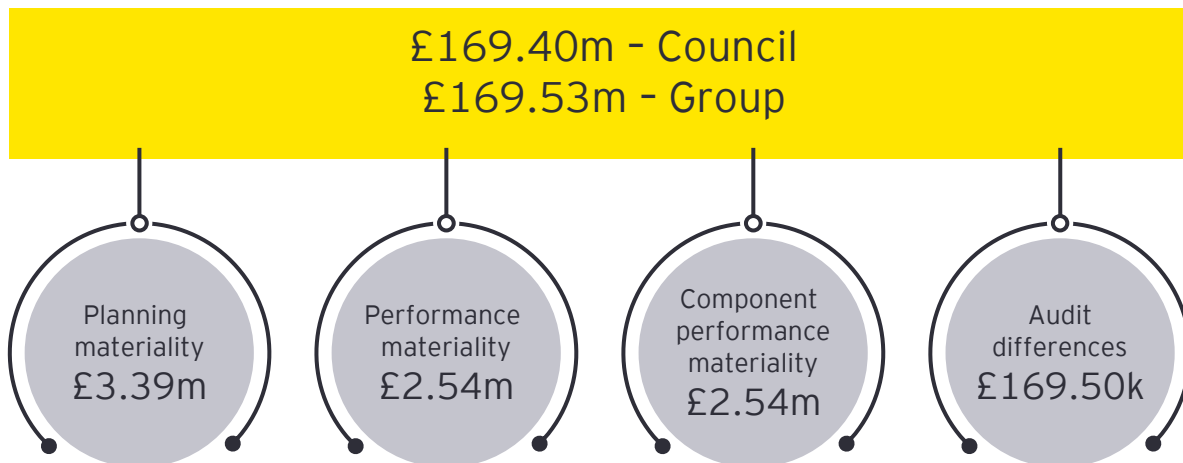


# Materiality

## Materiality

For planning purposes, Group and Council materiality for 2023/34 has been set at £3.39 million. This represents 2% of the Group and Council's 2022/23 gross expenditure on provision of services. It will be reassessed throughout the audit process. We consider that gross expenditure on the provision of services is the area of utmost interest to the users of the Council's accounts. We have provided supplemental information about audit materiality in Appendix F.

Gross expenditure on provision of services



The outcome of consultation on the planned measures to address local audit delays may impact our assessment of materiality for the 2023/24 audit. We will keep the Civic Affairs Committee updated on any changes to materiality levels as the audit progresses.

We request that the Civic Affairs Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

## Key definitions

**Planning materiality** – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

**Specific materiality** – We will set materiality based on our professional judgment for related party transactions, officers remuneration (including exist packages) and members' allowances. This reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to this.

**Performance materiality** – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £2.5 million which represents 75% of group materiality. This reflects the relatively lower level of misstatements detected in our 2021/22 financial statement audit.

**Component performance materiality range** – we determine component performance materiality as a percentage of Group performance materiality based on risk and relative size to the Group.

**Audit difference threshold** – we propose that misstatements identified below this threshold are deemed clearly trivial. The same threshold for misstatements is used for component reporting. We will report to you all uncorrected misstatements over this amount relating to the income statement and balance sheet that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement or disclosures and corrected misstatements will be communicated to the extent that they merit the attention of the Civic Affairs committee, or are important from a qualitative perspective.



# 05 Scope of our audit

# Audit process and strategy

## Objective and Scope of our Audit scoping

Under the Code of Audit Practice, our principal objectives are to undertake work to support the provision of our audit report to the audited body and to satisfy ourselves that the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

### 1. Financial statement audit

Our opinion on the financial statements:

- ▶ whether the financial statements give a true and fair view of the financial position of the Group and its expenditure and income for the period in question; and
- ▶ whether the financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.

Our opinion on other matters:

- ▶ whether other information published together with the audited financial statements is consistent with the financial statements; and
- ▶ where required, whether the part of the remuneration report to be audited has been properly prepared in accordance with the relevant accounting and reporting framework.

Other procedures required by the Code:

- ▶ Examine and report on the consistency of the Whole of Government Accounts schedules or returns with the body's audited financial statements for the relevant reporting period in line with the instructions issued by the National Audit Office.

### 2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources and report a commentary on those arrangements.



# Audit process and strategy

## Objective and Scope of our Audit scoping (cont'd)

### *Department for Levelling-up, Housing and Communities (DLUHC) and Financial Reporting Council (FRC) measures to address local audit delays*

The changes proposed by the consultations are likely to have a significant impact on both the scope of the 2023/24 audit and our assessment of risk. We will continue to provide updates to the Civic Affairs Committee as the audit progresses and our assessment on the required scope and nature of procedures we will undertake becomes clearer. As examples:

- ▶ Where prior year audit opinions are modified work will be required to gain assurance, where possible, on opening balances over the period of the recovery phase (phase 2). Where we are unable to gain assurance over opening balances, we anticipate that this may lead to limitation of scope of our audit over those balances.
- ▶ Where prior year audit opinions are modified, and particularly where we do not have assurance spanning a number of historic financial years, this is likely to have an impact on our assessment of materiality and our ability to issue an unmodified opinion early in the recovery phase.
- ▶ Changes to the Code of Audit Practice on Local Authority Accounting will potentially impact on our assessment of audit risk generally, risks associated with significant accounting estimates, such as the valuation of operational property, plant and equipment and the related need to rely on Management's and auditor's specialists.

# Audit process and strategy

## Audit Process Overview

Our audit involves:

- ▶ Identifying and understanding the key processes and internal controls; and
- ▶ Substantive tests of detail of transactions and amounts.
- ▶ Reliance on the work of other auditors where appropriate;
- ▶ Reliance on the work of experts (where necessary) in relation to areas, such as Pensions and Property (Land and Buildings) valuations.

Our initial assessment of the key processes across the Council has not identified any processes where we will seek to test key controls, either manual or IT. Our audit strategy will, as in previous years, follow a fully substantive approach. This will involve testing the figures within the financial statements rather than looking to place reliance on the controls within the financial systems. We assess this as the most efficient way of carrying out our work and obtaining the level of audit assurance required to conclude that the financial statements are not materially misstated.

### ***Analytics***

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- ▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Civic Affairs Committee.

### ***Internal audit***

We will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.

# Scope of our audit

## Group scoping

Our audit strategy for performing an audit of an entity with multiple locations is risk based. We identify components as:

- 1. Significant components:** A component is significant when it is likely to include risks of material misstatement of the group financial statements, either because of its relative financial size to the group (quantitative criteria), or because of its specific nature or circumstances (qualitative criteria). We generally assign significant components a full or specific scope given their importance to the financial statements.
- 2. Not significant components:** The number of additional components and extent of procedures performed depended primarily on: evidence from significant components, the effectiveness of group wide controls and the results of analytical procedures.

For all other components we perform other procedures to confirm that there is no risk of material misstatement within those locations. These procedures are detailed below.

## Scoping by Entity

Our preliminary audit scopes by number of locations we have adopted are set out below.



## Scope definitions

**Full scope:** locations where a full audit is performed to the materiality levels assigned by the Group audit team for purposes of the consolidated audit. Procedures performed at full scope locations support an interoffice conclusion on the reporting package. These may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements because of the materiality used and any additional procedures required to comply with local laws and regulations.

**Specific scope:** locations where the audit is limited to specific accounts or disclosures identified by the Group audit team based on the size and/or risk profile of those accounts.

**Review scope:** locations where procedures primarily consist of analytical procedures and inquiries of management. On-site or desk top reviews may be performed, according to our assessment of risk and the availability of information centrally.

**Specified Procedures:** locations where the component team performs procedures specified by the Group audit team in order to respond to a risk identified.

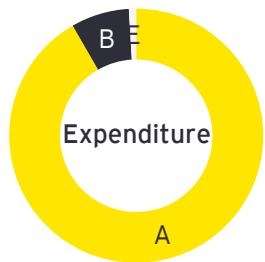
**Other procedures:** For those locations that we do not consider material to the Group financial statements in terms of size relative to the Group and risk, we perform other procedures to confirm that there is no risk of material misstatement within those locations.



# Scoping the group audit

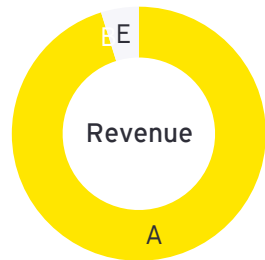
## Coverage of Revenue/Profit before tax/Total assets

Based on the group's prior year results, our scoping is expected to achieve the following coverage of Gross Expenditure, group's revenue and total assets.



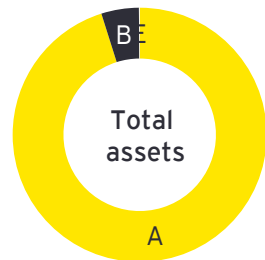
**98%**  
(2022: 98%)

of the group's forecast revenue will be covered by full and specific scope audits, with the remainder covered by other procedures.



**98%**  
(2022: 98%)

of the group's forecast revenue will be covered by full and specific scope audits, with the remainder covered by other procedures.



**100%**  
(2022: 100%)

of the group's forecast total assets will be covered by full and specific scope audits, with the remainder covered by other procedures.

Our audit approach is risk based and therefore the data above on coverage is provided for your information only, and would be subject to adjustments for intercompany transactions.

## Key changes in scope from last year

CIP LLP was assigned a specific scope in 2023/24. In 2022/23, CIP LLP holds a large WIP asset balance and is likely to continue to hold this balance in 2023/24, we therefore deem it significant based on risk. In 2021/22, CIP LLP did not hold a large WIP asset balance therefore we did not consider it significant.

## Details of specified and other procedures

Based on our discussions with management and the provided scope assessment by the Council, and knowledge from the 2021/22 audit we anticipate:

- ▶ Undertaking other procedures in relation to the Cambridge Investment Partnership (CIP) entities. The CIP entities are joint ventures in which the Council holds a 50% stake.
- ▶ For other entities excluding from the group accounts (Visit Cambridge and Beyond and Storey's Field Community Trust) we will ensure that the combination of entities is not material to the group.
- ▶ We will also issue group audit instructions (where appropriate).

We will update the Committee if there are any changes to our scoping coverage throughout the audit.

## Specified procedures

In order to respond to the risk identified in relation to the valuation of Land and Buildings we will perform our own procedures on the balances at Cambridge City Housing Company. We will consider whether the scoping decisions remain appropriate based on the 2022/23 accounts of the CIP entities and those entities that are excluded from the consolidation.

## Other procedures

- ▶ Perform analytical review procedures
- ▶ Test consolidation journals, intercompany eliminations and foreign currency translation recalculations

# Scoping the group audit

## Group audit team involvement in component audits

Auditing standards require us to be involved in the work of our component teams. We have listed our planned involvement below.

- ▶ We provide specific instruction to component team and our expectations regarding the detailed procedures;
- ▶ We set up initial meeting with component team to discuss the content of the group instructions;
- ▶ We will consider the need to perform a file review of component team's work where appropriate; and
- ▶ We will attend a closing meeting with component team to discuss their audit procedures and findings.

At present, we are not intending to solely rely on the work of the component auditor for any of the components of the group.



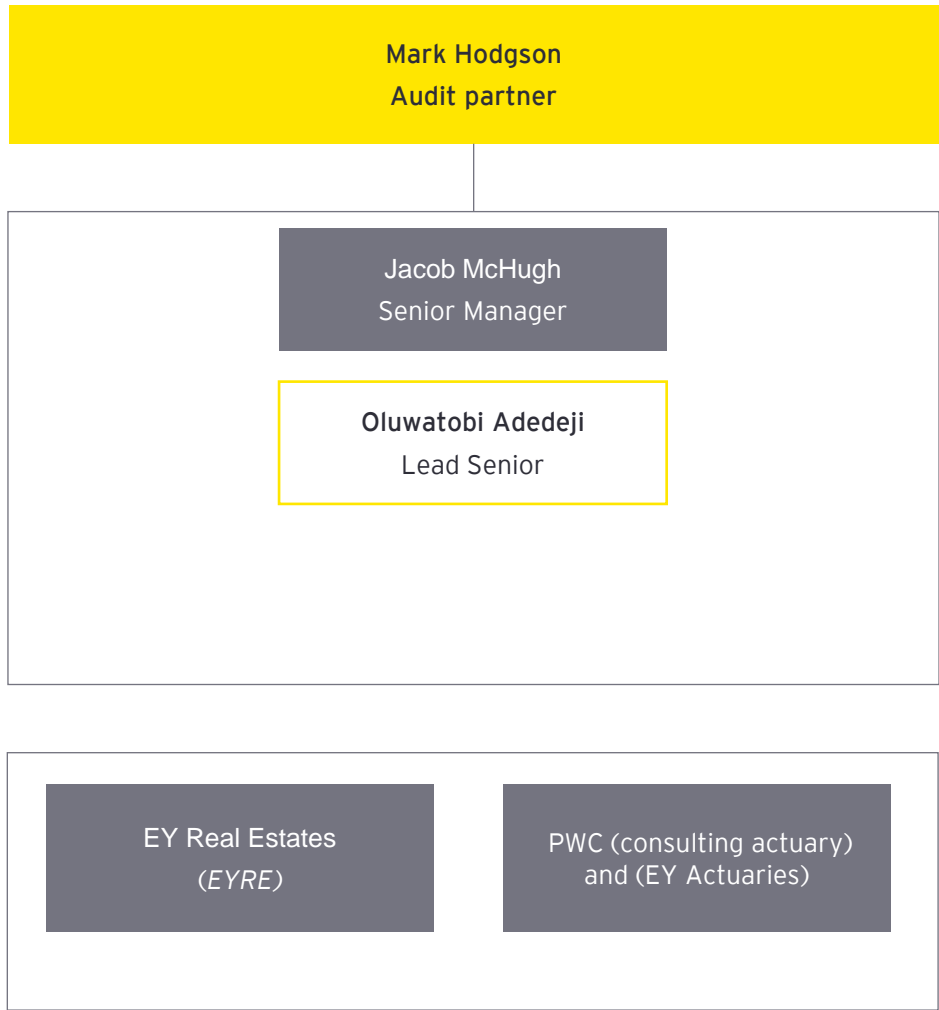


# 06

## Audit team



# Audit team



## Working together with the Council

We are working together with officers to identify continuing improvements in communication and processes for the 2023/24 audit. We have undertaken a workshop with key officers involved in the audit process, which have reset the expectations we have of the Council to facilitate an effective audit.

We will continue to keep our audit approach under review to streamline it where possible and also ensure strong continuity in the audit team.

# Use of specialists

When auditing key judgements, we are often required to use the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where EY specialists are expected to provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings & Investment Properties	Wilkes Head & Eve and Bruton Knowles (Council's valuers) EY Real Estates (if required)
Pensions disclosure	EY Actuaries Hymans Robertson- Actuary to Cambridgeshire Pension Fund
NDR Appeals Provision	Inform CPI (management specialist)
Financial Instruments	Link Assets Services (management specialist)

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable
- ▶ Assess the reasonableness of the assumptions and methods used
- ▶ Consider the appropriateness of the timing of when the specialist carried out the work
- ▶ Assess whether the substance of the specialist's findings are properly reflected in the financial statements



07

## Audit timeline

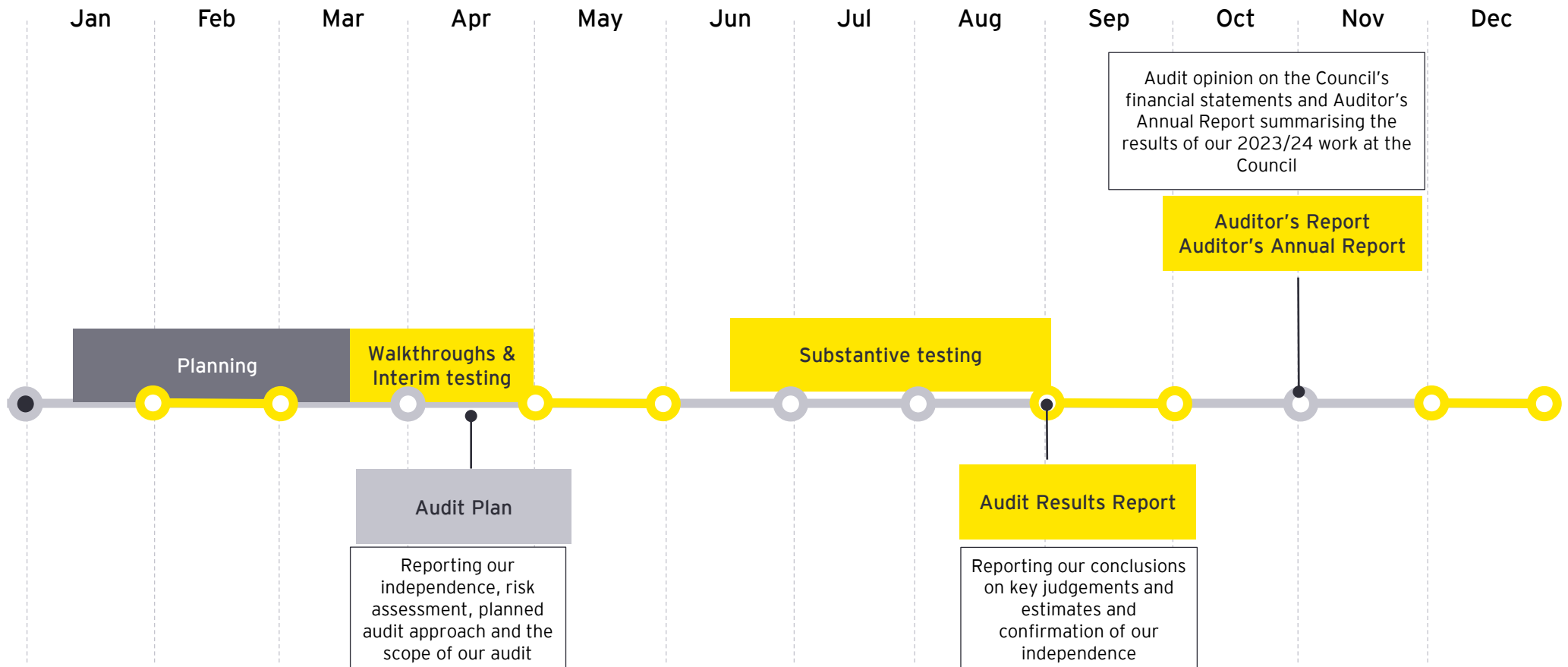


# Timetable of communication and deliverables

## Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2023/24.

From time to time matters may arise that require immediate communication with the Civic Affairs Committee and we will discuss them with the Civic Affairs Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.





08

# Independence

# Introduction

The FRC Ethical Standard 2019 and ISA (UK) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

## Required communications

### Planning stage

- ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us;
- ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;
- ▶ The overall assessment of threats and safeguards;
- ▶ Information about the general policies and process within EY to maintain objectivity and independence
- ▶ The IESBA Code requires EY to provide an independence assessment of any proposed non-audit service (NAS) to the PIE audit client and will need to obtain and document pre-concurrence from the Civic Affairs Committee/those charged with governance for the provision of all NAS prior to the commencement of the service (i.e., similar to obtaining a "pre-approval" to provide the service).
- ▶ All proposed NAS for PIE audit clients will be subject to a determination of whether the service might create a self-review threat (SRT), with no allowance for services related to amounts that are immaterial to the audited financial statements.

### Final stage

- ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;
- ▶ Details of non-audit/additional services provided and the fees charged in relation thereto;
- ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;
- ▶ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner
- ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;
- ▶ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and
- ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.



# Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

## Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Mark Hodgson your audit Engagement Partner and the audit engagement team have not been compromised.

## Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we have an investment in the entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved.

In addition, when the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you. We do not plan to perform any non-audit work. No additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4. There are no other self interest threats at the date of this report.

## Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

## Management threats


Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

## Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.



# Other communications

## EY Transparency Report 2023

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the period ended 30 June 2023 and can be found here: [EY UK 2023 Transparency Report](#).





# 09 Appendices



# Appendix A – PSAA Statement of Responsibilities

As set out on the next page our fee is based on the assumption that the Council complies with PSAA's Statement of Responsibilities of auditors and audited bodies. See <https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>. In particular the Council should have regard to paragraphs 26-28 of the Statement of Responsibilities which clearly set out what is expected of audited bodies in preparing their financial statements. We set out these paragraphs in full below:

## **Preparation of the statement of accounts**

*26. Audited bodies are expected to follow Good Industry Practice and applicable recommendations and guidance from CIPFA and, as applicable, other relevant organisations as to proper accounting procedures and controls, including in the preparation and review of working papers and financial statements.*

*27. In preparing their statement of accounts, audited bodies are expected to:*

- ▶ *prepare realistic plans that include clear targets and achievable timetables for the production of the financial statements;*
- ▶ *ensure that finance staff have access to appropriate resources to enable compliance with the requirements of the applicable financial framework, including having access to the current copy of the CIPFA/LASAAC Code, applicable disclosure checklists, and any other relevant CIPFA Codes.*
- ▶ *assign responsibilities clearly to staff with the appropriate expertise and experience;*
- ▶ *provide necessary resources to enable delivery of the plan;*
- ▶ *maintain adequate documentation in support of the financial statements and, at the start of the audit, providing a complete set of working papers that provide an adequate explanation of the entries in those financial statements including the appropriateness of the accounting policies used and the judgements and estimates made by management;*
- ▶ *ensure that senior management monitors, supervises and reviews work to meet agreed standards and deadlines;*
- ▶ *ensure that a senior individual at top management level personally reviews and approves the financial statements before presentation to the auditor; and*
- ▶ *during the course of the audit provide responses to auditor queries on a timely basis.*

*28. If draft financial statements and supporting working papers of appropriate quality are not available at the agreed start date of the audit, the auditor may be unable to meet the planned audit timetable and the start date of the audit will be delayed.*

# Appendix B – Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Current Year	Scale fee	Prior Year
	£'s	£'s	£'s
Total Fee - Code Work	174,191	174,191	61,962
Scale fee variation	TBC	-	TBC
<b>Total audit</b>	<b>TBC</b>	<b>174,191</b>	<b>TBC</b>
<b>Total other non-audit services</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total fees</b>	<b>TBC</b>	<b>174,191</b>	<b>TBC</b>

All fees exclude VAT

(1) As set out in the joint statement on update to proposals to clear the backlog and embed timely audit issued by DHLUC, PSAA will use its fee variation process to determine the final fee the Council have to pay for the 2022/23 audit.

(2) For 2023/24 the planned fee represents the base fee, i.e. not including any extended testing.

The revision to ISA (UK) 315 will impact on our scope and approach, and require us to enhance the audit risk assessment process, better focus responses to identified risks and evaluate the impact of IT on key processes supporting the production of the financial statements. We expect to charge addition fee for this. The scale fee also may be impacted by a range of other factors which will result in additional work, which include but are not limited to:

- ▶ Consideration of correspondence from the public and formal objections.
- ▶ New accounting standards, for example full adoption or additional disclosures in respect of IFRS 16.
- ▶ Non-compliance with law and regulation with an impact on the financial statements.
- ▶ VFM risks of, or actual, significant weaknesses in arrangements and related reporting impacts.
- ▶ The need to exercise auditor statutory powers.
- ▶ Prior period adjustments.
- ▶ Modified financial statement opinions

# Appendix C – Accounting and regulatory update

## Future accounting developments

The following table provides a high level summary of the accounting development that has the most significant impact on the Council:

Name	Summary of key measures	Impact on 2023/24
IFRS 16 Leases	<ul style="list-style-type: none"><li>▶ CIPFA have confirmed the re will be no further delay of the introduction of the leases standard IFRS 16.</li><li>▶ Assets being used by the authority under operating leases are likely to be capitalised along with an associated lease liability.</li><li>▶ Lease liabilities and right of use assets will be subject to more frequent remeasurement.</li><li>▶ The standard must be adopted by 1 April 2024 at the latest.</li></ul>	<ul style="list-style-type: none"><li>▶ The 2023/24 Statement of Accounts must disclose the impact the initial application of IFRS 16 is expected to have on the authority's financial statements.</li><li>▶ The authority should make key IFRS 16 policy decisions in accordance with the Code before 1 April 2024.</li><li>▶ Officers must implement robust systems to ensure all relevant data points, which could prompt a remeasurement or modification of the accounting entries, are captured in a timely manner.</li></ul>



# Appendix C – Accounting and regulatory update

## Regulatory update

The following table provides a high level summary of the regularity update that has the most significant impact on the Council:

Name	Summary of key measures	Impact on 2023/24
ISA (UK) 315 (Revised): Identifying and Addressing the Risks of Material Misstatement	<p>ISA 315 is effective from FY 2022/23 onwards and is the critical standard which drives the auditor's approach to the following areas:</p> <ul style="list-style-type: none"> <li>▶ Risk Assessment</li> <li>▶ Understanding the entity's internal control</li> <li>▶ Significant risk</li> <li>▶ Approach to addressing significant risk (in combination with ISA 330)</li> </ul> <p>The International Auditing &amp; Assurance Standards Board (IAASB) concluded that whilst the existing version of the standard was fundamentally sound, feedback determined that it was not always clear, leading to a possibility that risk identification was not consistent. The aims of the revised standard is to:</p> <ul style="list-style-type: none"> <li>▶ Drive consistent and effective identification and assessment of risks of material misstatement</li> <li>▶ Improve the standard's applicability to entities across a wide spectrum of circumstances and complexities ('scalability')</li> <li>▶ Modernise ISA 315 to meet evolving business needs, including:                             <ul style="list-style-type: none"> <li>▶ how auditors use automated tools and techniques, including data analytics to perform risk assessment audit procedures; and</li> <li>▶ how auditors understand the entity's use of information technology relevant to financial reporting.</li> </ul> </li> <li>▶ Focus auditors on exercising professional scepticism throughout the risk identification and assessment process.</li> </ul>	<p>We will need to obtain an understanding of the IT processes related to the IT applications of the Council.</p> <p>We will perform procedures to determine if there are typical controls missing or control deficiencies identified and evaluated the consequences for our audit strategy.</p> <p>When we have identified controls relevant to the audit that are application controls or IT-dependent manual controls where we do not gain assurance substantively, we performed additional procedures.</p> <p>We also review the following processes for all relevant IT applications:</p> <ul style="list-style-type: none"> <li>▶ Manage vendor supplied changes</li> <li>▶ Manage security settings</li> <li>▶ Manage user access</li> <li>▶ Manage entity-programmed changes</li> <li>▶ Job scheduling and managing IT process</li> </ul>

# Appendix D – The Spring Report

## A combined perspective on enhancing audit quality

The Spring Report ('The Report') was released by the Civic Affairs Committee Chairs' Independent Forum (ACCIF) on 2 June 2023 and is the first of its kind. The Report is the outcome from a series of discussions held with a group of experienced Civic Affairs Committee chairs, auditors from the top 6 firms, and executives from the Financial Reporting Council. The Report details the 9 key learnings that the group agreed on, proposing evolution not revolution, and is focused on getting the basics right first time leading to enhanced audit quality. The report considers key learnings covering the planning, execution, completion and reporting phases of the audit. The full list of key learnings can be found in the [report](https://accif.co.uk/report) (accif.co.uk).

# Appendix E – Required communications with the Civic Affairs Committee

We have detailed the communications that we must provide to the Civic Affairs Committee.

## Our Reporting to you

Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the Civic Affairs Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	<p>Communication of:</p> <ul style="list-style-type: none"> <li>▶ The planned scope and timing of the audit</li> <li>▶ Any limitations on the planned work to be undertaken</li> <li>▶ The planned use of internal audit</li> <li>▶ The significant risks identified</li> </ul> <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team</p>	Audit Plan - May 2024 - Civic Affairs Committee
Significant findings from the audit	<ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	<p>Audit Results Report - September 2024 - Civic Affairs Committee; and</p> <p>Auditor's Annual Report - November 2024 - Civic Affairs Committee</p>



# Appendix E – Required communications with the Civic Affairs Committee (cont'd)

## Our Reporting to you

Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	Audit Results Report - September 2024 - Civic Affairs Committee
Misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Material misstatements corrected by management</li> </ul>	Audit Results Report - September 2024 - Civic Affairs Committee
Fraud	<ul style="list-style-type: none"> <li>▶ Enquiries of the Civic Affairs Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements</li> </ol> </li> <li>▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>▶ 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</li> <li>▶ Any other matters related to fraud, relevant to Civic Affairs Committee responsibility</li> </ul>	Audit Results Report - September 2024 - Civic Affairs Committee

# Appendix E – Required communications with the Civic Affairs Committee (cont'd)

## Our Reporting to you

Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	Audit Results Report - September 2024 - Civic Affairs Committee
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, integrity, objectivity and independence</p> <ul style="list-style-type: none"> <li>▶ Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> </ul> </li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>Communication whenever significant judgements are made about threats to integrity, objectivity and independence and the appropriateness of safeguards put in place.</p> <ul style="list-style-type: none"> <li>▶ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit</li> <li>▶ Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy</li> <li>▶ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard</li> <li>▶ The Civic Affairs Committee should also be provided an opportunity to discuss matters affecting auditor independence</li> </ul>	<p>Audit Plan - May 2024 - Civic Affairs Committee</p> <p>Audit Results Report - September 2024 - Civic Affairs Committee</p>

# Appendix E – Required communications with the Civic Affairs Committee (cont'd)

## Our Reporting to you

Required communications	What is reported?	When and where
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	Audit Results Report - September 2024 - Civic Affairs Committee
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>▶ Enquiry of the Civic Affairs Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Civic Affairs Committee may be aware of</li> </ul>	Audit Results Report - September 2024 - Civic Affairs Committee
Internal controls	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit</li> </ul>	Audit Results Report - September 2024 - Civic Affairs Committee; and
Group audits	<ul style="list-style-type: none"> <li>▶ An overview of the type of work to be performed on the financial information of the components</li> <li>▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components</li> <li>▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work</li> <li>▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted</li> <li>▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements</li> </ul>	Audit Results Report - September 2024 - Civic Affairs Committee; and



# Appendix E – Required communications with the Civic Affairs Committee (cont'd)

## Our Reporting to you

Required communications	What is reported?	When and where
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report - September 2024 - Civic Affairs Committee; and
System of quality management	How the system of quality management (SQM) supports the consistent performance of a quality audit	Audit Results Report - September 2024 - Civic Affairs Committee; and
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report - September 2024 - Civic Affairs Committee; and
Auditors report	<ul style="list-style-type: none"> <li>▶ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit Results Report - September 2024 - Civic Affairs Committee; and
Fee Reporting	<ul style="list-style-type: none"> <li>▶ Breakdown of fee information when the audit plan is agreed</li> <li>▶ Breakdown of fee information at the completion of the audit</li> <li>▶ Any non-audit work</li> </ul>	Audit Plan - May 2024 - Civic Affairs Committee; and  Audit Results Report - September 2024 - Civic Affairs Committee; and
Value for Money	<ul style="list-style-type: none"> <li>▶ Risks of significant weakness identified in planning work</li> <li>▶ Commentary against specified reporting criteria on the VFM arrangements, including any exception report on significant weaknesses.</li> </ul>	Audit Plan - May 2024 - Civic Affairs Committee;  Audit Results Report - September 2024 - Civic Affairs Committee; and  Auditor's Annual Report - November 2024 - Civic Affairs Committee

# Appendix F – Additional audit information

## Regulatory update

Our objective is to form an opinion on the Council's consolidated financial statements under International Standards on Auditing (UK) as prepared by you in accordance with International Financial Reporting Standards as adopted by the UK, and as interpreted and adapted by the Code of Practice on Local Authority Accounting.

Our responsibilities in relation to the financial statement audit are set out in the formal terms of engagement between the PSAA's appointed auditors and audited bodies. We are responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of the Civic Affairs Committee. The audit does not relieve management or the Civic Affairs Committee of their responsibilities.

## Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards, company law and other regulations. We outline the procedures below that we will undertake during the course of our audit.

### Our responsibilities required by auditing standards

- ▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion
- ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control
- ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting
- ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
- ▶ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including to appropriately addresses matters he board's statement that the annual report is fair, balanced and understandable, the Civic Affairs Committee reporting communicated by us to the Civic Affairs Committee and reporting whether it is materially inconsistent with our understanding and the financial statements
- ▶ Maintaining auditor independence

# Appendix F – Additional audit information (cont'd)

## Other required procedures during the course of the audit

### Procedures required by the Audit Code

- ▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement.
- ▶ Examining and reporting on the consistency of consolidation schedules or returns with the Group's audited financial statements for the relevant reporting period

We have included in Appendix E a list of matters that we are required to communicate to you under professional standards.

## Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- ▶ The locations at which we conduct audit procedures to support the opinion given on the Group financial statements
- ▶ The level of work performed on individual account balances and financial statement disclosures

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.



# Appendix G - Non-Compliance with Laws and Regulations (NOCLAR)

## Non-Compliance with Laws and Regulations includes:

Any act or suspected act of omission or commission (intentional or otherwise) by the Council (including any third parties under the control of the entity such as subsidiaries, those charged with governance or management or an employee acting on behalf of the Council), either intentional or unintentional, which are contrary to the prevailing laws or regulations

### Management Responsibilities:

"It is the responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in an entity's financial statements."

ISA 250A, para 3

"The directors' report must contain a statement to the effect that... so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information."

ISA 250A, para 3

"Management is responsible for communicating to us on a timely basis, to the extent that management or those charged with governance are aware, all instances of identified or suspected non-compliance with laws and regulations ..."

Audit Engagement Letter

Management's responsibilities are also set out in the International Ethics Standard Board of Accountants' International Code of Ethics (IESBA Code) Para 360.08

### Auditor Responsibilities

[The International Ethics Standard Board of Accountants' International Code of Ethics \(IESBA Code\)](#) section 360 sets out the scope and procedures in relation to responding to actual or suspected non-compliance with laws and regulations.

Professional accountancy organisations who are members of the International Federation of Accountants (IFAC), such as the Institute of Chartered Accountants in England and Wales (ICAEW) are required to adopt the IESBA Code of Ethics.

We as your auditor are required to comply with the Code by virtue of our registration with ICAEW.

"If the auditor becomes aware of information concerning an instance of non-compliance or suspected non-compliance with laws and regulations, the auditor shall obtain:

An understanding of the nature of the act and the circumstances in which it has occurred; and Further information to evaluate the possible effect on the financial statements

The auditor shall evaluate the implications of the identified or suspected non-compliance in relation to other aspects of the audit, including the auditor's risk assessment and the reliability of written representations, and take appropriate action."

ISA 250A, paras 19 and 22

### Examples of Non-Compliance with Laws and Regulations (NOCLAR)

#### Matter

- ▶ Suspected or known fraud or bribery
- ▶ Health and Safety incident
- ▶ Payment of an unlawful dividend
- ▶ Loss of personal data
- ▶ Allegation of discrimination in dismissal
- ▶ HMRC or other regulatory investigation
- ▶ Deliberate journal mis-posting or allegations of financial impropriety
- ▶ Transacting business with sanctioned individuals

#### Implication

- ▶ Potential fraud/breach of anti-bribery legislation
- ▶ Potential breach of section 2 of the Health and Safety at Work Act 1974
- ▶ Potential breach of Companies Act 2006
- ▶ Potential GDPR breach
- ▶ Potential non-compliance with employment laws
- ▶ Suspicion of non-compliance with laws/regulations
- ▶ Potential fraud / breach of Companies Act 2006
- ▶ Potential breach of sanctions regulations

# Appendix G - Non-Compliance with Laws and Regulations (NOCLAR) (cont'd)

## What are the implications of NOCLAR matters arising?

Depending on the nature and significance of the NOCLAR matter the following steps are likely to be required, involving additional input from both management and audit.

This can have an impact on overall achievability of audit timeline and fees.

Across our portfolio of audits we have seen a steady increase in NOCLAR matters that need to be addressed as part of the audit over the past 3 years



### Management response:

Timely communication of the matter to auditors (within a couple of days)

Determine who will carry out any investigation into the matter - in-house or external specialists or mix of both

Scope the investigation, in discussion with the auditors

Evaluate findings and agree next steps

Determine effect on financial statements including disclosures

Prepare a paper, summarising the outcome of the investigation and management's conclusions

Communicate the outcome to Those Charged With Governance (TCWG) and to us as your auditors. Report to regulators where required.

### Key Reminders:

- ▶ Make sure that all areas of the business are aware of what constitutes actual or potential non-compliance and associated requirements
- ▶ Communicate with us as your auditors on a timely basis - do not wait for scheduled audit catch-ups
- ▶ Engage external specialists where needed
- ▶ Ensure that your investigation assesses any wider potential impacts arising from the matter, not just the matter itself.
- ▶ Plan upfront and consider any impact on overall accounts preparation and audit timeline - discuss the implications with us as your auditor

### Audit response:

Initial assessment of the NOCLAR matter and its potential impact

Initial consultation with risk team to determine responsive procedures and the involvement of specialists

Understand and agree scope of management's investigation with support from specialists as needed

Evaluate findings and undertake appropriate audit procedures

Determine audit related impact including accounting and disclosure and audit opinion implications

Document and consult on the outcome of our procedures

Communicate the outcome with management, TCWG and where necessary other auditors within the group or regulators

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