

A background photograph showing a group of people in a meeting. A person in a yellow shirt is at the top, with their hands resting on a white table. Another person's hand is visible on the right, pointing at a document. A smartphone lies on the table in the lower left. The scene is brightly lit, suggesting an indoor office or meeting room environment.

Cambridgeshire County Council

Initial Audit Plan

Year ended 31 March 2022

8 September 2022



Audit and Accounts Committee
Cambridgeshire County Council
New Shire Hall
Emery Crescent
Enterprise Campus
Alconbury Weald, Huntingdon
PE28 4YE

8 September 2022

Dear Audit and Accounts Committee Members

We are pleased to attach our Initial Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit and Accounts Committee with a basis to review our proposed audit approach and scope for the 2021/22 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for Cambridgeshire County Council, and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Audit and Accounts Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 29 September 2022 as well as understand whether there are other matters which you consider may influence our audit.

MARK HODGSON

Mark Hodgson
Associate Partner
For and on behalf of Ernst & Young LLP
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Contents

01 Overview of our 2021/22 audit strategy



02 Audit risks



03 Value for Money risks



04 Audit materiality



05 Scope of our audit



06 Audit team



07 Audit timeline



08 Independence



09 Appendices



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

This report is made solely to the Audit and Accounts Committee and management of Cambridgeshire County Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit and Accounts Committee and management of Cambridgeshire County Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit and Accounts Committee and management of Cambridgeshire County Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Overview of our 2021/22 audit strategy



Overview of our 2021/22 audit strategy

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

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error	Fraud risk	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively (Management Override).
Inappropriate capitalisation of revenue expenditure including Revenue Expenditure Funded from Capital Under Statute (REFCUS)	Fraud risk	No change in risk or focus	Linking to our fraud risk identified above, we have determined that a way in which management could override controls is through the inappropriate capitalisation of revenue expenditure to understate revenue expenditure reported in the financial statements, given the extent of the Council's capital programme and Revenue Expenditure Funded from Capital Under Statute.
Accounting adjustments made in the 'Movement in Reserves Statement'.	Fraud Risk	No change in risk or focus	Linking to our risk due to fraud and error above we have considered the accounting adjustments made in the Movement in Reserves Statement as a separate specific risk, given the financial pressure the Council is under to achieve its revenue budget and maintain reserve balances above the minimum approved levels. Manipulating expenditure is a key way of achieving these targets.
Infrastructure Assets	Significant Risk	No change in risk or focus	<p>An issue has been raised via the NAO's Local Government Technical Group that some local authorities are not writing out the gross cost and accumulated depreciation on highways infrastructure assets when a major part/component has been replaced or decommissioned. This matter is currently under consideration by CIPFA and the Council hold Infrastructure Assets, with a Net Book Value of £953 million at 31 March 2022.</p> <p>This issue was the basis for a 'Limitation of Scope' modification to our auditor opinion for the 2020/21 financial year. We have raised a significant risk in this area, as either the 'Limitation of Scope' will continue, or the accounting treatment will need to be reviewed and applied that takes into account any updated guidance from CIPFA, if the Council has sufficient appropriate evidence to support that the principles of any updated accounting guidance.</p>

Overview of our 2021/22 audit strategy

Risk / area of focus	Risk identified	Change from PY	Details
Valuation of Property, Plant, and Equipment and Investment Property	Significant Risk	No change in risk or focus	<p>The fair value of Property, Plant and Equipment (PPE) and Investment Property (IP) represents a significant balance in the Council's accounts and is subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end Land & Buildings balances recorded in the Balance Sheet.</p> <p>As a result of our work last year we did not identify any material issues with the work of the external valuer. From planning discussions with management, we have identified that the Council expect to provide revised valuations to us in advance of the audit due to issues identified with the valuations held in the draft financial statements. We have therefore retained this as an area of significant risk.</p>
Recoverability of Long-Term Debtor with This Land Group	Significant Risk	New risk in 2021/22	<p>This Land Limited was incorporated in June 2016. The principal activity of the Company is to act as a holding company and a commercial entity whilst the Group oversee the acquisition and development of land and property for subsequent sale. This Land Limited and the This Land Group are a wholly owned subsidiary of the Council.</p> <p>As at 31 March 2022 the Council holds a Long-term Debtor of £113.9 million in the Balance Sheet in relation to the loan issued to This Land Group. The loans are repayable between 2026 and 2029.</p> <p>The current volatility in the housing market could have an impact on the Council's ability to recover the loan in full. Given the material size of the loan we have considered the recoverability of the loan as a significant risk.</p>
Valuation of Solar Farm Assets	Inherent Risk	New risk in 2021/22	<p>The Council own one operational Solar Farm (Triangle Farm) and one classified as an 'Asset Under Construction' (North Angle). The value of the Solar Farms represent significant balances in the Council's accounts. Given the complex nature of valuing a Solar Farm, our 2019/20 audit raised recommendations around engaging with a specialist valuer to provide support for the valuation estimate.</p> <p>The current volatility in the energy market will have an impact on the power price forecasting, which would be a key judgement used in the valuation of the solar farms. The impact of this judgement will be potentially material. As the Council have not had the Solar Farm asset revalued since the 2019/20 financial year, further consideration is required as to why this asset value is materially correct.</p>

Overview of our 2021/22 audit strategy

Risk / area of focus	Risk identified	Change from PY	Details
Accounting for COVID-19 related government grants	Inherent Risk	Reduced risk in 2021/22 from prior year	The Council has received a significant level of government funding in relation to COVID-19, including a number of new grants in 2021/22. There is a need for the Council to ensure that it accounts for these grants appropriately, taking into account any associated restrictions and conditions. As there have been new, individually material, grants received during the year we have retained this as a risk area. However, as the Council correctly accounted for COVID related grant income in 2020/21, with only immaterial adjustments, we have downgraded the risk from significant to inherent.
Accounting for City Deal	Inherent Risk	Reduced risk in 2021/22 from prior year	In 2020/21 Greater Cambridge Partnership were awarded the next tranche of funding for the City Deal. This amounts to £200 million over five years. The Council amended the accounting treatment for this grant within the audited 2020/21 accounts following our audit procedures and discussions. Given the accounting treatment has remained the same in 2021/22, we have lowered this risk to an inherent risk in 2021/22, given the material nature and complexity of the funding, to ensure that this approach remains appropriate to the conditions and requirements of the grant.
Pension Valuation and Other Disclosures	Inherent Risk	No change in risk or focus	<p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body. The Authority's current Pension Liability is a material and sensitive item and the Code requires that this liability be disclosed on the Authority's Balance Sheet.</p> <p>The information disclosed is based on the IAS 19 report issued to the Authority by the Pension Fund Actuary. Accounting for this scheme involves significant estimation and judgement and due to the nature, volume and size of the transactions we consider this to be a higher inherent risk.</p>
Group Accounts	Inherent Risk	No change in risk or focus	The County Council is the sole and ultimate owner of all parts of the subsidiary 'This Land Ltd'. This is consolidated into the group accounts of the Council. Given the material nature of balances within This Land, as well as public interest in the entity, we have raised this as an area of inherent risk, to ensure the consolidation process is robust and because we need to gain a number of assurances from the component auditor (RSM LLP) of This Land Ltd.

Overview of our 2021/22 audit strategy

Risk / area of focus	Risk identified	Change from PY	Details
Accounting for schools that convert to 'Academy' status	Inherent Risk	No change in risk or focus	Schools continue to convert to academy status, albeit at a lower rate, given previous conversions. However, this continues to have implications for the treatment of the schools' balances in the financial statements, with the most significant relating to Property, Plant and Equipment, which are invariably material given the nature of the asset class.
Private Finance Initiative (PFI)	Inherent Risk	No change in risk or focus	The Council operate three material PFI's which are long term private funded schemes. The Income, Expenditure and Balance Sheet accounting entries in the financial statements are based on complex PFI operating and finance models for each scheme. The models also provide the required disclosures of future projected payments.
Going concern	Area of focus	No change in risk or focus	The financial landscape for the Council remains challenging and management will need to prepare a going concern assessment covering a period up to 12 months from the expected date of the financial statements authorisation. The Council will also need to make an appropriate disclosure in the financial statements. This requires consideration at both the Council and Group level.

Overview of our 2021/22 audit strategy

Materiality

Planning
materiality

£19.7m

Materiality has been set at £19.7 million (rounded), for the audit of the Council, which represents 1.8% of the prior year's gross expenditure on provision of services. Note: for the Group audit, this materiality has been calculated on the Group's prior year gross expenditure as £20.2 million (rounded).

Performance
materiality

£9.85m

Performance materiality has been set at £9.85 million, which represents 50% of materiality. Note: for the Group entities we have allocated a performance materiality of £10.1 million.

Audit
differences

£0.99m

We will report all uncorrected misstatements relating to the primary statements including the group (Comprehensive Income and Expenditure Statement, Balance Sheet, Movement in Reserves Statement, and Cash Flow Statement) greater than £0.99 million. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit and Accounts Committee.

We also identify areas where misstatement at a lower level than our overall materiality level might influence the reader and develop an audit strategy specific to these areas, including:

- ▶ Remuneration disclosures including Member allowances: we will agree all disclosures back to source data, and Member allowances to the agreed and approved amounts; and
- ▶ Related party transactions we will test the completeness of related party disclosures and the accuracy of all disclosures by checking back to supporting evidence.

Overview of our 2021/22 audit strategy

Audit scope

This Initial Audit Plan covers the work that we plan to perform to provide you with:

- ▶ Our audit opinion on whether the financial statements of Cambridgeshire County Council and Group give a true and fair view of the financial position as at 31 March 2022 and of the income and expenditure for the year then ended; and
- ▶ Our commentary on your arrangements to secure value for money in your use of resources for the relevant period. We include further details on VFM in Section 03.

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

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards. When planning the audit we take into account several key inputs:

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

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

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years as well as the expansion of factors impacting the ISA 540 (revised) and the value for money conclusion. Therefore to the extent any of these or any other risks are relevant in the context of Cambridgeshire County Council's audit, we will discuss these with management as to the impact on the scale fee.

Effects of climate-related matters on financial statements and Value for Money arrangements

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

Overview of our 2021/22 audit strategy

Value for money conclusion

We include details in Section 03 but in summary:

- ▶ We are required to consider whether the Council has made 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.
- ▶ Planning on value for money and the associated risk assessment is focused on gathering sufficient evidence to enable us to document our evaluation of the Council's arrangements, to enable us to draft a commentary under three reporting criteria (see below). This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.
- ▶ We will provide a commentary on the Council's arrangements against three reporting criteria:
 - ▶ Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services;
 - ▶ Governance - How the Council ensures that it makes informed decisions and properly manages its risks; and
 - ▶ Improving economy, efficiency and effectiveness - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.
- ▶ The commentary on VFM arrangements will be included in the Auditor's Annual Report.

Timeline

The Ministry of Housing, Communities and Local Government established regulations to extend the target date for publishing audited local authority accounts from 31 July to 30 September, for a period of two years (i.e. covering the audit of the 2020/21 and 2021/22 accounting years). In December 2021, the Department for Levelling Up, Housing and Communities (DLUHC) announced proposals to extend the deadline for the publication of audited accounts to 30 November 2022 for 2021/22.

In Section 07, we include a provisional timeline for the audit. We will work with the Council to complete the audit to this timeline or ensure that appropriate wording is published by the date set out above.



02

Audit risks



Audit risks

Our response to significant risks

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

Misstatements due to fraud or error *

What is the risk?

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

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

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

What will we do?

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

- ▶ Inquire of management about risks of fraud and the controls put in place to address those risks.
- ▶ Understand the oversight given by those charged with governance of management's processes over fraud.
- ▶ Consider of the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Perform mandatory procedures regardless of specifically identified fraud risks, including:
 - ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements
 - ▶ Assessing accounting estimates for evidence of management bias, and
 - ▶ Evaluating the business rationale for significant unusual transactions.

We will utilise our data analytics capabilities to assist with our work.

Having evaluated this risk we have considered whether we need to perform other audit procedures not referred to above. We concluded that only those procedures included under 'Inappropriate capitalisation of revenue expenditure (including REFCUS)' and 'Accounting adjustments made in the Movement in Reserves Statement' are required, as set out on the following two pages.

Our response to significant risks (continued)

Inappropriate capitalisation of revenue expenditure including Revenue Expenditure Funded from Capital Under Statute (REFCUS)*

Financial statement impact

We have assessed that the risk of misreporting revenue outturn in the financial statements is most likely to be achieved through:

- ▶ Revenue expenditure being inappropriately recognised as capital expenditure at the point it is posted to the general ledger.
- ▶ Expenditure being inappropriately transferred by journal from revenue to capital codes on the general ledger at the end of the year.

If this were to happen it would have the impact of understating revenue expenditure and overstating property, plant and equipment additions and/or Revenue Expenditure Financed as Capital Under Statute (REFCUS) in the financial statements.

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund. In arriving at this conclusion we have considered the continuing pressure on the revenue budget and the financial value of its annual capital programme which is many times out materiality level.

This could then result in funding of that expenditure, that should properly be defined as revenue, through inappropriate sources such as capital receipts, capital grants, or borrowing.

What will we do?

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

- ▶ Obtaining an analysis of capital additions in the year, reconciling to the Fixed Assets Register (FAR), and reviewing the descriptions to identify whether there are any potential items that could be revenue in nature; and
- ▶ Sample Test Property, Plant and Equipment additions, and REFCUS additions, if material, to ensure that the expenditure incurred and capitalised is clearly capital in nature or appropriate to be treated as REFCUS.

We will utilise our data analytics capabilities to assist with our work, including journal entry testing. We will assess journal entries more generally for evidence of management bias and evaluate for business rationale.

Our response to significant risks (continued)

Misstatements due to fraud or error – accounting adjustments made in the 'Movement in Reserves Statement'. *

Financial statement impact

We have identified a specific risk of misstatement due to fraud or error that could affect the Income and Expenditure accounts.

We consider the risk applies to accounting adjustments made in the 'Movement in Reserves Statement' and could result in a misstatement of 'Cost of Services' reported in the Comprehensive Income and Expenditure Statement.

What is the risk?

The Council is under financial pressure to achieve its revenue budget and maintain reserve balances above the minimum approved levels. Manipulating expenditure is a key way of achieving these targets.

We consider the risk applies to accounting adjustments made in the movement in reserves statement.

- The adjustments between accounting basis and funding basis under Regulation changes the amounts charged to General Fund balances. Regulations are varied and complex, resulting in a risk that management misstatement accounting adjustments to manipulate the General Fund balance. We have identified the risk to be highest for adjustments concerning:
- Revenue Expenditure Funded from Capital Under Statute (REFCUS);
- Capital grants;
- Depreciation, impairments and revaluation losses;
- Capital expenditure funded by revenue; and
- Minimum Revenue Provision.

What will we do?

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

- ▶ Sample testing REFCUS to ensure the expenditure meets the definition of allowable expenditure, or is incurred under direction from the Secretary of State;
- ▶ Reconciling entries for consistency to other audited accounts within the financial statements, for example our work on Property, Plant and Equipment to support adjustments made for depreciation, impairments, revaluation losses, and application of capital grants;
- ▶ Reviewing the Council's policy and application of the 'Minimum Revenue Provision'; and
- ▶ Using our data analytics tool to identify and test journal entries adjustments made in the movement in reserves statement.

Our response to significant risks (continued)

Infrastructure Assets

Financial statement impact

We have identified a infrastructure asset misstatement that could affect the Balance Sheet.

We consider the risk applies to the existence of infrastructure assets and could result in a misstatement of 'Property, Plant, and Equipment' reported in the Balance Sheet.

What is the risk?

An issue has been raised via the NAO's Local Government Technical Group that some local authorities are not writing out the gross cost and accumulated depreciation on highways infrastructure assets when a major part/component has been replaced or decommissioned. This matter remains under consideration by CIPFA and the Council hold Infrastructure Assets, with a Net Book Value of £953 million at 31 March 2022.

This issue was the basis for a 'Limitation of Scope' modification to our auditor opinion for the 2020/21 financial year. We have raised a significant risk in this area, as either the 'Limitation of Scope' will continue, or the accounting treatment will need to be reviewed and applied that takes into account any updated guidance from CIPFA, if the Council has sufficient appropriate evidence to support that the principles of any updated accounting guidance.

What will we do?

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

- ▶ Continue to discuss the matter with the Council as guidance on accounting for Infrastructure Assets is updated by CIPFA or is subject to any other mandatory approach within the sector; and
- ▶ If guidance is not forthcoming in a timely manner, consider a 'Limitation of Scope' modification to our auditor opinion for the 2021/22 financial year, following the basis used for our 2020/21 audit report.

Our response to significant risks (continued)

Valuation of Property, Plant, and Equipment and Investment Property

Financial statement impact

The fair value of Property, Plant and Equipment (PPE) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.

Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the statement of financial position.

What is the risk?

The fair value of Property, Plant and Equipment (PPE) and Investment Property (IP) represents a significant balance in the Council's accounts and is subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end Land & Buildings balances recorded in the Balance Sheet.

As a result of our work last year we did not identify any material issues with the work of the Council's external valuer.

From planning discussions with management, we have identified that the Council expect to provide revised valuations to us in advance of the audit, following the identification of issues within the valuations held in the draft financial statements.

We have therefore retained this as an area of significant risk.

What will we do?

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

- ▶ Considering the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Sample test key asset information used by the valuers in their valuation (e.g. floor plans to support valuations based on price per square metre);
- ▶ Considering the annual cycle of valuations to ensure that assets have been valued, as a minimum, within a 5 year rolling programme as required by the Code. We will also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- ▶ Reviewing assets not subject to valuation in 2021/22 to confirm that the remaining asset base is not materially misstated;
- ▶ Considering changes to useful economic lives as a result of the most recent valuation;
- ▶ Consider the need to engage our own EY valuation experts to perform a review of valuation assumptions and methodology;
- ▶ We will stratify the population depending on valuation characteristics and apply the significant risk status as appropriate to that stratification; and
- ▶ Testing that accounting entries have been correctly processed in the financial statements.

Our response to significant risks (continued)

Recoverability of Long-Term Debtor with This Land Group

Financial statement impact

We have identified a specific risk of misstatements due to the valuation of assets that could affect the Balance Sheet.

We consider the risk applies to the valuation of the loan to 'This Land Ltd' and could result in a misstatement of assets reported in the Balance Sheet.

What is the risk?

This Land Limited was incorporated in June 2016. The principal activity of the Company is to act as a holding company and a commercial entity whilst the Group oversee the acquisition and development of land and property for subsequent sale. This Land Limited and the This Land Group are a wholly owned subsidiary of the Council.

As at 31 March 2022 the Council holds a Long-term Debtor of £113.9 million in the Balance Sheet in relation to the loans issued to This Land Ltd. The loans are repayable between 2026 and 2029.

The current volatility in the housing market could have an impact on the Council's ability to recover the loan in full from This Land Ltd on the repayment dates. Given the material size of the loan we have considered the recoverability of the loan as a significant risk.

We would expect the Council to perform a detailed valuation, in line with IFRS 9 - Financial Instruments, of the loan. Considering the recoverability of the loan and whether any expected credit losses should be recognised.

What will we do?

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

- ▶ Reviewing the Avison Young 'Shareholder Review of This Land' report commissioned by the Council and assessing the progress of any recommendations made in the report;
- ▶ Reviewing the Council's consideration of the valuation and recoverability of the loan to ensure this is reasonable and performed in line with the Code of Practice and the relevant accounting standard (IFRS 9 - Financial Instruments); and
- ▶ Engaging with EY Specialist Corporate Finance team, if required, to ensure that any judgements or estimates that support the valuation and recoverability have been accounted for in line with the Code of Practice and the relevant accounting standard.

Audit risks

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

What is the area of focus?

Valuation of Solar Farm Assets (Inherent Risk)

The Council owns one operational Solar Farm (Triangle Farm) and has one classified as an Asset Under Construction (North Angle). The value of the Solar Farms represent significant balances in the Council's financial statements. Given the complex nature of valuing a Solar Farm, our 2019/20 audit raised recommendations around engaging with a specialist valuer to provide support for the valuation estimate.

The current volatility in the energy market will have an impact on the power price forecasting, which would be a key judgements used in the valuation of the solar farms. The impact of this judgement will potentially be material. As the Council have not had the Solar Farm asset revalued since the 2019/20 financial year, further consideration is required as to why this asset is deemed to be held at a materially correct value.

What will we do?

Our approach will focus on:

- ▶ Reviewing management's assessment as to why the Solar Farm assets are considered to be held at a materially correct value;
- ▶ Considering the appropriateness of the valuation and classification of the new Solar Farm asset;
- ▶ Employing our internal valuation specialist to consider any changes since their review in 2019/20 of the solar farm valuation at the Balance Sheet date; and
- ▶ Reviewing and testing the accounting entries and disclosures made within the Council's financial statements in relation to Solar Farm asset.

Accounting for COVID-19 related government grants (Inherent Risk)

In response to the COVID-19 pandemic, the Council have received significant levels of grant funding, both to support the Council and to pass on to local businesses. Each of these grants will have distinct restrictions and conditions that will impact the accounting treatment of these

Given the volume of these grants, including new grants for 2021/22, with new conditions for the Council to understand the accounting impact of, there is an inherent risk that these may be misclassified in the financial statements or inappropriately treated from an accounting perspective.

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

- ▶ Consider the Council's judgement on material grants received in relation to whether it is acting as an agent or a principal; and
- ▶ Obtaining the finance team's detailed assessment of grant conditions to ensure the grants have been accounted for in line with the Code.

Other areas of audit focus (continued)

What is the area of focus?	What will we do?
<p>Accounting for City Deal Funding (inherent Risk)</p> <p>In 2020/21 Greater Cambridge Partnership were awarded the next tranche of funding for the City Deal. This amounts to £200 million over five years. The Council amended the accounting treatment for this grant within the audited 2020/21 accounts following our audit procedures and discussions.</p> <p>Given the accounting treatment has remained the same in 2021/22, we have lowered this risk to an inherent risk in 2021/22, given the material nature and complexity of the funding, to ensure that this approach remains appropriate to the conditions and requirements of the grant.</p>	<p>In order to address this risk we will carry out a range of procedures including:</p> <ul style="list-style-type: none"> ▶ Ensuring the consistency of accounting treatment with the internally consulted upon treatment in 2020/21; and ▶ Considering whether there have been any changes to the conditions and/or substance of the funding that would impact on accounting treatment.
<p>Pension Liability Valuation & other pension disclosures (Inherent Risk)</p> <p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body and the Fire Fighters Pension Scheme.</p> <p>The Council's Pension Scheme is a material and sensitive item and the Code requires that the liability be disclosed on the Council's Balance Sheet. Accounting for this scheme involves significant estimation and judgement.</p> <p>At 31 March 2022 the Net Pension Liability totalled £547 million. The information disclosed is based on the IAS 19 reports issued to the Council by the actuary to the administering body.</p> <p>ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>In order to address this risk we will carry out a range of procedures including:</p> <ul style="list-style-type: none"> ▶ Liaise with the auditors of Cambridgeshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Cambridgeshire County Council; ▶ Assess the work of the respective Pension Funds actuary (Hymans) including the assumptions they have used, by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all local government sector auditors, and by considering any relevant reviews by the EY actuarial team; and ▶ Review and test the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19 considering fund assets and the Authority's liability.

Other areas of audit focus (continued)

What is the area of focus?	What will we do?
<p>Group Accounts (Inherent Risk)</p> <p>The County Council is the sole and ultimate owner of all parts of the subsidiary 'This Land Ltd' Group. This is consolidated into the group accounts of the Council. we have raised this as an area of inherent risk, to ensure the consolidation process is robust and because we need to gain a number of assurances from the component auditor (RSM LLP) of This Land Ltd.</p>	<p>In order to address this risk we will carry out a range of procedures including:</p> <ul style="list-style-type: none"> ▶ Liaise with the auditors of the group entities to obtain assurances over the information supplied in the consolidation pack to Cambridgeshire County Council; ▶ Review the consolidation adjustments made by the Council; and ▶ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to the Group Accounts.
<p>Accounting for schools that convert to 'Academy' status (Inherent Risk)</p> <p>Schools continue to convert to academy status, albeit at a lower rate, given previous conversions. However, this continues to have implications for the treatment of the schools' balances in the financial statements, with the most significant relating to Property, Plant and Equipment, which are invariably material given the nature of the asset class.</p>	<p>In order to address this risk we will carry out a range of procedures including:</p> <ul style="list-style-type: none"> ▶ Review the arrangements for agreeing with the school assets, liabilities and balances for transfers; and ▶ Review how the transfers have been accounted for, including reconciling the Schools that have converted to academies during the year to the various systems including those that have been disposed of in the Fixed Asset Register during the year.
<p>Private Finance Initiative (PFI) (Inherent Risk)</p> <p>The Council operate three material PFI's which are long term private funded schemes.</p> <p>The Income, Expenditure and Balance Sheet accounting entries in the statement of accounts are based on complex PFI operating and finance models for each scheme. The models also provide the required disclosures of future projected payments.</p>	<p>In order to address this risk we will carry out a range of procedures including:</p> <ul style="list-style-type: none"> ▶ Performing testing to ensure that in year payments included in the PFI models are accurate and correctly accounted; ▶ Confirming consistency of the PFI models to the financial statements; and ▶ Comparing the PFI models to those we reviewed during 2018/19. Where changes have been identified we may be required to engage EY specialists to perform a review of the models.

Other areas of audit focus (continued)

What is the area of focus?

Going Concern

The financial landscape for the Council remains challenging and management will need to prepare a going concern assessment covering a period up to 12 months from the expected date of the financial statements authorisation. The Council will also need to make an appropriate disclosure in the financial statements. This requires consideration at both the Council and Group level.

What will we do?

We will consider the adequacy of the Council's going concern assessment and its disclosure in the accounts by:

- ▶ Challenging management's identification of events or conditions impacting going concern;
- ▶ Testing management's resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias);
- ▶ Reviewing the Council's cash flow forecast covering the foreseeable future, to ensure that it has sufficient liquidity to continue to operate as a going concern;
- ▶ Undertaking a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern;
- ▶ Challenging the disclosure made in the accounts in respect of going concern and any material uncertainties; and
- ▶ Ensure the financial position at This Land, including cash flows, budgets and any ongoing support required from the Council has been appropriately considered in the going concern assessment.

We will discuss the detailed implications of our review with management and provide management with feedback on the adequacy and sufficiency of the proposed disclosures in relation to going concern.



03

Value for Money Risks





Value for Money

Council's responsibilities for value for money

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

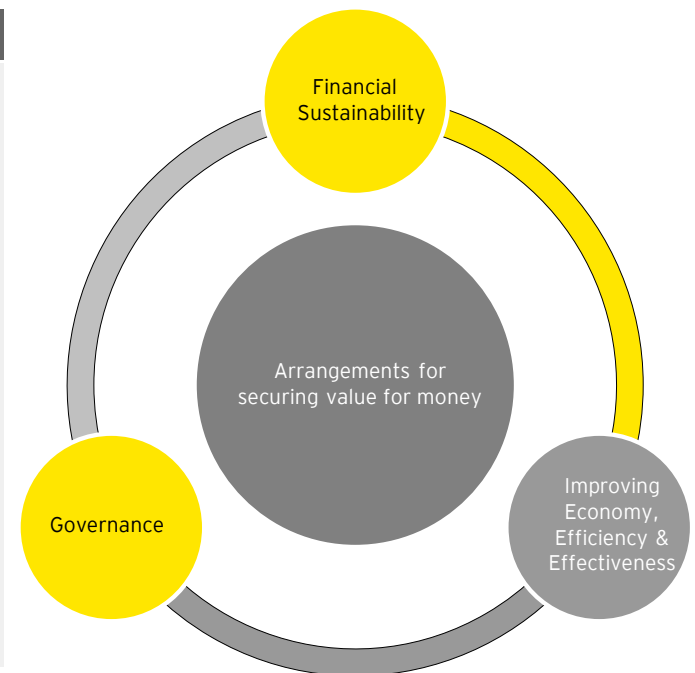
As part of the material published with the financial statements, the Council is required to bring together commentary on the governance framework and how this has operated during the period in a governance statement. In preparing the governance statement, the Council tailors the content to reflect its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

Auditor responsibilities

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

The specified reporting criteria are:

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





Value for Money

Planning and identifying risks of significant weakness in VFM arrangements

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

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

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

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

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

We should also be informed by a consideration of:

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



Value for Money

Responding to identified risks of significant weakness

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

Reporting on VFM

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

In addition, the Code requires us to include the commentary on arrangements in the Auditor's Annual Report. The Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Council's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

Status of our 2021/22 VFM planning

We have yet to complete our detailed VFM planning.

The predecessor audit has now recently concluded on their 2017/18 Value for Money Conclusion. Whilst we have commenced our 2018/19, 2019/20 and 2020/21 Value for Money work we have not yet concluded on that work.

We have not commenced our VFM risk assessment for 2021/22 at the time of this Provisional Audit Plan.

We are aware of the following issue which we will consider as part of our formal risk assessment:

- The Council has reported an overspend on the 2021/22 Dedicated Schools Grant (DSG) by £12.4 million, taking the cumulative deficit to £39.3 million carried forward to 2022/23. The Council continues to work with the Department for Education (DfE) to manage the deficit and reduce future expenditure.
- The Council is required to develop substantial plans setting out the high needs reforms and savings targets they must follow to eliminate their historic deficits and function sustainably in future. If sufficient progress is not demonstrated, payments may be withheld.

We will update a future Audit and Accounts Committee meeting on the outcome of our VFM planning and our planned response to any identified risks of significant weaknesses in arrangements.



04

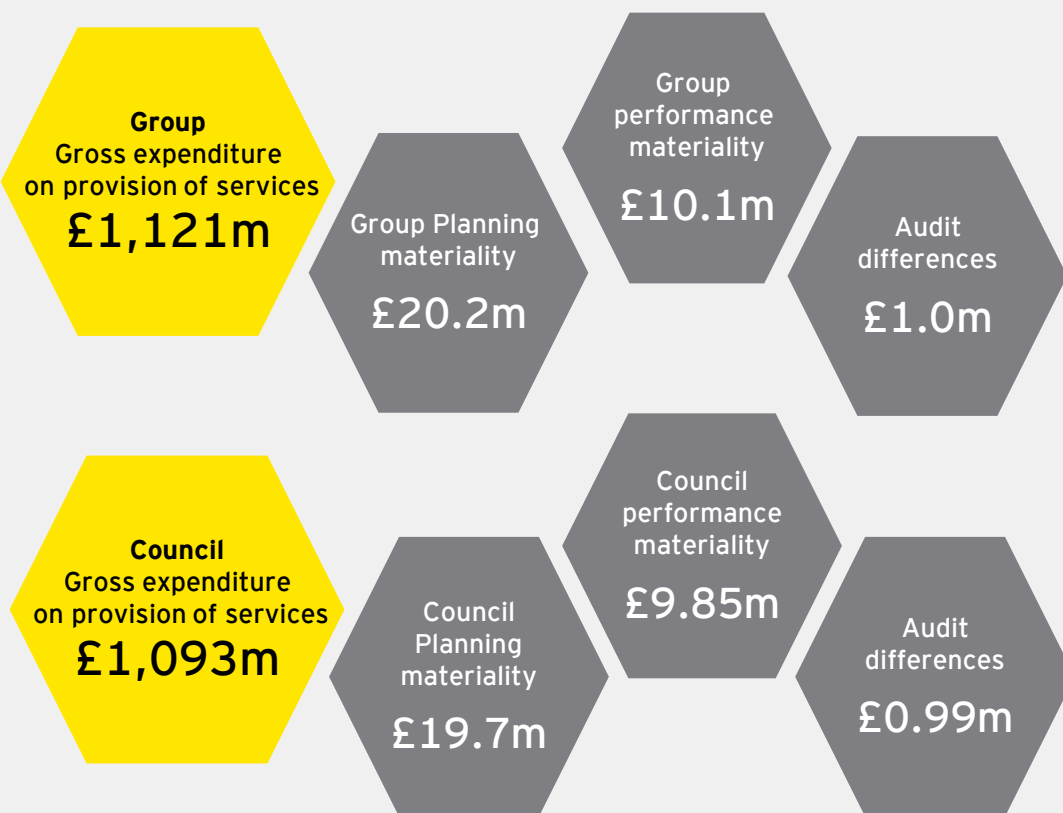
Audit materiality



Materiality

Materiality

For planning purposes, materiality for 2021/22 has been set at £20.2 million for the Group, and £19.7 million for the Council. This represents 1.8% of the Council and the Group's prior year gross expenditure on provision of services. It will be reassessed throughout the audit process. We consider that gross expenditure on the provision of services is the area of biggest interest to the users of the Council's accounts. We have provided supplemental information about audit materiality in Appendix C.



We request that the Audit and Accounts Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality - the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality - the amount we use to determine the extent of our audit procedures. We have set performance materiality at £10.1 million for the group and £9.85 million for the Council which represents 50% of planning materiality. This reflects the lower end of our threshold, due to the level of misstatements identified in prior audits.

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

Audit difference threshold - we propose that misstatements identified below these thresholds (Group and Council) are deemed clearly trivial. The same threshold for misstatements is used for component reporting. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, housing revenue account and collection fund that have an effect on income or that relate to other comprehensive income.

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

Specific materiality - see following slide.

Materiality

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

We also identify areas where misstatement at a lower level than our overall materiality level might influence the reader and develop an audit strategy specific to these areas, including:

- ▶ Remuneration disclosures including councillor allowances and exit packages: we will agree all disclosures back to source data, and councillor allowances to the agreed and approved amounts.
- ▶ Related party transactions: we will test the completeness of related party disclosures and the accuracy of all disclosures by checking back to supporting evidence.

This reflects our understanding that an amount less than our materiality would not influence the economic decisions of users of the financial statements in relation to these disclosures.



05

Scope of our audit



Our Audit Process and Strategy

Objective and Scope of our Audit scoping

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

We issue an audit report that covers:

1. Financial statement audit

Our opinion on the financial statements:

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

Our opinion on other matters:

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

Other procedures required by the Code:

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

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

As outlined in Section 03, we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources and report a commentary on those arrangements.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2021/22 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

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

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

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

Internal audit:

We will review internal audit plans and the results of their work. We will reflect on these when designing our overall audit approach and when developing our detailed testing strategy. We may also reflect relevant findings from their work in our reporting, where it raises issues that could have a material impact on the financial statements.

Scope of our audit

Scoping the group audit

Group scoping

Our audit strategy for performing an audit of an entity with multiple locations is risk based. We identify components as:

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

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

Scoping by Entity

Our preliminary audit scopes by number of locations we have adopted are set out below. We provide scope details for each component within Appendix A.

2	A	Full Scope: Cambridgeshire County Council, This Land Ltd
0	B	Specific scope audit
0	C	Review scope audits
0	D	Specified procedures
0	E	Other procedures

Scope definitions

Full scope: Entities where a full audit is performed to the materiality levels assigned by the Group audit team for purposes of the consolidated audit.

Specific scope: Entities where the audit is limited to specific accounts or disclosures identified by the Group audit team based on the size and/or risk profile of those accounts.

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

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

Other procedures: For those component entities that we do not consider material to the Group financial statements in terms of size relative to the Group and risk, we perform other procedures to confirm that there is no risk of material misstatement within those locations.

Scoping the group audit (continued)

Coverage of Expenditure

We set audit scopes for each reporting unit which, when taken together, enable us to form an opinion on the group accounts. We take into account the size, risk profile, changes in the business environment, and other factors when assessing the level of work to be performed at each reporting unit.

Based on the group's prior year results, our scoping is expected to achieve the following coverage of the group's net cost of service expenditure.

Expenditure

.....

100%

of the Group's expenditure will be covered by the full scope review audit of the Single Entity Council (98.4%) and This Land Ltd (1.6%)

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

Key changes in scope from last year

Based on our discussions with management and the provided scope assessment by the Council, and knowledge from the 2021/22 audit we anticipate one change in scope from prior year:

This Land Group: given public interest in the entity, and the risk within the entity we have increased the scope of this component from specific scope to full scope.

Other entities scoping remains unchanged:

The Council, as single entity, remains as a full scope audit.

Details of specific scope and other procedures

Auditing standards require us to be involved in the work of our component teams. We have listed our planned involvement below.

- We provide specific instruction to component team and our expectations regarding the detailed procedures;
- We set up initial meeting with component team to discuss the content of the group instructions;
- We will consider the need to perform a file review of component team's work where appropriate; and
- We will attend a closing meeting with component team to discuss their audit procedures and findings.



06

Audit team



Audit team

Audit team structure:

Mark Hodgson
Audit Partner

Dan Cooke
Senior Audit Manager

Jacob McHugh
Audit Manager

Claire Sulam
Assistant Manager

EY Real
Estates (EYRE)

PwC (consulting
actuary) and EY
Actuaries

Working together with the Council

We are working together with officers to identify continuing improvements in communication and processes for the 2021/22 audit.

We will continue to keep our audit approach under review to streamline it where possible.

Use of specialists

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

Area	Specialists
Pensions disclosure	EY Pension Team PWC - Consulting Actuary to the NAO Hymans Robertson - Actuary Cambridgeshire Pension Fund
Valuation of Land and Buildings & Investment Properties	Bruton Knowles (Council's PPE valuer) EY Real Estates (if required) EY Strategy & Transactions (for Solar Farm valuation considerations)
Financial Instruments	Link (Council's Treasury Management Adviser)
Private Finance Initiatives (PFI)	EY PFI Specialist

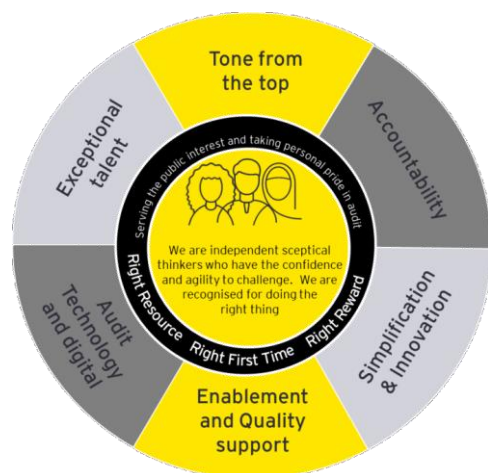
In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- ▶ Assess the reasonableness of the assumptions and methods used;
- ▶ Consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

Developing the right Audit Culture

In July 2021, EY established a UK Audit Board (UKAB) with a majority of independent Audit Non-Executives (ANEs). The UKAB will support our focus on delivering high-quality audits by strengthening governance and oversight over the culture of the audit business. This focus is critical given that audit quality starts with having the right culture embedded in the business.

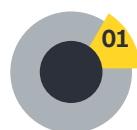


Our audit culture is the cement that binds together the building blocks and foundation of our audit strategy. We have been thoughtful in articulating a culture that is right for us: one that recognises we are part of a wider, global firm and is clear about whose interests our audits serve.

There are three elements underpinning our culture:

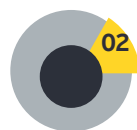
1. Our people are focused on a **common purpose**. It is vital we foster and nurture the values, attitudes and behaviours that lead our people to do the right thing.
2. The essential attributes of our audit business are:
 - ▶ **Right resources** – We team with competent people, investing in audit technology, methodology and support
 - ▶ **Right first time** – Our teams execute and review their work, consulting where required to meet the required standard
 - ▶ **Right reward** – We align our reward and recognition to reinforce the right behaviours

3. The six pillars of **Sustainable Audit Quality** are implemented.



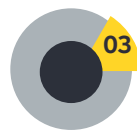
Tone at the top

The internal and external messages sent by EY leadership, including audit partners, set a clear tone at the top - they establish and encourage a commitment to audit quality



Exceptional talent

Specific initiatives support EY auditors in devoting time to perform quality work, including recruitment, retention, development and workload management



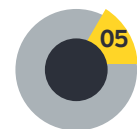
Accountability

The systems and processes in place help EY people take responsibility for carrying out high-quality work at all times, including their reward and recognition



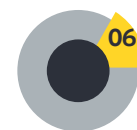
Audit technology and digital

The EY Digital Audit is evolving to set the standard for the digital-first way of approaching audit, combining leading-edge digital tools, stakeholder focus and a commitment to quality



Simplification and innovation

We are simplifying and standardising the approach used by EY auditors and embracing emerging technologies to improve the quality, consistency and efficiency of the audit



Enablement and quality support

How EY teams are internally supported to manage their responsibility to provide high audit quality

A critical part of this culture is that our people are **encouraged and empowered to challenge and exercise professional scepticism** across all our audits. However, we recognise that creating a culture requires more than just words from leaders. It has to be reflected in the lived experience of all our people each and every day enabling them to challenge themselves and the companies we audit.

Each year we complete an audit quality culture assessment to obtain feedback from our people on the values and behaviours they experience, and those they consider to be fundamental to our audit quality culture of the future. We action points that arise to ensure our culture continues to evolve appropriately.

2021 Audit Culture Survey result

A cultural health score of 78% (73%) was achieved for our UK Audit Business

We bring our culture alive by investing in three priority workstreams:

- Audit Culture with a focus on professional scepticism
- Adopting the digital audit
- Standardisation

This investment has led to a number of successful outputs covering training, tools, techniques and additional sources. Specific highlights include:

- Audit Purpose Barometer
- Active Scepticism Framework
- Increased access to external sector forecasts
- Forensic risk assessment pilots
- Refreshed PLOT training and support materials, including embedding in new hire and trainee courses
- Digital audit training for all ranks
- Increased hot file reviews and improved escalation processes
- New work programmes issued on auditing going concern, climate, impairment, expected credit losses, cashflow statements and conducting effective group oversight
- Development of bite size, available on demand, task specific tutorial videos

"A series of company collapses linked to unhealthy cultures.....have demonstrated why cultivating a healthy culture, underpinned by the right tone from the top, is fundamental to business success."

Sir John Thompson
Chief Executive of the FRC



07

Audit timeline





Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2021/22. From time to time matters may arise that require immediate communication with the Audit and Accounts Committee and we will discuss them with the Audit and Accounts Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Audit and Accounts Committee timetable	Deliverables
Planning: Risk assessment and setting of scopes.	July - August 2022	Audit and Accounts Committee - September meeting	Initial Audit Plan
Walkthrough of key systems and processes	September 2022		
Year end audit	September - November 2022	Audit and Accounts Committee	Audit Plan Update (if relevant to do so)
Audit Completion procedures	November 2022	Audit and Accounts Committee	Audit Results Report Audit opinion and completion certificates
	By February 2023	Audit and Accounts Committee	Auditor's Annual Report



08

Independence



Introduction

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

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. 	<ul style="list-style-type: none"> ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit/additional services provided and the fees charged in relation thereto; ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▶ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▶ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Mark Hodgson, your audit Engagement Partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we have an investment in the Council; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved.

When the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you. We do not plan to perform any non-audit work. No additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other communications

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.
There are no other threats at the date of this report.

EY Transparency Report 2021

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2021: https://www.ey.com/en_uk/about-us/transparency-report-2021



09

Appendices



Appendix A

Fees

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

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

	Planned fee 2021/22	Estimated Fee 2020/21
	£'s	£'s
Scale Fee - Code work	72,427	72,427
Scale Fee Variation (Note 1)	-	TBC
Baseline increase in Scale Fee from 2019/20 (Note 2)	69,783 (Note 2)	69,783 (Note 2)
Additional Audit Procedures specific to 2021/22 (Note 3)	TBC	-
Total audit	TBC	TBC

All fees exclude VAT

Note 1 - A Scale Fee Variation is to be submitted to PSAA Ltd for determination in respect of the 2020/21 audit, which incorporates the baseline increase (Note 2) and other additional audit procedures that were required to be able to issue the audit opinion, as reported in the Audit Results Report. We will notify the Chief Finance Officer of this amount before submitting it to PSAA Ltd for determination.

Note 2 - For 2021/22 the scale fee has again been re-assessed to take into account the same recurring risk factors as in 2019/20 and 2020/21 and is subject to determination by PSAA Ltd - subject to annual price uplifts.

Note 3 - For 2021/22, the scale fee will be impacted by a range of factors which will result in additional work, including some of those that were present in the prior year - such as the impact of COVID-19 and newly identified audit risks. See Section 2 of this report for further areas that are likely to lead to additional fees.

In addition, we are driving greater innovation in the audit through the use of technology. The significant investment costs in this global technology continue to rise as we seek to provide enhanced assurance and insight in the audit.

The agreed fee presented is based on the following assumptions:

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




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

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Appendix B




Required communications with the Audit and Accounts Committee

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

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Audit and Accounts Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Audit Plan - September 2022 - Audit and Accounts Committee
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit Results Report - November 2022 - Audit and Accounts Committee; and Auditor's Annual Report - February 2023 - Audit and Accounts Committee


Appendix B

Required communications with the Audit and Accounts Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	Audit Results Report - November 2022 - Audit and Accounts Committee
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management 	Audit Results Report - November 2022 - Audit and Accounts Committee
Subsequent events	<ul style="list-style-type: none"> ▶ Enquiries of the Audit and Accounts Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements 	Audit Results Report - November 2022 - Audit and Accounts Committee
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Audit and Accounts Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: <ul style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to Audit and Accounts Committee responsibility 	Audit Results Report - November 2022 - Audit and Accounts Committee



Appendix B

Required communications with the Audit and Accounts Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Related parties	<ul style="list-style-type: none"> ▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	Audit Results Report - November 2022 - Audit and Accounts Committee
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <p>Communication whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Audit Plan - September 2022 - Audit and Accounts Committee; and</p> <p>Audit Results Report - November 2022 - Audit and Accounts Committee</p>
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Audit Results Report - November 2022 - Audit and Accounts Committee
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the Audit and Accounts Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit and Accounts Committee may be aware of 	Audit Results Report - November 2022 - Audit and Accounts Committee

Appendix B

Required communications with the Audit and Accounts Committee (continued)

		Our Reporting to you
Required communications	 What is reported?	 When and where
Internal controls	<ul style="list-style-type: none"> Significant deficiencies in internal controls identified during the audit 	Audit Results Report - November 2022 - Audit and Accounts Committee
Group audits	<ul style="list-style-type: none"> An overview of the type of work to be performed on the financial information of the components An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements 	Audit Plan - September 2022 - Audit and Accounts Committee; and Audit Results Report - November 2022 - Audit and Accounts Committee
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report - November 2022 - Audit and Accounts Committee
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report - November 2022 - Audit and Accounts Committee
Auditors report	<ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor's report 	Audit Results Report - November 2022 - Audit and Accounts Committee Auditor's Annual Report - February 2023
Fee Reporting	<ul style="list-style-type: none"> Breakdown of fee information when the audit plan is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	Audit Plan - September 2022 - Audit and Accounts Committee; and Audit Results Report - November 2022 - Audit and Accounts Committee
Value for Money	<ul style="list-style-type: none"> Risks of significant weakness identified in planning work Commentary against specified reporting criteria on the VFM arrangements, including any exception report on significant weaknesses. 	Audit Plan - September 2022 - Audit and Accounts Committee; Audit Results Report - November 2022 - Audit and Accounts Committee Auditor's Annual Report - February 2023

Additional audit information

Objective of our audit

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

Our responsibilities in relation to the financial statement audit are set out in the formal terms of engagement between the PSAA's appointed auditors and audited bodies. We are responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of the Audit and Accounts Committee. The audit does not relieve management or the Audit and Accounts Committee of their responsibilities.

Other required procedures during the course of the audit

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

Our responsibilities required by auditing standards

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

Additional audit information (continued)

Other required procedures during the course of the audit (continued)

Procedures required by the Audit Code	<ul style="list-style-type: none">▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement.▶ Examining and reporting on the consistency of consolidation schedules or returns with the Council's audited financial statements for the relevant reporting period (WGA Return).
Other procedures	<ul style="list-style-type: none">▶ We are required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

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

Purpose and evaluation of materiality

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

Materiality determines the level of work performed on individual account balances and financial statement disclosures.

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

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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