

Cheshire East Council

PROVISIONAL Audit planning report

Year ending 31 March 2025

12 September 2025



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Audit and Governance Committee
Cheshire East Council
Westfields
Middlewich Road
Sandbach
CW11 1HZ

12 September 2025

Dear Audit and Governance Committee

Provisional audit planning report

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

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

This report is intended solely for the information and use of the Audit and Governance Committee and management, and is not intended to be, and should not be, used by anyone other than these specified parties. Following the completion of our planning procedures we will update the committee on any changes in identified audit risks. We welcome the opportunity to discuss this report with you on 29 September 2025 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Hassan Rohimun

For and on behalf of Ernst & Young LLP
Enc

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Public Sector Audit Appointments Ltd (PSAA) issued the 'Statement of responsibilities of auditors and audited bodies'. It is available from the PSAA website (<https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The 'Terms of Appointment and further guidance (updated July 2021)' issued by the PSAA (<https://www.psaa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/>) sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice 2024 (the NAO Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the **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 2024/25 audit strategy overview

2024/25 audit strategy overview

Context

Timely, high-quality financial reporting and audit of local bodies play a crucial role in our democratic system. It aids in effective decision-making by local bodies and ensures transparency and accountability to local taxpayers. There is a consensus that the delay in publishing audited financial statements by local bodies has reached an unacceptable level, and it is acknowledged that cooperation among all stakeholders in the sector is necessary to address this issue. The reasons for the backlog are well-documented and include: Insufficient capacity within the local authority financial accounting profession; Increased complexity of reporting requirements within the sector; Insufficient capacity within audit firms with public sector experience; and Heightened regulatory pressure on auditors, leading to an expanded scope and extent of audit procedures performed.

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

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

As detailed in our Interim Audit Results Report presented to the Audit and Governance Committee on 20/02/2025, we anticipate issuing a disclaimed audit opinion on the Council's 2023/24 financial statements. Having not gained assurance over the closing balances in 2023/24, we do not have assurance over the opening balances for 2024/25. This means we do not have assurance over in-year movements and some closing balances for 2024/25. In the absence of guidance from the System Leader, we will not be undertaking procedures to rebuild assurance in 2024/25 ahead of the backstop date. As a result, we will not be able to obtain sufficient evidence to have reasonable assurance over all closing balances. We therefore expect to again issue a disclaimed audit opinion in 2024/25.

Rebuild of assurance – current position

The National Audit Office issued Local Audit Reset and Recovery Implementation Guidance (LARRIG) 05 on 10 September 2024, detailing the principle of returning to a state where auditors can issue audit opinions on local authority financial statements with sufficient audit evidence. This process will take several years to achieve. Restoring assurance will need local authorities and auditors to work together. We are waiting for guidance from the National Audit Office and Financial Reporting Council to ensure a consistent approach for restoring assurance for disclaimed periods. Until then, we are unable to commence the rebuilding work programme. We will audit the 2024/25 closing balance sheet and in-year transactions, as well as performing additional risk assessment procedures to assess the likelihood of a material misstatement in the opening reserve position for 2024/25. Updates on rebuilding assurance for the historical position will be provided as guidance is issued and its implications for the Council are evaluated taking into consideration the outcome of our risk assessment procedures. As the Council's financial statements for 2023/24 were subject to a disclaimer of opinion, it is highly probable that our risk assessment procedures to assess the likelihood of a material misstatement in the opening reserve position will conclude that an elevated risk of material misstatement is associated with the reserve balances, because of the way in which they accumulate over successive years.

2024/25 audit strategy overview (cont'd)

Responsibilities of management and those charged with governance

The Council's Section 151 Officer is responsible for preparing the financial statements in accordance with proper practices and confirming they give a true and fair view at the 31 March 2025. To complete the audit in a timely and efficient manner, it is essential that the financial statements are supported by high-quality working papers and audit evidence, and that Council resources are available to support the audit process within agreed deadlines. The Audit and Governance Committee has an essential role in ensuring that it has assurance over both the quality of the financial statements and the Council's wider arrangements to support the delivery of a timely and efficient audit. Where this conditions are not met, we will:

- Consider and report on the adequacy of the Council's external financial reporting arrangements as part of our assessment of Value for Money arrangements.
- Consider the use of other statutory reporting powers to draw attention to weaknesses in Council financial reporting arrangements, where deemed necessary.
- Assess the impact on available audit resource and where additional resources are deployed, seek a fee variation from PSAA. We have set out the factors that will lead to a fee variation at Appendix B, together with, at Appendix A, paragraphs 26-28 of PSAA's Statement of Responsibilities which clearly set out what is expected of audited bodies in preparing their financial statements.

2024/25 audit strategy overview (cont'd)

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the 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	Change from PY	Details
Management Override: Misstatement due to fraud or error	Fraud risk	No change in 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. Overstatement of Short-term Debtors	Fraud Risk	No change in risk	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. We consider this 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 also associate this risk to this balance too.
Understatement of other operating expenditure and associated accrual balances Inappropriate allocation of revenue expenditure to unusable reserves	Fraud Risk	No change in 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) and could also extend to non-recognition of required provisions in order to manage the Council's financial position. We consider this risk does not apply to payroll. - The inappropriate capitalisation of revenue expenditure, or through inappropriate reallocation of expenditure to either the Capital Adjustment Account or Dedicated Schools Grant Reserve.
Valuation for Pension assets / liabilities and disclosures	Significant risk	No change in risk	The Local Authority Accounting Code of Practice and IAS19 require the Council to disclose its membership in the Local Government Pension Scheme in its financial statements. Due to the significant estimation and judgement involved, an actuary is engaged to undertake the calculations required for the IAS19 disclosures. ISAs (UK) 500 and 540 mandate procedures on using management experts and assumptions for fair value estimates.

2024/25 audit strategy overview (cont'd)

Audit risks and areas of focus (cont'd)

Risk/area of focus	Risk identified	Change from PY	Details
Valuation of Land and Buildings including Investment Property	Significant risk	No change in 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
Implementation of IFRS 16: Leases	Significant risk	Change in area of focus	The Local Authority Code Board, CIPFA LASAAC, has confirmed that local authorities need to implement IFRS 16 Leases from 1 April 2024. The standard introduces a single lease definition for all lessee arrangements, the impact of this is that the arrangements previously classified as operating leases will now be treated in the same way as finance leases were under the previous standard (with a few exceptions). Consequently, the balance sheet will now need to recognise 'right of use' assets and lease liabilities in respect of the transitioned arrangements. In addition, in respect of the PFI schemes the Council will need to remeasure the lease liability from 1 April 2024 and subsequently where there are changes to the capital elements of the underlying PFI payment profiles. Successful transition will depend on the Council having captured additional information about leases, both new and existing, especially regarding future minimum lease payments. The Council will also have had to develop systems for capturing cost information that are fit for purpose, can respond to changes in lease terms and the presence of any variable (e.g. RPI-based) lease terms where forecasts need to be updated annually based on prevailing indices. We will review the Council's approach to and application of IFRS16 to ensure that it has been correctly implemented, including detailed testing of the most significant transitioned arrangements and the disclosures made in relation to this change in the financial reporting framework.
Minimum revenue provision	Higher Inherent risk	No change in risk	Local authorities are required to charge a Minimum Revenue Provision (MRP) to the General Fund in each 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 the MRP has not been calculated in line with CIPFA guidance and does not consider or include all relevant balances

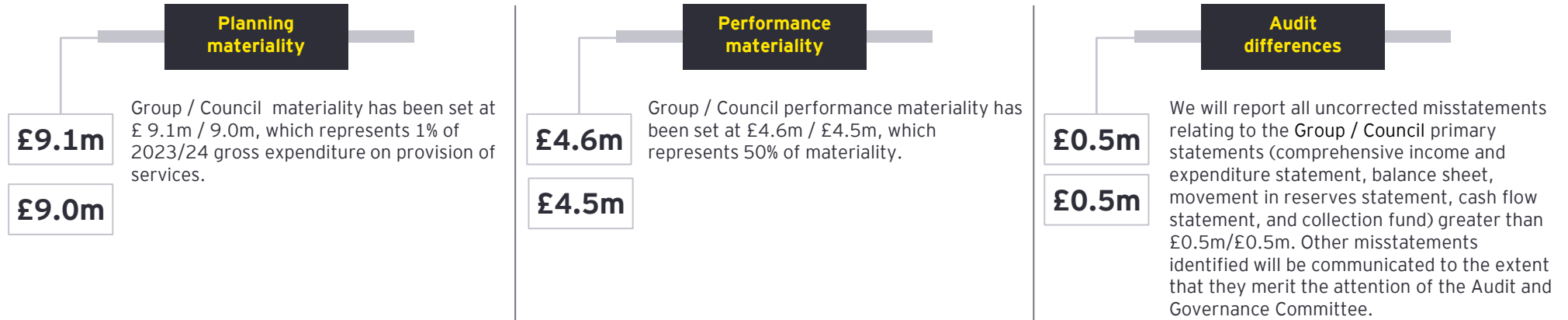
2024/25 audit strategy overview (cont'd)

Audit risks and areas of focus (cont'd)

Risk/area of focus	Risk identified	Change from PY	Details
Preparation of Group Financial Statements	Higher Inherent risk	No change in 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	No change in risk	The Council has a Private Finance Initiative (PFI) arrangement jointly with Cheshire West and Chester councils in respect of Extra Care Housing, the 2023/24 year-end liability in respect of this was £33m. Accounting for the PFI involves 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	No change in 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. 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
Migration of cash receipting system	Area of focus	No change in area of focus	In 2024/25, the Council migrated its CRIM cash receipting system to a cloud storage solution. As part of this exercise, the Council has migrated historical transactions dating back to 2019. As with any significant financial system, there is a risk that data could be lost in the period of transition. There is also a risk around the completeness of the data subject to migration or that transactions may be duplicated.

2024/25 audit strategy overview (cont'd)

Group and Council Materiality



We will update our materiality calculation on receipt of the 2024/25 draft financial statements and we will keep the Audit and Governance Committee updated on any changes to materiality levels as the audit progresses.

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 give a true and fair view of the financial position as at 31 March 2025 and of the income and expenditure for the year then ended; and
- our commentary on your arrangements to secure value for money in your use of resources for the relevant period. We include further details on the value for money arrangements in Section 3.

We also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return. Our audit will include the required mandatory procedures in accordance with applicable laws and auditing standards. In planning our audit, we consider several key inputs to ensure our audit is focussed on the areas that matter and so that our feedback is more likely to be relevant:

- strategic, operational and financial risks relevant to the financial statements;
- developments in financial reporting and auditing standards;
- the quality of systems and processes;
- changes in the business and regulatory environment; and
- management's views on all the above.

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

2024/25 audit strategy overview (cont'd)

Audit scope (continued)

Effects of climate-related matters on financial statements

Public interest in climate change is growing. We recognize that climate-related risks may span a long timeframe, and while these risks exist, their impact on the current financial statements may not be immediately significant. However, it remains essential to understand these risks to conduct a proper evaluation. Additionally, comprehending climate-related risks may be pertinent in the context of qualitative disclosures in the notes to the financial statements and in assessing value-for-money arrangements. We inquire about climate-related risks during every audit as part of our understanding of the entity and its environment. As we continually re-evaluate our risk assessments throughout the audit, we consider the information obtained to help us assess the level of inherent risk.

Audit scope and approach

We plan to adopt a substantive audit approach.

Value for Money

We are required to consider whether the Council has made 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The value for money planning and related risk assessment aims to collect enough evidence to document our evaluation of the Council's arrangements, allowing us to prepare a commentary based on three reporting criteria. This process includes identifying and reporting any significant weaknesses in those arrangements and making suitable recommendations. We will provide a commentary on the Council's arrangements against three reporting criteria:

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

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

Timeline

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

Key Audit Partner and senior audit team

Hassan Rohimun is the partner responsible for the external audit of the Council. Hassan is an experienced public sector audit specialist during his career he has worked with all forms of local government bodies including unitary authorities. Dan Spiller (Senior manager) together with Lesley Moya (Manager) will be lead the audit team and be the primary contact for the Council's finance team, both Dan and Lesley are experienced public sector specialists working across a number of local government and NHS bodies.

2024/25 audit strategy overview

Group Audit scope

The scoping of the group audit addresses the risks of material misstatement in the Council's financial statements, including those noted under 'Audit risks' and 'Other areas of audit focus'. For the year-end audit, aligned with ISA (UK) 600 (Revised), effective for periods starting on or after 15 December 2023, we have tailored our audit scope to respond to these identified risks. This has influenced our choice of locations and the extent of procedures undertaken.

Through our on-site work we will cover the following percentages, by full scope (A) and specific scope (B) audits, of of Income, Expenditure and Net Assets. All components are based in the UK. Figures are based on the most recent sets of published statements (i.e. 31st March 2024) therefore there are no changes from the prior year where our planning report was prepared after those statements had been prepared.



- 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

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.

**Presumptive risk
of management
override of
controls :
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.
- Inquiring of management about risks of fraud and the controls put in place to address those risks.
- Understanding the oversight given by those charged with governance of management's processes over fraud.
- Discussing with those charged with governance the risks of fraud in the entity, including those risks that are specific to the entity's business sector (those that may arise from economic industry and operating conditions).
- Considering whether there are any fraud risk factors associated with related party relationships and transactions and if so, whether they give rise to a risk of material misstatement due to fraud.
- Considering 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.
- Undertaking procedures to identify significant unusual transactions.
- Considering whether management bias was present in the key accounting estimates and judgments in the financial statements.

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

Our response to significant risks (cont'd)

**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 2023/24 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". On receipt of the 2024/25 financial statements, 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:

- Reviewing 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 (cont'd)



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) and could also extend to non-recognition of required provisions in order to manage the Council's financial posi

At the 31 March 2024 of the £159.9m (year end creditors balance) a £114m was categorised as "other". On receipt of the 2024/25 financial statements,, 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?

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

- Reviewing 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;
- Performing unrecorded liabilities testing to identify payments occurring after the year end, which will address the completeness of the expenditure;
- Performing testing on completeness of provisions based on our understanding of the Council; and
- Performing 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 (cont'd)

Inappropriate 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 may occur through the inappropriate capitalisation of revenue expenditure or through inappropriate allocation of expenditure to the Dedicated Schools Grant Reserve.

What will we do?

- Test Property, Plant and Equipment (PPE)/Investment Property (IP) additions to ensure that the expenditure incurred and capitalised is clearly capital in nature.
- Assess whether the capitalised spend clearly enhances or extends the useful life of asset rather than simply repairing or maintaining the asset on which it is incurred.
- Consider whether any development or other related costs that have been capitalised are reasonable to capitalize, i.e., the costs incurred are directly attributable to bringing the asset into operational use.
- Test REFCUS to ensure that it is appropriate for the revenue expenditure incurred to be financed from ringfenced capital resources.
- Seek to identify and understand the basis for any significant journals transferring expenditure from revenue to capital codes on the general ledger at the end of the year.
- 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 (cont'd)

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 2023/24 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).

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 2024/25 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 2025, for example, material assets which are valued at market based fair value.

Our response to significant risks (cont'd)



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.

The Council's pension fund surplus is a material estimated balance and the Code requires that this asset be disclosed on the Council's balance sheet.

In the 2023/24 draft financial statements there were material transactions relating to IFRIC 14 asset ceiling adjustments. The calculation of these transactions are complex and based on information provided by the Council's actuary.

What will we do?

We will 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
- 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; and
- We will consider outturn information available at the time we undertake our work after production of the Council's draft financial statements, for example the year-end actual valuation of pension fund assets. We will use this to inform our assessment of the accuracy of estimated information included in the financial statements and whether any adjustments are required.

Our response to significant risks (cont'd)

IFRS 16 Implementation

Financial statement impact

- 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.
- Other amendments have been made to the CIPFA Code to expand the definition of donated assets to include right-of-use assets and on accounting for leases provided at below market rate, including peppercorn and nil consideration.

What is the risk?

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

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

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

Based on our prior year work the Council had made little progress in collecting the information necessary to implement IFRS 16 and determine the impact on its financial statements.

In addition, in respect of the PFI schemes the Council will need to remeasure the lease liability from 1 April 2024 and subsequently where there are changes to the capital elements of the underlying PFI payment profiles.

What will we do?

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

Other areas of audit focus

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

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

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.

Our response: Key areas of challenge and professional judgement

- 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.

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.
- Consider the impact of the implementation of IFRS 16 on the Council's PFI disclosures.

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.

Other areas of audit focus (cont'd)

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?

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. The Council has been in regular liaison with MHCLG to ensure that there is access to Exception Financial Support (EFS) when required, fulfilling the conditions directed by the Minister to have in-place, a transformation plan.

Our response: Key areas of challenge and professional judgement

We will consider the requirements of the 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.

Data migration to new cash receipting system

In 2024/25, the Council migrated its CRIM cash receipting system to a cloud storage solution. As part of this exercise, the Council has migrated historical transactions dating back to 2019. As with any significant financial system, there is a risk that data could be lost in the period of transition. There is also a risk around the completeness of the data subject to migration or that transactions may be duplicated.

We will:

- Gain an understanding of the process and walkthrough on the old and new system to better understand the data migration process.
- Obtain and review reconciliations of the data transferred from old to new systems to obtain assurances as to completeness.
- Sample test the data to gain assurance that it has been completely and accurately migrated.
- Undertake ISA 315 (Revised) risk assessment procedures for the new systems that have been implemented.
- Obtain and consider the latest Internal Audit Report review of the data migration process to identify if there were exceptions that we should consider in our approach.
- Evidence that the Council has undertaken procedures to ensure compliance with relevant laws and regulations, for instance complying with data security and retention requirements.



03 Value for Money risks

Value for Money

Council's responsibilities for value for money

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

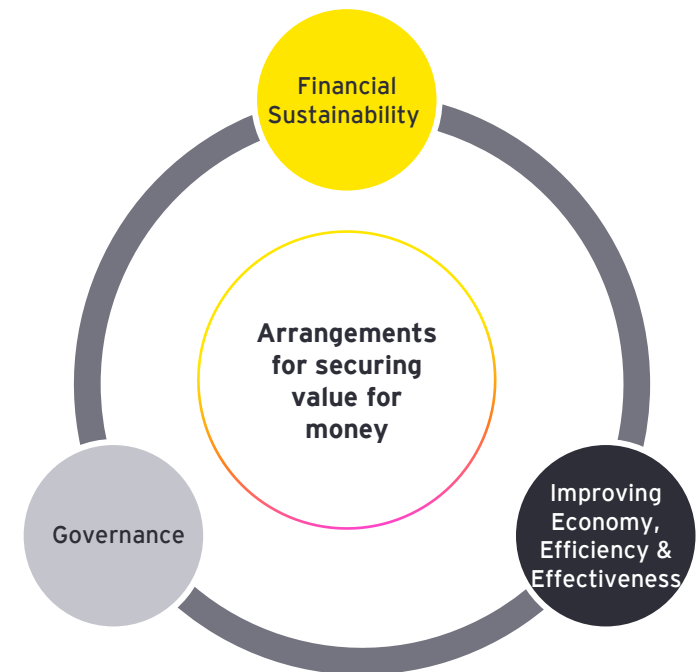
As part of the material published with the financial statements, the Council is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the Council tailors the content to reflect its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

Auditor Responsibilities

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

The specified reporting criteria are:

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



Value for Money (cont'd)

Planning and identifying risks of significant weakness in VFM arrangements

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

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

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

- Exposes, or could reasonably be expected to expose, the council to significant financial loss or risk;
- Leads to, or could reasonably be expected to lead to, significant impact on the quality or effectiveness of service or on the council's reputation; or unlawful actions;
- Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on improvement plans.

Responding to identified risks of significant weakness

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

Reporting on VFM

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

Status of our 2024/25 VFM planning

We have yet to complete our detailed value for money planning. However, due to issues that have been previously reported by the Council's predecessor auditor, and work performed in our audit for 2023/24, we have identified the risks set out on the following pages. We will update the next Audit and Governance Committee meeting on the outcome of our value for money planning and our planned response to any additional identified risks of significant weaknesses in arrangements.

Value for Money (cont'd)

Value for Money Risks

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

What is the risk of significant weakness?	What arrangements does this impact	Change from PY	Details and what we will do
Peer Review In March 2024 Cheshire East Council invited the Local Government Association to undertake a corporate peer challenge. The report identified that the Council needs to address a number of significant issues, the most immediate being the organisation's financial sustainability which is in jeopardy. Following the peer review the Council has established an action plan, comprising 73 actions, across the areas of: Financial Sustainability; Transformation; Leadership and Culture; Strategic Purpose and Performance; Good Governance; and Service Improvement Whilst the Council is responding positively to the issues identified, the findings of the peer review represents a risk of significant weaknesses in arrangements for 2024/25.	Financial sustainability Governance Improving economy, efficiency and effectiveness	No change in risk or focus	We will build on the work performed in 2023/24 and: - Review progress made against the Council's action plan to address the recommendations made by the peer review team. - Update our review of arrangements in place to monitor the delivery of the action plan in accordance with agreed time scales.
Medium Term Financial Strategy The Council's Medium Term Financial Strategy is not sustainable without central Government support and the Council is at risk of issuing a S114 notice in the future.	Financial sustainability	No change in risk or focus	We will: - Review the Council's: budget setting; forecasts; and budget reporting - Review savings plans and the arrangements for monitoring the delivery of savings - Review the proposed plans to secure future financial sustainability and actions that are being developed to mitigate any areas of non delivery
Head of Internal Audit Opinion For 2023/24 Internal Audit (IA) concluded that the overall opinion on the Council's framework of risk management, governance and internal control was "Limited", with the opinion for Risk Management, Governance and Internal Control being "Adequate". "Limited" and "Limited" respectively. The findings and conclusions of IA is evidence of a risk of significant weaknesses in arrangements for 2024/25.	Governance Improving economy, efficiency and effectiveness	New risk or focus	We will: Review IA 2024/25 audit reports and the action plan which the Council plans to respond to the weaknesses identified in the 2023/24 AGS.

Value for Money (cont'd)

What is the risk of significant weakness?	What arrangements does this impact	Change from PY	Details and what we will do
<u>Children's Services</u> On the 24 July 2024 the Secretary of State issued an improvement notice to the Council following the significant concerns highlighted by the publication of OFSTED's inspection report of the Council's Children's Social Care Services on 16 May 2024. The Secretary of State chose to retain the support of an Improvement Adviser in Cheshire East, to provide advice to the Department for Education and the Council. The Council were required to work with the Adviser and establish an improvement plan, that will deliver appropriate and sustainable improvement, to cover the areas identified in the OFSTED report as well as recommendations made by the appointed Improvement Adviser. The findings of OFSTED and the improvement notice issued by the Secretary of State is evidence of significant weaknesses in arrangements for: ▪ How the Council ensures that it makes informed decisions and properly manages risks. ▪ How the Council uses information about its costs and performance to improve the way it manages and delivers its services.	Governance Improving economy, efficiency and effectiveness	No change in risk or focus	Building on the work performed in 2023/24, we will: • Review the progress reports of the appointed independent advisor and the Department of Education; and • Review the arrangements which the Council has in place for monitoring the delivery of agreed improvement actions.
<u>Insourcing</u> The Council 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.	Governance Improving economy, efficiency and effectiveness	No change in risk or focus	We will review the governance and oversight processes that the Council has put in place to manage the process of bringing the services provided by Ansa and Orbitas back in-house.
<u>Annual Governance Statement</u> The 2023/24 Annual Governance Statement (AGS) identified the significant governance issues for 2023/24 in respect of: ➤ Children Services (OFSTED inspection) ➤ Governance and Internal Control, reflecting the findings of IA and the Peer Review. ➤ The need to improve governance arrangements for partnership working. ➤ Financial sustainability	Governance Improving economy, efficiency and effectiveness	New risk or focus	We will: • Review the arrangements for monitoring and delivering identified actions to respond to the weaknesses identified in the 2023/24 AGS.

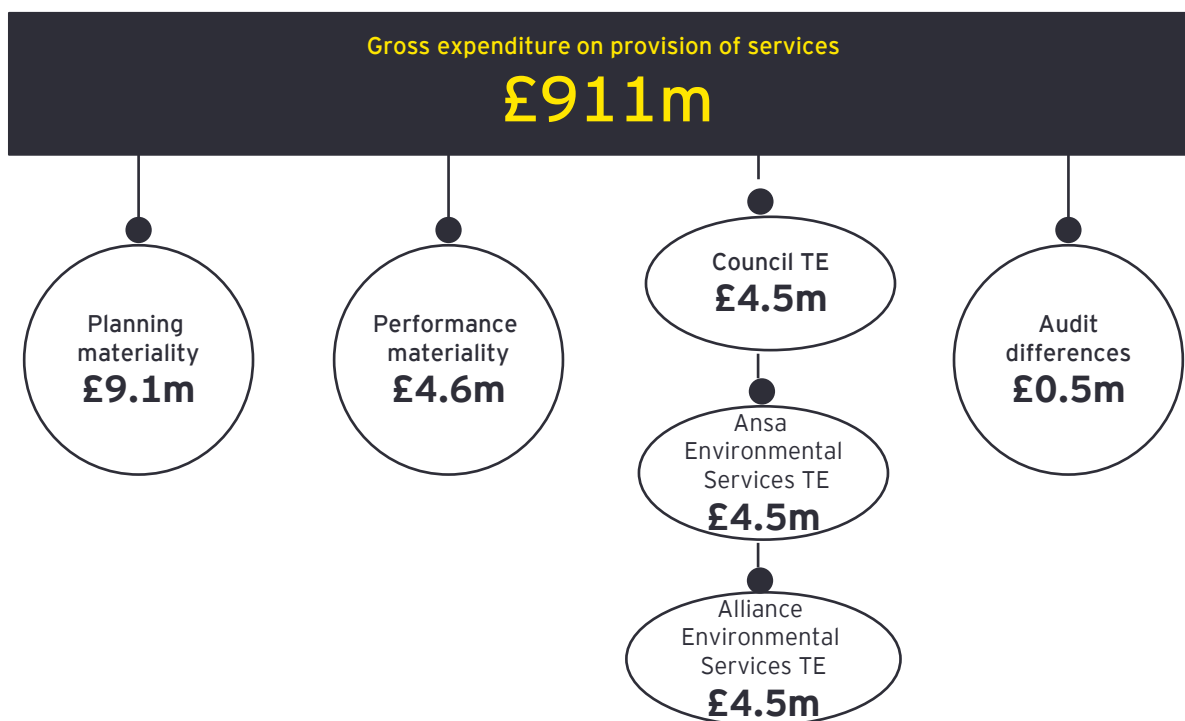


04 Audit materiality

Materiality

Group materiality

For planning purposes, Group materiality for 2024/25 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.



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/£4.5m which represents 50% of group materiality.

We have opted for a lower percentage of group materiality due to the inability to assess a reduced likelihood of misstatements. This is influenced by the fact that the previous year audit (2023/24) was our first year of audit and was incomplete.

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

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

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

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.



05 Scope of our audit

Audit process and strategy

Objective and Scope of our Audit scoping

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

1. Financial statement audit

Our opinion on the financial statements:

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

Our opinion on other matters:

- whether other information published together with the audited financial statements is consistent with the financial statements.

Other procedures required by the Code:

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

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

Analytics

We will use a data driven approach to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

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

Internal audit

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

Scope of our audit

Group scoping

Our audit strategy for performing 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.

This scoping is subject to change once updated figures are available for the 2024/25 balances.

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: locations involving the design and performance of audit procedures on a significant proportion of the financial information of the component. Procedures performed at full scope locations support an interoffice conclusion on the reporting package. These may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements because of the scope of work, materiality used and any additional procedures required to comply with local laws and regulations. **(Council)**

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

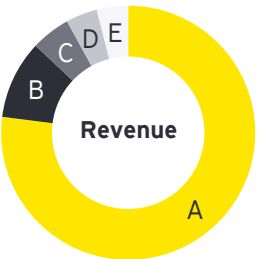
Specified Procedures: locations where the component team performs procedures specified by the Group audit team to obtain audit evidence for one or more elements of the group financial statements and/or to respond to identified risks of material misstatement.

Remaining components: Based on our planned audit scope, there may exist residual amounts of balances and accounts of the group financial statements which are not included in the group scope. These amounts have been evaluated as not presenting a risk of material misstatement to the group financial statements and may comprise balances at multiple location where the balances may be material in aggregate. Components/locations that are not assigned a scope of work nor subject to centralised procedures, and comprise amounts solely contributing the residual amounts are described as 'remaining components'. We update and perform further risk assessment procedures as necessary to conclude our assessment that there is no risk of material misstatement in those amounts. Individually, these components do not exceed more than 0.02% of the Group's Gross Revenue Expenditure. In aggregate, the total contribution of these components is less than 0.1% of Group Gross Revenue Expenditure.

Scoping the group audit

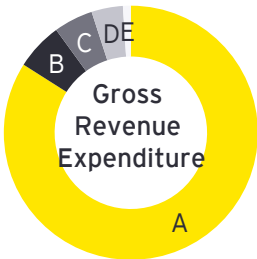
Coverage of Revenue/Gross Revenue Expenditure/Total assets

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



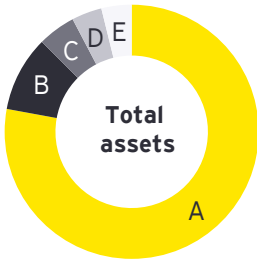
98.6%

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



99.8%

of the group's forecast Gross Revenue Expenditure will be covered by full and specific scope audits.



98%

of the group's forecast total assets will be covered by full and specific scope audits.

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

Details of [specified procedures and] other procedures performed centrally

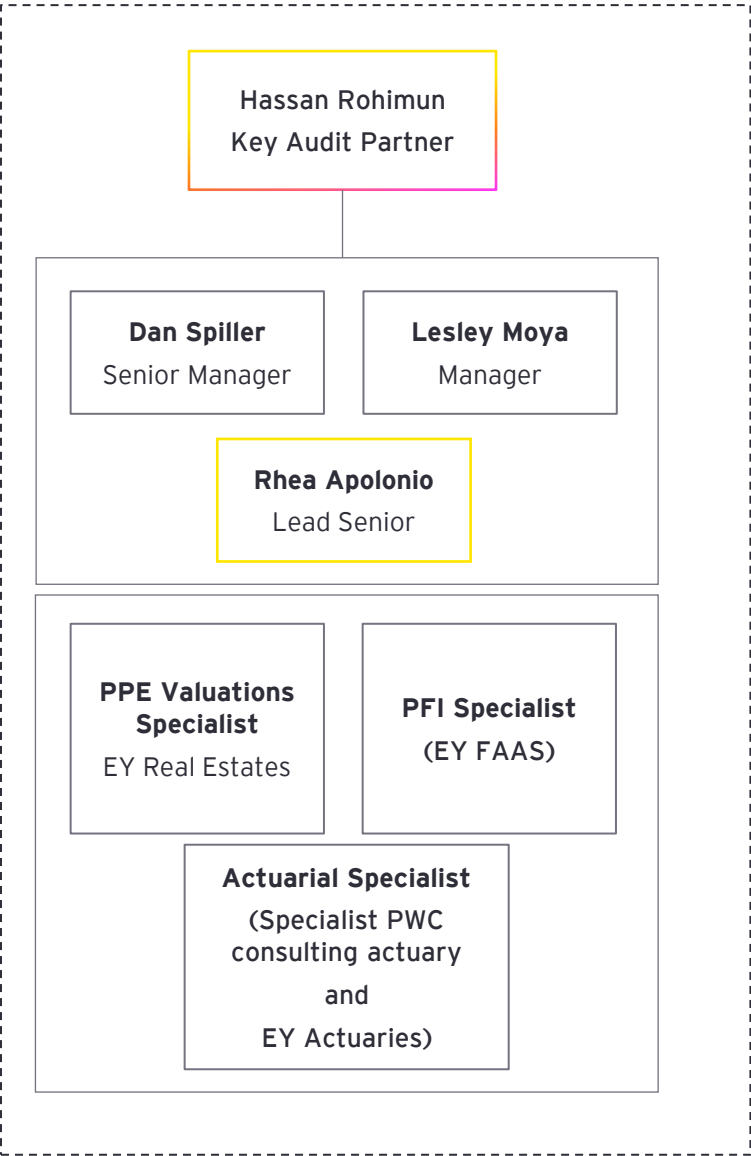
- Ansa Environmental Services is significant by risk as a result of balances above the group TE. (Expenditure of £43.6M, Income of £50.5M, and Liabilities of £11.4m). EY will perform specific procedures on these relevant accounts. The team will design procedures to obtain assurance over these accounts. 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.

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



06 Audit team

Audit team and 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 FAAS (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

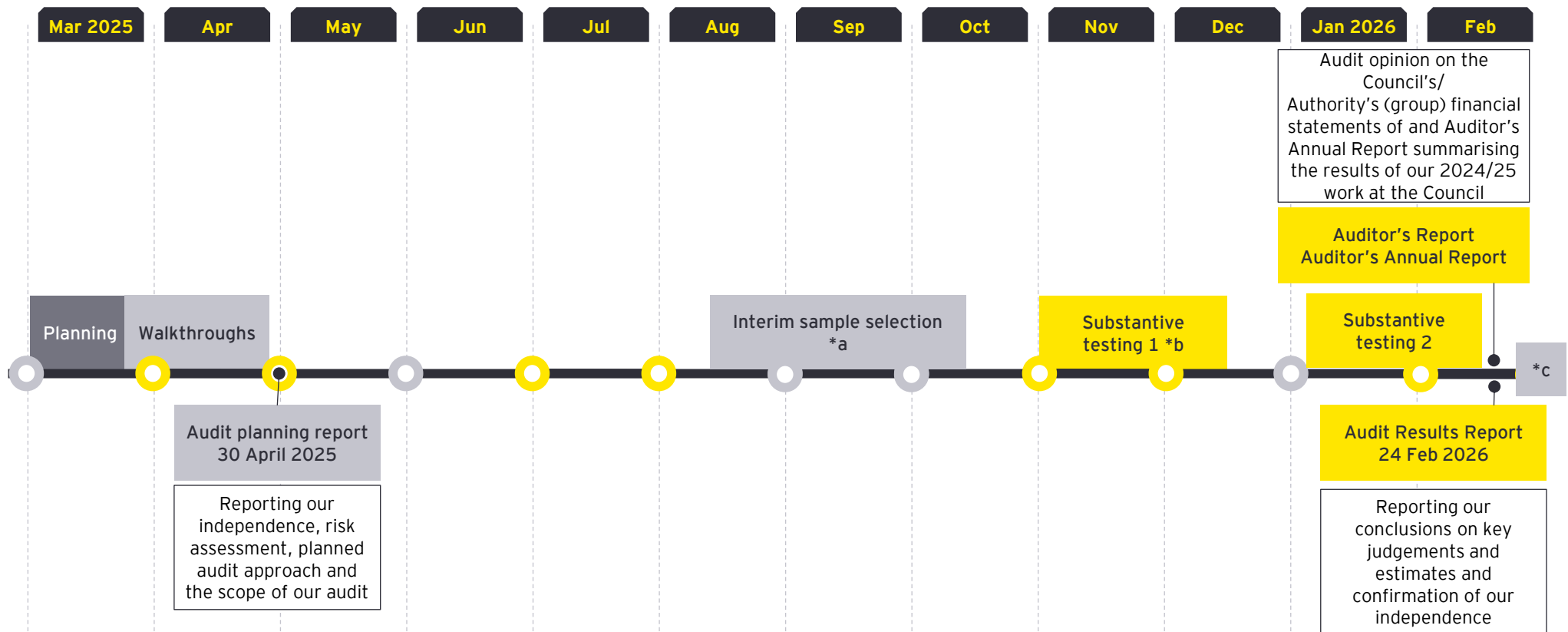


07 Audit timeline

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 2024/25 audit cycle. 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.



- a) We have agreed with management to select, where possible, a number of interim samples, in areas including: Fees and Charges, service expenditure, PPE additions and PPE Valuations, which we will then leave with management the opportunity, prior to our work commencing in November, for evidence to be collated.
- b) Our audit will pause between 12 December 2025 and 5 January 2026.
- c) The backstop date for local government audits, meaning the latest date an auditor can issue a disclaimed or modified opinion for the 2024-25 financial year, is 27 February 2026.



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).	▪ 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 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.

EY Transparency Report 2024

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the period ended 30 June 2024 and can be found here: **[EY UK 2024 Transparency Report](#)**.

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 other threats at the date of this 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 financial statement opinion and value for money conclusion being unqualified;
- ▶ appropriate quality of documentation is provided by the Council;
- ▶ an effective control environment; and
- ▶ compliance with PSAA's Statement of Responsibilities of auditors and audited bodies. See <https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>. In particular the Council should have regard to paragraphs 26-28 of the Statement of Responsibilities which clearly sets out what is expected of audited bodies in preparing their financial statements. These are set out in full on the previous page.

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

	2024/25	2023/24
	£	£
Scale Fee	397,671 Note 3	368,905 Note 1
Scale Fee Variations	Note 4	Note 2
Other	0	0
Total fees	0	0

All fees exclude VAT

1. As set out in the joint statement on update to proposals to clear the backlog and embed timely audit issued by DHLUC, PSAA will use its fee variation process to determine the final fee the Council have to pay for the 2023/24 audits.
2. The 2023/24 work is yet to be completed in undertaking the audit there are areas where additional work was required which are not included within the scale fee set by the PSAA these include:
 - Consideration of correspondence from the public and formal objections.
 - VFM risks of, or actual, significant weaknesses in arrangements and related reporting impacts.

Following the conclusion of our work we will inform the Council of the level of additional fees and then submit a fee variation to the PSAA for approval.
3. Scale fees for 2024/25 have been increased by PSAA to cover additional work under revised standards and contractual inflationary increase payable to audit firms. The new work relates to revised auditing standards ISA (UK) 315 (risk of material misstatement) and linked work on ISA (UK) 240 (fraud). Further information on the scale fee can be found on PSAA's website at [2024/25 auditor appointments and audit fee scale - PSAA](#)
4. The scale fee may be impacted by a range of 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
 - Modified financial statement opinions

Any scale fee variations are subject to review and approval by the PSAA.

Appendix C – 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 - May 2025
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)	▪ Audit results report - Exp. Dec 2025
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 - Exp. Dec 2025
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 - Exp. Dec 2025

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

		Our Reporting to you
Required communications	What is reported?	When and where
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: - Management; - Employees who have significant roles in internal control; or - 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 - Exp. Dec 2025
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 - Exp. Dec 2025
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.	Audit planning report - May 2025 Audit results report - Exp. Dec 2025
External confirmations	- Management's refusal for us to request confirmations - Inability to obtain relevant and reliable audit evidence from other procedures	Audit results report - Exp. Dec 2025

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

		Our Reporting to you
Required communications	What is reported?	When and where
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 - Exp. Dec 2025
Internal controls	Significant deficiencies in internal controls identified during the audit	Audit results report - Exp. Dec 2025
Group audits	- An overview of the work to be performed at the components and the nature of the group audit team's planned involvement in the work to be performed by component teams - Instances when the group audit team's review of the work of a component team gave rise to a concern about the quality of that team's work, and how the group audit team addressed the concern - Any limitations on the ability to obtain sufficient appropriate audit evidence in support of the group audit opinion, for example, where the group audit team's access to people or information may have been restricted - Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements - Significant deficiencies identified in the group's system of internal control	Audit planning report - May 2025 Audit results report - Exp. Dec 2025
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report - Exp. Dec 2025
System of quality management	How the system of quality management (SQM) supports the consistent performance of a quality audit	Audit results report - Exp. Dec 2025
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report - Exp. Dec 2025
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 - Exp. Dec 2025

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