

Cambridge City Council

Audit Plan

Year Ending 31 March 2025

28 April 2025



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

28 April 2025

Dear Civic Affairs Committee Members,

External Audit Plan - 2024/25

Attached is our Audit Plan for the upcoming meeting of the Civic Affairs Committee. This report aims to provide the Civic Affairs Committee of Cambridge City Council (the Council) with a basis to review the proposed audit approach and scope for the 2024/25 audit. This is in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2024 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards, and other professional requirements. This report summarises our evaluation of the key issues driving the development of an effective audit. We have aligned our audit approach and scope accordingly. The report also addresses the broader impact of Government proposals aimed at establishing a sustainable local audit system.

As the Council's body charged with governance, the Civic Affairs Committee plays a crucial role in ensuring assurance over both the quality of the draft financial statements prepared by Management and the Council's wider arrangements to support a timely and efficient audit. Failure to achieve this will affect the level of resources required to fulfil our responsibilities. We will assess and report on the adequacy of the Council's external financial reporting arrangements, as well as the effectiveness of the Civic Affairs Committee in fulfilling its role within those arrangements as part of our Value for Money assessment. We will also consider invoking other statutory reporting powers to highlight any weaknesses in these arrangements if deemed necessary. We direct Civic Affairs Committee members and officers to the Public Sector Audit Appointment Limited's Statement of Responsibilities (paragraphs 26-28) for expectations on preparing financial statements (see Appendix A).

This report is intended solely for the information and use of the Civic Affairs Committee and Management, 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 12 May 2025 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Mark Hodgson

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.psaa.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.psaa.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 2024 (the NAO 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 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.



01 2024/25 audit strategy overview

2024/25 audit strategy overview

Context

Timely, high-quality financial reporting and audit of local bodies play a crucial role in our democratic system. It aids in effective decision-making by local bodies and ensures transparency and accountability to local taxpayers. There is a consensus that the delay in publishing audited financial statements by local bodies has reached an unacceptable level, and it is acknowledged that cooperation among all stakeholders in the sector is necessary to address this issue. The reasons for the backlog are well-documented and include:

- Insufficient capacity within the local authority financial accounting profession.
- Increased complexity of reporting requirements within the sector.
- Insufficient capacity within audit firms with public sector experience.
- Heightened regulatory pressure on auditors, leading to an expanded scope and extent of audit procedures performed.

The Ministry for Housing, Communities and Local Government (MHCLG) has collaborated with the Financial Reporting Council (FRC) and other system partners to develop and implement measures to address the backlog. SI 2024/907, along with the NAO Code and the Local Authority Reset and Recovery Implementation Guidance, have been created to ensure auditor compliance with International Standards on Auditing (UK) (ISAs (UK)). In February 2025, responsibilities for leadership of the local audit system transferred from the FRC back to MHCLG. This change follows the December 2024 launch of the Government's strategy for reforming the local audit system in England, which includes plans to establish a Local Audit Office. The approach to addressing the backlog consists of three phases:

- **Phase 1: Reset;** clearing the backlog of historic audit opinions up to and including financial year 2022/23 by 13 December 2024. This is largely complete.
- **Phase 2: Recovery from Phase 1;** from 2023/24, use backstop dates to prevent a recurrence of the backlog and allow assurance to be rebuilt over multiple audit cycles. The backstop date for the audit of the 2024/25 financial statements is 27 February 2026. Auditors are waiting for guidance from the system leader to effectively, efficiently and consistently build back assurance over disclaimed audit periods.
- **Phase 3: Reform;** involving addressing systemic challenges in the system and embedding timely financial reporting and audit.

As detailed in our Audit Completion Report to be presented to the Civic Affairs Committee on 12 May 2025, we disclaimed our audit opinion on the Council's 2023/24 financial statements.

We did not gain assurance over the closing balances in 2023/24. Consequently, we do not have assurance over the opening balances for 2024/25. This means we do not have assurance over in-year movements and some closing balances for 2024/25. Although we will continue to consider whether we can undertake work in 2024/25 to rebuild assurance ahead of the backstop date (subject to guidance), we will not be able to obtain sufficient evidence to have reasonable assurance over all closing balances. We therefore expect to again issue a disclaimed audit opinion in 2024/25.

2024/25 audit strategy overview (cont'd)

Rebuild of assurance – current position

The National Audit Office issued Local Audit Reset and Recovery Implementation Guidance (LARRIG) 05 on 10 September 2024, detailing the principle of returning to a state where auditors can issue audit opinions on local authority financial statements with sufficient audit evidence. This process will take several years to achieve.

Restoring assurance will need local authorities and auditors to work together. We are waiting for guidance from the National Audit Office and Financial Reporting Council to ensure a consistent approach for restoring assurance for disclaimed periods. Until then, we are unable to commence the rebuilding work programme.

We will audit the 2024/25 closing balance sheet and in-year transactions, similar to our approach for 2023/24, as well as performing additional risk assessment procedures to assess the likelihood of a material misstatement in the opening reserve position for 2024/25. Updates on rebuilding assurance for the historical position will be provided as guidance is issued and its implications for the Council are evaluated taking into consideration the outcome of our risk assessment procedures. As the Council's financial statements for 2022/23 and 2023/24 were subject to a disclaimer of opinion, it is highly probable that our risk assessment procedures to assess the likelihood of a material misstatement in the opening reserve position will conclude that an elevated risk of material misstatement is associated with the reserve balances, because of the way in which they accumulate over successive years.

Responsibilities of management and those charged with governance

The Council's Section 151 Officer is responsible for preparing the financial statements in accordance with proper practices and confirming they give a true and fair view at the 31 March 2025. To complete the audit in a timely and efficient manner, it is essential that the financial statements are supported by high-quality working papers and audit evidence, and that Council resources are available to support the audit process within agreed deadlines. The Civic Affairs Committee has an essential role in ensuring that it has assurance over both the quality of the financial statements and the Council's wider arrangements to support the delivery of a timely and efficient audit. Where these conditions are not met, 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 deemed necessary.
- Assess the impact on available audit resource and where additional resources are deployed, seek a fee variation from PSAA. We have set out the factors that will lead to a fee variation at Appendix B, 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.

2024/25 audit strategy overview (cont'd)

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 (£165 million at 31 March 2024) 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.

2024/25 audit strategy overview (cont'd)

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 (cont'd)

Risk/area of focus	Risk identified	Change from PY	Details
Pension Valuation	Significant Risk	No change in risk or focus	<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, 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>
Bad debt provision and recoverability of receivables	Inherent Risk	No change in risk or focus	<p>The provision for bad debts is an estimate, and the 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.</p>
Group Accounting	Inherent Risk	No change in risk or focus	<p>The Council prepares consolidated Group 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 2024/25 audits and what impact this has on our risk procedures in relation to the group accounts.</p>

2024/25 audit strategy overview (cont'd)

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 (cont'd)

Risk/area of focus	Risk identified	Change from PY	Details
Council Dwellings Valuation	Inherent Risk	No change in risk or focus	Council dwellings represent a significant balance in the Council's accounts (£820 million at 31 March 2024) 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.
Valuation of Land and Buildings	Inherent Risk	No change in risk or focus	Other Land and Buildings (OLB) constitutes a significant balance in the Council's accounts (£154 million at 31 March 2024). 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.
Provision for Housing Revenue Account (HRA) Liabilities	Inherent Risk	No change in risk or focus	In 2023, the Council identified a breach of regulations relating to rental charges on housing stock which led to refunds needing to be made to those who had previously been overcharged. The estimated total to be refunded is £0.54 million in respect of 2023/24, and £3.83 million in respect of earlier years. 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.

We will continue to keep the Civic Affairs Committee updated on our assessment of any changes to audit risk.

2024/25 audit strategy overview (cont'd)

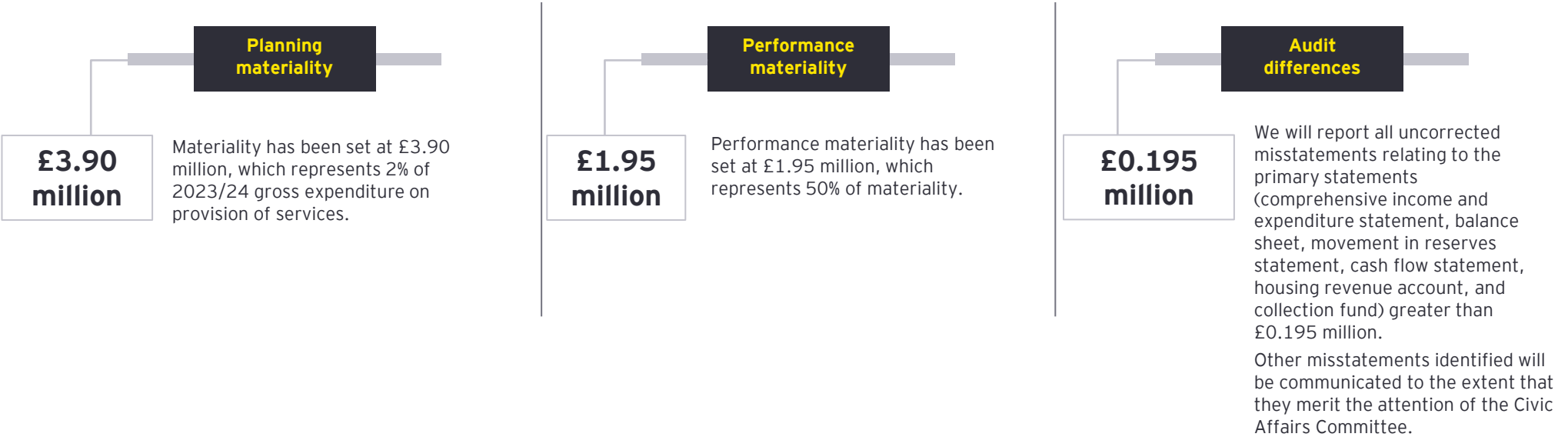
The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Civic Affairs Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus (cont'd)

Risk/area of focus	Risk identified	Change from PY	Details
Implementation of IFRS 16 Leases	Area of focus	New area of focus	<p>IFRS 16 Leases is applicable in local government for periods beginning 1 April 2024. Where the Council is the lessee, these will now be recognised on the Balance Sheet as a 'right of use' asset and a lease liability reflecting the obligation to make lease payments.</p> <p>Successful transition will depend on the Council having captured additional information about leases, both new and existing, especially regarding future minimum lease payments. The Council will also have had to develop systems for capturing cost information that are fit for purpose, can respond to changes in lease terms and the presence of any variable (e.g. RPI-based) lease terms where forecasts need to be updated annually based on prevailing indices.</p> <p>At this stage, based on Management's initial assessment, whilst we do not expect IFRS 16 to have a material impact on the Balance Sheet, we do have to consider Management's assessment and the required disclosures. Therefore, we have identified this as an area of focus.</p>

2024/25 audit strategy overview (cont'd)

Group and Council Materiality



We will keep the Civic Affairs Committee updated on any changes to materiality levels as the audit progresses.

2024/25 audit strategy overview (cont'd)

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 give a true and fair view of the financial position as at 31 March 2025 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 the Value for Money arrangements in Section 3.

We 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 required mandatory procedures in accordance with applicable laws and auditing standards.

When planning the audit we consider 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 the above.

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

Considering the above, our professional duties require us to independently assess audit risks and take appropriate actions. The Terms of Appointment with the PSAA permit fee adjustments based on 'the auditor's assessment of risk and the work needed to meet their professional responsibilities'. Therefore, we outline these risks in this Audit Plan and will discuss any impact on the proposed scale fee with Management.

2024/25 audit strategy overview (cont'd)

Audit scope (cont'd)

Effects of climate-related matters on financial statements

Public interest in climate change is growing. We recognize that climate-related risks may span a long timeframe, and while these risks exist, their impact on the current financial statements may not be immediately significant. However, it remains essential to understand these risks to conduct a proper evaluation. Additionally, comprehending climate-related risks may be pertinent in the context of qualitative disclosures in the notes to the financial statements and in assessing value-for-money arrangements.

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

Audit scope and approach

We plan to adopt a substantive audit approach.

2024/25 audit strategy overview (cont'd)

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.

The Value for Money planning and related risk assessment aims to collect enough evidence to document our evaluation of the Council's arrangements, allowing us to prepare a commentary based on three reporting criteria. This process includes identifying and reporting any significant weaknesses in those arrangements and making suitable 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.
- 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.

Commentary on Value for Money arrangements will be included in the 2024/25 Auditor's Annual Report. This will need to be issued by 30 November 2025 to comply with the revised requirements of the NAO Code.

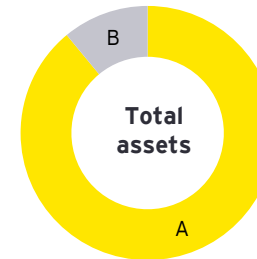
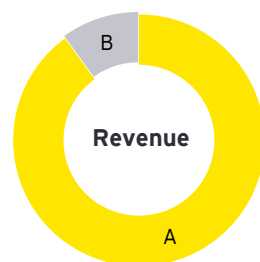
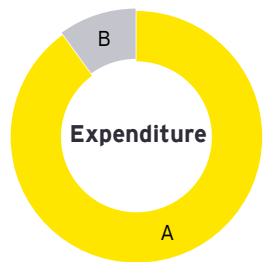
Timeline

An audit timetable has been agreed with management. In Section 7 we include a provisional timeline for the audit. It is essential that all parties collaborate to ensure compliance with this timeline.

2024/25 audit strategy overview (cont'd)

Group Audit Scope

The scoping of the Group Audit addresses the risks of material misstatement in the Council's financial statements, including those noted under 'Audit risks' and 'Other areas of audit focus'. For the year-end audit, aligned with ISA (UK) 600 (Revised), effective for periods starting on or after 15 December 2023, we have tailored our audit scope to respond to these identified risks. This has influenced our choice of locations and the extent of procedures undertaken. Through our on-site work we will cover the following percentages, by full scope (A) and specific scope (B) audits, of the group's gross expenditure, revenue and total assets.



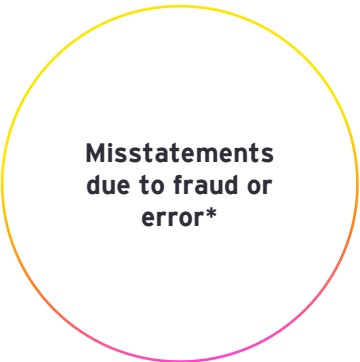
- We have determined that certain audit procedures can be performed centrally. Significant procedures planned to be performed centrally and the responsibility for their performance are:
 - We will conduct centralized testing for specific group accounts where substantial portions or amounts from the Council's balances are addressed by the Primary Team. This will encompass centralized detailed testing and substantive analytical procedures.
- In determining the scope of our audit, we consider, on an iterative basis the residual amount of balances and accounts of the group financial statements which are not included with the group scope. These amounts may comprise balances at multiple locations where the balances may be material in aggregate. We performed risk assessment procedures to determine whether there is a risk of material misstatement within those amounts and our planned Group Audit scope is inclusive of our audit response to such residual risks of material misstatement, when applicable. We update and perform further risk assessment procedures as necessary to conclude our assessment.
- We plan to take a substantive audit approach at the Group level.
- Changes to the scope of our audit from last year:
 - In 2022/23, Cambridge Investment Partnership (CIP) LLP held a large WIP asset balance and was likely to continue to hold this balance in 2023/24. Therefore, this was assigned as specific scope. CIP LLP did not hold a large WIP asset balance at 31 March 2024 therefore we did not consider it significant for the current year.
- Other procedures to be performed:
 - Review entity level controls over these components, including group management oversight and results of Internal Audit visits;
 - Write to and obtain assurance from the component's auditors over material balances in the component's accounts;
 - Perform analytical review procedures, test consolidation journals and intercompany eliminations; and
 - Enquiry of Management about unusual transactions in these components.



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.



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).
- Considering whether there are any fraud risk factors associated with related party relationships and transactions and if so, whether they give rise to a risk of material misstatement due to fraud.
- 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.

Our response to significant risks (cont'd)

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 capitalize, 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 (cont'd)

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 Council'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 2025. 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 (£165 million at 31 March 2024) 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 2024/25. 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 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 2024/25 to confirm that the remaining asset base is not materially misstated;
- Test accounting entries have been correctly processed in the financial statements;
- Review financial statement disclosures to ensure that adequate disclosures have been made in relation to estimation uncertainty.

Our response to significant risks (cont'd)

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.



Financial statement impact

The Council's Pension Fund balance is a material estimated balance, and the Code requires the pension valuation to be disclosed on the Council's Balance Sheet.

The value of Net Pension Asset is 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 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 2024, this totalled £18.07 million, made up of assets of £312.56 million and liabilities of £294.48 million. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Council.

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.

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?

- 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;
- Evaluate the reasonableness of the Pension Fund actuary's calculations by comparing them to the outputs of our own auditor's specialist's model;
- Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.
- Review and challenge how the Council has computed the asset ceiling for net pension assets to determine its reasonableness and accuracy.

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

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

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.

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.

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.

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.

Council dwellings valuation (HRA)

Council dwellings represent a significant balance in the Council's accounts (£820 million at 31 March 2024) 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.

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.

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?

Valuation of other land and buildings

Other Land and Buildings (OLB) represents a significant balance in the Council's accounts (£154 million at 31 March 2024) 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.

Our response: Key areas of challenge and professional judgement

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 2024/25 to confirm that the remaining asset base is not materially misstated; and
- ▶ Test accounting entries have been correctly processed in the financial statements.

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.

Provisions for Housing Revenue Account (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.

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.

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.

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?

Implementation of IFRS16 Leases (New area of focus)

IFRS 16 Leases is applicable in local government for periods beginning 1 April 2024. It has been adopted, interpreted and adapted in the 2024/24 CIPFA Code of Practice on Local Authority Accounting which sets out the financial reporting framework for the Council's 2024/25 accounts.

IFRS 16 eliminates the operating/finance lease distinction for leases and imposes a single model geared towards the recognition of all but low-value or short-term leases. Where the Council is lessee these will now be recognised on the Balance Sheet as a 'right of use' asset and lease liability reflecting the obligation to make lease payments.

Successful transition will depend on the Council having captured additional information about leases, both new and existing, especially regarding future minimum lease payments. The Council will also have had to develop systems for capturing cost information that are fit for purpose, can respond to changes in lease terms and the presence of any variable (e.g. RPI-based) lease terms where forecasts will need to be updated annually based on prevailing indices.

At this stage, based on Management's initial assessment, whilst we do not expect IFRS 16 to have a material impact on the Balance Sheet, we do have to consider Management's assessment and the required disclosures. Therefore, we have identified this as an area of focus.

Our response: Key areas of challenge and professional judgement

We will:

- ▶ Gain an understanding of the processes and controls developed by the Council relevant to the implementation of IFRS 16. We will pay particular attention to the Council's arrangements to ensure lease and lease-type arrangements considered are complete.
- ▶ Review the discount rate that is used to calculate the right of use asset and assess its reasonableness.
- ▶ Review management policies, including whether to use a portfolio approach, low value threshold, and asset classes where management is adopting as the practical expedient to non-lease components.
- ▶ Gain assurance over the right of use asset included in the 2024/25 financial statements
- ▶ Sample test leases to ensure that transition arrangements have been correctly applied.
- ▶ Consider the accounting for leases provided at below market rate, including peppercorn and nil consideration, and the need to make adjustments to cost in the valuation of right of use assets at the balance sheet date.

What else will we do?

We will consider information available at the time we undertake our work after production of the Council's draft financial statements, for example complexity of IFRS 16 arrangements and impact of the new standard to Balance Sheet and assess if risk remains appropriate.



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.

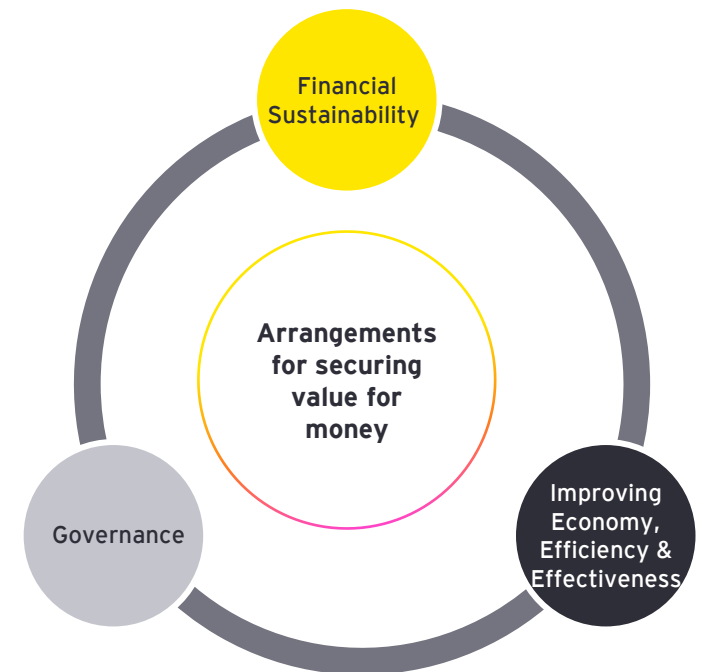
As part of the material published with the financial statements, the Council is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the Council tailors the content to reflect its 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 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.



Value for Money (cont'd)

Planning and identifying risks of significant weakness in VFM arrangements

The NAO's guidance notes require us to conduct a risk assessment that collects sufficient evidence to document our evaluation of the Council's arrangements, allowing us to draft a commentary under the three reporting criteria. This involves identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations. In considering the Council's arrangements, we consider:

- The governance statement;
- Evidence of arrangements during the reporting period;
- Evidence obtained from our audit of the financial statements;
- The work of inspectorates and other bodies; and
- Any other evidence that we deem as necessary to facilitate the performance of our statutory duties.

We then evaluate whether there is evidence indicating significant weaknesses in arrangements. According to the NAO's guidance, determining what constitutes a significant weakness and the extent of additional audit work required to address the risk is based on professional judgment. The NAO indicates that a weakness can be considered 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 or unlawful actions;
- 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.

Responding to identified risks of significant weakness

When planning work identifies a risk of significant weakness, the NAO's guidance requires us to consider the additional evidence needed to verify whether there is a significant weakness in arrangements. This involves conducting further procedures as necessary. We are required to report our planned procedures to the Civic Affairs Committee.

Value for Money (cont'd)

Reporting on VFM

If we determine that the Council has not made proper arrangements for securing economy, efficiency, and effectiveness in its use of resources, the NAO Code mandates that we reference this by exception in the audit report on the financial statements.

Additionally, we are required to provide a commentary on the value for money arrangements in the Auditor's Annual Report. The NAO Code specifies that this commentary should be clear, readily understandable, and highlight any issues we wish to draw to the Council's or the wider public's attention. This may include matters that are not considered significant weaknesses in arrangements but should still be brought to the Council's awareness. It will also cover details of any recommendations from the audit and the follow-up of previously issued recommendations, along with our assessment of their satisfactory implementation. Our 2024/25 Auditor's Annual Report requires to be issued by 30 November 2025 to comply with the revised requirements of the NAO Code.

Status of our 2024/25 VFM planning

We have completed our initial Value for Money (VFM) planning, where we have considered:

Our entity level controls and understanding the business assessment, the Council's Risk Register, Council meeting minutes, planning meetings with Management, key financial and budget information, Internal Audit reports and information from local, national and specialist media, and our VFM reporting in 2023/24.

Based on the VFM weaknesses identified and reported in 2023/24, we have identified the following risks of weakness in respect of the Council's 2024/25 arrangements:

- The Council's ability to prepare and publish draft financial statements in line with the deadlines set by the 2015 Accounts and Audit Regulations (for 2024/25 this deadline is 30 June 2025).
- The Council's failure to deliver outcomes of Rent Standards and breach of the Welfare Reform and Work Act 2016 (the Act)

We will keep our understanding of arrangements during planning under review. We will update our work to reflect any emerging risks or findings that may suggest an additional significant weakness in arrangements and communicate these to you.

Value for Money (cont'd)

Value for Money Risks

The table summarises the risk of significant weaknesses identified during our planning. We will review arrangements and risks regularly, updating our work if new risks arise and inform you of any additional significant weaknesses.

What is the risk of significant weakness?	What arrangements does this impact	Change from PY	Details and what we will do
<p>The Council did not publish its draft financial statements for 2023/24 by the target date outlined in the Accounts and Audit Regulations 2015 (31 May 2024). The unaudited statements for 2023/24 were published on 28 February 2025.</p> <p>There is a risk on Council's ability to prepare and publish draft financial statements in line with the deadlines set by the 2015 Accounts and Audit Regulations (for 2024/25 this deadline is 30 June 2025).</p>	<p>Governance - How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed.</p>	<p>No change in risk or focus.</p>	<p>We will assess the Council's delivery against the Audit and Accounts Regulations for the publication of the 2024/25 draft financial statements.</p>
<p>In December 2023, the Council has self-referred to the Regulator of Social Housing (RSH) identifying issues in rent setting. Following this, the RSH has published a regulatory judgement concluding that there have been serious failings in how the Council delivered the outcomes of the Rent Standard and therefore have no assurance that the Council was previously compliant with the Act.</p>	<p>Governance: How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).</p>	<p>No change in risk or focus.</p>	<p>We will:</p> <ul style="list-style-type: none"> Assess the actions the Council have taken to ensure tenants have been correctly refunded. Review steps taken by Management to identify impacted tenants. Review controls in place which prevent the breach of laws and regulations relating to rental charges on housing stock.

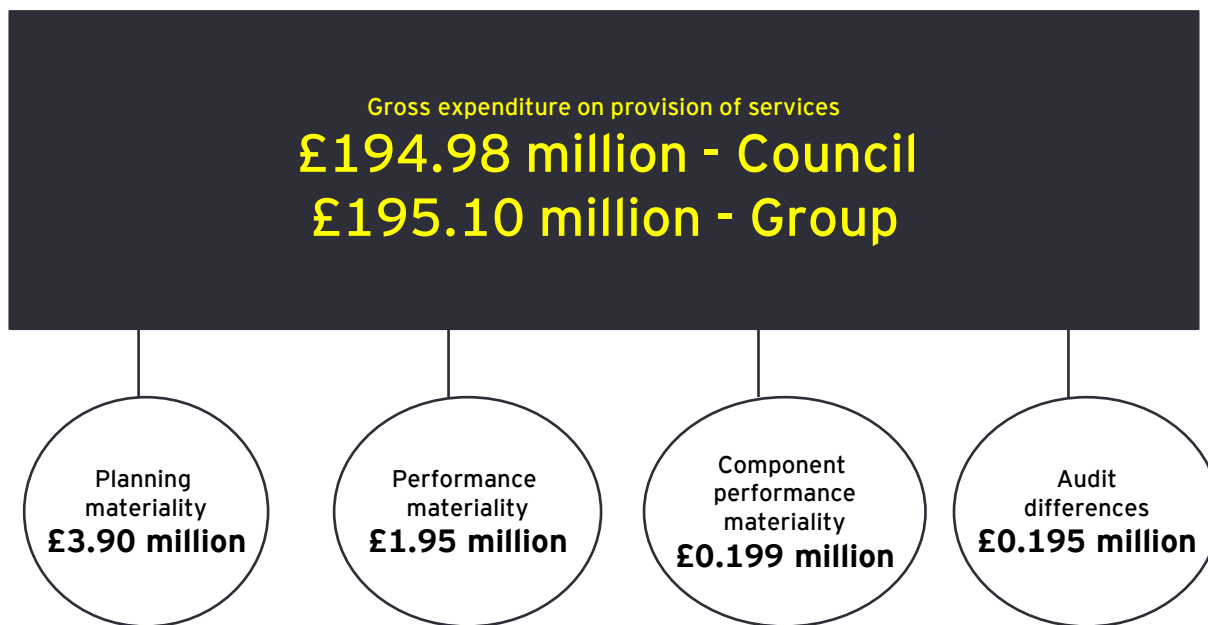


04 Audit materiality

Materiality

Group and Council Materiality

For planning purposes, Group and Council materiality for 2024/25 has been set at £3.90 million. This represents 2% of the Group and Council 2023/24 Gross Expenditure on the Provision of Services. It will be reassessed throughout the audit process.



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.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £1.95 million which represents 50% of Group and Council materiality. This reflects the higher level of risk of material misstatements considering disclaimed audit opinions for disclaimed audit opinions.

Component performance materiality – 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.

Specific materiality – We will set materiality based on our professional judgment for 'Officers' remuneration (including exist packages) and members' allowances. Additionally for related parties we consider the materiality from the perspective of both parties. 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.



05 Scope of our audit

Audit process and strategy

Objective and Scope of our Audit scoping

In accordance with the NAO Code, our primary objectives are to conduct work that supports the delivery of our audit report to the Council. Additionally, we aim to ensure that the Council has established proper arrangements for securing economy, efficiency, and effectiveness in its use of resources, as mandated by relevant legislation and the requirements of the NAO 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.

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 (cont'd)

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 in relation to areas, such as pensions and property 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 a data driven approach 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.

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 and our scoping of the Group Audit responds to the risks of material misstatement that we have identified for the group financial statements.

We first determined whether centralised procedures could be performed before we determined which components to include in the Group Audit scope, and the work to be performed at those components.

We next identified individually relevant components based on various risk characteristics and applied professional judgement to determine which accounts were to be included in the work performed at these components.

We then considered the balance of Group Accounts not yet subject to planned audit procedures and determined whether it is necessary to perform audit procedures on further accounts in components which are individually relevant and/or include accounts in additional components within the Group Audit scope to address the risks of material misstatement of the group financial statements. Having identified the components for which work will be performed, we determined the scope to assign to each component. For all other components we perform other procedures to confirm that there is no risk of material misstatement within those locations.

Scoping by Entity

Our preliminary audit scopes by number of locations we have adopted are set out below. We provide scope details for each component in the next page.

1 A Full scope audit - Cambridge City Council

1 B Specific scope audit - Cambridge City Housing Company Limited

0 C Review scope audits

0 D Specified procedures

0 E Other procedures

Scope definitions

Procedures performed centrally: Certain balances within components assigned a full or specific scope are subject to centralised procedures performed by either primary or component team.

Full scope: locations involving the design and performance of audit procedures on a significant proportion of the financial information of the component. 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 scope of work, materiality used and any additional procedures required to comply with local laws and regulations.

Specific scope: locations involving the design and performance of audit procedures on one or more classes of transactions, account balances, or disclosures of the financial information of the group. The accounts included in the scope are not a significant proportion of the financial information of the component.

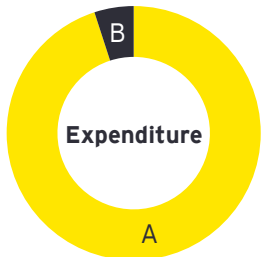
Specified Procedures: locations where the component team performs procedures specified by the Group audit team to obtain audit evidence for one or more elements of the group financial statements and/or to respond to identified risks of material misstatement.

Remaining components: Based on our planned audit scope, there may exist residual amounts of balances and accounts of the group financial statements which are not included in the group scope. These amounts have been evaluated as not presenting a risk of material misstatement to the group financial statements and may comprise balances at multiple location where the balances may be material in aggregate. Components/locations that are not assigned a scope of work nor subject to centralised procedures, and comprise amounts solely contributing the residual amounts are described as 'remaining components'. We update and perform further risk assessment procedures as necessary to conclude our assessment that there is no risk of material misstatement in those amounts.

Scoping the Group Audit

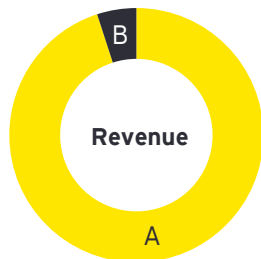
Coverage of Group's expenditure, revenue, and total assets

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



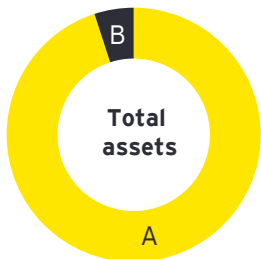
100%
(2024: 100%)

of the Group's forecast expenditure will be covered by full and specific scope audits, leaving an immaterial residual balances.



100%
(2024: 100%)

of the Group's forecast revenue will be covered by full and specific scope audits, leaving an immaterial residual balances.



100%
(2024: 100%)

of the Group's forecast total assets will be covered by full and specific scope audits, leaving an immaterial residual balances.

Our audit approach is risk based and therefore the data above on coverage is provided for your information only.

Key changes in scope from last year

In 2022/23, CIP LLP held a large 'Work In Progress' asset balance and was likely to continue to hold this balance in 2023/24. Therefore, this was assigned as specific scope. CIP LLP did not hold a large WIP asset balance at 31 March 2024 therefore we do not consider it significant for the current year.

Details of specified procedures and other procedures performed centrally

- Cambridge City Housing Company Limited (CCHC) have been identified as specific scope. We will design and perform audit procedures on one or more classes of transactions, account balances, or disclosures of the financial information of the group. 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 CCHC.
- Other procedures will be undertaken in relation to the CIP entities. The CIP entities are joint ventures in which the Council holds a 50% stake.
- Other procedures:
 - Perform analytical review
 - Test consolidation journals and intercompany eliminations
 - Enquiry of management about unusual transactions in the component

Throughout the audit, we will determine whether the Group Audit Strategy needs to be updated to reflect new information. The Group Audit Strategy is an iterative process, and we will continuously consider information throughout the Group Audit and reassess the Group Audit Strategy, which includes re-assessing group scoping, and updating it as necessary.

Scoping the Group Audit (cont'd)

Group audit team involvement in component audits

Auditing standards require us to be involved in the work of our component teams.

The Group Audit team's involvement in the work of the component teams is not uniform. The involvement is affected by the assessed risks of material misstatement, their effect on different locations, the nature and extent of work and scope assigned to component teams and the Group Audit team's experience and understanding of the component teams. The Group Audit team's involvement takes different forms and will include: site visits; involvement in key decision discussions, such as: component team's involvement in discussions of the Group Audit team or the group team's involvement in component team discussions; other discussions and sharing of information, such as: regular team discussions/touch points, risk assessment discussions, discussions with component management and/or those charged with governance of components, or other ad hoc discussions; review of component team workpapers, such as: audit deliverables and underlying workpapers.

We have listed the significant aspects of our planned involvement below.

During the year, we will visit a number of locations, primarily those where significant issues have been identified or where there have been important changes since the prior year. Our visits incorporate a combination of site visits, review of the component team's audit work and meeting with business unit management.

Location name	Planned involvement by the Group team
All full scope and specific scope	<ul style="list-style-type: none">• Review of audit working papers covering the significant risk areas and other areas of assessed higher risk• Regular conference calls• Risk assessment discussions



06 Audit team

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
Area	Specialists
Valuation of Land and Buildings & Investment Properties	Wilkes Head & Eve and Bruton Knowles (Council's valuers) EY Real Estates (in relation to assessing the Council's valuers and otherwise required)
Pensions disclosure	EY Actuaries PwC (Consulting Actuary commissioned by NAO) Management Specialist - 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 Group'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

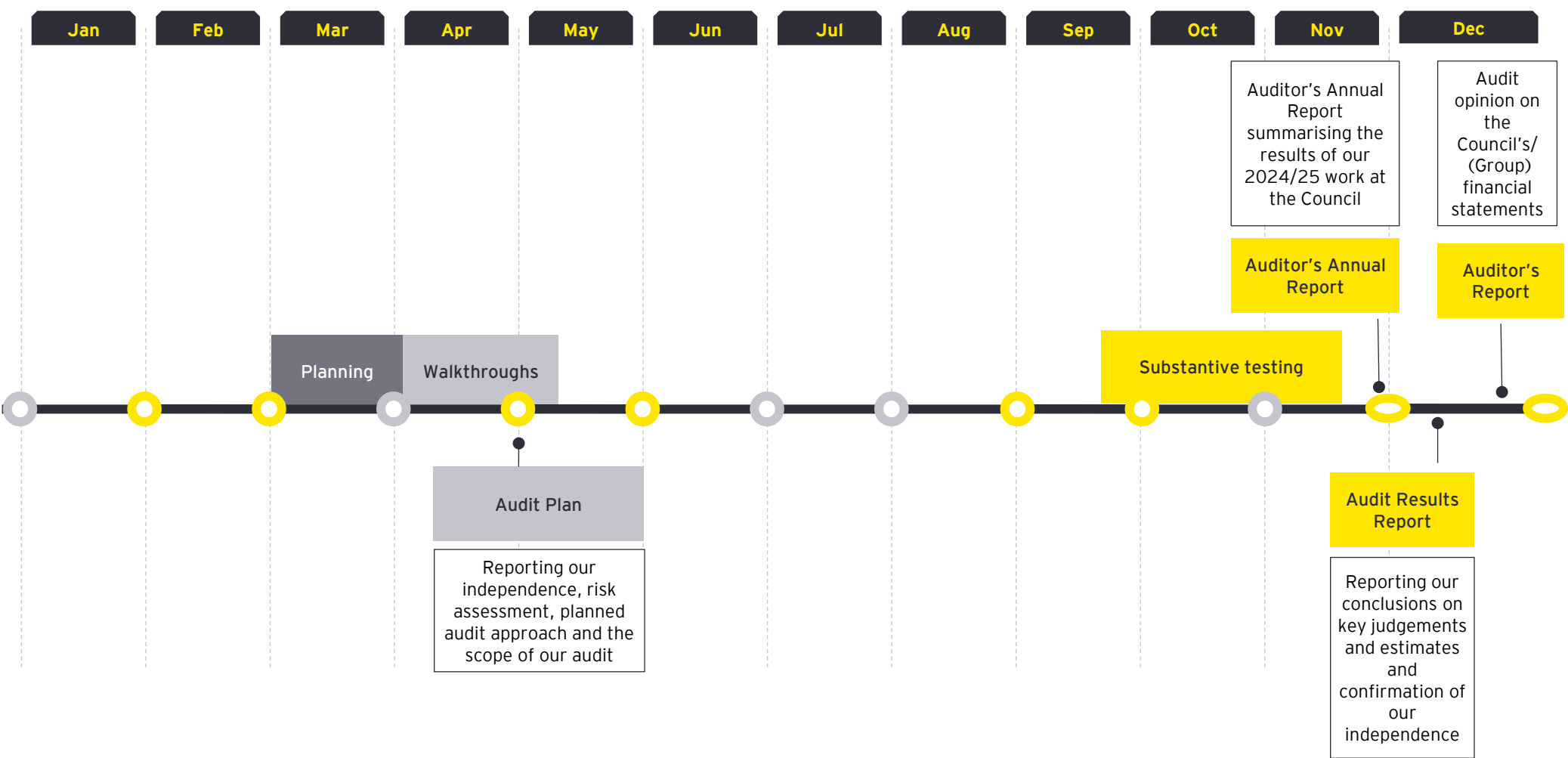


07 Audit timeline

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 2024/25 audit cycle. 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.





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 your company. Examples include where we have an investment in your company; 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 currently do not provide any non-audit service/additional services to you.

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 your company. 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 2024

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 2024 and can be found here: **EY UK 2024 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.psaa.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 financial statements

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 financial statements, 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.

The agreed fee presented is based on the following assumptions:

- ▶ officers meeting the agreed timetable of deliverables;
- ▶ our financial statement opinion and value for money conclusion being unqualified;
- ▶ appropriate quality of documentation is provided by the Council;
- ▶ an effective control environment; and
- ▶ compliance with PSAA's Statement of Responsibilities of auditors and audited bodies. See <https://www.psaa.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 sets out what is expected of audited bodies in preparing their financial statements. These are set out in full on the previous page.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

	Current Year 2024/25	Prior Year 2023/24
	£'s	£'s
Total Fee – Code Work	200,163	174,191
Other	TBC	TBC
Total fees	TBC	TBC

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 and 2023/24 audits. The 2023/24 work is substantially complete, as set out in the relevant Audit Completion Report and a final fee will be determined shortly.
2. For 2024/25 the planned fee represents the base fee, i.e., not including any extended testing.
3. 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.
4. The scale fee does not reflect the new accounting standards, in respect of IFRS 16.
5. 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:
 - Reduced materiality levels.
 - Consideration of correspondence from the public and formal objections.
 - 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 – Scoping the Group Audit

Overview of approach to group scoping

Our audit strategy for performing an audit of an entity with multiple locations is risk-based and our scoping of the Group Audit responds to the risks of material misstatement that we have identified for the group financial statements. We determined whether centralised procedures can be performed before we determined which components to include in the Group Audit scope, and the work to be performed at those components. We then identified the components that are individually relevant to the group for which audit procedures will need to be performed to respond to the assessed risks of material misstatement of the group financial statements.

We considered the following matters to determine which components were individually relevant:

- The significant risks (including fraud risks), and other areas of higher assessed risk associated with the component and the nature of the circumstances related to those risk(s) of material misstatement, including the relative size of the balance at the component.
- The financial size of the component relative to the group

We identified the accounts to be included in the work to be performed at these components based on the components' financial information.

We applied professional judgment in determining those accounts having considered:

- The reasons the component was identified as individually relevant and the accounts affected by risks associated with the component
- The extent of centralised procedures
- Whether the accounts are affected by other assessed risks of material misstatement of the group financial statements
- The relative size of the balance at the component.

We considered the balance of group accounts not yet subject to planned audit procedures and determined whether it is necessary to perform audit procedures on further accounts in components which are individually relevant and/or include accounts in additional components within the Group Audit scope to address the risks of material misstatement of the group financial statements. The number of additional components and extent of procedures to be performed took into consideration:

- The extent of evidence already planned to be obtained from components which are individually relevant and the related in-scope accounts
- Whether centralised procedures can be performed on the residual account balances, including testing direct entity-level controls that operate throughout the group
- The results of risk assessment analytical procedures performed
- The results of the analysis on the residual significant account balances

Having identified the components for which work will be performed, we determined the scope to assign to each component.

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

Appendix C – Scoping the Group Audit (cont'd)

The below table sets out the scoping details of all locations. We assign a scope of work to each component for which procedures are required, which when taken together in addition to procedures performed centrally by the Group Audit team, enable us to form an opinion on the group financial statements.

Detailed scoping							
Component	Scope	Statutory audit performed by EY	Coverage			Current year rationale for scoping	
			Expenditure	Revenue	Total assets	Size	Risk
Cambridge City Council	Full Scope	✓	99.87%	99.82%	99%	Yes	Yes
Cambridge City Housing Company Limited	Specific Scope	×	.13%	.18%	1%	No	Yes
Total full & specific scope coverage			100%	100%	100%		

Appendix D – 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"> ▪ The planned scope and timing of the audit ▪ Any limitations on the planned work to be undertaken ▪ The planned use of internal audit ▪ The significant risks identified <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 - April 2025 - Civic Affairs Committee
Significant findings from the audit	<ul style="list-style-type: none"> ▪ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▪ Significant difficulties, if any, encountered during the audit ▪ Significant matters, if any, arising from the audit that were discussed with management ▪ Written representations that we are seeking ▪ Expected modifications to the audit report ▪ Other matters if any, significant to the oversight of the financial reporting process 	<p>Audit Results Report - December 2025 - Civic Affairs Committee</p> <p>Auditor's Annual Report - November 2025 - Civic Affairs Committee</p>

Appendix D – 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"> ▪ Whether the events or conditions constitute a material uncertainty ▪ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▪ The adequacy of related disclosures in the financial statements 	Audit Results Report - December 2025 - Civic Affairs Committee
Misstatements	<ul style="list-style-type: none"> ▪ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▪ The effect of uncorrected misstatements related to prior periods ▪ A request that any uncorrected misstatement be corrected ▪ Material misstatements corrected by management 	Audit Results Report - December 2025 - Civic Affairs Committee
Fraud	<ul style="list-style-type: none"> ▪ Enquiries of the Civic Affairs Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▪ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▪ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: <ul style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements ▪ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▪ 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 ▪ Any other matters related to fraud, relevant to Civic Affairs Committee responsibility 	Audit Results Report - December 2025 - Civic Affairs Committee

Appendix D – 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"> ▪ Non-disclosure by management ▪ Inappropriate authorisation and approval of transactions ▪ Disagreement over disclosures ▪ Non-compliance with laws and regulations ▪ Difficulty in identifying the party that ultimately controls the entity 	Audit Results Report - December 2025 - 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"> ▪ Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▪ The principal threats ▪ Safeguards adopted and their effectiveness ▪ An overall assessment of threats and safeguards ▪ Information about the general policies and process within the firm to maintain objectivity and independence <p>Communication whenever significant judgements are made about threats to integrity, objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Audit Plan - April 2025 - Civic Affairs Committee</p> <p>Audit Results Report - December 2025 - Civic Affairs Committee</p>

Appendix D – 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"> Management's refusal for us to request confirmations Inability to obtain relevant and reliable audit evidence from other procedures 	Audit Results Report - December 2025 - Civic Affairs Committee
Consideration of laws and regulations	<ul style="list-style-type: none"> 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 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 	Audit Results Report - December 2025 - Civic Affairs Committee
Internal controls	<ul style="list-style-type: none"> Significant deficiencies in internal controls identified during the audit 	Audit Results Report - December 2025 - Civic Affairs Committee
Group audits	<ul style="list-style-type: none"> An overview of the work to be performed at the components and the nature of the Group Audit team's planned involvement in the work to be performed by component teams Instances when the Group Audit team's review of the work of a component team gave rise to a concern about the quality of that team's work, and how the Group Audit team addressed the concern Any limitations on the ability to obtain sufficient appropriate audit evidence in support of the Group Audit opinion, for example, where the Group Audit team's access to people or information may have been restricted 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 Significant deficiencies identified in the group's system of internal control 	Audit Results Report - December 2025 - Civic Affairs Committee

Appendix D – 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 - December 2025 - Civic Affairs Committee
System of quality management	How the system of quality management (SQM) supports the consistent performance of a quality audit	Audit Results Report - December 2025 - Civic Affairs Committee
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report - December 2025 - Civic Affairs Committee
Auditors report	<ul style="list-style-type: none"> ▪ Key audit matters that we will include in our auditor's report ▪ Any circumstances identified that affect the form and content of our auditor's report 	Audit Results Report - December 2025 - Civic Affairs Committee
Value for Money	<ul style="list-style-type: none"> ▪ Risks of significant weakness identified in planning work ▪ Commentary against specified reporting criteria on the VFM arrangements, including any exception report on significant weaknesses. 	Audit Plan - April 2025 - Civic Affairs Committee Audit Results Report - December 2025 - Civic Affairs Committee Auditors Annual Report - November 2025 - Civic Affairs Committee

Appendix E – 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 entity (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 company), either intentional or unintentional, which are contrary to the prevailing laws or regulations

<p>Management Responsibilities:</p> <p>“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.”</p> <p>ISA 250A, para 3</p> <p>“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.”</p> <p>ISA 250A, para 3</p> <p>“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 ...”</p> <p>Audit Engagement Letter</p> <p>Management’s responsibilities are also set out in the International Ethics Standard Board of Accountants’ International Code of Ethics (IESBA Code) Para 360.08</p>	<p>Auditor Responsibilities</p> <p>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.</p> <p>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.</p> <p>We as your auditor are required to comply with the Code by virtue of our registration with ICAEW.</p> <p>“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:</p> <p>An understanding of the nature of the act and the circumstances in which it has occurred; and</p> <p>Further information to evaluate the possible effect on the financial statements</p> <p>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.”</p> <p>ISA 250A, paras 19 and 22</p>
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<p>Examples of Non-Compliance with Laws and Regulations (NOCLAR)</p>	<p>Matter</p> <ul style="list-style-type: none">▶ 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	<p>Implication</p> <ul style="list-style-type: none">▶ 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 E – 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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