Cheshire East Council
Provisional Audit planning report

Year ended 31 March 2024

29 November 2024

Audit and Governance Committee
Westfields
Middlewich Road
Sandbach
CW11 1HZ

29 November 2024

Dear Audit and Governance Committee,

Provisional audit planning report

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

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

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

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

(continued)

This report is intended solely for the information and use of the Audit and Governance 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 5th December 2024 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Hassan Rohimun

Partner

For and on behalf of Ernst & Young LLP

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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.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 (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit and Governance Committee and management of Cheshire East Council. Our work has been undertaken so that we might state to the Audit and Governance Committee and management of Cheshire East Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit and Governance Committee and management of Cheshire East 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 Overview of our 2023/24 audit strategy

Overview of our 2023/24 audit strategy

Context for the 2023/24 audit – Ministry of Housing, Communities and Local Government (MHCLG) and Financial Reporting Council (FRC) measures to address local audit delays

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

- Phase 1: Reset involving clearing the backlog of historic audit opinions up to and including financial year 2022/23 by 13 December 2024.
- Phase 2: Recovery from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles.
- Phase 3: Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.

Following the Minister's announcement on 30 July 2024 on the Government's policy proposal for addressing the audit backlog, the legislation to enact the reset and recovery of the system was laid in Parliament on 9 September 2024. This includes:

- Changes to the Accounts and Audit Regulations 2015 to insert statutory backstop dates for historic financial statements and for the financial years 2023/24 to 2027/28. These are:
  - Financial years up-to-and-including 2022/23: 13 December 2024
  - Financial year 2023/24: 28 February 2025
  - Financial year 2024/25: 27 February 2026
  - Financial year 2025/26: 31 January 2027
  - Financial year 2026/27: 30 November 2027
  - Financial year 2027/28: 30 November 2028
- The National Audit Office (NAO) has proposed amendments to the Code of Audit Practice to :
  - Require auditors to issue audit opinions according to statutory backstop data for historic audits, and place specific duties on auditors to co-operate during the handover period for the new PSAA contract for the appointment of local authority auditors covering the years 2023/24 to 2027/28.

There is a risk that the 2023/24 backstop date will not be met and that the audit opinion on the Council's 2023/24 financial statements will be disclaimed. This position is as a result of: the system wide implementation of backstop dates; the 2022/23 audit not having been concluded (at the date of this report); that the appointment of EY by the PSAA ltd was late in the appointment process; that our 2023/24 audit could not subsequently start until October 2024; and that due to other operational commitments on the finance team there have been delays in the provision of supporting information.

We will continue to provide updates to the Audit and Governance Committee as the audit progresses and our final assessment on the scope and nature of procedures we will undertake becomes clearer. We have highlighted those areas where we consider it most likely that the proposed measures will impact our approach and scope as part of this Report.

Overview of our 2023/24 audit strategy

Responsibilities of Council management and those charged with governance

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

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

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

Overview of our 2024 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit and Governance 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	Details
Management Override: Misstatement due to fraud or error	Fraud risk	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.
Overstatement of Fees, Charges and Other Service Income	Fraud risk	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. We consider the risk to be relevant to those significant revenue streams other than taxation receipts and grant income, where management has more opportunity to manipulate the period in which the income is reported. Specifically, our risk is focused on the occurrence of other income (including fees and charges, rentals and other income), where management may have overstated income in the current financial year. This is likely to occur around the end of the financial year (i.e. bringing forward income from the subsequent year) and would also lead to an overstatement of Debtors (excluding collection fund debtors), therefore we associate this risk to that balance too.
Understatement of other operating expenditure and associated accrual balances	Fraud 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 assess that this risk manifests itself in the understatement of expenditure (completeness of expenditure and associated accruals balances) in order to manage the Council's financial position. We consider this risk does not apply to payroll. This could also extend to non-recognition of required provisions.
Inappropriate allocation of revenue expenditure to unusable reserves	Fraud 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 that the most likely ways this risk may manifest is through the inappropriate capitalisation of revenue expenditure, or through inappropriate reallocation of expenditure to either the Capital Adjustment Account or Dedicated Schools Grant Reserve.
Valuation of Land and Buildings including Investment Property	Significant risk	Land and buildings represent significant balances in the Council's financial statements and are subject to valuation on a periodic basis. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year end balances recorded in the balance sheet. We will specifically focus on assets where a higher degree of estimation uncertainty exists: ➢ Depreciated Replacement Cost (specialised operational assets for which an active market does not exist); ➢ Fair Value (surplus assets valued at the price that would be received to sell an asset); and ➢ Existing Use Value (operational assets for which there is an active market to provide comparable evidence). The Council engages external property valuation specialists to determine asset valuations and small changes in assumptions when valuing these assets can have a material impact on the financial statements.

Overview of our 2024 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit and Governance 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	Details
Valuation for Pension assets / liabilities and disclosures	Significant risk	The Local Authority Accounting Code of Practice and IAS19 require the Council to make disclosures within its financial statements regarding its membership of the Local Government Pension Scheme. 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.
IFRS 16 Preparedness	Higher Inherent risk	Local authority code board CIPFA LASAAC has confirmed that local authorities will need to implement IFRS 16 Leases from 1 April 2024. For the 2023/24 financial statements, the Council is required to assess the financial impact of these expected changes and disclose them in the financial statements.
Minimum revenue provision	Higher Inherent risk	Local authorities are required to charge a Minimum Revenue Provision (MRP) to the General Fund in each financial year. The calculation of this charge is based on the Capital Financing Requirement. Local authorities have flexibility in how they calculate MRP but need to ensure the calculation is 'prudent'. With significant capital investment at the Council, there is a risk that provision has not been calculated in line with CIPFA guidance and does not consider or include all relevant balances.
Preparation of Group Financial Statements	Higher Inherent risk	The Council has a controlling interest in several organisations, the most significant being Ansa Environmental Services and Alliance Environmental Services. The Local Authority Accounting Code of Practice requires the Council to prepare group financial statements to consolidate the Council's interests, unless these interests are considered not material. The Council conducts an annual review to consider its group boundary and whether its interest in private companies are material; and consequently, whether group financial statements are required.
Private Finance Initiative	Higher Inherent risk	The Council has a Private Finance Initiative (PFI) arrangement jointly with Cheshire West and Chester Council in respect of Extra Care Housing, the FY24 year-end liability in respect of this is £33m. This leads to complex, material transactions and there is a risk that the PFI model is incorrect and therefore the associated accounting treatment and disclosures are not correctly reflected in the financial statements.
Going concern	Higher Inherent risk	The Council exceeded budget by £6m in 2022/23 and £8.5m in 2023/24 with general fund balances reducing from £81.1m at the 31 March 2023 to £43.2m at the 31 March 2024. The financial position of the Council remains challenging, and the Council will need to undertake a going concern assessment covering a period up to 12 months from the expected date of final authorisation of the accounts. It will also need to make an appropriate disclosure in the financial statements of the going concern assessment which has been undertaken
Infrastructure assets	Area of focus	In 2022, CIPFA issued an adaptation to the Code of Practice on Local Authority Accounting and DLUHC issued a Statutory Instrument (The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2022) to temporarily address the issue of accounting for Infrastructure Assets. Given the temporary measures introduced local authorities should consider their processes and records concerning infrastructure assets in preparation for the end of the measures. We will assess the work the Council has undertaken to prepare for the expiration of the statutory override instrument.

Overview of our 2024 audit strategy

Group and Council Materiality

Planning materiality

£9.1m

£9.0m

Group / Council materiality has been set at £ 9.1m / 9.0m, which represents 1% of 2023/24 gross expenditure on provision of services.

Performance materiality

£4.6m

£4.5m

Group / Council performance materiality has been set at £4.6m / £4.5m, which represents 50% of materiality.

Audit differences

£0.5m

£0.5m

We will report all uncorrected misstatements relating to the Group / Council primary statements greater than £0.5m / £0.5m. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit and Governance Committee.

Overview of our 2023/24 audit strategy

Audit scope

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

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

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

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

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

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

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

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

Effects of climate-related matters on financial statements

Public interest in climate change is increasing. We are mindful that climate-related risks may have a long timeframe and therefore while risks exist, the impact on the current period financial statements may not be immediately material to the Council. It is, nevertheless, important to understand the relevant risks to make this evaluation. In addition, understanding climate-related risks may be relevant in the context of qualitative disclosures in the notes to the financial statements and value for money arrangements. We make inquiries regarding climate-related risks on every audit as part of understanding the entity and its environment. As we re-evaluate our risk assessments throughout the audit, we continually consider the information that we have obtained to help us assess the level of inherent risk.

Audit scope and approach

Under the Code of Audit Practice, our principal objectives are to undertake work to support the provision of our audit report to the audited body and to satisfy ourselves that the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.We draw your attention to the audit scope section 5 where we provide more details on the scope of our audit.

Overview of our 2024 audit strategy

Value for Money

We are required to consider whether the Council has made ‘proper arrangements’ to secure economy, efficiency and effectiveness on its use of resources. Planning on value for money and the associated risk assessment is focused on gathering sufficient evidence to enable us to document our evaluation of the Council’s arrangements, to enable us to prepare a commentary under three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

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

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

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

Timeline

A timetable has been discussed with management in order to complete the audit by 28 February 2025. In Section 07 we include a provisional timeline for the audit. All parties need to work together to ensure this timeline is adhered to. As outlined on page 6 there is a risk that 28 February 2025 backstop date will not be met as a result of: the 2022/23 audit not having been concluded (at the date of this report); that the appointment of EY by the PSAA ltd was late in the appointment process; that our 2023/24 audit could not subsequently start until October 2024; and that due to other operational commitments on the finance team there have been delays in the provision of supporting information. We will continue to provide updates to the Audit and Governance Committee as the audit progresses and our final assessment on the scope and nature of procedures we will undertake becomes clearer.

Key Audit Partner and senior audit team

Partner | Hassan Rohimun: Hassan has over 30 years’ experience working in public sector audit during that time he has worked with all forms of local government bodies including unitary authorities.

Senior Manager | Dan Spiller Dan is an experienced Senior Manager who has worked across a number of Local Government and NHS clients over the past 6 years at EY.

Manager | Lesley Moya: Lesley is an experienced Manager who has worked across a number of Local Government, Higher Education and NHS clients over the past 2 years at EY.

Overview of our 2024 audit strategy

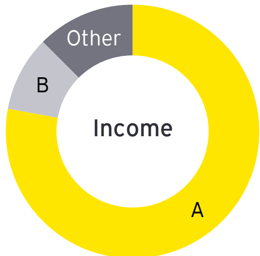
Group scoping

Our audit strategy for performing a group audit is risk based. We identify components as:

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

Group Audit scope

Through our fieldwork we will cover the following percentages, by full scope (A) and specific scope (B) audits, of Income, Expenditure and Net Assets. All components are based in the UK.



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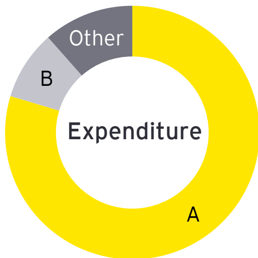

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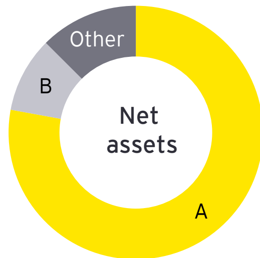

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- We have specifically considered the scope of our audit in response to the identified risks above, which has impacted the locations in which we performed our work, and the extent of procedures performed in these areas.
- For those locations that we do not consider material to the Group financial statements in terms of size relative to the Group and risk, we perform other procedures to confirm that there is no risk of material misstatement within those locations.
- Section 5 of this report sets out more detail on our proposed approach and the subsidiaries covered by our testing.
- We intend to take a fully substantive audit approach.

02 Audit risks

Our response to significant risks

Misstatements due to fraud or error*

What is the risk?

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

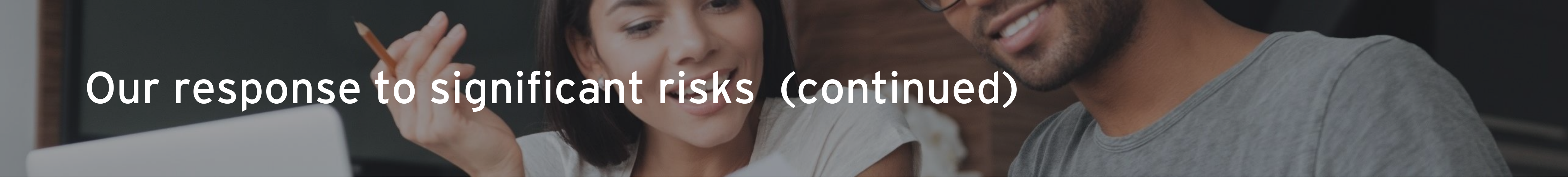
As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

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

What will we do?

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

Having evaluated this risk we have considered whether we need to perform other audit procedures not referred to above. We concluded that we do need to undertake other audit procedures and have included on page 18 the procedures we will undertake to address the risk of the Council's position being manipulated through inappropriate: capitalisation of revenue expenditure, classification as REFCUS, classification of inappropriate expenditure as DSG.



Our response to significant risks (continued)

Risk of fraud in revenue recognition: Overstatement of Fees, Charges and Other Service Income.
Overstatement of Short-term Debtors *

Financial statement impact

Misstatements that occur in relation to the risk of fraud in revenue recognition could affect the income and expenditure accounts.

These accounts had the following balances in the draft financial statements:

- Fees, charges and other service income: £84.5m
- Short-term Debtors : £79.4m

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. We consider the risk to be relevant to those significant revenue streams other than taxation receipts and grant income, where management has more opportunity to manipulate the period in which the income is reported. Specifically, our risk is focused on the occurrence of other income (including fees and charges, dwelling rentals and other income), where management may have overstated income in the current financial year.

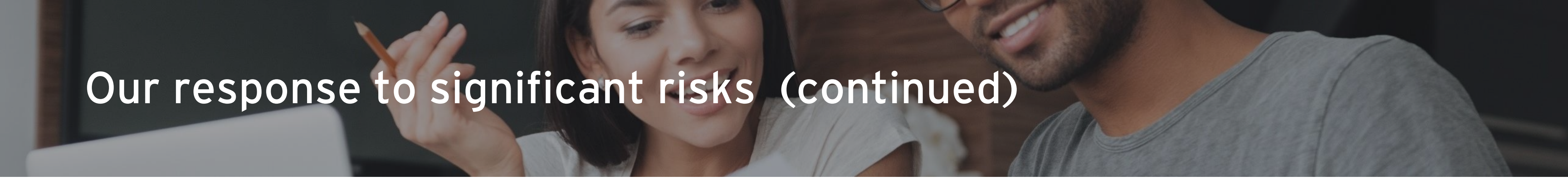
This is likely to occur around the end of the financial year (i.e. bringing forward income from the subsequent year) and would also lead to an overstatement of Debtors (excluding collection fund debtors), therefore we associate this risk to that balance too.

At the 31 March 2024 of the £79.4m (short term debtors balance) £49m were categorised as "other". At the time of writing this report we have not been provided with a further breakdown analysis of this figure. Once this is provided we will review the degree of estimation uncertainty associated with this balance to complete our assessment of the risk of overstatement of short-term debtors.

What will we do?

In order to address this risk, we will carry out a range of procedures including:

- Review the analysis of "other" debtors to assess the risk of fraud in revenue recognition.
- Understanding and challenging management on any accounting estimates or judgements on income recognition for evidence of bias;
- Performing overall analytical review procedures to identify any unusual movements or trends for further investigation;
- Performing testing on Debtor and Income transactions either side of the year-end to test the cut-off of those transactions;
- Using our data analytics tool to identify and test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements, specifically those that manually move income from the subsequent year;
- Undertaking a monthly trend analysis using our data analytics tools in the performance of our Journal Entry Testing, to identify any unusual movements in balances for further analysis and testing. The analysis shall be disaggregated for the different income streams.



Our response to significant risks (continued)

Risk of fraud in expenditure recognition: Understatement of other operating expenditure and associated accruals balances *

Financial statement impact

Misstatements that occur in relation to the risk of fraud in expenditure recognition could affect the expenditure accounts and associated liability (accruals) balance.

- Non-pay operating expenditure (Other service expenses) : £590.7m
- Creditors: £159.9m

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 assess that this risk manifests itself in the understatement of expenditure (completeness of expenditure and associated accruals balances) in order to manage the Council's financial position. At the 31 March 2024 of the £159.9m (year end creditors balance) a £114m was categorised as "other". At the time of writing this report we have not been provided with a further breakdown analysis of this figure. On receipt of this we will review the degree of estimation uncertainty associated with the balance to complete our assessment of the risk of understatement in expenditure. We consider this risk does not apply to payroll. This could also extend to non-recognition of required provisions.

What will we do?

We will carry out substantive procedures in response to this risk. The procedures designed to address the identified risk are set out below:

- Review the analysis of "other" creditors to assess the risk of fraud in expenditure recognition.
- Reviewing and discussing with management any accounting estimates or judgements on income recognition for evidence of bias;
- Performing analysis with data analytics workpapers to identify any unusual movements or trends for further investigation;
- In our journal entry testing, perform an analysis on manual accrual balances as well as balances of provisions year on year to identify any unusual movements and trends;
- Perform unrecorded liabilities testing to identify payments occurring after the year end, which will address the completeness of the expenditure;
- Perform testing on completeness of provisions based on our understanding of the Council; and
- Perform cut off testing with populations of Purchase Order invoices around year end to determine whether transactions have been correctly recorded within the correct period.

Our response to significant risks

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

Inappropriate capitalisation of expenditure and allocation of revenue expenditure to unusable reserves*

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.
- Expenditure being allocated to the ring-fenced Dedicated Schools Grant Reserve that is not appropriate.

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, or through overstating the deficit balance on the Dedicated Schools Grant Reserve.

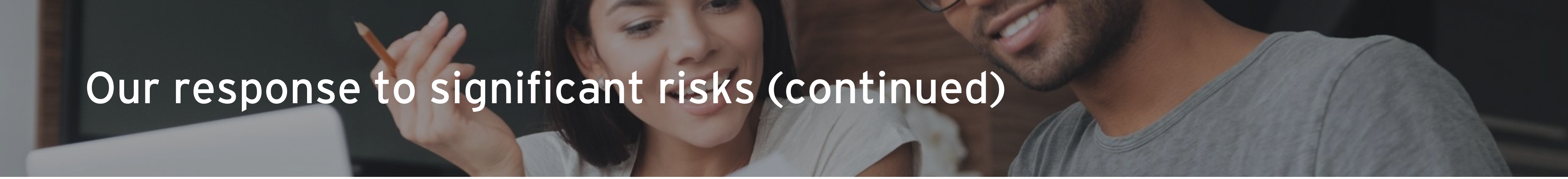
What is the risk?

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 or through inappropriate allocation of expenditure to the Dedicated Schools Grant Reserve.

What will we do?

- Substantively test PPE additions including assets under construction at the highest combined risk assessment level (CRA) to ensure that expenditure incurred and capitalised is capital in nature
- Assess whether capitalise spend enhances or extends the useful life of the asset (rather than simply repairing or maintaining the asset)
- Consider whether any development or other related capitalised costs are reasonable to capitalise
- Test REFCUS to ensure it is appropriate for the revenue expenditure incurred to be finance from ringfenced capital resources
- Include coverage in our journals testing of any significant journals transferring expenditure from revenue to capital codes
- Perform a walkthrough of expenditure charged to the Schools' budget through the CIES codes and perform substantive testing of a sample of transactions that have been re-allocated from the General Fund to the Dedicated Schools Grant Reserve to review their appropriateness.
- We will test a sample of expenditure allocated to DSG, and determine whether it is appropriate to be allocated to the DSG reserve.



Our response to significant risks (continued)

Valuation of land and property, including investment property

Financial statement impact

Misstatements that occur in relation to the valuation of land and property could affect the balance sheet by materially misstating the valuation of these assets; and the income and expenditure account via the impact on depreciation charges.

Amounts reported in the draft financial statements (per Note 14) were:

- Land and buildings: £481.5m;
- Investment Property: £25m;
- Surplus assets: £38.9m.

What is the risk?

Land and buildings represent significant balances in the Council's financial statements and are subject to valuation on a periodic basis. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year end balances recorded in the balance sheet. We will specifically focus on assets where a higher degree of estimation uncertainty exists:

- Depreciated Replacement Cost (specialised operational assets for which an active market does not exist);
- Fair Value (surplus assets valued at the price that would be received to sell an asset); and
- Existing Use Value (operational assets for which there is an active market to provide comparable evidence, including those Council Dwellings adjusted for Social Housing use).

The Council engages external property valuation specialists to determine asset valuations and small changes in assumptions when valuing these assets can have a material impact on the financial statements.

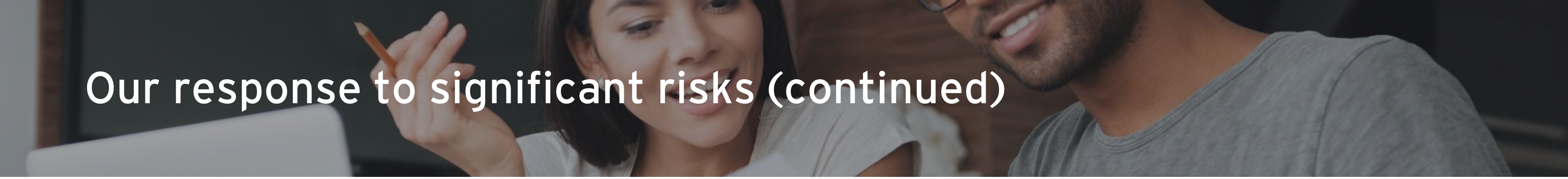
The Council's asset base is significant, and the outputs from the valuer are subject to estimation, therefore there is a risk that fixed assets may be under/overstated impacting on their valuation in the balance sheet. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying estimates.

What will we do?

We will:

- Test that assets have been classified and valued on an appropriate basis.
- Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work, to ensure these are consistent with accounting standards and that the scope of the work is appropriate.
- Perform appropriate tests over the completeness and appropriateness of information provided to the valuer.
- Sample test and challenging the key asset information and assumptions used by the valuers in performing their valuation; for example, floor plans based on price per square metre.
- Consider the annual cycle of valuations to ensure that assets have been valued within an appropriate timescale.
- Consider any specific changes to assets that have occurred and that these have been communicated to the valuer.
- Review assets not subject to valuation in 2023/24 to confirm that the remaining asset base is not materially misstated.
- Consider changes to useful economic lives as a result of the most recent valuation.
- Test accounting entries have been correctly processed in the financial statements.

We will be engaging EY valuation specialists to assist the audit team on a sample of assets. This sample will be based on our assessment of the assets that are subject to a higher degree of risk for their valuations as at 31 March 2024, for example, material assets which are valued at market based fair value.



Our response to significant risks (continued)

Valuation for Pension assets / liabilities and disclosures

Financial statement impact

Misstatements that occur in relation to the Pension liability could affect the balance sheet by materially misstating the size of the liability; and also the related income and expenditure accounts.

The net pension liability amounting to £84,542k of the council is a material estimated balance, and the Code requires that this liability be disclosed on the Council's balance sheet.

This is made up of the following material balances:

- Teachers' Pensions Unfunded Scheme Liability: £16.2m
- Local Government Pension Scheme obligation: £1,383.8m
- Fair value of Local Government Pension Scheme plan assets: £1,315.5m.

What is the risk?

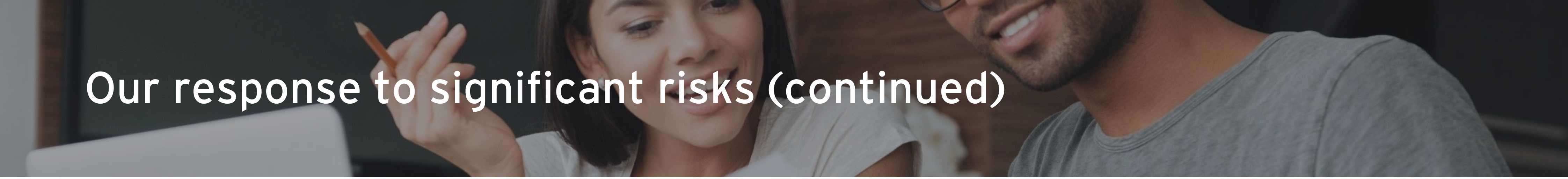
The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme. The Council is an admitted body of the Cheshire Pension Fund (CPF).

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.

In the 2023/24 draft financial statements there are material transactions relating to IFRIC 14 asset ceiling adjustments , £267m reversal adjustment from 2022/23 and £348m adjustment relating to 2023/24. The calculation of these transactions are complex and based on information provided by the Council's actuary. We understand that management have identified that the transactions reported in the Draft 2023/24 statements are incorrect and are in the process of reviewing the underlying calculations.

What will we do?

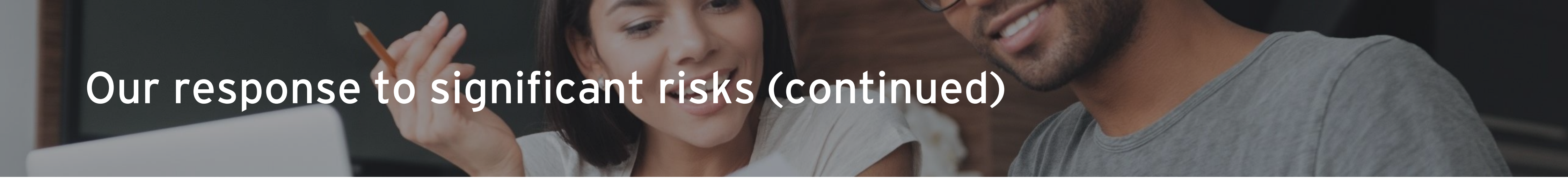
- Liaise with the auditors of Cheshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to the Council.
- Assess the work of the pension fund actuary including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all local government sector auditors, and 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; and
- Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.
- We will consider engaging EY specialists to assess the Council's reported IFRIC 14 asset ceiling adjustments



Our response to significant risks (continued)

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.

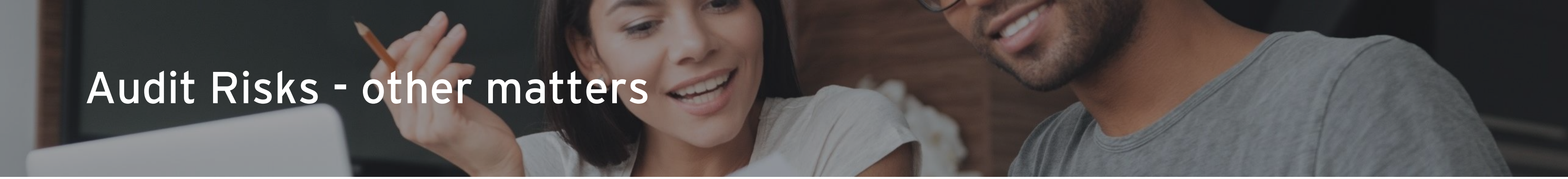
What is the risk/area of focus, and the key judgements and estimates?	Our response: Key areas of challenge and professional judgement
IFRS 16 Preparedness CIPFA LASAAC has confirmed that local authorities will need to implement IFRS 16 Leases from 1 April 2024. For the financial statements in 2023/24, the Council is required to make an assessment of the financial impact of these expected changes.	➢ Review the preparation work that the Council has carried out for the implementation of IFRS 16 on 1 April 2024. ➢ Review the disclosures within the financial statements to ensure they are in line with the CIPFA Code.
Minimum revenue provision If the Minimum Revenue Provision (MRP) were understated, it would have the impact of overstating the General Fund balance and understating the capital adjustment account. Local authorities are required to charge MRP to the General Fund in each financial year. The calculation of this charge is based on the Capital Financing Requirement. Local authorities have flexibility in how they calculate MRP, providing the calculation is ‘prudent’. In calculating a prudent provision, local authorities are required to have regard to statutory guidance. With significant capital investment at the Council, there is a risk that provision has not been calculated in line with CIPFA guidance and does not consider or include all relevant balances.	➢ Understand the MRP Policy in place at the Council and review the policy against CIPFA’s guidance to ensure compliance. We will also perform procedures to gain assurance that the Council is applying the policy correctly.



Our response to significant risks (continued)

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?	Our response: Key areas of challenge and professional judgement
Preparation of Group Financial Statements The Council has material group undertakings for its subsidiaries. Under the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom the Authority is required to prepare group accounts as its interests are material in aggregate.	➢ Consider the Council's assessment of its group boundary and consider the significance of the components to the group financial statements. ➢ Review and test the Council's process for consolidation, consistency of accounting policies and quality review, and consider the appropriateness of inter-company elimination. ➢ Review the completeness of the disclosures in the group financial statements to ensure they are materially accurate and complete.
Private Finance Initiative The Local Authority Accounting Code of Practice requires that PFI schemes should be accounted for on the basis of IFRIC 12 "Service Concessions" The Council's liability of £33m in relation to its PFI schemes is derived from complex models which reflect a number of assumptions which may change over the life of the contract. These are complex, material transactions and there is a risk that the PFI model is incorrect and therefore the associated accounting treatment and disclosures are not correctly reflected in the financial statements.	➢ Confirm our understanding of the process of how the PFI models are maintained and updated; including how the output of the models are included within the Council's financial statement closing processes. ➢ Perform checks to ensure that any changes in the PFI arrangements and associated assumptions are reflected as updates to the financial models. ➢ Identify those inputs to the model which are estimates and undertake audit procedures to gain assurance over the reasonableness of these estimates. ➢ Engage EY's internal specialists to review the PFI model to ensure the inputs and accounting are in line with our expectations. ➢ Confirm that year end journal entries in relation to the PFI schemes have been processed accurately.



Audit Risks - other matters

We have identified other areas of the audit where we will perform substantive procedures that are likely to impact our reporting to you as a committee.

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

Going Concern disclosure

The financial landscape for local authorities remains challenging; the Council will need to undertake a going concern assessment covering a period up to 12 months from the expected date of final authorisation of the accounts. It will also need to make an appropriate disclosure in the financial statements of that consideration and assessment. In addition, the revised auditing standard on going concern requires additional challenge from auditors on the assertions being made by management.

The Council faces a significant short-term challenge to set a balanced budget, with the Medium-Term Financial Strategy (MTFS) for 2024-28 presenting a cumulative funding gap of £81.5m which does not factor in a forecast overspend in 2024/25 which was projected at £20.1m within the second financial review presented to the Finance Sub Committee in November 2024.

This forecast overspend would exceed the level of reserves that the Council carries on its balance sheet, although the Council is in receipt of £17.6m of Exceptional Financial Support (EFS) which is yet to be deployed.

The Council has undertaken a review to produce an ambitious Transformation Plan that is hoped will deliver benefits as early as the 2024/25 financial year and balance the budget over the MTFS horizon.

Due to the imminency of the challenges faced by the Council and the on-going dialogue with MHCLG on their financial position, the financial statements do not yet contain management's going concern assessment that is a key requirement for us to be able to evaluate the Council's position for both reserves and cash.

Our response: Key areas of challenge and professional judgement

We will meet the requirements of the revised auditing standard on going concern (ISA 570) and consider the adequacy of the Council's going concern assessment and its disclosure in the accounts by:

- Challenging management's identification of events or conditions impacting going concern.
- Testing management's resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias).
- Reviewing the Council's cashflow forecast covering the foreseeable future, to ensure that it has sufficient liquidity to continue to operate as a going concern.
- Undertaking a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern.
- Challenging the disclosure made in the accounts in respect of going concern and any material uncertainties.

Due to the proximity of the Council to exhausting its General Fund reserves, it is likely that we will need to consider the form of our opinion in respect of going concern.

03 Value for Money risks

Value for Money

Council’s responsibilities for value for money

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

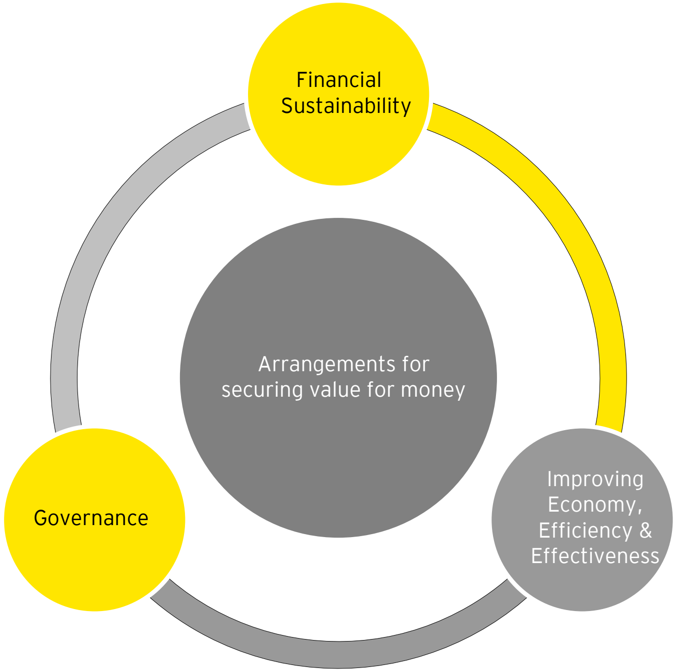
As part of the material published with the financial statements, the Council is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the Council tailors the content to reflect its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

Auditor Responsibilities

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

The specified reporting criteria are:

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



Value for Money

Planning and identifying risks of significant weakness in VFM arrangements

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

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

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

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

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

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

We should also be informed by a consideration of:

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

Value for Money

Responding to identified risks of significant weakness

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

Reporting on VFM

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

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

Status of our 2023/24 VFM planning

We have not yet completed our initial VFM (value for money) risk planning work, which includes:

- Our entity level controls and understanding the business assessment;
- review of the Council's Risk Register and risk management arrangements;
- review of Council meeting minutes; our planning meetings with management;
- review of key financial and budget information;
- review of internal audit reports;
- review of information from local, national and specialist media; and
- review of the findings of other inspectorates, review agencies and other relevant bodies including the CQC and OFSTED.

Based on our initial assessment and work undertaken to date we have identified risks of significant weakness in the Council's arrangements for ensuring there are there are proper arrangements to secure economy, efficiency and effectiveness on its use of resources. The risks of significant weaknesses are set out on the following page. Following the completion of our planning procedures we will provide the Committee with an update on any changes to our risk assessment.

Value for Money

Value for Money Risks

The following table summarises the risk of significant weaknesses identified during the course of our planning procedures. We will keep our understanding of arrangements and risks identified 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.

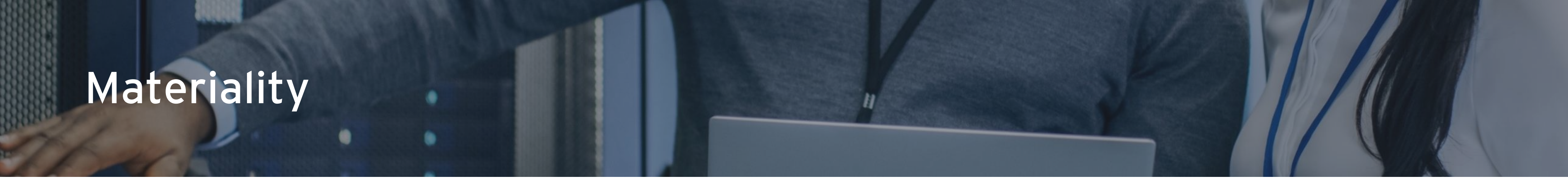
What is the risk of significant weakness?	What arrangements does this impact	Details and what we will do
Financial Sustainability In the Medium-Term Financial Strategy approved by the Council on 27 February 2024 the section 151 officer reported that: "The Council must react to the financial deficit in this budget. Change and transformation is particularly important as overspending occurred in 2022/23 and is forecast in 2023/24. This is a trend that cannot be sustained or managed through reserves." Despite increases in the net budget of £16.6m in 2022/23 and £25.4m in 2023/24 the Council exceeded budget by £6m in 2022/23 and £8.5m in 2023/24 with general fund balances reducing from £81.1m at the 31 March 2023 to £43.2m at the 31 March 2024. The 28 November 2024 2nd Financial Review Report outlines that the 2024/25 budget was based on the planned £22m use of reserves the achievement of £30m of savings and that as at November 2024 forecast revenue outturn is an adverse variance of £20.1m. The Council has not set a balanced budget within their 2024-28 MTFS and is at risk of issuing a S114 notice in the future.	Financial sustainability	We will: • Review the budgets and forecasts • Review budget reporting • Review the Council's plans for the establishment and delivery of planned savings • Review the actions which the Council are proposing to secure future financial sustainability and plans that are being developed to mitigate any areas of non delivery
Children's Services In February 2024 OFSTED report on the Council's children's services rated the service overall as inadequate and outlined that the Council needs to improve: • Senior leaders' oversight of performance to ensure that there is a coherent approach to continuous improvement. • The quality, consistency and responsiveness of support, advice and guidance for care leavers, including those who are homeless, with additional vulnerabilities, and those who are over 21 years of age. • The quality of management oversight and supervision to ensure that consistent, good social work practice is in place. • The quality of plans for children to ensure that they are more child-focused and drive forward positive change in a timely way. • The quality and frequency of visits to children so that the visits are purposeful and in line with assessed needs. • The sufficiency of suitable placements that can meet children and young people's assessed needs. • The effectiveness of child protection chairs and independent reviewing officers (IROs) to escalate, challenge and scrutinise plans for children	Improving economy, efficiency and effectiveness	We will: • Review the report of OFSTED and the action plan which the Council to respond to the weaknesses identified by Ofsted. • Review the progress reports of appointed independent advisor and the Department of Education

Value for Money

Value for Money Risks (continued)

What is the risk of significant weakness?	What arrangements does this impact	Details and what we will do
<u>Corporate peer challenge</u> In March 2024 Cheshire East Council invited the Local Government Association to undertake a corporate peer challenge. The report identified that Council needs to address a number of significant issues, the most immediate being the organisation's financial sustainability which is in jeopardy. The team outlined that this will require concentrated and coordinated activity to resolve challenges of capacity, governance, and organisational culture as well as the need to develop long-term transformation and improvement plans. The peer review team identified three cultural challenges facing the Council: • First the siloed nature of the Council with poor joint working across (and within) departments contributing towards challenges of service delivery and communication. • Secondly, where there have been poor working relationships across services, this has resulted in a lack of compliance with corporate requests and direction. • Thirdly, the lack of compliance has resulted in gaps in information and delays in action which have weakened the Council's assurance framework undermining the organisation's ability to provide internal scrutiny, challenge, and assurance as a consequence. The team identified the need for the Council to establish refreshed Council Plan that sets out the vision, priorities, and behaviours which the organisation will deliver against and recommend a new Council Plan is developed to 2028 incorporating political priorities, necessary improvement, and longer-term transformation reflecting the Council's financial context. The plan would need to: • facilitate increased understanding with staff regarding prioritisation of resources and the alignment of their work and responsibilities to the organisation's goals; • be accompanied by an appropriate performance management framework, appraisal process, and medium-term financial strategy. • Align to a wider review of policy and procedures such as Workforce Strategy, Communications Strategy, and the Council's approach to Equality, Diversity, and Inclusion,	Improving economy, efficiency and effectiveness	We will: - Review the Council's action plan to address the recommendations made by the peer review team. - Review the arrangements in place to monitor the delivery of the action plan in accordance with agreed time scales.
<u>Insourcing</u> The Council has announced it is redesigning the way in which it delivers its waste, recycling, and bereavement services. This has involved a review of two of its wholly owned companies, Ansa Environmental Services and Orbitas Bereavement Services Ltd. Following the latest stage of that review, and a decision made by the Council's finance sub-committee on 25 June 2024, the services provided by Ansa and Orbitas are to be brought back-in house and delivered directly by Cheshire East Council. This includes bin collections, street cleansing, maintenance of green spaces, fleet, social transport, bereavement services and the handyperson service.	Improving economy, efficiency and effectiveness	We will review the decision-making process that has overseen the initiation of this process and review the governance and oversight of the project to-date.

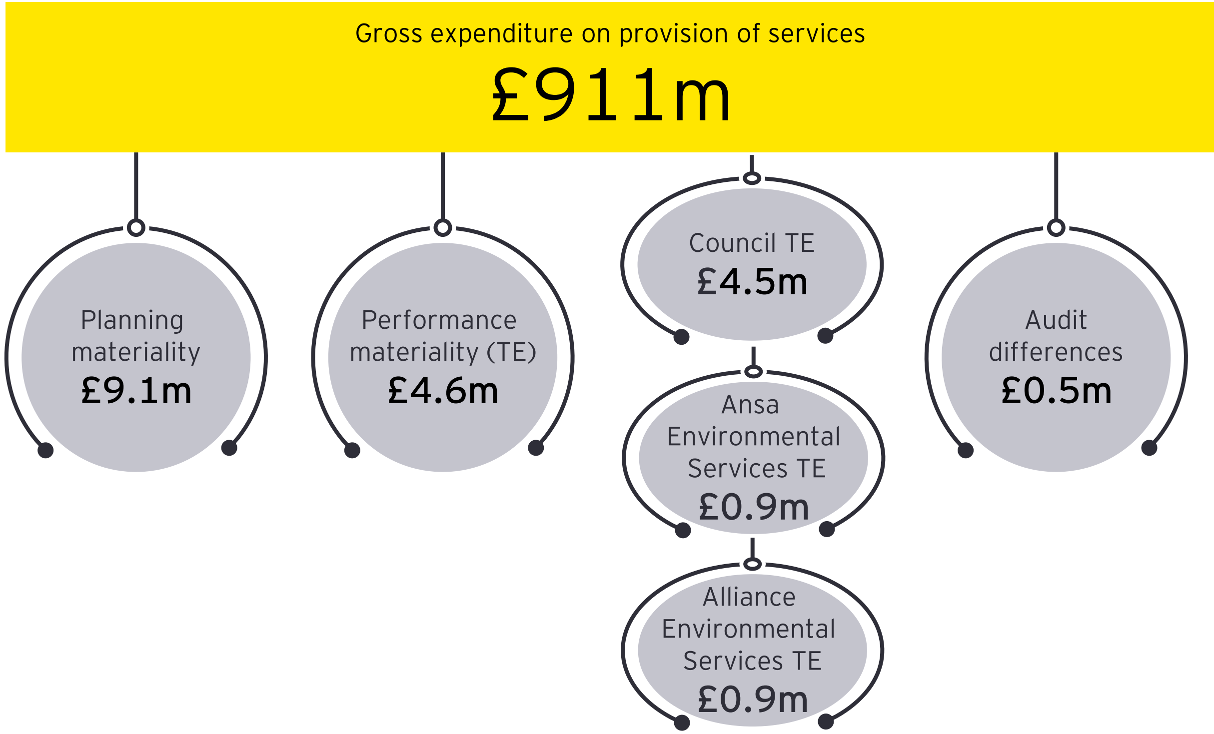
04 Audit materiality



Materiality

Group materiality

For planning purposes, Group materiality for 2024 has been set at £9.1m. This represents 1% of the Group's 2023/24 gross expenditure on provision of services. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix F.



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

We request that the Audit and Governance 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 £4.6m which represents 50% of group materiality.

Due to this being a first-year audit, we use a lower percentage of group materiality as we are unable to asset a lower likelihood of misstatements, which could be the case in subsequent periods.

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

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

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

05 Scope of our audit

Audit process and strategy

Objective and Scope of our Audit scoping

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

We issue an audit report that covers:

1. Financial statement audit. Our opinion on the financial statements:

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

Our opinion on other matters:

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

Other procedures required by the Code:

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

2. Arrangements for securing economy, efficiency and effectiveness (value for money): We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources and report a commentary on those arrangements

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

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

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

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

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

Scope of our audit

Group scoping

Our audit strategy for performing a group audit is risk based. We identify components as:

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

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

Scoping by Entity

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

We provide scope further scope details on the next page.

- 1 — A — Full scope audits
- 2 — B — Specific scope audits
- 1 — C — **Review scope audits**
- 0 — D — Specified procedures
- 4 — E — Other procedures

Scope definitions

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

Specific scope: components where the audit is limited to specific accounts or disclosures identified by the Group audit team based on the size and/or risk profile of those accounts. **(Alliance Environmental Services and ANSA Environmental Services)**

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

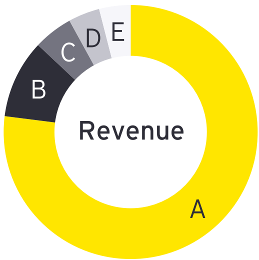
Specified Procedures: components where the component team performs procedures specified by the Group audit team in order to respond to a risk identified.

Other procedures: For those components that we do not consider material to the Group financial statements in terms of size relative to the Group and risk, we perform other procedures to confirm that there is no risk of material misstatement within those locations. Individually, these components do not exceed more than 0.02% of the Group's profit before tax. In aggregate, the total contribution of these components is less than 0.1% of Group profit before tax.

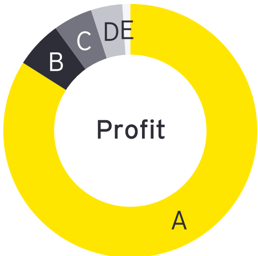
Scoping the group audit

Coverage of Revenue/Profit before tax/Total assets

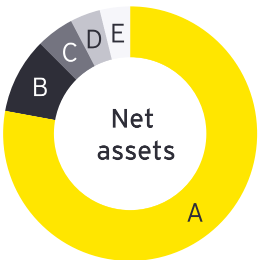
Based on the group's draft financial statements our scoping is expected to achieve the following coverage of the Gross Revenue Expenditure, group's revenue and total assets.



98.6% of the group's forecast revenue will be covered by full and specific scope audits.



99.8% of the group's forecast profit will be covered by full and specific scope audits.



98.0% of the group's forecast net assets will be covered by full and specific scope audits, with the remainder covered by otherr procedures.

Our audit approach is risk based and therefore the data above on coverage is provided for your information only. Further details on the scoping of the Group audit can be found at Appendix xx.

Details of specific scope and other procedures

- Ansa Environmental Services is significant by risk as a result of balances above the group TE. (Expenditure of £43.6M, Income of £50.5M, and Liabilities of £11.4m). EY will perform specific procedures on these relevant accounts. The team will design procedures to obtain assurance over these accounts. No other factors were present to indicate that it should be concluded as significant based on risk.
- Alliance Environmental Services is significant by risk as a result of has balances above the group TE. (Expenditure of £6.7M and Income of £7.8M). EY will perform specific procedures on these relevant accounts. The team will design procedures to obtain assurance over these accounts. No other factors present to indicate that it should be concluded as significant based on risk.
- For all other non-significant components and associates we will perform "other procedures" which will include a review of financial statements and performance and analytical procedures.

06 Audit team

Audit team

Hassan Rohimun
Audit partner*

Dan Spiller
Senior Manager

Lesley Moya
Manager

Rhea Apolonio
Lead Senior

Specialist 1
(EY Real Estate)

Specialist 2
(EY FAAS)

Specialist 3
(Specialist PWC consulting actuary and EY Actuaries)

* Key Audit Partner

Use of specialists

▶ Our approach to the involvement of specialists, and the use of their work

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

Area	Specialists
Valuation of Land and Buildings	EY Valuations team
Pensions disclosure	EY Actuaries
PFI	EY Internal PFI 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

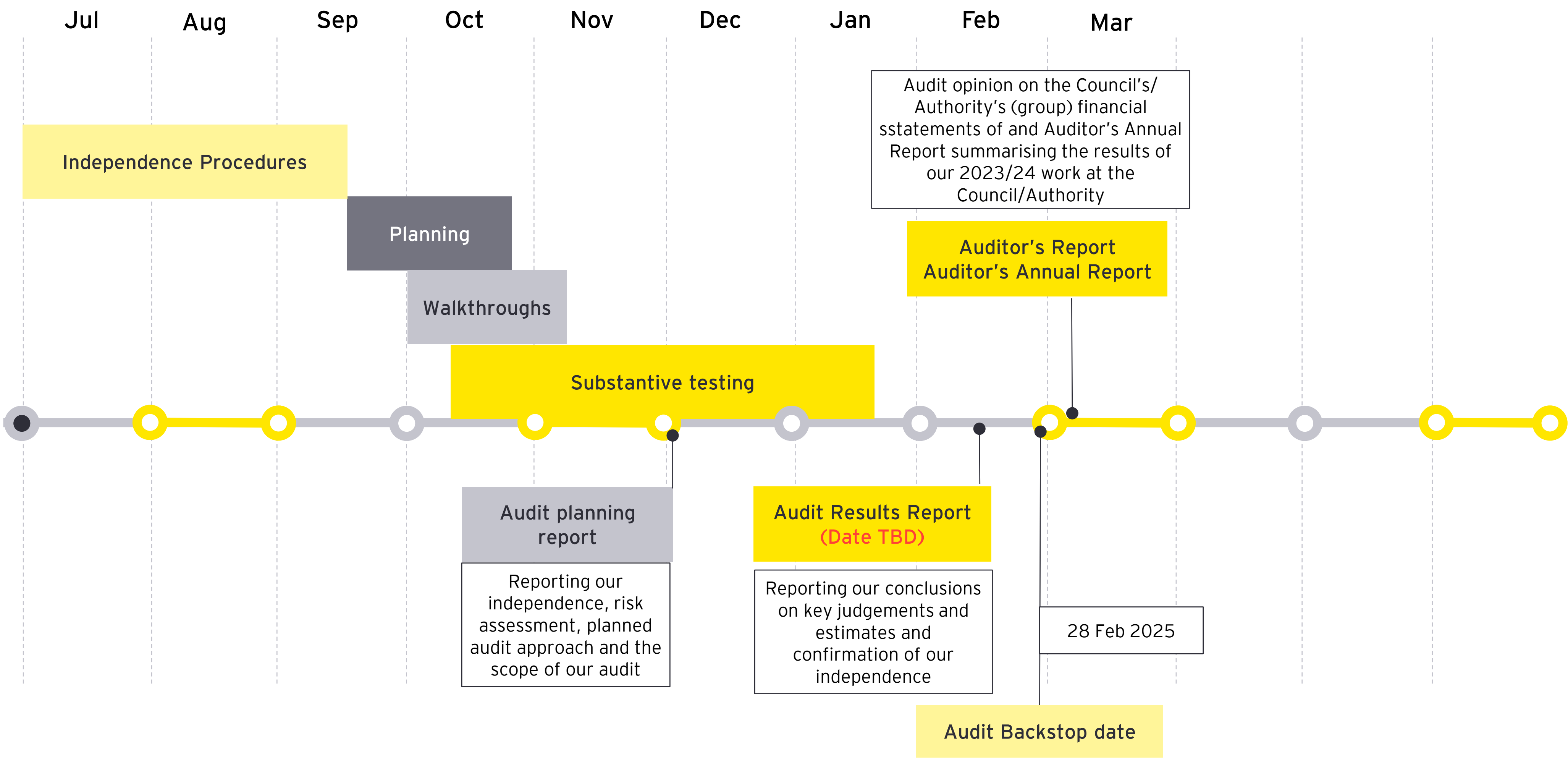
07 Audit timeline

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 audit cycle in 2023/24.

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



08 Independence

Introduction

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

Required communications

Planning stage	Final 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 Audit and Governance 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.	➢ 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 Hassan Rohimun, 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.

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 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 threats at the date of this report.

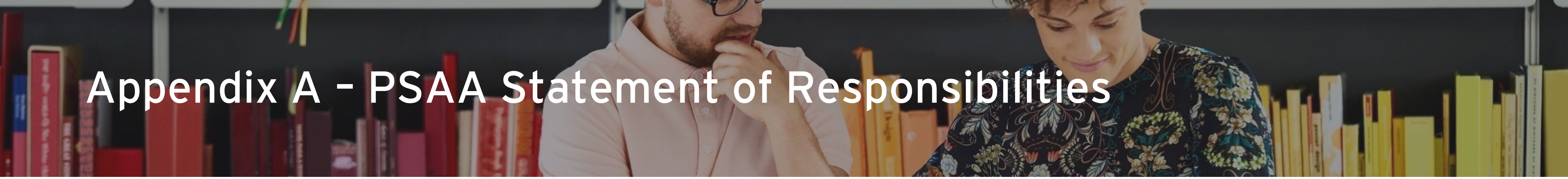
EY Transparency Report 2023

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the period ended 30 June 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:

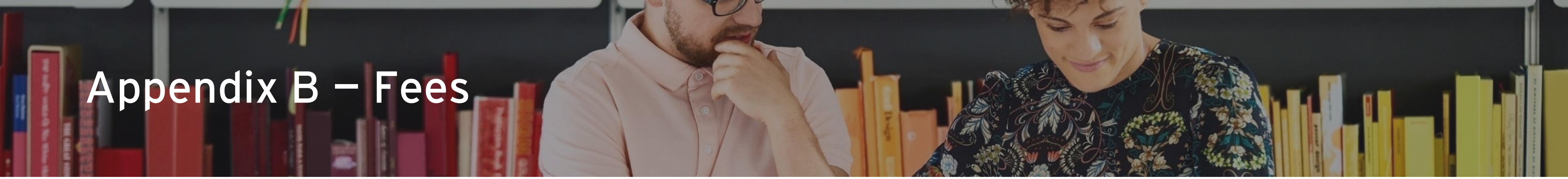
Preparation of the statement of accounts

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

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

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

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



Appendix B – Fees

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

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

The agreed fee presented is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by the Council; and
- The Council has an effective control environment
- 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 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.

	2023/24
	£
Total Fee – Code Work	368,905
Other	0
Total fees	**368,905**

All fees exclude VAT

(1) For 2024 the planned fee represents the base fee, i.e. not including any extended testing.

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

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

Appendix C — Accounting and regulatory update

Future accounting developments and Regulatory update

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

Name	Summary of key measures	Impact on 2023/24
IFRS 16 Leases	▸ CIPFA have confirmed the re will be no further delay of the introduction of the leases standard IFRS 16. ▸ Assets being used by the authority under operating leases are likely to be capitalised along with an associated lease liability. ▸ Lease liabilities and right of use assets will be subject to more frequent remeasurement. ▸ The standard must be adopted by 1 April 2024 at the latest.	▸ The 2023/24 Statement of Accounts must disclose the impact the initial application of IFRS 16 is expected to have on the authority's financial statements. ▸ The authority should make key IFRS 16 policy decisions in accordance with the Code before 1 April 2024. ▸ Officers must implement robust systems to ensure all relevant data points, which could prompt a remeasurement or modification of the accounting entries, are captured in a timely manner.

ISA (UK) 315 (Revised): Identifying and Addressing the Risks of Material Misstatement	ISA 315 is effective from FY 2022/23 onwards and is the critical standard which drives the auditor's approach to the following areas:
	▸ Risk Assessment
	▸ Understanding the entity's internal control
	▸ Significant risk
	▸ Approach to addressing significant risk (in combination with ISA 330)
	The International Auditing & Assurance Standards Board (IAASB) concluded that whilst the existing version of the standard was fundamentally sound, feedback determined that it was not always clear, leading to a possibility that risk identification was not consistent. The aims of the revised standard is to:
	▸ Drive consistent and effective identification and assessment of risks of material misstatement
	▸ Improve the standard's applicability to entities across a wide spectrum of circumstances and complexities ('scalability')
	▸ Modernise ISA 315 to meet evolving business needs, including:
	    ▸ how auditors use automated tools and techniques, including data analytics to perform risk assessment audit procedures; and
	    ▸ how auditors understand the entity's use of information technology relevant to financial reporting.
	▸ Focus auditors on exercising professional scepticism throughout the risk identification and assessment process.
		We will need to obtain an understanding of the IT processes related to the IT applications of the Council/Authority.
		We will perform procedures to determine if there are typical controls missing or control deficiencies identified and evaluated the consequences for our audit strategy.
		When we have identified controls relevant to the audit that are application controls or IT-dependent manual controls where we do not gain assurance substantively, we performed additional procedures.
		We also review the following processes for all relevant IT applications:
		▸ Manage vendor supplied changes
		▸ Manage security settings
		▸ Manage user access
		▸ Manage entity-programmed changes
		▸ Job scheduling and managing IT process

Appendix D — The Spring Report

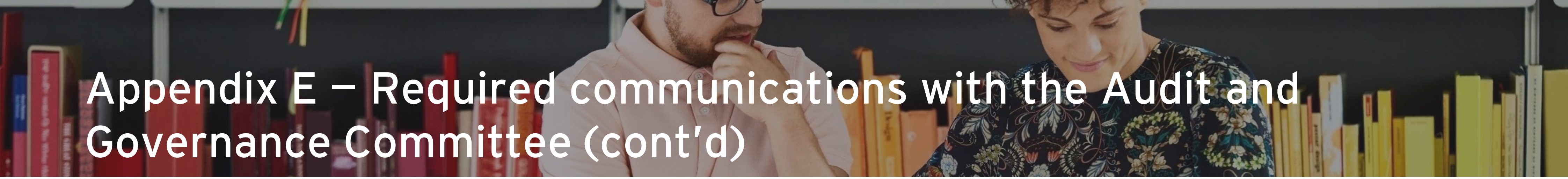
A combined perspective on enhancing audit quality

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

Appendix E — Required communications with the Audit and Governance Committee

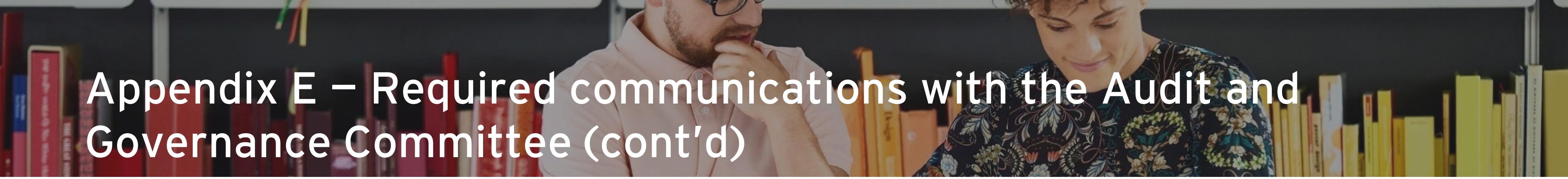
We have detailed the communications that we must provide to the Audit and Governance Committee.

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the Audit and Governance 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	Communication of: ▶ 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 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	Audit planning report 5th December 2024
Significant findings from the audit	▶ 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 ▶ Findings and issues regarding the opening balance on initial audits (delete if not an initial audit) ▶ Any other matters considered significant	Audit results report Date TBD
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▶ 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 Date TBD



Appendix E — Required communications with the Audit and Governance Committee (cont'd)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Misstatements	► 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 Date TBD
Fraud	► Enquiries of the Audit and Governance 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: 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 Audit and Governance Committee responsibility	Audit results report Date TBD
Related parties	Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ► 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 Date TBD
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, integrity, objectivity and independence ► 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 Communication whenever significant judgements are made about threats to integrity, objectivity and independence and the appropriateness of safeguards put in place. ► Communication of relevant information to those charged with governance, to enable them to provide concurrence on the non-audit services being provided.	Audit Planning Report and Audit Results Report 5th of December 2024 and date TBD, respectively



Appendix E – Required communications with the Audit and Governance Committee (cont'd)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
External confirmations	▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures	Audit results report Date TBD
Consideration of laws and regulations	▶ 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 Audit and Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit and Governance Committee may be aware of	Audit results report Date TBD
Internal controls	▶ Significant deficiencies in internal controls identified during the audit	Management letter/audit results report Dates TBD
Group audits	▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▶ Any limitations on the group audit, for example, where the group engagement team's access to 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	Audit Planning Report and Audit Results Report 5th of December 2024 and date TBD, respectively
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report Date TBD
System of quality management	How the system of quality management (SQM) supports the consistent performance of a quality audit	Audit results report Date TBD
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report Date TBD
Auditors report	▶ 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 Date TBD

Appendix F – Additional audit information

Regulatory update

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

Our responsibilities in relation to the financial statement audit are set out in . We are responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of the Audit and Governance Committee. The audit does not relieve management or the Audit and Governance Committee of their responsibilities.

Other required procedures during the course of the audit

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

Our responsibilities required by auditing standards

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

Appendix F — Additional audit information (cont'd)

Other required procedures during the course of the audit

Procedures required by the Audit Code

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

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

Purpose and evaluation of materiality

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

Materiality determines:

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

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

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

Non-Compliance with Laws and Regulations includes:

Any act or suspected act of omission or commission (intentional or otherwise) by the 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

Management Responsibilities:

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

ISA 250A, para 3

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

ISA 250A, para 3

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

Audit Engagement Letter

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

Auditor Responsibilities

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

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

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

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

An understanding of the nature of the act and the circumstances in which it has occurred; and

Further information to evaluate the possible effect on the financial statements

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

ISA 250A, paras 19 and 22

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

Matter	Implication
Suspected or known fraud or bribery	Potential fraud/breach of anti-bribery legislation
Health and Safety incident	Potential breach of section 2 of the Health and Safety at Work Act 1974
Payment of an unlawful dividend	Potential breach of Companies Act 2006
Loss of personal data	Potential GDPR breach
Allegation of discrimination in dismissal	Potential non-compliance with employment laws
HMRC or other regulatory investigation	Suspicion of non-compliance with laws/regulations
Deliberate journal mis-posting or allegations of financial impropriety	Potential fraud / breach of Companies Act 2006
Transacting business with sanctioned individuals	Potential breach of sanctions regulations

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

What are the implications of NOCLAR matters arising?

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

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

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

Management response:

- Timely communication of the matter to auditors (within a couple of days)
- Determine who will carry out any investigation into the matter – in-house or external specialists or mix of both
- Scope the investigation, in discussion with the auditors
- Evaluate findings and agree next steps
- Determine effect on financial statements including disclosures
- Prepare a paper, summarising the outcome of the investigation and management's conclusions
- Communicate the outcome to Those Charged With Governance (TCWG) and to us as your auditors. Report to regulators where required.

Key Reminders:

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

Audit response:

- Initial assessment of the NOCLAR matter and its potential impact
- Initial consultation with risk team to determine responsive procedures and the involvement of specialists
- Understand and agree scope of management's investigation with support from specialists as needed
- Evaluate findings and undertake appropriate audit procedures
- Determine audit related impact including accounting and disclosure and audit opinion implications
- Document and consult on the outcome of our procedures
- Communicate the outcome with management, TCWG and where necessary other auditors within the group or regulators

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ED None