



Annex A

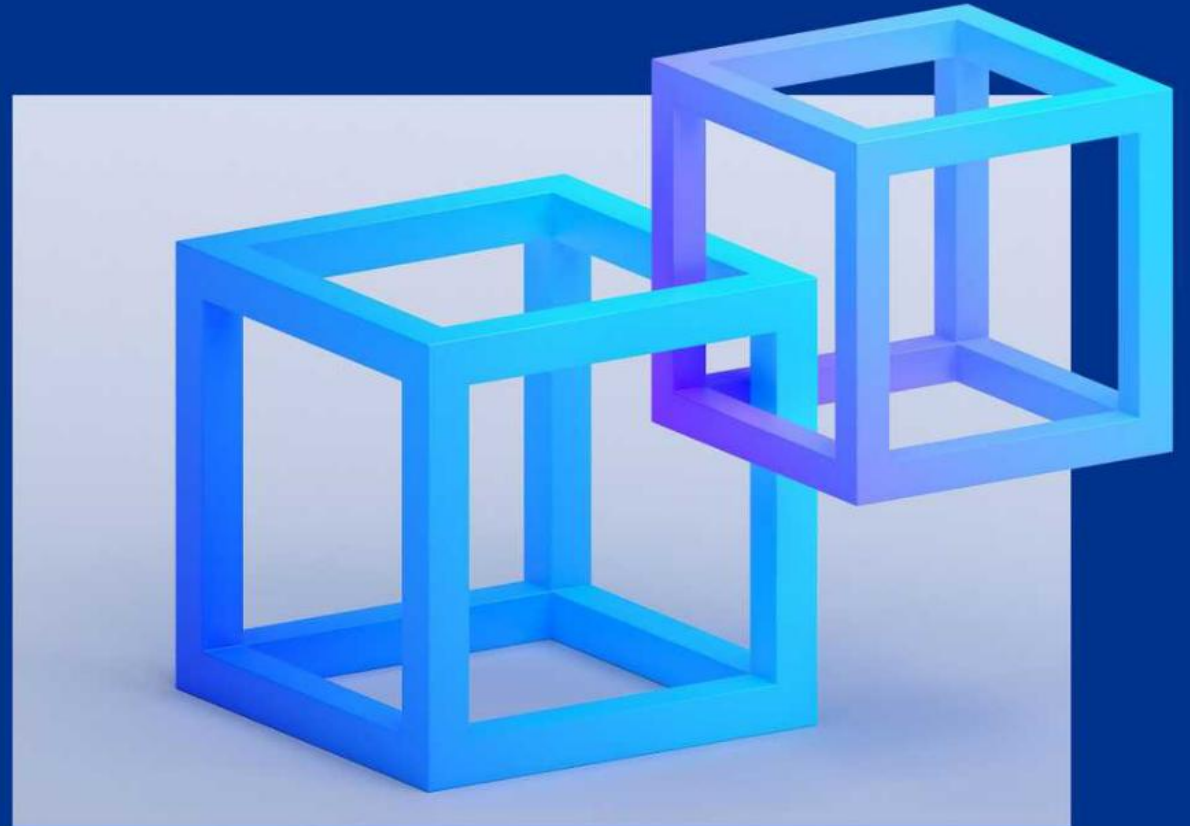
# Cambridgeshire County Council

Year End Report to the Audit and Accounts  
Committee

Year end report for the year ended 31 March 2025

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February 2026



# Introduction

## To the Audit and Accounts Committee of Cambridgeshire County Council

We are pleased to have the opportunity to meet with on 19<sup>th</sup> February 2026 to discuss the findings and key issues arising from our audit of the consolidated and standalone financial statements of the Council.

We are providing this report in advance of our meeting to enable you to consider our findings and hence enhance the quality of our discussions. This report should be read in conjunction with our audit plan and strategy report, presented in April 2025. We will be pleased to elaborate on the matters covered in this report when we meet.

### How we deliver audit quality

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.

We consider risks to the quality of our audit in our engagement risk assessment and planning discussions.

We define 'audit quality' as being the outcome when:

- Audits are executed consistently, in line with the requirements and intent of applicable professional standards within a strong system of quality management; and,
- All of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Richard Lee ([Richard.Lee@KPMG.co.uk](mailto:Richard.Lee@KPMG.co.uk)), the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with the response, please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Tim Cutler. ([tim.culter@kpmg.co.uk](mailto:tim.culter@kpmg.co.uk)). After this, if you are still dissatisfied with how your complaint has been handled you can access KPMG's complaints process here: [Complaints](#)

### The engagement team

Subject to the approval of the statement of accounts, we expect to be in a position to sign our audit report on the approval of those statement of accounts and auditor's representation letter in February 2026, provided that the outstanding matters noted on page 7 of this report are satisfactorily resolved.

There have been no significant changes to our audit plan and strategy.

We draw your attention to the important notice on page 3 of this report, which explains:

- The purpose of this report
- Limitations on work performed
- Status of our audit and the implications of the statutory backstop.

Yours sincerely,



**Sarah Brown**

19<sup>th</sup> February 2026

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# Important notice

**This report is presented under the terms of our audit under Public Sector Audit Appointments (PSAA) contract.**

The content of this report is based solely on the procedures necessary for our audit.

## Purpose of this report

This Report has been prepared in connection with our audit of the consolidated financial statements of Cambridgeshire County Council (the 'Council') (and its subsidiaries (the 'Group') for the year ended 31 March 2025.

This Report has been prepared for the Council's Audit and Accounts Committee, a sub-group of those charged with governance, in order to communicate matters that are significant to the responsibility of those charged with oversight of the financial reporting process as required by ISAs (UK), and other matters coming to our attention during our audit work that we consider might be of interest, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this Report, or for the opinions we have formed in respect of this Report.

## Limitations on work performed

This Report is separate from our audit report and does not provide an additional opinion on the Group's financial statements, nor does it add to or extend or alter our duties and responsibilities as auditors.

We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report.

The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit (to the extent it has been possible in the context of our disclaimer of opinion - see page 4).

## Status of our audit and the implications of the statutory backstop

Page 4 'The statutory backstop and rebuilding assurance' explains the impact of the statutory backstop and our resulting conclusion to issue a disclaimer opinion on the financial statements

While we are disclaiming our audit opinion on the financial statements, we are still required to identify our audit findings based on the work performed. We have identified findings as reported in our report.

Our audit is not yet complete and matters communicated in this Report may change pending signature of our audit report. We will provide an oral update on the status. Page 7 'Our Audit Findings' outlines the outstanding matters in relation to the audit. Our conclusions will be discussed with you before our audit report is signed.

# The statutory backstop and rebuilding assurance

## Background

The Government has introduced measures to resolve the legacy local government financial reporting and audit backlog.

Last year, amendments were made to the Accounts and Audit Regulations and NAO's Code of Audit Practice which introduced the requirement for audit reports in respect of any open, incomplete audits up to the period ending 31 March 2023 to be published by 13 December 2024. It also introduced a statutory back stop date of 28 February 2025 for the 2023/24 audit. For Council this had the impact of a disclaimer of opinion issued by your predecessor auditor for one financial years up to and including 2022/23. We then issued a disclaimer of opinion for 2023/24 on 28 February 2025 to comply with the statutory backstop date for the reasons set out in our Basis of Disclaimer Opinion below.

In addition, we identified material uncorrected misstatements in the financial statements, which we reported in our audit report.

Work has been ongoing in the sector to develop guidance to help support appropriate audit procedures for audits where further work is required to build back assurance. In addition to Local Audit Rest and Recovery Implementation Guidance (LARRIGs) that were published in 2024 by the NAO, further guidance has now been published by the NAO LARRIG) 06 - Special considerations for rebuilding assurance for specified balances following backstop-related disclaimed audit opinions (e.g reserves balances where a disclaimer has been previously issued). We note the LARRIGs are prepared and published with the endorsement of the Financial Reporting Council (FRC) and are intended to support the reset and recovery of local audit in England.

## The 2023/24 audit

In our *Basis of Disclaimer Opinion* section of our audit report in 2023/24 we reported:

The Accounts and Audit (Amendment) Regulations 2024 (the "Amendment Regulations") require the Council to publish its financial statements and our opinion thereon for the year ended 31 March 2024 by 28 February 2025 (the "Backstop Date"). We have been unable to obtain sufficient appropriate audit evidence over a number of areas of the financial statements as we have been unable to perform the procedures that we consider necessary to form our opinion on the financial statements ahead of the Backstop Date. These areas include, but were not limited to, the carrying amount of property, plant and equipment, Investment properties, long term debtors, the comprehensive income and expenditure statement, the disclosure of related party transactions and the balances of, and movements in, usable and unusable reserves for the year ended 31 March 2024 in relation to both the Group and the Council.

In addition, we have been unable to obtain sufficient appropriate evidence over the disclosed comparative figures for the year ended 31 March 2023 due to the Backstop Date.

Any adjustments from the above matters would have a consequential effect on the Group's and the Council's net assets and the split between usable reserves and unusable reserves as at 31 March 2024 and 31 March 2023, and on their income and expenditure and cash flows for the years then ended.

In addition, the Council's investment properties, valued at £146.44m at 31 March 2024 (£156.58m at 31 March 2023), includes assets that have been valued by the Council's valuation specialist using assumptions that we consider to be inconsistent with industry practice. We have estimated that the fair value of investment properties at 31 March 2024 is overstated by £23.356m. Because of the time constraints created by the Backstop Date, we have been unable to determine whether the fair value of investment properties has been overstated in prior years. Consequently, we do not have sufficient appropriate audit evidence to support the movements in the fair value of investment properties recorded in the Comprehensive Income and Expenditure Statement together with the related reserve movements recorded in the Movement in Reserves Statement in the years ended 31 March 2024 and 31 March 2023

## The 2024/25 audit

On Page 6, we set out what work we have been able and not been able to complete in respect of the 2024/25 financial statements as being able to audit the closing balance sheet is an essential element of rebuilding assurance.

We are yet to start our rebuilding assurance risk assessment. Once this is complete, we will report separately the findings. The reason we have not started our rebuilding assurance risk assessment is because of the:

- impending backstop date;
- as noted on page 6 we have not been able to complete the work on a number of balances related to 2024/25.;

## Impact on our audit report on the financial statements

Given our work to rebuild assurance is not complete and due to the statutory backstop date of 27 February 2026, we have determined that there is insufficient time to obtain sufficient appropriate audit evidence over the split of useable and unusable reserves as at 31 March 2025 or 31 March 2024 ahead of the backstop, and, in our view, this is pervasive to the Council's and the Group's financial positions as at 31 March 2025.

Further to this there are a number of areas of the financial statements where we have determined we will be unable to obtain sufficient appropriate audit evidence, as we will be unable to perform the procedures that we consider necessary to form our opinion on the financial statements ahead of the Backstop Date. These are detailed on page 6.

As a result of the pervasiveness of the above, we intend to issue a disclaimer of opinion on the financial statements as a whole

# The statutory backstop and rebuilding assurance

## Other matters

As required by the ISAs (UK) when we are disclaiming our audit opinion on the financial statements as a whole, our audit report will not report on other matters that we would usually report on, most notably the use of the going concern assumption in the preparation of the financial statements; the extent to which our audit was considered capable of detecting irregularities, including fraud; and whether there are material misstatements in the other information presented within the Statement of Accounts.

Although we are disclaiming our audit opinion we have, in this report, reported matters that have come to our attention and, where appropriate, we intend to include in our audit report.

## Value for Money

The amendments to the Accounts and Audit Regulations do not impact on our responsibilities in relation to the Council's Value for Money arrangements, specifically we are responsible for reporting if we have identified any significant weaknesses in the arrangements that have been made by the Council to secure economy, efficiency and effectiveness in its use of resources. We also provide a summary of our findings in the commentary in this report.

Page 29 provides a summary of our findings. Further details are also available in our Auditor's Annual Report for 2024/25.

# The statutory backstop and rebuilding assurance

## Work completed in 2024/25

Our audit plan, presented to you in April 2025 set out our audit approach including our significant risks and other audit risks. We have updated our response to those significant risks in the pages overleaf, identifying the work we have and have not been able to complete.

Although we will be issuing a disclaimer of opinion, we have reported matters that have come to our attention during the audit and, where appropriate, we intend to include in our audit report. Our audit is not yet complete. The status below sets out the current status of our work. We will provide an oral update on the status. Our conclusions will be discussed with you before our audit report is signed.

Specifically in relation to 2024/25 we have completed our work on the following areas in addition to our planning and risk assessment work:

### Significant risks

- Valuation of investment property (see page 10)
- Valuation of post retirement benefit obligations (see page 14)
- Recoverability of Long-Term Debtor with This Land Group (see page 16)
- Management override of controls (See page 12)

### Other areas

- Adoption of IFRS 16 (see page 19)
- Capital expenditure (see page 23)

We have been unable to complete our work on a number of areas, including, but not limited to the following areas:

- Split of usable and unusable reserves for the year ended 31 March 2025
- Valuation of land and buildings (see page 8)
- Accuracy and valuation of PFI liabilities (see page 21)
- The disclosed comparative figures for the Group and Council's income and expenditure for the year ended 31 March 2024, and the comparative figures in the balance sheet as at 31 March 2024 as disclosed in the 'Basis of Disclaimer Opinion' section of our 2023/24 audit report (see page 4).

## Significant challenges with progressing work

Matters which led to significant challenges in performing the audit included the following:

*Delay in production of the final accounts resulting in some delays in reviewing and checking adjustments made to the final versions however these checks have now been completed.*

### Significant delays:

- *During busy periods there were delays due to unavailability of entity staff or staff having insufficient capacity to respond to audit requirements*
- *Additional work over the council's investment properties balance including discussion and challenge of the Councils valuation specialists beyond what we would expect.*
- *Discussion and challenge regarding recoverability of the This Land debtor balance*
- *Errors identified within the entities IFRS 16 transition workings*
- *Work required over the identified VFM risks, or indicators of risk, that have required additional work to resolve and conclude upon whether there are significant weaknesses in arrangements*

A failure to address these issues (along with the results of the rebuilding assurance risk assessment) will have a significant impact on the timescale to rebuild assurance or whether rebuilding assurance is possible under the current guidance.

We have considered the impact of these issues on our audit and have discussed fee variations with management. These are outlined on page 36.

We are working with management in advance of the 2025/26 audit to ensure these are addressed where possible.

# Our audit findings

While we are disclaiming our audit opinion on the financial statements, we are still required to identify our audit findings based on the work performed.

Significant audit risks		Page 8 –18
Significant audit risks	Our findings	
Valuation of land and buildings	While we were able to perform the planned procedures over those assets revalued in the current year. Due to the 5 year valuation cycle, we were unable to complete the procedures over historic PPE that we considered necessary to obtain sufficient appropriate audit evidence in relation to this area.	
Valuation of investment property	We completed our planned procedures and we did not identify any material misstatements relating to this area.	
Management override of controls	We completed our planned procedures and we did not identify any material misstatements relating to this area.	
Valuation of post retirement benefit obligations	We are working through the pensions disclosures, but have completed all other planned procedures and we did not identify any material misstatements relating to this area.	
Recoverability of Long-Term Debtor with This Land Group	We completed our planned procedures and raised a number of adjustments in relation to accounting treatment and presentation of the write-down of the long term debtor in the current period. We noted a potentially material prior year adjustment with regard to the expected credit loss at 31 March 2024.	

Higher assessed audit risks		Page 19 –24
Higher assessed audit risks	Our findings	
Adoption of IFRS 16	We completed our planned procedures and we did not identify any material misstatements relating to this area	
Accuracy and valuation of PFI liabilities	We were unable to complete the procedures we considered necessary to obtain sufficient appropriate audit evidence in relation to this area. We did, however, involve a specialist team to review the PFI models which should allow us to rebuild assurance during 2025/26.	
Expenditure classification as capital or non-capital.	We completed our planned procedures and we did not identify any material misstatements relating to this area	

Uncorrected Audit Misstatements			Page 37-38
Understatement/ (overstatement)	£m	%	
Revenues	0	0	
Deficit for the year	1.62	0	
Total assets	(1.98)	0	
Total taxpayers' equity	(1.98)	0	

Number of Control deficiencies		Page 40-42
Significant control deficiencies	0	
Other control deficiencies	4	
Prior year control deficiencies remediated	2	

## Outstanding matters

There are a number of outstanding matters we need to allow us to sign our audit report, including

- Responses to audit inquiries and clarification queries
- Management representation letter
- Finalise audit report and sign



# Audit risks and our audit approach



## Valuation of land and buildings

The carrying amount of revalued Land & Buildings differs materially from the fair value



### Significant audit risk

The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate current value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings (total value £923m as of 31 March 2024) revalued over a five year cycle.

This creates a risk that the carrying value of assets not revalued in year differs materially from the year end current value.

A further risk is presented for those assets that are revalued in the year, which involves significant judgement and estimation on behalf of the engaged valuer.

This risk primarily relates to the councils land and buildings



### Our response

We will perform the following procedures designed to specifically address the significant risk associated with the valuation:

- We will critically assess the independence, objectivity and expertise of the valuers used in developing the valuation of the Council's properties at 31 March 2025;
- We will inspect the instructions issued to the valuers for the valuation of land and buildings to verify they are appropriate to produce a valuation consistent with the requirements of the CIPFA Code.
- We will compare the accuracy of the data provided to the valuers for the development of the valuation to underlying information;
- We will evaluate the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used;
- We will challenge the appropriateness of the valuation of land and buildings; including any material movements from the previous revaluations. We will challenge key assumptions within the valuation as part of our judgement;
- We will agree the calculations performed of the movements in value of land and buildings and verify that these have been accurately accounted for in line with the requirements of the CIPFA Code; and
- KPMG will also consider the adequacy of the disclosures in disclosing this significant risk including the key judgements and degree of estimation involved in arriving at the valuation.

# Audit risks and our audit approach (cont.)

## 1 Valuation of land and buildings (cont.)

The carrying amount of revalued Land & Buildings differs materially from the fair value



### Significant audit risk

The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate current value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings (total value £923m as of 31 March 2024) revalued over a five year cycle.

This creates a risk that the carrying value of assets not revalued in year differs materially from the year end current value.

A further risk is presented for those assets that are revalued in the year, which involves significant judgement and estimation on behalf of the engaged valuer.

This risk primarily relates to the councils land and buildings



### Our findings

We have performed the following procedures designed to specifically address the significant risk associated with the valuation:

- We have critically assessed the independence, objectivity and expertise of the valuers used in developing the valuation of the Council's properties at 31 March 2025;
- We have inspected the instructions issued to the valuers for the valuation of land and buildings to verify they are appropriate to produce a valuation consistent with the requirements of the CIPFA Code.
- We have evaluated the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used;
- We have compared the accuracy of the data provided to the valuers for the development of the valuation to underlying information;
- We have challenged the appropriateness of the valuation of land and buildings; including any material movements from the previous revaluations;
- We have agreed the calculations performed of the movements in value of land and buildings and verified that these have been accurately accounted for in line with the requirements of the CIPFA Code; and
- KPMG have considered the adequacy of the disclosures in disclosing this significant risk including the key judgements and degree of estimation involved in arriving at the valuation.

#### Conclusion:

We have not identified any errors within the population of assets subject to a full revaluation during the period. However, as only 1/5<sup>th</sup> of Council assets are revalued each year, and as we do not have assurance over the opening position of the Council's PPE, we are unable to conclude on the balance as a whole.,

# Audit risks and our audit approach

2

## Valuation of investment property

The carrying amount of revalued investment property differs materially from the fair value



### Significant audit risk

The Code defines an investment property as one that is used solely to earn rentals or for capital appreciation or both. Property that is used to facilitate the delivery of services or production of goods as well as to earn rentals or for capital appreciation does not meet the definition of an investment property.

There is a risk that investment properties are not being held at fair value, as is required by the Code. At each reporting period, the valuation of the investment property must reflect market conditions. Significant judgement is required to assess fair value and management experts are often engaged to undertake the valuations.

In the prior year KPMG identified a number of errors in the valuation performed by management's specialist that were material in the aggregate. This has resulted in us assessing there to be an increased likelihood of material misstatement in the current year.

The Fair value of the Councils investment property portfolio was £146m in the prior year.



### Our response

We will perform the following procedures designed to specifically address the significant risk associated with the valuation:

- We will critically assess the independence, objectivity and expertise of the valuers used in developing the valuation of the Council's investment property at 31 March 2025;
- We will inspect the instructions issued to the valuers to verify they are appropriate to produce a valuation consistent with the requirements of the CIPFA Code.
- We will compare the accuracy of the data provided to the valuers for the development of the valuation to underlying information;
- We will evaluate the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used;
- We will challenge the appropriateness of the valuation; including any material movements from the previous revaluations. We will challenge key assumptions within the valuation as part of our judgement;
- We will agree the calculations performed of the movements and verify that these have been accurately accounted for in line with the requirements of the CIPFA Code; and
- We will utilise our own valuation specialists to review the valuation report prepared by the Council's valuers to confirm the appropriateness of the methodology utilised.
- KPMG will also consider the adequacy of the disclosures in disclosing this significant risk including the key judgements and degree of estimation involved in arriving at the valuation.

# Audit risks and our audit approach (cont.)

2

## Valuation of investment property (cont.)

The carrying amount of revalued investment property differs materially from the fair value



### Significant audit risk

The Code defines an investment property as one that is used solely to earn rentals or for capital appreciation or both. Property that is used to facilitate the delivery of services or production of goods as well as to earn rentals or for capital appreciation does not meet the definition of an investment property.

There is a risk that investment properties are not being held at fair value, as is required by the Code. At each reporting period, the valuation of the investment property must reflect market conditions. Significant judgement is required to assess fair value and management experts are often engaged to undertake the valuations.

In the prior year KPMG identified a number of errors in the valuation performed by management's specialist that were material in the aggregate. This has resulted in us assessing there to be an increased likelihood of material misstatement in the current year.

The Fair value of the Councils investment property portfolio was £146m in the prior year.



### Our findings

We have performed the following procedures designed to specifically address the significant risk associated with the valuation:

- We have critically assessed the independence, objectivity and expertise of the valuers used in developing the valuation of the Council's investment property at 31 March 2025;
- We have inspected the instructions issued to the valuers to verify they are appropriate to produce a valuation consistent with the requirements of the CIPFA Code.
- We have evaluated the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used;
- We have challenged the appropriateness of the valuation; including any material movements from the previous revaluations;
- We have agreed the calculations performed of the movements and verified that these have been accurately accounted for in line with the requirements of the CIPFA Code; and
- We have utilised our own valuation specialists to review the valuation report prepared by the Council's valuers to confirm the appropriateness of the methodology utilised.
- We have compared the accuracy of the data provided to the valuers for the development of the valuation to underlying information;
- KPMG has considered the adequacy of the disclosures in disclosing this significant risk including the key judgements and degree of estimation involved in arriving at the valuation.

#### Conclusion:

From the work performed we have identified one audit misstatement of £3.75m and one control failure around the review of specialists in line with what was raised in the prior year.

# Audit risks and our audit approach

## 3 Management override of controls<sup>(a)</sup>

Fraud risk related to unpredictable way management override of controls may occur



### Significant audit risk

- Professional standards require us to communicate the fraud risk from management override of controls as significant.
- Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
- We have not identified any specific additional risks of management override relating to this audit.



### Our response.

Our audit methodology incorporates the risk of management override as a default significant risk.

- Assess accounting estimates for biases by evaluating whether judgements and decisions in making accounting estimates, even if individually reasonable, indicate a possible bias.
- Evaluate the selection and application of accounting policies.
- In line with our methodology, evaluate the design and implementation of controls over journal entries and post closing adjustments.
- Assess the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates.
- Assess the business rationale and the appropriateness of the accounting for significant transactions that are outside the course of business, or are otherwise unusual.
- We will analyse all journals through the year using data and analytics and focus our testing on those which meet our high risk criteria.

Note: (a) Significant risk that professional standards require us to assess in all cases.

# Audit risks and our audit approach (cont.)

## 3 Management override of controls(cont.)<sup>(a)</sup>

Fraud risk related to unpredictable way management override of controls may occur



### Significant audit risk

- Professional standards require us to communicate the fraud risk from management override of controls as significant.
- Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
- We have not identified any specific additional risks of management override relating to this audit.



### Our findings

While we are disclaiming our audit opinion on the financial statements, we are still required to identify our audit findings based on the work performed. We have performed the following procedures:

- Assessed accounting estimates for biases by evaluating whether judgements and decisions in making accounting estimates, even if individually reasonable, indicate a possible bias.
- Evaluated the selection and application of accounting policies.
- In line with our methodology, evaluated the design and implementation of controls over journal entries and post-closing adjustments.
- Assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates.
- Assessed the business rationale and the appropriateness of the accounting for significant transactions that are outside the course of business, or are otherwise unusual.
- We have analysed all journals through the year using data and analytics and focus our testing on those which meet our high risk criteria. This work is complete pending minor quires.

#### Conclusion:

We have completed our work over these areas. In addition to the findings raised around the This Land transaction (considered separately) we have identified one control finding in respect to the controls around journals.

# Audit risks and our audit approach

## 4 Valuation of post retirement benefit obligations

An inappropriate amount is estimated and recorded for the defined benefit obligation



### Significant audit risk

- The valuation of the post retirement benefit obligations involves the selection of appropriate actuarial assumptions, most notably the discount rate applied to the scheme liabilities, inflation rates and mortality rates. The selection of these assumptions is inherently subjective and small changes in the assumptions and estimates used to value the Council's pension liability could have a significant effect on the financial position of the Council.
- The effect of these matters is that, as part of our risk assessment, we determined that post retirement benefits obligation has a high degree of estimation uncertainty. The financial statements disclose the assumptions used by the Council in completing the year end valuation of the pension deficit and the year on year movements.
- We have identified this in relation to the following pension scheme memberships: Local Government Pension Scheme
- Also, recent changes to market conditions have meant that more councils are finding themselves moving into surplus in their Local Government Pension Scheme (or surpluses have grown and have become material). As in the prior year, the requirements of the accounting standards on recognition of these surpluses or minimum funding are complicated and requires actuarial involvement.



### Our response

We will perform the following procedures:

- Understand the processes the Councils have in place to set the assumptions used in the valuation;
- Evaluate the competency, objectivity of the actuaries to confirm their qualifications and the basis for their calculations;
- Perform inquiries of the accounting actuaries to assess the methodology and key assumptions made, including actual figures where estimates have been used by the actuaries, such as the rate of return on pension fund assets;
- Agree the data provided by the audited entity to the Scheme Administrator for use within the calculation of the scheme valuation;
- Evaluate the design and implementation of controls in place for the Council to determine the appropriateness of the assumptions used by the actuaries in valuing the liability;
- Challenge, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate and mortality/life expectancy against externally derived data;
- Confirm that the accounting treatment and entries applied by the Group are in line with IFRS and the CIPFA Code of Practice;
- Consider the adequacy of the Council's disclosures in respect of the sensitivity of these assumptions; and.
- Where applicable, assess the level of surplus or minimum funding that should be recognised by the entity.

# Audit risks and our audit approach (cont.)

## 4 Valuation of post retirement benefit obligations (cont.)

An inappropriate amount is estimated and recorded for the defined benefit obligation



### Significant audit risk

- The valuation of the post retirement benefit obligations involves the selection of appropriate actuarial assumptions, most notably the discount rate applied to the scheme liabilities, inflation rates and mortality rates. The selection of these assumptions is inherently subjective and small changes in the assumptions and estimates used to value the Council's pension liability could have a significant effect on the financial position of the Council.
- The effect of these matters is that, as part of our risk assessment, we determined that post retirement benefits obligation has a high degree of estimation uncertainty. The financial statements disclose the assumptions used by the Council in completing the year end valuation of the pension deficit and the year on year movements.
- We have identified this in relation to the following pension scheme memberships: Local Government Pension Scheme
- Also, recent changes to market conditions have meant that more councils are finding themselves moving into surplus in their Local Government Pension Scheme (or surpluses have grown and have become material). As in the prior year, the requirements of the accounting standards on recognition of these surpluses or minimum funding are complicated and requires actuarial involvement.



### Our findings

We have performed the following procedures:

- Understood the processes the Councils have in place to set the assumptions used in the valuation;
- Evaluated the competency, objectivity of the actuaries to confirm their qualifications and the basis for their calculations;
- Performed inquiries of the accounting actuaries to assess the methodology and key assumptions made, including actual figures where estimates have been used by the actuaries, such as the rate of return on pension fund assets;
- Agreed the data provided by the audited entity to the Scheme Administrator for use within the calculation of the scheme valuation;
- Evaluated the design and implementation of controls in place for the Council to determine the appropriateness of the assumptions used by the actuaries in valuing the liability;
- Challenged, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate and mortality/life expectancy against externally derived data; and
- Assessed the level of surplus that should be recognised by the entity.
- Confirmed that the accounting treatment and entries applied by the Group are in line with IFRS and the CIPFA Code of Practice; and
- Considered the adequacy of the Council's disclosures in respect of the sensitivity to their assumptions.

### Conclusion:

From the work performed we have not identified any issues that need to be reported to this Committee.

# Audit risks and our audit approach

## 5 Recoverability of Long-Term Debtor with This Land Group



### Significant audit risk

- This Land Limited was incorporated in June 2016. This Land Limited and This Land Group are a wholly owned subsidiary of the Council. The Group oversees the acquisition and development of land and property for subsequent resale.
- As at 31st March 2024 the Council holds a Long-term Debtor balance of £113.9m in relation to the loans issued to This Land Group. The loans are repayable between 2026 and 2029.
- Due to the declining performance of the This Land group there is an increased risk that the entity will be unable to recover the full value of the loan (c£120m as of Jan 2025).
- Management have explored a number of options in response to this declining performance, including restructuring the debt with a significant portion of it only being repayable in the event that the subsidiary performs above plan. Management have not yet received finalised advice in respect to the resulting accounting treatment and as such we have not yet been able to conclude our risk assessment on this area. However, given that the restructuring of the debt can have significant and complex accounting and legal implications we expect there to be a significant risk.



### Our response

We will perform the following procedures:

- We will review the Council's consideration of the valuation and recoverability of the loan, and any associated expected credit loss provision, to ensure this is reasonable and performed in line with the Code of Practice and the relevant accounting standard (IFRS 9 –Financial Instruments).
- We will review the Council's treatment of changes in the loans to, and investments in, This Land in the current year, including any MRP impacts, to ensure that these are in line with the Code of Practice and relevant accounting standards.
- KPMG will also consider the adequacy of the disclosures, including the key judgements and degree of estimation involved in arriving at the expected credit loss provision.

# Audit risks and our audit approach (cont.)

5

## Recoverability of Long-Term Debtor with This Land Group



### Significant audit risk

- This Land Limited was incorporated in June 2016. This Land Limited and This Land Group are a wholly owned subsidiary of the Council. The Group oversees the acquisition and development of land and property for subsequent resale.
- As at 31st March 2024 the Council holds a Long-term Debtor balance of £113.9m in relation to the loans issued to This Land Group. The loans are repayable between 2026 and 2029.
- Due to the declining performance of the This Land group there is an increased risk that the entity will be unable to recover the full value of the loan (c£120m as of Jan 2025).
- Management have explored a number of options in response to this declining performance, including restructuring the debt with a significant portion of it only being repayable in the event that the subsidiary performs above plan. Management have not yet received finalised advice in respect to the resulting accounting treatment and as such we have not yet been able to conclude our risk assessment on this area. However, given that the restructuring of the debt can have significant and complex accounting and legal implications we expect there to be a significant risk.



### Our findings

We have performed the following procedures:

- We have reviewed the Council's consideration of the valuation and recoverability of the loan, and any associated Expected Credit Loss (ECL) provision, to ensure this is reasonable and performed in line with the Code of Practice and the relevant accounting standard (IFRS 9 –Financial Instruments).
- We have challenged the Council's treatment of changes in the loans to, and investments in, This Land in the current year, including presentation and any MRP impacts, to ensure that these are in line with the Code of Practice and relevant accounting standards.
- KPMG have considered the adequacy of the disclosures, including the key judgements and degree of estimation involved in arriving at the expected credit loss provision.
- We have reviewed management's specialist reports and utilised our own technical specialists to review the treatment regarding the conversion of the loan.

#### Conclusion:

- We have challenged management's Expected Credit Loss provision (ECL) as at 31 March 2024, in respect of the c£120m long term debtor. As noted in our prior year reporting, management did not calculate an ECL and the complexities required to reasonably determine the credit risk and probability of default make it impractical to reliably calculate the loss retrospectively. As a result, although we have been unable to quantify this misstatement, given the significant reduction in the debtor balance during 2024/25 (by c£60m) we consider there to be a potentially material prior period adjustment, and this will be included in our disclaimer opinion. See page 38 for details.
- We have challenged management's calculation of ECL with regard to the remaining c£60m loan. Based on the subsidiary's revised business plan, and performance against this plan to date, we do not consider there to be a material ECL risk remaining at 31 March 2025.

Continued.....

# Audit risks and our audit approach (cont.)

## 5 Recoverability of Long-Term Debtor with This Land Group



### Significant audit risk

- This Land Limited was incorporated in June 2016. This Land Limited and This Land Group are a wholly owned subsidiary of the Council. The Group oversees the acquisition and development of land and property for subsequent resale.
- As at 31st March 2024 the Council holds a Long-term Debtor balance of £113.9m in relation to the loans issued to This Land Group. The loans are repayable between 2026 and 2029.
- Due to the declining performance of the This Land group there is an increased risk that the entity will be unable to recover the full value of the loan (c£120m as of Jan 2025).
- Management have explored a number of options in response to this declining performance, including restructuring the debt with a significant portion of it only being repayable in the event that the subsidiary performs above plan. Management have not yet received finalised advice in respect to the resulting accounting treatment and as such we have not yet been able to conclude our risk assessment on this area. However, given that the restructuring of the debt can have significant and complex accounting and legal implications we expect there to be a significant risk.



### Our findings

#### Conclusion (continued)

- We have challenged management on the functional classification of the converted debt i.e. a capital contribution, a capital grant or a loan with contractual cashflows. We agree that management's classification of the converted loan to a capital grant is an appropriate treatment. However, we do not consider this to be revenue expenditure funded from capital under statute (REFCUS) as in our view this is not new expenditure but instead a variation of an existing agreement. In addition, we have challenged the transparency of the CIES presentation. As there is no net impact on the general reserve or on the Minimum Revenue Provision (MRP), and the accounts have been updated to more clearly reference and explain the CIES expense, we do not consider this to be material. However, we have raised an uncorrected audit misstatement of £59.9m - see page 37 for details.
- We have assessed the impact on the accounts of recognising the remaining loans at amortised cost, (in line with IFRS 9 and the Code), as opposed to historic cost, which is the Council's current treatment in the accounts. The difference has been raised as an uncorrected audit misstatement. This departure from the Code is disclosed in the accounts along with the net impact on the CIES and Balance sheet of £5.4m
- We have challenged the adequacy and appropriateness of presentation and related disclosures. In particular, the narrative regarding the nature of the £60m loan principle converted to capital grant and uncertain recovery. Following challenge there have been significant changes and clarifications added to the final version of the accounts.

# Audit risks and our audit approach

## 6 Adoption of IFRS 16



### Other audit risk

The Council has adopted IFRS 16 as per CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom (2024/25) with an implementation date of 1 April 2024.

We anticipate the following challenges in the first year of implementation.

- Completeness of lease listing used in transition computations.
- Inadequate lease disclosures as per IFRS 16.
- Inaccurate computation of lease liabilities and right of use assets.
- Training needs for new/existing staff
- Treatment of the PFI balances under IFRS 16



### Our response

We will perform the following procedures in order to respond to the other audit risk identified:

- Obtain the full listings of leases and reconcile to the general ledger.
- Review a sample of the lease agreements to determine the terms of the leases and confirm correct classification.
- Review the appropriateness of the discount rate used in the lease computations.
- Review the transition adjustments passed by the Council.
- Review the disclosures made on the financial statements against requirements of IFRS16.

# Audit risks and our audit approach (cont.)

## 6 Adoption of IFRS 16



### Other audit risk

The Council has adopted IFRS 16 as per CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom (2024/25) with an implementation date of 1 April 2024.

We anticipate the following challenges in the first year of implementation.

- Completeness of lease listing used in transition computations.
- Inadequate lease disclosures as per IFRS 16.
- Inaccurate computation of lease liabilities and right of use assets.
- Training needs for new/existing staff
- Treatment of the PFI balances under IFRS 16



### Our findings

We have performed the following procedures in order to respond to the other audit risk identified:

- Obtained the full listings of leases and reconcile to the general ledger.
- Reviewed a sample of the lease agreements to determine the terms of the leases and confirm correct classification.
- Reviewed the appropriateness of the discount rate used in the lease computations.
- Reviewed the transition adjustments passed by the Council.
- Reviewed the disclosures made on the financial statements against requirements of IFRS16.

### Conclusion:

We have identified an audit misstatement which are detailed on page 39. This is not material to the users of the accounts.

# Audit risks and our audit approach

## 7 Accuracy and valuation of PFI liabilities

Risk of error related to the incorrect recording of liabilities arising from assets funded through the private finance initiative



### Other audit risk

- As at 31 March 2024 the Council has 3 PFI assets totalling £79m with liabilities totalling £102m.
- PFI schemes are based on complex financial models which, aside from needing to mirror the contractual terms, contain assumptions about future events – namely inflation.
- There is a risk, due to the complexity of the financial models, that the value of the PFI liabilities recognised in the financial statements are incorrect



### Our response

We will perform the following procedures in order to respond to the other audit risk identified:

- For a risk based sample of PFI schemes, agree inputs of the model to the underlying contract, reading the contract to ensure all pertinent contractual terms are included within the model;
- Re-calculate the model, testing the validity of the formulas inherent to the model and ensuring that the model correctly calculates the different types of charges and the closing liability each period; and
- Re-calculate the financial statement disclosures in reference to the tested models.

# Audit risks and our audit approach

## 7 Accuracy and valuation of PFI liabilities

Risk of error related to the incorrect recording of liabilities arising from assets funded through the private finance initiative



### Other audit risk

- As at 31 March 2024 the Council has 3 PFI assets totalling £79m with liabilities totalling £102m.
- PFI schemes are based on complex financial models which, aside from needing to mirror the contractual terms, contain assumptions about future events – namely inflation.
- There is a risk, due to the complexity of the financial models, that the value of the PFI liabilities recognised in the financial statements are incorrect



### Our response

We have performed the following procedures in order to respond to the other audit risk identified:

- Re-calculate the model, testing the validity of the formulas inherent to the model and ensuring that the model correctly calculates the different types of charges and the closing liability each period;

As a result of the time limitations imposed by the backstop date we have been unable to perform the following procedures:

- Re-calculate the financial statement disclosures in reference to the tested models.
- For a risk based sample of PFI schemes, agree inputs of the model to the underlying contract, reading the contract to ensure all pertinent contractual terms are included within the model;

### Conclusion:

Our specialist team has reviewed the spreadsheet model used for the Council's PFI schemes. Their findings have been communicated to the Council. This review of the PFI models will be used during our March 2026 and future audits to support our work over the Councils PFI schemes.

# Audit risks and our audit approach

## 7 Non-capital expenditure is inaccurately recognised as capital expenditure

Revenue expenditure is inaccurately recognised as capital expenditure



### Other audit risk

- Significant risk in relation to fraudulent expenditure recognition, capital accounting requirements are complex and may contain an element of judgement in determining which costs in a project can be capitalised and which need to be expensed.
- Given the size of the Council's capital programme (c£200m in 23/24), we have identified an Other Audit Risk regarding revenue expenditure being inaccurately recognised as capital expenditure



### Our response

We will perform the following procedures in order to respond to the risk identified:

- We will evaluate the design and implementation of controls for classifying expenditure as capital;
- We will review the list of capital programme for schemes which indicate an increased risk that the spend may be revenue in nature; and
- We will test a sample of capital expenditure incurred by the Council to ensure it is correctly capitalised

# Audit risks and our audit approach

7

## Non-capital expenditure is inaccurately recognised as capital expenditure

Revenue expenditure is inaccurately recognised as capital expenditure



### Other audit risk

- Significant risk in relation to fraudulent expenditure recognition, capital accounting requirements are complex and may contain an element of judgement in determining which costs in a project can be capitalised and which need to be expensed.
- Given the size of the Council's capital programme (c£200m in 23/24), we have identified an Other Audit Risk regarding revenue expenditure being inaccurately recognised as capital expenditure



### Our response

We have performed the following procedures in order to respond to the risk identified:

- We have evaluated the design and implementation of controls for classifying expenditure as capital;
- We have reviewed the list of capital programme for schemes which indicate an increased risk that the spend may be revenue in nature; and
- We have tested a sample of capital expenditure incurred by the Council to ensure it is correctly capitalised

#### Conclusion:

We have completed our work over the majority of the capital additions during the period. We have identified no matters to report to this committee.

# Key accounting estimates and management judgements- Overview

## Our view of management judgement

Our views on management judgments with respect to accounting estimates are based solely on the work performed in the context of our audit of the financial statements as a whole. We express no assurance on individual financial statement captions.

Asset/liability class	Our view of management judgement	Balance (£m)	YoY change (£m)	Our view of disclosure of judgements & estimates	Further comments
<b>LGPS gross assets</b> Fair value of plan assets	Cautious    Neutral    Optimistic 	1474.0	19.2	Adequate	We have assessed the asset returns adopted by the Fund and the consistency of asset allocation and share of scheme assets year on year. We did identify a understatement of £13.9m which management has elected to adjust. We will review this adjustment and impact on the net pension balances being disclosed as there are IFRIC 14 adjustments to consider.
<b>LGPS gross liabilities</b> Present value of obligations		1185.0	(180.9)	Adequate	Our actuarial specialists have assessed the overall assumptions used by management in valuing the pension liabilities as balanced and within reasonable range.
<b>LGPS IFRIC 14</b> Asset ceiling and minimum funding		373.9	373.9	Adequate	Our actuarial specialists have assessed the IFRIC 14 adjustments and agree that the potential asset should be capped to nil and a net liability recognised in respect of secondary contributions. As this is area an focus and new to the entity this year, we will review the appropriateness of the disclosures.

# Key accounting estimates and management judgements- Overview (cont.)

## Our view of management judgement

Our views on management judgments with respect to accounting estimates are based solely on the work performed in the context of our audit of the financial statements as a whole. We express no assurance on individual financial statement captions.

Asset/liability class	Our view of management judgement	Balance (£m)	YoY change (£m)	Our view of disclosure of judgements & estimates	Further comments
<b>Valuation of Investment property</b>	<div style="display: flex; justify-content: space-between; font-size: small;"> <span>Cautious</span> <span>Neutral</span> <span>Optimistic</span> </div>	<b>137.6</b>	<b>-8.8</b>	Adequate	KPMG note that there have been improvements in this area from the prior year, however the valuation performed by management's experts remains above the upper end of our valuation. This difference between the maximum acceptable valuation determined by our specialists and management's specialists of £3.7m has been raised as an audit misstatement.
<b>Valuation of PPE</b>		<b>952.9</b>	<b>30.3</b>	Adequate	Based on the work performed we have concluded that management's specialists' valuation over the entities PPE is optimistic but within our acceptable range. We note that the entire PPE balance is valued on a 5 year cycle as we do not have assurance over the opening position of these assets we have been unable to conclude over the valuation of PPE as a whole.

# Key accounting estimates

## Present value of defined benefit obligations



Overall assessment of assumptions for audit consideration							
Underlying assessment of individual assumptions							
	Methodology	Consistent methodology to prior year?	Compliant methodology with accounting standard?	Employer	KPMG	Assessment	Key assumptions
						Balanced	
Discount rate	AA yield curve	✓	✓	5.80%	5.77%		✓
CPI Inflation	Deduction to inflation curve with adjustment for recent inflation experience	✓	✓	2.75%	2.73%		✓
Pension increases	In line with CPI	✓	✓	2.75%	2.82%		
Salary increases	Employer best estimate	✓	✓	CPI plus 0.5%	In line with long-term remuneration policy		
Mortality	Base tables	In line with most recent Fund valuation	✓	✓	Fund-specific based on Club Vita curves	In line with Fund best-estimate	✓
	Future improvements	In line with most recent Fund valuation, updated to use latest CMI model	✓	✓	CMI 2023, 1.5% long-term trend rate, 0.25% initial addition parameter and default other parameters	CMI 2023, 1.25% long-term trend rate and default other parameters	
Other demographics	In line with most recent Fund valuation	✓	✓	Member take 51% of the maximum additional tax-free cash up to HMRC limits	In line with Fund experience		

# Other matters

## Narrative report

As Audit and Accounts Committee members you confirm that you consider that the Narrative Report, including the Annual Governance Statement, and financial statements taken as a whole are fair, balanced and understandable and provides the information necessary for regulators and other stakeholders to assess the Council's performance, model and strategy.

Our responsibility is to read the other information, which comprises the information included in the Statement of Accounts other than the financial statements and our auditor's report thereon and, in doing so, consider whether, based on our financial statements audit work, the other information is materially misstated or inconsistent with the financial statements or our audit knowledge.

Due to the significance of the matters leading to our disclaimer of opinion, and the possible consequential effect on the related disclosures in the other information, whilst in our opinion the other information included in the Statement of Accounts is consistent with the financial statements, we are unable to determine whether there are material misstatements in the other information.

## Whole of Government Accounts

As required by the National Audit Office (NAO) we carry out specified procedures on the Whole of Government Accounts (WGA) consolidation pack.

We are yet to receive instructions from NAO regarding WGA.

## Independence and Objectivity

ISA 260 also requires us to make an annual declaration that we are in a position of sufficient independence and objectivity to act as your auditors, which we completed at planning and no further work or matters have arisen since then.

## Audit Fees

We have set out audit fees, as set by PSAA and fee variations on page 33.

We have also completed non audit work at the Council during the year as part of their Teacher Pension Scheme audits and have included in the appendix on page 35 confirmation of safeguards that have been put in place to preserve our independence.

**01**

# **Value for money**

# Value for Money

**We are required under the Audit Code of Practice to confirm whether we have identified any significant weaknesses in the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources.**

In discharging these responsibilities we include a statement within our audit report on your accounts to confirm whether we have identified any significant weaknesses. We also prepare a commentary on your arrangements that is included within our Auditor’s Annual Report, which is required to be published on your website alongside your annual report and accounts.

## Commentary on arrangements

We have prepared our Auditor’s Annual Report and a copy of the report is included within the papers for the Committee alongside this report. The report is required to be published on your website alongside the publication of the annual report and accounts.

## Response to risks of significant weaknesses in arrangements to secure value for money

As noted on the right, we have identified 6 risks of a significant weakness in the Council’s arrangements to secure value for money. Within our Auditor’s Annual Report we have set out our response to those risks.

Within our Auditor’s Annual Report we have set out recommendations in response to those significant risks.

## Summary of findings

We have set out in the table below the outcomes from our procedures against each of the domains of value for money:

Domain	Risk assessment	Summary of arrangements
Financial sustainability	2 significant risks identified	No significant weaknesses identified
Governance	3 significant risks identified	1 Significant weakness identified
Improving economy, efficiency and effectiveness	1 significant risks identified	1 Significant weakness identified

Further detail is set out in our Auditor’s Annual Report.



# Appendix

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# Required communications

Type	Response
<b>Our draft management representation letter</b>	<input checked="" type="checkbox"/> OK We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2025
<b>Adjusted audit differences</b>	<input checked="" type="checkbox"/> OK There were 2 adjusted audit differences with a surplus impact of £3.2 million. See page 39
<b>Unadjusted audit differences</b>	<input checked="" type="checkbox"/> OK The aggregated surplus impact of unadjusted audit differences would be £1.62m. In line with ISA 450 we request that you adjust for these items. However, they will have no effect on the opinion in the auditor's report, individually or in aggregate. See page 37
<b>Related parties</b>	<input checked="" type="checkbox"/> OK There were no significant matters that arose during the audit in connection with the entity's related parties.
<b>Other matters warranting attention by the Audit and Accounts Committee</b>	<input checked="" type="checkbox"/> OK There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
<b>Control deficiencies</b>	<input checked="" type="checkbox"/> OK We communicated to management in writing all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified during the audit that had not previously been communicated in writing.
<b>Actual or suspected fraud, noncompliance with laws or regulations or illegal acts</b>	<input checked="" type="checkbox"/> OK No actual or suspected fraud involving group or Council management, employees with significant roles in group-wide internal control, or where fraud results in a material misstatement in the financial statements identified during the audit.
<b>Issue a report in the public interest</b>	<input checked="" type="checkbox"/> OK We are required to consider if we should issue a public interest report on any matters which come to our attention during the audit. We have not identified any such matters.

Type	Response
<b>Significant difficulties</b>	<input checked="" type="checkbox"/> OK No significant difficulties were encountered during the audit.
<b>Modifications to auditor's report</b>	<input checked="" type="checkbox"/> X OK Our audit opinion will be disclaimed. See page 4 for further details.
<b>Disagreements with management or scope limitations</b>	<input checked="" type="checkbox"/> OK The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
<b>Other information</b>	<input checked="" type="checkbox"/> OK No material inconsistencies were identified related to other information in the statement of accounts.
<b>Breaches of independence</b>	<input checked="" type="checkbox"/> OK No matters to report. The engagement team have complied with relevant ethical requirements regarding independence.
<b>Accounting practices</b>	<input checked="" type="checkbox"/> OK Over the course of our audit, we have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.
<b>Significant matters discussed or subject to correspondence with management</b>	<input checked="" type="checkbox"/> OK No such significant matters discussed
<b>Certify the audit as complete</b>	<input checked="" type="checkbox"/> OK We are required to certify the audit as complete when we have fulfilled all of our responsibilities relating to the accounts and use of resources as well as those other matters highlighted above.  The following work is outstanding to allow us to certify the audit: Whole of Government Accounts; outstanding objections; and confirmation from the National Audit Office that their audit of the Whole of Government Accounts is complete
<b>Whole of government accounts</b>	As required by the National Audit Office (NAO) we carry out specified procedures on the Whole of Government Accounts (WGA) consolidation pack. We are yet to receive instructions from NAO regarding WGA.

# Fees

## Audit fee

Our fees for the year ending 31 March 2025 are set out in the table below (note all fees are exclusive of VAT).

Entity	2024/25 (£'000)	2023/24 (£'000)
Scale fee as set by PSAA	302.3	277
<b>Standard fee variations subject to PSAA approval:</b>		
Implementation of ISA315r	Included in base Fee	17.8
Implementation of ISA 600r	3.5	0
PPE valuation (includes investment properties)	9	26.1
Technical Accounting issues (including This Land ECL)	18	10.4
Review of PFI models by specialists team	28.2	0
Quality or preparation issues	0	11.4
VFM additional risks	15.5	19.9
Objection (inclusive of costs of external legal advice)	TBC	42.6
Disclaimer fee variation subject to be PSAA approval	5	6.3
<b>TOTAL FEE PAYABLE</b>	<b>381.5</b>	<b>411.5</b>

## Billing arrangements

- Fees have been billed in accordance with the milestone completion phasing that has been communicated by the PSAA.
- Note some fees are subject to PSSA determination and will therefore be confirmed on that determination



# Confirmation of Independence

**We confirm that, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and that the objectivity of the Partner and audit staff is not impaired.**

## To the Audit and Risk Committee members

### Assessment of our objectivity and independence as auditor of Cambridgeshire County Council

Professional ethical standards require us to provide to you at the planning stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

### General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners/directors and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values.
- Communications.
- Internal accountability.
- Risk management.
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity [except for those detailed below where additional safeguards are in place.

### Independence and objectivity considerations relating to the provision of non-audit services

#### Summary of non-audit services

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out on the table overleaf

# Confirmation of Independence (cont.)

Disclosure	Description of scope of services	Principal threats to Independence	Safeguards Applied	Basis of fee	Value of Services Delivered in the year ended 31 March 2025	Value of Services Committed but not yet delivered £000
1	Teachers Pensions Scheme AUP	Self interest	<ul style="list-style-type: none"> <li>KPMG Consulting staff will be used when performing this engagement</li> <li>The fees related to this service are immaterial to KPMG</li> </ul>	Fixed	£7,000	-

# Confirmation of Independence (cont.)

## Summary of fees

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

## Fee ratio

The ratio of non-audit fees to audit fees for the year is anticipated to be 0.02:1. We do not consider that the total non-audit fees create a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

	2024/25
	£'000
Audit Fee	381.5
Other Assurance Services	7
<b>Total Fees</b>	<b>388.5</b>

## Application of the FRC Ethical Standard 2019

Your previous auditors will have communicated to you the effect of the application of the FRC Ethical Standard 2019. That standard became effective for the first period commencing on or after 15 March 2020, except for the restrictions on non-audit and additional services that became effective immediately at that date, subject to grandfathering provisions.

AGN 01 states that when the auditor provides non-audit services, the total fees for such services to the audited entity and its controlled entities in any one year should not exceed 70% of the total fee for all audit work carried out in respect of the audited entity and its controlled entities for that year.

We confirm that as at 15 March 2020 we were not providing any non-audit or additional services that required to be grandfathered.

## Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit and Risk Committee.

## Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

This report is intended solely for the information of the Audit and Risk Committee of the Group and should not be used for any other purposes.

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

Yours faithfully

Sarah Brown

KPMG LLP



# Uncorrected audit misstatements

Given we are disclaiming our audit opinion as described on page 4 there may be other audit misstatements our audit procedures would have identified if we completed our audit procedures as initially planned. In this section, we have reported uncorrected audit misstatements that we have identified.

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit and Accounts Committee with a summary of uncorrected audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial', which are not reflected in the financial statements. In line with ISA (UK) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor's report, individually or in aggregate. As communicated previously with the Audit and Accounts Committee, details of all adjustments greater than £1,160K are

Uncorrected audit misstatements (£'000s)				
No.	Detail	CIES Dr/(cr)	Balance Sheet Dr/(cr)	Comments
1	Dr Impairment of fixed assets Cr Investment properties	£3,785,000	(£3,785,000)	This is the difference in valuation between the upper end of KPMG's specialists acceptable range of values for the councils investment properties and the value as calculated by management's specialists.
2	DR Impairment loss on restructuring of financial assets CR Other Services Expenses	£59,850,000 (£59,850,000)		<p>Following our challenge of management on the functional classification and treatment of the converted debt i.e. a capital contribution, a capital grant or a loan with contractual cashflows. We agree that management's classification of this as a capital grant is an appropriate treatment.</p> <p>However, we do not consider this to be revenue expenditure funded from capital under statute (REFCUS) as in our view this is not new expenditure but instead a variation of an existing agreement.</p> <p>This difference in treatment is presentational, has no net impact on the total comprehensive income and expenditure, general reserve or on the Minimum Revenue Provision (MRP) and we do not consider this to be material. However, we have raised this an uncorrected audit misstatement.</p> <p>We note that in addition to the misstatement in the CIES due to treating this as REFCUS expenditure the Capital Financing Requirement note includes a £59.9m as increase to the capital financing requirement against Revenue Expenditure Funded from Capital under Statute and a decrease against Long-term capital debtors. Once again as there is no net impact on the CFR this is not considered to be a material misstatement.</p>
3	Dr Long term debtors Cr Gain on modification DR Interest receivable	- (£6,800,000) £1,400,000	£5,400,000	In a departure from the code the council has opted to record their long term debtor with This Land at historic cost as opposed to amortised cost. Recording them at amortised cost would result in an increase in the long term debtor balance. Management considers historic cost a more prudent and transparent approach despite it departing from the requirements of the Code. As it is not a material departure no adjustment would be required.
<b>Total</b>		<b>£(1,615,000)</b>	<b>£1,615,000</b>	

# Uncorrected audit misstatements

Given we are disclaiming our audit opinion as described on page 4 there may be other audit misstatements our audit procedures would have identified if we completed our audit procedures as initially planned. In this section, we have reported uncorrected audit misstatements that we have identified.

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit and Accounts Committee with a summary of uncorrected audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial', which are not reflected in the financial statements. In line with ISA (UK) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor's report, individually or in aggregate. As communicated previously with the Audit and Accounts Committee, details of all adjustments greater than £1,160K are shown below:

Uncorrected audit misstatements (£'000s)				
No.	Detail	CIES Dr/(cr)	Balance Sheet Dr/(cr)	Comments
4	Dr Reserves		£3,597,000	As part of KPMG's work over cash we identified that the Council's cash balance was £3,597k overstated based on the cash held in the bank. From our inquires with management this appears to be the result of historic transactions with maintained schools to provide capital funding where the cash balance had not been reduced to match the amounts spent. KPMG note that due to the backstop date we have not performed specific work over this explanation by management or the debit side of this transaction
	Cr Cash		(£3,597,000)	
<b>Total</b>		<b>£(1,615,000)</b>	<b>£1,615,000</b>	

In addition, we have identified a potentially material prior year misstatement in respect to the Expected Credit Loss provision (ECL) for the This Land £114m intercompany debtor. Due to the complexities and timelines involved management have been unable to reliably quantify what the value of the ECL should have been as of 31<sup>st</sup> March 2024. However, given that it is potentially material to the users of the accounts we would draw the attention to this prior year adjustment by referencing it in our opinion and ISA 260. We note that, given the £59.9m write down of the intercompany debtor during the period, we do not consider there to be a material ECL remaining at 31 March 2025.

Furthermore, in the current year, the Council provided This Land with an additional £6m in funding. KPMG are still considering this funding as part of our response to an objection made against the Council. Given the size of the balance we do not consider this to be a material issue to the accounts but note that there are potential regulatory and classification implications depending on the outcome of our work

# Corrected audit misstatements

Given we are disclaiming our audit opinion as described on page 4 there may be other audit misstatements our audit procedures would have identified if we completed our audit procedures as initially planned. In this section, we have reported corrected audit misstatements that we have identified.

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit and Accounts Committee with a summary of corrected audit differences (including disclosures) identified during the course of our audit. The adjustments below have been included in the financial statements.

Corrected audit misstatements (£'000s)				
No.	Detail	SOCI Dr/(cr)	SOFP Dr/(cr)	Comments
1	Dr Defined Benefit Pension Scheme Assets	(£13,900,000)	£13,900,000	As part of our roll forward asset procedure, we identified that there was a difference in asset values/asset returns between the date of publishing the draft accounts & audit date. We investigated the reason for the difference with management & accept that this is due to availability of inputs at the time of publishing the draft accounts. Management has updated their accounts to reflect the updated asset values. We note that due to the asset ceiling this has no net impact on the CIES or Balance sheet.
	Cr Impact of asset ceiling	£13,900,000	(£13,900,000)	
2	Dr Right of use Asset	-	£3,157,000	From the work performed over Leases we identified a number of errors in the data used in management's IFRS 16 transition workings, i.e where the data use did not match the underlying lease agreement. As a result of this management revised their calculations resulting in the difference here.
	Cr Surplus on revaluation of PPE	(£3,157,000)		
<b>Total</b>		(£3,157,000)	£3,157,000	

In addition to the above adjustments KPMG identified a number of errors in disclosures and narrative within the accounts these include but are not limited to:

- 1) Enhanced disclosures around This Land including adding clarification that the £60m conversation had resulted in a corresponding charge through the CIES
- 2) Adjustment to the fixed asset note to take into account fully depreciated assets no longer in use (resulting in a decrease in cost and accumulated depreciation of £22m with no net impact on the accounts)
- 3) Adjustments to the operating leases disclosure where the minimum future receivable figure was understated by £12.6m. This has no net impact on the primary statements
- 4) Other narrative disclosure points and clarifications

# Control Deficiencies

Although we are disclaiming our audit opinion we have reported recommendations as a result of our work in the current year are as follows:

## Priority rating for recommendations

- 1** **Priority one:** issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.
- 2** **Priority two:** issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.
- 3** **Priority three:** issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
1	<b>3</b>	<p><b>Issue:</b> Management reviews the assumptions and methodologies used in the calculation of the IAS 19 report. This includes inputs to testing such as cash flow, membership data and asset balances. This is based on their understanding of the pension scheme, the accounting standard and the business process and circumstances. As part of our risk assessment procedures, we carried out a walkthrough to obtain an understanding of the pension assumption review process. Via this, we identified that there is no criteria or threshold developed for investigation/identification of outliers for pension assumptions. Therefore, it does not allow for an objective criteria to perform their review on and therefore it is ineffective. Management see this process as an annual occurrence and although they do review the output of the actuary, there is no evidence of the review. Thus, there is not sufficiently well-defined process in place for it to meet the criteria of an effective review control.</p> <p><b>Recommendation:</b> Management should develop a formalised set of criteria and thresholds for investigating outliers and fully evidence their review of the pensions assumptions</p>	<p>We rely on the specialist/expert input of professional actuaries and already document our internal review of the outputs of this work. We will expand this process, ensuring we set thresholds (seeking feedback from the pension fund officers on the reasonableness of thresholds and criteria). We will also document further our upfront assessment and reasoning for assumptions that are agreed in advance of reports, and document that these have then been used by the actuary. We will document that the outputs have been sense checked with year-on-year movements also analysed.</p> <p>Action: Service Director: Finance and Procurement [July 2026]</p>

# Control Deficiencies (cont.)

We have also follow up the recommendations from the previous years audit, in summary:

Total number of recommendations	Number of recommendations implemented	Number outstanding (repeated below):
5	2	3

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Current Status (February 2026)
1	2	<p><b>Issue:</b> Insufficient management review of Valuation Specialists workings and reporting. Due to the number and magnitude of errors identified in the valuation performed, including some simple calculation errors, we would consider there to have been insufficient review over the valuation performed.</p> <p>Recommendation: Ensure sufficient knowledge and expertise is in place to review and challenge valuation assumptions and errors within the calculations. Management should also be able to challenge the competency of the valuer and understand their sources of information .</p>	<p><b>Response:</b> We intend to agree several larger valuation adjustments as a result of the audit for a small number of investment/surplus properties. The financial impacts of these changes are processed through the capital adjustment account and do not impact the general fund or the funds available to the Council to spend. The audit process detected errors to the completeness of investment asset valuations (one of which had already been highlighted by the Council prior to the audit) and also to the assumptions around lease breaks and market movements on commercial yields. We have raised these issues with our appointed external valuer and will look to review specifically for these type of issues in the next valuation cycle. This follows progress made in recent years with depreciated replacement cost assets and existing use value assets in the operational estate. Service Director: Property and Service Director: Finance and Procurement; Due June 2025</p>	<p>KPMG have noted that there have been some improvements to this process in the current year which has resulted in a decrease in this risk rating down from a 1 to a 2 however given we have continued to identify issues in management’s specialists valuations we continue to raise this as a control failure.</p>
2	2	<p><b>Issue:</b> KPMG noted that there were a number of old bank accounts, often with very low or nil value, that were not part of the entities standard bank reconciliation process and were not included in the accounts. Additionally, there were no checks around the schools cash balances resulting in a 10m overstatement in cash.</p> <p>Recommodification: Close down old and redundant bank accounts as currently the significant number of accounts results in a process that is more complex then required. Implement a process to check (either all or a sample of) schools cash balances as reported to CCC against their bank accounts.</p>	<p><b>Response:</b> The Council will review low value bank accounts and close any that are no longer needed. As noted, these accounts have very low or nil balances and transaction volumes and have either been abeyance since a switch in main banking supplier or remained open only to collect any legacy transactions, with amounts then transferred to the bank reconciliation process. Our view is that this is low risk rather than a fundamental issue of internal control. We agree it will be helpful to review accounts and close those that are no longer needed. Service Director: Finance and Procurement; Due May 2025</p> <p>Schools cash balances are carefully monitored for financial management purposes. This forms part of our processes for deficit licensing. The issue detected relates to how the schools cash balance is consolidated into the annual financial accounts and reflects the accelerated timescale for production of accounts in 2023-24. We will implement a process to check the reporting of schools cash balances in the financial accounts. Service Director: Finance and Procurement; Due June 2025</p>	<p>The Council continues to have a large number of low value bank accounts that are not subject to regular bank reconciliations. While we have noted improvements in the schools cash process in the current year there continues to be errors, most likely caused by historic cash transactions that have ben been recorded correctly in the GL. Which has resulted in cash being overstated by 3.6m in the current year. As a result we would continue to raise this an a control deficiency</p>



# Control Deficiencies (cont.)

We have also follow up the recommendations from the previous years audit, in summary:

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Current Status (February 2026)
3	3	<p><b>Issue:</b> In the prior year we identified an issue with the entity's capitalisation of costs. This resulted in a 3.7m misstatement. Had a sufficiently detailed review taken place prior to capitalisation this error would not have occurred.</p> <p><b>Recommmodification:</b> Perform a detailed review of all individual and cumulative capital additions over a certain value to ensure that only appropriate costs are capitalised.</p>	<p><b>Response:</b> We agree the capitalisation in this case was not allowable and will process a correction for this – this will not impact the County Council's general resources in this instance. We will perform additional checks and review capital additions over threshold to ensure only appropriate costs are capitalised. Head of Finance; Due June 2025</p>	<p>This issue or similar has not reoccurred in the current year audit and as a result we would consider this control deficiency to be closed</p>
4	3	<p><b>Issue:</b> While performing our walkthrough over journals postings we identified that there were a number of journals which are auto approved. Auto-approved journals where a single staff member can process a journal an have it posted to the GL without additional approvals.</p> <p><b>Recommendation:</b> Ensure that all journals are subject to review by a more senior individual than the person posting.</p>	<p><b>Response:</b> Journals are internal transactions and a number of staff in the central finance team with appropriate experience and training are authorised to post these without a secondary approval. This is not an unusual approach in the sector and in practice has not been problematic for the County Council over many years. In our experience the efficiency gains from timely posting of journals in this way outweighs any risks of error or misstatement so at this time we have noted this recommendation but propose no further action. Service Director: Finance and Procurement</p>	<p>No changes from prior year. We continue to raise this as a control deficiency</p>
5	3	<p><b>Issue:</b> There were a significant number of unreconciled cash receipts that were offset against debtors in bulk for the purposes of preparing the first draft of the accounts. Though substantially all of these were eventually allocated against the relevant debtor this delay means it is harder for the council to chase their debtors and results in additional credit loss risk.</p> <p><b>Recommendation:</b> Ensure cash receipts and payments are allocated against the relevant debtors and creditors on a timely basis.</p>	<p><b>Response:</b> We believe this process reflected the need to produce draft financial accounts to an accelerated timescale and was for financial accounting purposes only: there was no impact on debt management or credit loss. For year end a snapshot is taken very shortly after year end of cash allocations for reporting purposes, but this does not interrupt the debt collection procedures which continue all year. The Council monitors allocation of cash and payments and consistently performs well against the measured performance indicator target. We will continue to monitor this and check the financial accounting in this area ahead of the next publication of draft accounts. Service Director: Finance and Procurement; Due June 202</p>	<p>This issue or similar has not reoccurred in the current year audit and as a result we would consider this control deficiency to be closed</p>

# FRC's areas of focus (cont.)

## Revenue

Disclosures should be specific and, for each material revenue stream, give details of the timing and basis of revenue recognition, and the methodology applied. Where this results in a significant judgement, this should be clear.

## Presentation

Disclosures should be consistent with information elsewhere in the annual report and cover Council/Authority - specific material accounting policy information.

A thorough review should be performed for common non-compliance areas of IAS 1.

## Income taxes

Evidence supporting the recognition of deferred tax assets should be disclosed in sufficient detail and be consistent with information reported elsewhere in the annual report.

The effect of Pillar Two income taxes should be disclosed where applicable.

## Strategic report

The strategic report must be 'fair, balanced and comprehensive'. Including covering all aspects of performance, economic uncertainty and significant movements in the primary statements.

Companies should ensure they comply with all the statutory requirements for making distributions and repurchasing shares.

## Fair value measurement

Explanations of the valuation techniques and assumptions used should be clear and specific to the Council/Authority.

Significant unobservable inputs should be quantified and the sensitivity of the fair value to reasonably possible changes in these inputs should provide meaningful information to readers.

## Thematic reviews

The FRC has issued three thematic reviews this year: 'Reporting by the UK's largest private companies' (see below), 'Offsetting in the financial statements', and 'IFRS 17 Insurance contracts –Disclosures in the first year of application'. The FRC have also performed Retail sector research (see below).

### UK's largest private companies

The quality of reporting by these entities was found to be mixed, particularly in explaining complex or judgemental matters. The FRC would expect a critical review of the draft annual report to consider:

- internal consistency
- whether the report as a whole is clear, concise, and understandable; notably with respect to the strategic report
- whether it omits immaterial information, or
- whether additional information is necessary for the users understanding particularly with respect to revenue, judgments and estimates and provisions







### Retail sector focus

Retail is a priority sector for the FRC and the research considered issues of particular relevance to the sector including:

- Impairment testing and the impact of online sales and related infrastructure
- Alternative performance measures including like for like (LFL) and adjusted e.g. pre-IFRS 16 measures
- Leased property and the disclosure of lease term judgements, particularly for expired leases.
- Supplier income arrangements and the clarity of accounting policies and significant judgements around measurement and presentation of these.

## 2024/25 review priorities

The FRC has indicated that its 2024/25 reviews will focus on the following sectors which are considered by the FRC to be higher risk by virtue of economic or other pressures:

-  Industrial metals and mining
-  Construction and materials
-  Food producers
-  Retail
-  Gas, water and multi-utilities
-  Financial Services



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