

Cambridgeshire County Council

DRAFT - Report to the Audit & Accounts Committee

External Audit Plan & Strategy for the year ended
31 March 2025

April 2025

Introduction

Report to the Audit & Accounts Committee of Cambridgeshire County Council

We are pleased to have the opportunity to meet with you in April to discuss our audit of the consolidated financial statements of Cambridgeshire County Council for the year ended 31 March 2025.

This report provides the Audit & Accounts Committee with an opportunity to review our planned audit approach and scope for the 2024/25 audit. The audit is governed by the provisions of the Local Audit and Accountability Act 2014 and in compliance with the NAO's 2024/25 Code of Audit Practice, auditing standards and other professional requirements.

This report outlines our risk assessment and planned audit approach. Our planning activities are still ongoing and we will communicate any significant changes to the planned audit approach.

We provide this report to you in advance of the meeting to allow you sufficient time to consider the key matters and formulate your questions.

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The engagement team

Sarah Brown is the engagement partner on the audit and responsible for the audit opinion. She has 25+ years of experience and previously worked in the Local Government audit sector.

Emma Larcombe is the engagement director on the audit. She has 15+ years of experience and shall lead the engagement team.

Other key members of the engagement team include Carl Van Den Berg, senior manager and Harry Foscoe, manager.

Yours sincerely,



Sarah Brown,

Partner - KPMG LLP

April 2025

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 controls and
- All of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

We depend on well planned timing of our audit work to avoid compromising the quality of the audit. This is also heavily dependent on receiving information from management and those charged with governance in a timely manner.

We aim to complete all audit work no later than 2 days before audit signing

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 Sarah Brown Sarah.Brown1@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). After this, if you are still dissatisfied with how your complaint has been handled you can raise your complaint as per the following process [Complaints](#).

Impact of backstop on our audit

Ongoing measures to resolve the backlog

As previously reported 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 allowed auditors to give disclaimed opinions over any open, incomplete audits up to the period ending 31 March 2023. These were required to be delivered by 13th December 2024. For the Authority this had the impact of a disclaimed audit opinion for two financial years to and including 2022/23 (as issued by the previous auditors). We issued a disclaimed audit opinion for 2023/24 on 28/02/2025 to comply with the backstop date relevant to our audit.

Impact on our audit of the financial statements

As explained in previous reporting to the audit committee the level of rebuilding assurance related to the years prior to our appointment was limited in 2023/24. This was because we concluded there was insufficient time before the February 2025 backstop to complete our audit to obtain sufficient appropriate audit evidence, and, in our view, this was pervasive to the prior year financial statements as a whole.

The impact of the above means that for the financial year 2024/25 elements of the opening balances and 2023/24 comparatives are still impacted by previous disclaimers and as such our audit opinion is likely to be modified in relation to this matter.

Work is ongoing in the sector to develop guidance to help support appropriate audit procedures for audits where further work on is required to build back assurance.

Value for Money

The amendments to the Accounts and Audit Regulations do not impact on our responsibilities in relation to the Authority's Value for Money arrangements. We are responsible for forming a view on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources and as such our work will proceed as normal.

Overview of planned scope including materiality

Our materiality levels

We determined materiality for the consolidated financial statements at a level which could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. We used a benchmark of expenditure which we consider to be appropriate given the sector in which the entity operates, its ownership and financing structure, and the focus of users.

We considered qualitative factors such as ownership structure, debt arrangements, business environment, and users of accounts, when determining materiality for the financial statements as a whole.

To respond to aggregation risk from individually immaterial misstatements, we design our procedures to detect misstatements at a lower level of materiality £15.5m /65% of materiality driven by our expectations of increased level of undetected or uncorrected misstatements in the period.

We will report misstatements to the audit committee including:

- Corrected and uncorrected audit misstatements above £1.195m.
- Errors and omissions in disclosure (Corrected and uncorrected) and the effect that they, individually in aggregate, may have on our opinion.
- Other misstatements we include due to the nature of the item.

Group Materiality

	Group
Materiality for the consolidated financial statements as a whole	£23.9m (2023/24: £25m 2% of Expenditure)
Performance Materiality	£15.5m (£16.2m) (2023/24 65% of Materiality)
Misstatements reported to the audit committee	£1.195m (2023/24: £1.25m)

Entity Materiality

£23.2m

2% of Entity Forecasted Expenditure £1,163m

(2023/24: £22.6m)

Overview of planned scope including materiality (cont.)

Timing of our audit and communications

We will maintain communication led by the engagement partner and manager throughout the audit. We set out below the form, timing and general content of our planned communications:

- Debrief meeting with management to discuss learnings and potential improvements from the previous year audit in April.
- Kick-off meeting with management in April where we present our draft audit plan outlining our audit approach and discuss management's progress in key areas;
- Audit & Accounts Committee meeting in May where we present our final audit plan;
- Regular status meetings with management where we will communicate progress on the audit plan, any misstatements, control deficiencies and significant issues;
- Quarterly meetings with the CEO and CFO to discuss the progress of the audit and updates at the Council.
- Regular meetings with the monitoring officer and executive directors as needed to inform our work over Value for money and laws and regulations.
- Closing meeting with management where we discuss the auditor's report and any outstanding deliverables;
- Audit & Accounts Committee meeting where we communicate audit misstatements and significant control deficiencies; and
- Biannual private meetings with the Committee Chair.

Using the work of others and areas requiring specialised skill

We outline below where, in our planned audit response to audit risks, we expect to use the work of others such as Internal Audit or require specialised skill/knowledge to perform planned audit procedures and evaluate results.

Others	Extent of planned involvement or use of work
Internal Audit	We will review the work of internal audit as part of our risk assessment procedures but will not place reliance on their work.
IT Audit team members	Our IT audit colleagues will perform our documentation of understanding the IT environment and any associated testing of general IT controls and/ or automated controls where identified. At the time of planning we have not identified any IT or automated controls which we will place reliance on.
KPMG Pensions Centre of Excellence/Actuaries	We will involve our pensions colleagues to review the pension liability valuation on the balance sheet during our audit. Our actuaries will review and challenge the actuarial assumptions underpinning the valuation of LGPS liabilities.
REVCOE	Our revaluation sector of excellence will review and challenge the assumptions underpinning the revaluation of your investment and PPE assets.

Significant risks, Higher assessed risks and Other audit risks

Our risk assessment draws upon our understanding of the applicable financial reporting framework, knowledge of the business, the sector and the wider economic environment in which Cambridgeshire County Council operates.

We also use our regular meetings with senior management to update our understanding and take input from sector and internal audit reports.

Significant risks

1. Valuation of land and buildings
2. Valuation of investment property
3. Management override of controls
4. Valuation of post retirement benefit obligations
5. Recoverability of Long-Term Debtor with This Land Group

Other audit risks

6. Adoption of IFRS 16
7. Accuracy and valuation of PFI liabilities
8. Expenditure classification as capital or non-capital.



Audit risks and our audit approach (cont.)

1 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.

Further risk assessment procedures will be undertaken to determine the severity of this risk and the extent to which it applies to different classes of land and buildings.



Planned 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
- 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

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.



Planned 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.)

3 Management override of controls(a)

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.

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



Planned 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.

Audit risks and our audit approach (cont.)

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 th prior year, the requirements of the accounting standards on recognition of these surplus are complicated and requires actuarial involvement.



Planned 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 the deficit or surplus to these assumptions; and.
- Where applicable, assess the level of surplus that should be recognised by the entity.

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.



Planned 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 Councils 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

6

Adoption of IFRS 16

An inappropriate amount is estimated and recorded for lease liabilities and right of use assets



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



Planned 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

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



Planned 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

8

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



Planned 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 scan 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

Expenditure – rebuttal of Significant Risk

Practice Note 10 states that the risk of material misstatement due to fraudulent financial reporting may arise from the manipulation of expenditure recognition is required to be considered. Having considered the risk factors relevant to the Council and the nature of expenditure within the Council, we have determined that a significant risk relating to expenditure recognition is not required.

Specifically, the financial position of the Council/entity, (whilst under pressure) is not indicative of a position that would provide an incentive to manipulate expenditure recognition and the nature of expenditure has not identified any specific risk factors.

Audit risks and our audit approach

Revenue – Rebuttal of Significant Risk

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. Due to the nature of the revenue within the sector we have rebutted this significant risk. We have set out the rationale for the rebuttal of key types of income in the table below.

Description of Income	Nature of Income	Rationale for Rebuttal
Council tax	This is the income received from local residents paid in accordance with an annual bill based on the banding of the property concerned.	The income is highly predictable and is broadly known at the beginning of the year, due to the number of properties in the area and the fixed price that is approved annually based on a band D property: it is highly unlikely for there to be a material error in the population.
Business rates	Revenue received from local businesses paid in accordance with an annual demand based on the rateable value of the business concerned.	The income is highly predictable and is broadly known at the beginning of the year, due to the number of businesses in the area and the fixed amount that is approved annually: it is highly unlikely for there to be a material error in the population.
Fees and charges	Revenue recognised from receipt of fixed fee services, in line with the fees and charges schedules agreed and approved annually.	The income stream represents high volume, low value sales, with simple recognition. Fees and charges values are agreed annually. We do not deem there to be any incentive or opportunity to manipulate the income.
Grant income	Predictable income receipted primarily from central government, including for housing benefits.	Grant income at a local authority typically involves a small number of high value items and an immaterial residual population. These high value items frequently have simple recognition criteria and can be traced easily to third party documentation, most often from central government source data. There is limited incentive or opportunity to manipulate these figures.

Other significant matters related to our audit approach

Disclosure of significant estimates and judgements

We have included here the disclosures of significant estimates and judgements from the prior year annual report (as reported in our audit committee report dated 28 February 2025).

Estimates and judgements	Balance £m per 23/24 accounts	Further comments
LGPS gross DBA: Gross defined benefit assets	£1,454.8	In the prior year we assessed the asset returns adopted by the Fund and the consistency of asset allocation and share of scheme assets year on year along with associated disclosures to be reasonable
LGPS gross DBO: Gross defined obligation	£1,365.86	In the prior year, our actuarial specialists assessed the overall assumptions used by management in valuing the pension liabilities as optimistic but within our reasonable range
Valuation of Investment property	£146.4	In the prior year we were unable to conclude on this area. There was a net adjustment made by management of -£3.7m (of which +£8.6 are the result of factual errors and -£12.3 are the result of judgemental errors corrected by management). KPMG raised an additional uncorrected misstatement of £23.4m.
Valuation of PPE	£922.68	In the prior year we were able to conclude that management's specialists' valuation over the entities PPE was optimistic but within our acceptable range. We noted that the entire PPE balance is valued on a 5 year cycle, and due to the 2022/23 disclaimed opinion we did not have assurance over the opening position of these assets and were therefore unable to conclude over the valuation of PPE as a whole.

Impacts of climate risk and climate change disclosures

We will evaluate management's assessment of the potential financial implications of climate risk on the financial statements, including estimates and disclosures

As part of our procedures on other information, we will obtain and read your climate change disclosures. We will consider whether there is a material inconsistency between this information included in the annual report and the financial statements, or with our knowledge obtained in the audit; or whether this information appears to be materially misstated.

Mandatory communications - additional reporting

Going concern

Under NAO guidance, including Practice Note 10 - A local authority's financial statements shall be prepared on a going concern basis; this is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future. Transfers of services under combinations of public sector bodies (such as local government reorganization) do not negate the presumption of going concern.






However, financial sustainability is a core area of focus for our Value for Money opinion.

Additional reporting

Your audit is undertaken to comply with the Local Audit and Accountability Act 2014 which gives the NAO the responsibility to prepare an Audit Code (the Code), which places responsibilities in addition to those derived from audit standards on us. We also have responsibilities which come specifically from acting as a component auditor to the NAO. In considering these matters at the planning stage we indicate whether:

Work is completed throughout our audit and we can confirm the matters are progressing satisfactorily 	We have identified issues that we may need to report 	Work is completed at a later stage of our audit so we have nothing to report 
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We have summarised the status of all these various requirements at the time of planning our audit below and will update you as our work progresses:

Type	Status	Response
Our declaration of independence		No matters to report. The engagement team and others in the firm, as appropriate, have complied with relevant ethical requirements regarding independence.
Issue a report in the public interest		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 to date.
Provide a statement to the NAO on your consolidation schedule		This "Whole of Government Accounts" requirement is fulfilled when we complete any work required of us by the NAO to assist their audit of the consolidated accounts of DLUHC.
Provide a summary of risks of significant weakness in arrangements to provide value for money		We are required to report significant weaknesses in arrangements. Work to be completed at a later stage.
Certify the audit as complete		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.

Mandatory communications

Type	Statements
Management’s responsibilities (and, where appropriate, those charged with governance)	<p>Prepare financial statements in accordance with the applicable financial reporting framework that are free from material misstatement, whether due to fraud or error.</p> <p>Provide the auditor with access to all information relevant to the preparation of the financial statements, additional information requested and unrestricted access to persons within the entity.</p>
Auditor’s responsibilities	<p>Our responsibilities set out through the NAO Code (communicated to you by the PSAA) and can be also found on their website, which include our responsibilities to form and express an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.</p>
Auditor’s responsibilities – Fraud	<p>This report communicates how we plan to identify, assess and obtain sufficient appropriate evidence regarding the risks of material misstatement of the financial statements due to fraud and to implement appropriate responses to fraud or suspected fraud identified during the audit.</p>
Auditor’s responsibilities – Other information	<p>Our responsibilities are communicated to you by the PSAA and can be also found on their website, which communicates our responsibilities with respect to other information in documents containing audited financial statements. We will report to you on material inconsistencies and misstatements in other information.</p>
Independence	<p>Our independence confirmation at page 27 discloses matters relating to our independence and objectivity including any relationships that may bear on the firm’s independence and the integrity and objectivity of the audit engagement partner and audit staff.</p>

Cambridgeshire County Council

Value for money Approach

Year ended 31 March 2025

Value for money

Our value for money reporting requirements have been designed to follow the guidance in the Audit Code of Practice.

Our responsibility is to conclude on significant weaknesses in value for money arrangements.

The main output is a narrative on each of the three domains, summarising the work performed, any significant weaknesses and any recommendations for improvement.

We have set out the key methodology and reporting requirements on this slide and provided an overview of the process and reporting on the following page.

Risk assessment processes

Our responsibility is to assess whether there are any significant weaknesses in the Council's arrangements to secure value for money. Our risk assessment will consider whether there are any significant risks that the Council does not have appropriate arrangements in place.

In undertaking our risk assessment we will be required to obtain an understanding of the key processes the Council has in place to ensure this, including financial management, risk management and partnership working arrangements. We will complete this through review of the Council's documentation in these areas and performing inquiries of management as well as reviewing reports, such as internal audit assessments.

Reporting

Our approach to value for money reporting aligns to the NAO guidance and includes:

- A summary of our commentary on the arrangements in place against each of the three value for money criteria, setting out our view of the arrangements in place compared to industry standards;
- A summary of any further work undertaken against identified significant risks and the findings from this work; and
- Recommendations raised as a result of any significant weaknesses identified and follow up of previous recommendations.

The Council will be required to publish the commentary on its website at the same time as publishing its annual report online.

Financial sustainability

How the body manages its resources to ensure it can continue to deliver its services.

Governance

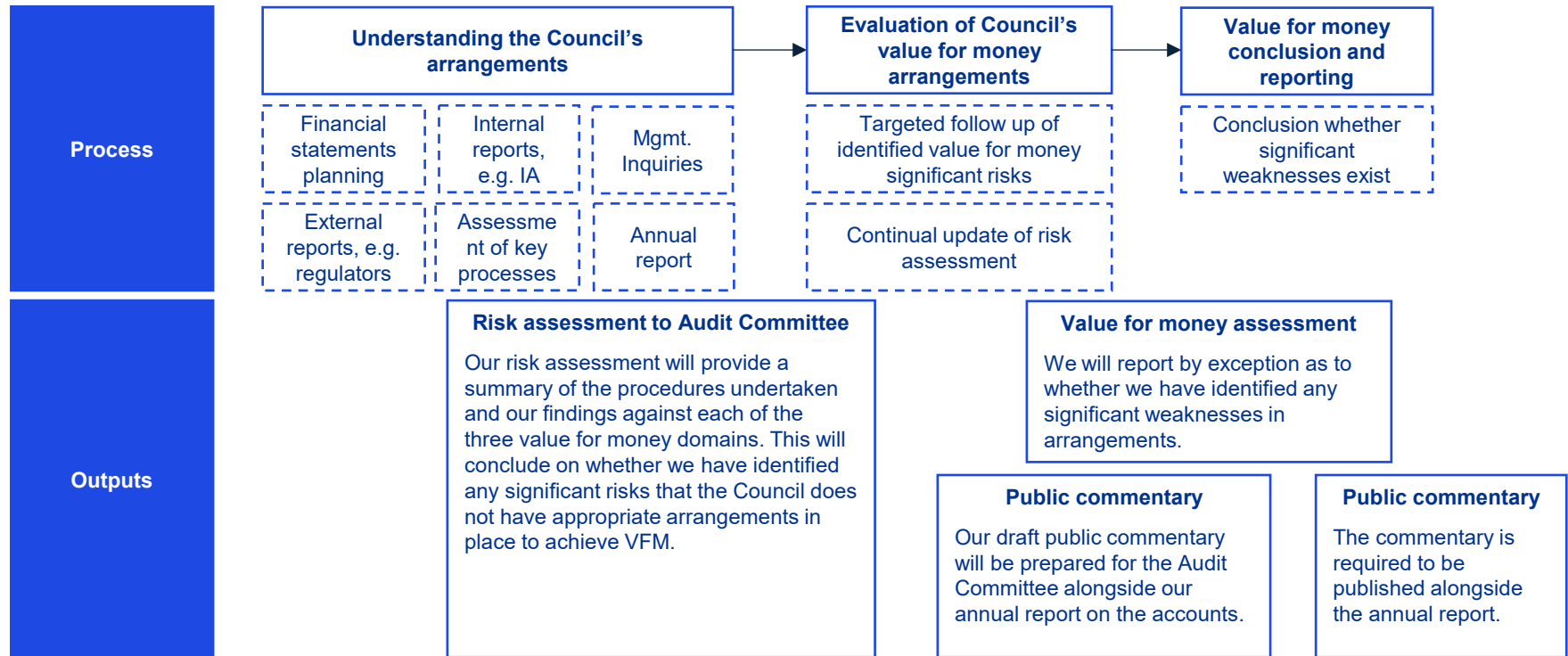
How the body ensures that it makes informed decisions and properly manages its risks.

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.

Value for money

Approach we take to completing our work to form and report our conclusion:




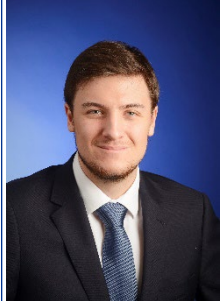


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Audit team and rotation

Your audit team has been drawn from our specialist local government audit department and is led by key members of staff who will be supported by auditors and specialists as necessary to complete our work. We also ensure that we consider rotation of your audit partner and firm.

	<p>Sarah is the partner responsible for our audit. She will lead our audit work, attend the Audit and Accounts Committee and be responsible for the opinions that we issue.</p>		<p>Emma is the director who is supporting Sarah in this audit. She will attend the Audit and Accounts Committee and lead the team to complete the audit work.</p>		<p>Carl is the senior manager responsible for reviewing the more complex areas of the file and completing the VFM work</p>		<p>Harry is the manager responsible for our audit. He will co-ordinate our audit work and complete the work over the more complex areas of the file.</p>
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To comply with professional standard we need to ensure that you appropriately rotate your external audit partner. There are no other members of your team which we will need to consider this requirement for:



This will be Sarah's second year as your engagement lead. They are required to rotate every five years, extendable to seven with PSAA approval.

Audit timeline

We have developed our audit timeline based on management’s financial reporting timetable. If we need to make significant changes to the audit timeline below, then we will communicate the reasons to you on a timely basis.

Activity	2025									2026			
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Risk assessment and planning	█												
Finalisation of planning work over year end processes.				█									
Audit of Specialist areas (Pensions and Valuation)				█	█	█							
Initial sampling for year end audit					█								
Year-end audit fieldwork						█	█	█					
VFM work and reporting					█	█	█		█				
Procedures on financial statements/annual report											█		

* Dates for issuing deliverables are preliminary and based on information available at planning. They are therefore subject to change.

Fees

Audit fee

Our fees for the year ended 31 March 2025 are set out in the PSAA Scale Fees communication and are shown below.

Entity	2024/25 (£'000)	2023/24 (£'000)
Statutory audit	302.3	277
Agreed PY fee variations (includes 17k for ISA315r scope changes included in CY base fee)	-	91.8
TOTAL	302.3	368.8

The fees also assume no significant risks are identified as part of the Value for Money risk assessment. Additional fees in relation to these areas will be subject to the fees variation process as outlined by the PSAA.

Billing arrangements

Fees will be billed in accordance with the milestone completion phasing that has been communicated by the PSAA.

Basis of fee information

Our fees are subject to the following assumptions:

- The entity's audit evidence files are completed to an appropriate standard (we will liaise with you separately on this);
- Draft statutory accounts are presented to us for audit subject to audit and tax adjustments;
- Supporting schedules to figures in the accounts are supplied;
- The entity's audit evidence files are completed to an appropriate standard (we will liaise with management separately on this);
- A trial balance together with reconciled control accounts are presented to us;
- All deadlines agreed with us are met;
- We find no weaknesses in controls that cause us to significantly extend procedures beyond those planned;
- Management will be available to us as necessary throughout the audit process; and
- There will be no changes in deadlines or reporting requirements.

We will provide a list of schedules to be prepared by management stating the due dates together with pro-formas as necessary.

Our ability to deliver the services outlined to the agreed timetable and fee will depend on these schedules being available on the due dates in the agreed form and content.

Any variations to the above plan will be subject to the PSAA fee variation process.

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

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 (Excludes VAT)	Value of Services Committed but not yet delivered
1	Teachers Pensions Scheme AUP	Self interest	<ul style="list-style-type: none"> KPMG Consulting staff will be used when performing this engagement The fees related to this service are immaterial to KPMG. 	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
Statutory audit	302.3
Other Assurance Services	7
Total Fees	309.3

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

KPMG's Audit quality framework

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.

To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework.

Responsibility for quality starts at the top through our governance structures as the UK Board is supported by the Audit Oversight Committee, and accountability is reinforced through the complete chain of command in all our teams.

■ Commitment to continuous improvement

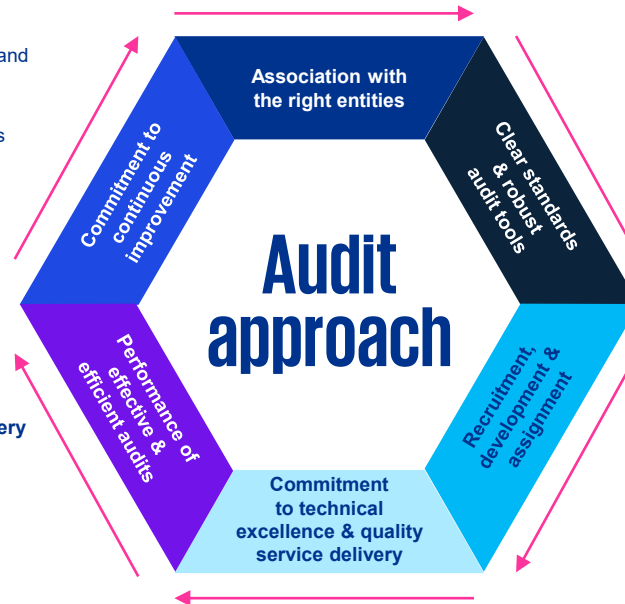
- Comprehensive effective monitoring processes
- Significant investment in technology to achieve consistency and enhance audits
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

■ Performance of effective & efficient audits

- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching, including the second line of defence model
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Insightful, open and honest two way communications

■ Commitment to technical excellence & quality service delivery

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights



■ Association with the right entities

- Select entities within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management

■ Clear standards & robust audit tools

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- KPMG Clara incorporating monitoring capabilities at engagement level
- Independence policies

■ Recruitment, development & assignment of appropriately qualified personnel

- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members and specialists

Statement on the Effectiveness of our system of quality management

Based on the annual evaluation of the Firm's System of Quality Management as of 30 September 2023, the System of Quality Management provides the Firm with reasonable assurance that the objectives of the System of Quality Management are being achieved.

Our full Statement on the effectiveness of the System of Quality Management of KPMG UK LLP as at 30 September 2023 can be found [here](#).

The extract below is the Statement on the Effectiveness of our system of quality management taken from our Transparency Report:

As required by the International Auditing and Assurance Standards Board (IAASB)'s, International Standard on Quality Management (ISQM1), the Financial Reporting Council (FRC)'s International Standard on Quality Management (UK) 1 (ISQM (UK) 1), and KPMG International Limited Policy, KPMG UK LLP (the "Firm" and/or "KPMG UK") has responsibility to design, implement and operate a System of Quality Management for audits or reviews of financial statements, or other assurance or related services engagements performed by the Firm.

The objectives of the System of Quality Management are to provide the Firm with reasonable assurance that:

- a) The Firm and its personnel fulfil their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
- b) Engagement reports issued by the Firm or engagement partners are appropriate in the circumstances.

KPMG UK outlines how its System of Quality Management supports the consistent performance of quality engagements in the 2023 Transparency Report.

Integrated quality monitoring and compliance programmes enable KPMG UK to identify and respond to findings and quality deficiencies both in respect of individual engagements and the overall System of Quality Management.

If deficiencies are identified when KPMG UK performs its annual evaluation of the System of Quality Management, KPMG UK evaluates the severity and pervasiveness of the identified deficiencies by investigating the root causes, and by evaluating the effect of the identified deficiencies individually and in the aggregate, on the System of Quality Management, with consideration of remedial actions taken as of the date of the evaluation.

Based on the annual evaluation of the Firm's System of Quality Management as of 30 September 2023, the System of Quality Management provides the Firm with reasonable assurance that the objectives of the System of Quality Management are being achieved.



Understanding of IT



Summary

The release of ISA 315 (UK) revised brought an increased focus on Understanding of IT in the audit, and it continues to be an area of focus.

Stakeholders now expect auditors to not only understand IT in detail, but also to consider the impact of the findings from their risk assessment procedures on their planned audit approach.

Why is Understanding of IT so important?

Businesses continue to embrace increasingly complex and sophisticated IT systems and place more and more reliance on automated IT processing not simply for a competitive advantage, but also for "business as usual" operations.

This increased reliance means that to effectively audit accounts, balances and transactions, auditors are required to understand and challenge more around how those IT system and process work.

Therefore, Understanding of IT is a crucial building block of our audit strategy and influences our planned audit approach at every stage.

This is true regardless of whether controls reliance is planned or the audit is expected to be fully substantive in nature.

What kind of things might we identify?

As part of our risk assessment procedures, we perform:

- An assessment of the formality, or otherwise, of certain financially relevant IT processes
- An evaluation of the design and implementation of related general IT controls
- An evaluation of the design and implementation of automated process level controls

As a result of these procedures, we may identify IT control deficiencies or IT process informalities that may have an impact on our planned audit approach.

Additionally, we may identify findings related to the wider control environment or threats to the accuracy or completeness of the information used by both entity management and auditors alike.

What does this mean for our audits?

Auditors are being asked to consider the findings from their risk assessment procedures over IT in relation to the planned audit approach.

The findings may impact any area of the audit, however there are three main areas of focus where we anticipate that most impact as a result of identifying IT deficiencies or IT process informality;

- Increased risk to data integrity
- Additional fraud risk factors
- Additional high-risk criteria to be used in journals analysis

It is important to understand that these findings may have an impact regardless of planned reliance on automated controls and general IT controls.



FRC's areas of focus

The FRC released their **Annual Review of Corporate Reporting 2023/24 ('the Review')** in September 2024 having already issued three thematic reviews during the year.

The Review and thematic reviews identify where the FRC believes companies can improve their reporting. These slides give a high level summary of the key topics covered. We encourage management and those charged with governance to read further on those areas which are significant to their entity.



Key expectations for 2024/25 annual reports

Overview

The Review identifies that the quality of reporting across FTSE 350 companies has been maintained this year, but there is a widening gap in standards between FTSE 350 and non-FTSE 350 companies. This is noticeable in the FRC's top two focus areas, 'Impairment of assets' and 'Cash Flow Statements'.

'Provisions and contingencies' has fallen out of the top ten issues for the first time in over five years. This issue is replaced by 'Taskforce for Climate-related Financial Disclosures (TCFD) and climate-related narrative reporting'.

The FRC re-iterates that companies should apply careful judgement to tell a consistent and coherent story whilst ensuring the annual report is clear, concise and company-specific.

Pre-issuance checks and restatements

The FRC expects companies to have in place a sufficiently robust self-review process to identify common technical compliance issues. The FRC continues to be frustrated by the increasing level of restatements affecting the presentation of primary statements. This indicates that thorough, 'step-back' reviews are not happening in all cases.

Risks and uncertainties

Geopolitical tensions continue and low growth remains a concern in many economies, particularly with respect to going concern, impairment and recognition/recoverability of tax assets and liabilities. The FRC continue to push for enhanced disclosures of risks and uncertainties. Disclosures should be sufficient to allow users to understand the position taken in the financial statements, and how this position has been impacted by the wider risks and uncertainties discussed elsewhere in the annual report.

Financial reporting framework

The FRC reminds preparers to consider the overarching requirements of the UK financial reporting framework in determining the information to be presented. In particular the requirements for a true and fair view, along with a fair, balanced, and comprehensive review of the company's development, position, performance, and future prospects.

The FRC does not expect companies to provide information that is not relevant and material to users, and companies should exercise judgement in determining what information to include.

Companies should also consider including disclosures beyond the specific requirements of the accounting standards where this is necessary to enable users to understand the impact of particular transactions or other events and conditions on the entities financial position, performance and cash flows.



FRC's areas of focus (cont.)

Impairment of assets

Impairment remains a key topic of concern, exacerbated in the current year by an increase in restatements of parent company investments in subsidiaries.

Disclosures should provide adequate information about key inputs and assumptions, which should be consistent with events, operations and risks noted elsewhere in the annual report and be supported by a reasonably possible sensitivity analysis as required.

Forecasts should reflect the asset in its current condition when using a value in use approach and should not extend beyond five years without explanation.

Preparers should consider whether there is an indicator of impairment in the parent when its net assets exceed the group's market capitalisation. They should also consider how intercompany loans are factored into these impairment assessments.

Cash flow statements

Cash flow statements remain the most common cause of prior year restatements.

Companies must carefully consider the classification of cash flows and whether cash and cash equivalents meet the definitions and criteria in the standard. The FRC encourage a clear disclosure of the rationale for the treatment of cash flows for key transactions.

Cash flow netting is a frequent cause of restatements and this was highlighted in the '[Offsetting in the financial statements](#)' thematic.

Preparers should ensure the descriptions and amounts of cash flows are consistent with those reported elsewhere and that non-cash transactions are excluded but reported elsewhere if material.

Climate

This is a top-ten issue for the first time this year, following the implementation of TCFD.

Companies should clearly state the extent of compliance with TCFD, the reasons for any non-compliance and the steps and timeframe for remedying that non-compliance. Where a company is also applying the Companies Act 2006 Climate-related Financial Disclosures, these are mandatory and cannot be 'explained', further the required location in the annual report differs.

Companies are reminded of the importance of focusing only on material climate-related information. Disclosures should be concise and company specific and provide sufficient detail without obscuring material information.

It is also important that there is consistency within the annual report, and that material climate related matters are addressed within the financial statements.

Financial instruments

The number of queries on this topic remains high, with Expected Credit Loss (ECL) provisions being a common topic outside of the FTSE 350 and for non-financial and parent companies.

Disclosures on ECL provisions should explain the significant assumptions applied, including concentrations of risk where material. These disclosures should be consistent with circumstances described elsewhere in the annual report.

Companies should ensure sufficient explanation is provided of material financial instruments, including company-specific accounting policies.

Lastly, the FRC reminds companies that cash and overdraft balances should be offset only when the qualifying criteria have been met.

Judgements and estimates

Disclosures over judgements and estimates are improving, however these remain vital to allow users to understand the position taken by the company. This is particularly important during periods of economic and geopolitical uncertainty.

These disclosures should describe the significant judgements and uncertainties with sufficient, appropriate detail and in simple language.

Estimation uncertainty with a significant risk of a material adjustment within one year should be distinguished from other estimates.

Further, sensitivities and the range of possible outcomes should be provided to allow users to understand the significant judgements and estimates.



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 company-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 and Companies Act

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 company.

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



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