

Norwich City Council

Audit Results Report

Year ended 31 March 2025

26 February 2026



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26 February 2026

Audit Committee
Norwich City Council
City Hall
St Peter's Street
Norwich
NR2 1NH

Dear Audit Committee Members

2024/25 Audit Results Report

We are pleased to present our Audit Results Report, which provides a summary of the current status of our audit in advance of the forthcoming meeting of the Audit Committee.

The Audit Results Report was initially issued to the Council on 19 February 2026 in preparation for the Audit Committee meeting scheduled for 23 February 2026. However, the Council chose not to present the report at that meeting. As a result, both the consideration of our Audit Results Report and the approval of the Council's 2024/25 financial statements have been deferred to the next Audit Committee meeting, which is scheduled to take place on 10 March 2026.

As you will be aware, the Government's Accounts and Audit (Amendment) Regulations 2024 introduced mandatory backstop dates for the publication of audited financial statements. For the year ended 31 March 2025, the statutory backstop date for completion of the audit is 27 February 2026. Because the Council deferred approval of its financial statements, we are unable to obtain the necessary approvals to complete our audit procedures and therefore cannot finalise our audit before the statutory deadline. We will provide a further update to the Audit Committee at its meeting on 10 March 2026, at which point we will report on progress and outline the remaining steps required to issue our final audit opinion.

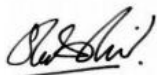
The audit is designed to express an opinion on the 2024/25 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on Norwich City Council's (the Council's) accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge, the exercise of professional judgement and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process.

The Audit Committee, as the Council's body charged with governance, has an essential role in ensuring that it has assurance over both the quality of the draft financial statements prepared by management and the Council's wider arrangements to support the delivery of a timely and efficient audit. We consider and report on the adequacy of the Council's external financial reporting arrangements and the effectiveness of the audit committee in fulfilling its role in those arrangements as part of our assessment of Value for Money arrangements; and consider the use of other statutory reporting powers to draw attention to weaknesses in those arrangements where we consider it necessary to do so. We draw Audit Committee members' and officers' attention to the Public Sector Audit Appointment Limited's Statement of Responsibilities (paragraphs 26-28) which clearly sets out what is expected of audited bodies in preparing their financial statements.

This report is intended solely for the information and use of the Audit 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 the contents of this report with you at the Audit Committee meeting on 10 March 2026.

Yours faithfully



Stephen Reid
Partner, For and on behalf of Ernst & Young LLP
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Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website (<https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits>)

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The “Terms of Appointment and further guidance (updated July 2021)” issued by the PSAA 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 Committee and management of Norwich City Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee and management of Norwich City 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 Committee and management of Norwich City 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 Executive Summary

Executive Summary – Context for the audit

Context for the audit - Measures to address local audit delays

Timely, high-quality financial reporting and audit of local bodies is a vital part of our democratic system. It supports good decision making by local bodies and ensures transparency and accountability to local taxpayers. There is general agreement that the backlog in the publication of audited financial statements by local bodies has grown to an unacceptable level and there is a clear recognition that all stakeholders in the sector need to work together to address this. Reasons for the backlog across the system have been widely reported and include:

- lack of capacity within the local authority financial accounting profession;
- increased complexity of reporting requirements within the sector;
- lack of capacity within audit firms with public sector experience; and
- increased regulatory pressure on auditors, which in turn has increased the scope and extent of audit procedures performed.

MHCLG worked collaboratively with the FRC and other system partners, to develop and implement measures to clear the backlog. The approach to addressing the backlog consists of three phases:

- Phase 1: Reset involving clearing the backlog of historic audit opinions up to and including financial year 2022/23 by 13 December 2024.
- Phase 2: Recovery from Phase 1, starting from 2023/24, in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles. The backstop date for the audit of the 2024/25 financial statements is 27 February 2026.
- Phase 3: Reform involving addressing systemic challenges in the system and embedding timely financial reporting and audit.

As reported in our 6 February 2025 Audit Results Report, we issued a disclaimer of opinion on the Council's 2023/24 financial statements under these arrangements to reset and recover local government audit. We also issued a disclaimer of opinion for the financial years 2021/22 and 2022/23. Whilst there have been some improvements in the financial statement and audit process in 2024/25, we have been unable to complete all planned audit procedures. When combined with the lack of assurance over the comparatives and opening balances, we are unable to conclude that the 2024/25 financial statements are free from material and pervasive misstatement. We therefore anticipate issuing a disclaimed 2024/25 audit opinion.

Appendix A sets out the current position of the Council in rebuilding to return to a position of full assurance on its financial statements. This is informed by the summary of the assurances we have gained from our 2023/24 and 2024/25 audit procedures, set out at Appendix B.

As EY's Head of UK Government and Public Sector Audit, I wrote to the Section 151 officer at the Council on 3 June 2025 to set out our current approach to Phase 2. In line with the Government's requirement to deliver audits to an earlier timetable in future years, and considering our available resource, we phased a large proportion of our audits to be finalised prior to 31 December 2025, with a smaller proportion extending through to February 2026. At the same time, we needed to remain mindful of the expectations on us to safeguard the timeliness of the audits in other priority sectors where we audit public funds - central government, the NHS and higher education. In respect of the delivery of 2024/25 audits, as in 2023/24, we therefore prioritised those audits that we considered to meet the following criteria:

- high-quality draft unaudited financial statements published by 1 July 2025;
- evidence that the relevant finance teams can effectively and efficiently support the audit process; and
- high-quality audit evidence and supporting information that is delivered in accordance with our agreed timetable and in advance of the commencement of the audit.

We have further considered the weaknesses in the Council's arrangements for external financial reporting as part of our Value for Money work. See Section 03 for further details.

Executive Summary – Context for the audit

Scope update

In our Audit Planning Report presented at the 13 May 2025 Audit Committee meeting and the addendum presented on 21 October 2025, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

- During the 2024/25 audit, management prioritised work on account balances where sufficient evidence could be obtained and acknowledged that adequate audit evidence could not be provided for certain areas – specifically creditors and debtors. As evidence for these balances was either unavailable or not capable of being appropriately supported, this represents a management-imposed limitation of scope.
- We also initially identified a risk of material misstatement relating to the payroll system implementation, due to concerns about the completeness of the data transfer and whether it had been carried out in line with policy. Following review, we confirmed that the work undertaken by the EY specialist team in 2023/24, alongside Council staff, provides sufficient assurance over the completeness of the data migration. No further audit work is therefore required in 2024/25, and this risk has been removed.

Following the identification of risks linked to the Council's subsidiary, Lion Homes, together with delays in publishing the 2024/25 draft financial statements, we have increased our client engagement risk assessment to 'higher'. As a result, a senior partner has been appointed as Partner in Charge of the audit, and planning materiality has been reduced accordingly.

Our previously reported Group planning materiality was £4.48 million, representing 2% of the 2023/24 gross expenditure on the provision of services, with performance materiality set at 50% (£2.24 million). Following the revised risk assessment, planning materiality was reduced to 1.5% of gross expenditure. Based on the published 2024/25 financial statements, this results in an applied Group planning materiality of £3.40 million. Performance materiality remains at 50% (£1.70 million). We continue to report to the committee all uncorrected misstatements relating to the primary statements above £0.17 million.

Status of the audit

Our audit procedures are currently undergoing review and as such the assurance levels set out in Appendix B are subject to change. In addition to the areas of review, we also have the following tasks to undertake:

- finalise remaining queries with the finance team;
- Receipt of a final, signed set of financial statements which includes amendments made for adjustments identified during the audit;
- receipt of a signed letter of representations; and
- review of post balance sheet events up to the date of our opinion.

Audit differences

- Management has corrected a number of disclosure misstatements, including those relating to sensitive notes where we would apply a lower materiality threshold. Schedules of corrected and uncorrected misstatements can be found in Section 05.

Executive Summary (cont'd)

Areas of audit focus

In our Audit Planning Report, we identified a number of key areas of focus for our audit of the financial statements of the Council. This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is explained within the 'Areas of Audit Focus' section of this report and summarised below.

Risk/area of focus	Risk identified	Details
Management override: Misstatement due to fraud or error	Fraud risk	Due to the matters identified on pages 9 and 11 we have been unable to complete all planned procedures in relation to this risk, including those related to estimates, unusual transactions, and any further procedures to address the heightened risk of fraud. See section 02 for more details.
Risk of fraud in expenditure recognition: Inappropriate capitalisation of revenue expenditure	Fraud Risk	We are currently concluding our audit procedures in relation to the capitalisation of revenue expenditure. See section 02 for more details.
Change in accounting policy - Minimum Revenue Provision	Fraud Risk	We are currently concluding our audit procedures in relation to the Minimum Revenue Provision. See section 02 for more details.
Implementation of IFRS 16: Leases	Significant risk	We are currently concluding our audit procedures in relation to the IFRS 16. See section 02 for more details.
Valuation of land and buildings and investment property	Risk of material misstatement	Due to the matters identified on pages 9, 11 and 16 in relation to property valuations we have been unable to complete all planned procedures in relation to this risk.
Group Accounts - Consolidation Procedures	Significant risk	Due to the matters identified on pages 9 and 17 we have been unable to complete all planned procedures in relation to this risk.
Pension Liability Valuation	Risk of material misstatement	We are currently concluding our audit procedures in relation to pension liability valuation. We identified that the prior period balances are misstated as no asset ceiling had been applied to the pension asset in prior periods. See section 02 for more details.

We request that you review these and other matters set out in this report to ensure:

- There are no further considerations or matters that could impact these issues.
- You concur with the resolution of the issue.
- There are no further significant issues you are aware of to be considered before the financial report is finalised.

There are no matters, other than those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee.

Executive Summary (cont'd)

Value for Money

In our Audit Planning Report presented to the 13 May 2025 Audit Committee meeting and the addendum presented on 21 October 2025, we reported that we had identified one risk of significant weakness arising from our risk assessment procedures. This risk related to whether the Council has adequate governance arrangements to establish, monitor and manage partnerships to ensure these do not impact negatively on the Council's objectives. We have reported a significant weakness in respect of this risk.

Having updated and completed the risk assessment and associated planned procedures, we have also identified a further weakness relating to the Council's arrangements for effective processes and systems to support statutory financial reporting requirements.

See Section 03 of the report for further details.

Other reporting issues

We reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to report as a result of this work. We have yet to complete the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts.

Control observations

During the audit, we identified 6 deficiencies in internal control. These are set out in Section 06 of this report.

Independence

Please refer to Section 8 for our update on Independence. We have not identified any issues to bring to your attention.

Factors impacting the execution of the audit

Management, and the Audit Committee, as the Council's body charged with governance, have an essential role in supporting the delivery of an efficient and effective audit. Our ability to complete the audit is dependent on the timely formulation of appropriately supported accounting judgements, provision of accurate and relevant supporting evidence, access to the finance team and management's responsiveness to issues identified during the audit.

The table over-page sets out our views on the effectiveness of the Council's arrangements to support external financial across a range of relevant measures.

We have been unable to undertake all planned procedures. This is likely to extend the timetable to recover assurance on the Council's financial statements. See Appendices A and B for further details.

Executive Summary (cont'd)

Factors impacting the execution of the audit

Area	Status			Explanation
	R	A	G	
Timeliness of the draft financial statements	Requires improvement			The financial statements were not published by the 30 June 2025 deadline set out in the Accounts and Audit Regulations. This was due to delays in finalising the group financial statements. The required Notice of Delay was issued and the financial statements were subsequently published on 26 September 2025.
Quality and completeness of the draft financial statements, narrative report and Annual Governance Statement	Effective			We identified a low number of non-material internal inconsistencies, disclosure, typographical and arithmetic errors in the draft Statement of Accounts, overall the draft financial statements were of a good quality. The Annual Governance Statement is materially consistent with the financial statements, and our knowledge gained from work on the corporate governance arrangements and any other knowledge of the Council.
Delivery of working papers in accordance with agreed client assistance schedule	Requires improvement			A number of key working papers were not provided in accordance with the agreed timetable or in a suitable format for sampling. The most significant of these were working papers relating to creditors, debtors, property, plant & equipment, other income and expenditure and the Housing Revenue Account expenditure.
Timeliness and quality of working papers and supporting evidence	Requires improvement			We identified issues across several working papers, including those relating to creditors, debtors, property, plant & equipment, other income and expenditure, housing revenue account expenditure and group disclosures. In particular, the creditors and debtors working papers did not meet the requirements set out in our working paper request, as they included significant opening and gross balances. Management acknowledges that further work is required in these areas.
Timeliness and quality of evidence supporting key accounting estimates	Requires improvement			We have not received adequate supporting evidence for the valuation of land and buildings within property, plant and equipment. In particular, the input data provided for the valuation was insufficient, which affected our ability to complete the planned audit procedures in this area. We also experienced delays in receiving the detailed working papers and supporting evidence for the NDR appeals provision. Working papers supporting the other key accounting estimates within the Statement of Accounts were provided in line with the agreed project plan.
Access to finance team and personnel to support the audit in accordance with agreed project plan	Effective			Members of the finance team have been accessible throughout the audit and have communicated and responded to requests promptly. We did experience some challenge when requesting supporting information from teams outside of the finance team.
Volume and value of identified misstatements, including disclosure misstatements.	Requires improvement			We have identified several misstatements which are included in Section 05 of this report.



02 Areas of Audit Focus

Areas of Audit Focus

Audit status

Management has engaged positively throughout the audit process. Both teams worked well under pressure, demonstrated strong cooperation, and have built a constructive and open working relationship. Despite an initial delay to the start of the audit, officers have remained committed to complete the audit within the timeframes allocated. During the 2024/25 audit, management prioritised work on account balances where sufficient evidence could be obtained and acknowledged that adequate audit evidence could not be provided for certain areas – specifically creditors and debtors. Appendix B presents the assurance ratings for the 2023/24 and 2024/25 balances.

During the 2024/25 audit, management actively participated in discussions regarding areas of the financial statements where sufficient audit evidence would not be available within the audit timeframe. This approach allowed EY and the Council to focus its resources on providing evidence for balances where it believed the required documentation could be delivered.

Given the ongoing challenges in auditing the financial statements (refer to page 9), we agreed with management to prioritise audit resources based on the likelihood that audit procedures could be completed. Examples of issues encountered were:

- Debtor and Creditor balances: listings did not meet the requirements set out in our working paper request, as they included significant opening balances and gross balances. In addition, officers did not understand the functionality within the Unit4 ERP system in order to provide the required listings of auditable balances. Management acknowledges that further work is required in these areas.
- Housing Revenue Account (HRA) Expense and other income and expenditure: We experienced delays in receiving cleansed and accurate transaction listings for sampling. For both HRA expenditure and other income and expenditure, multiple iterations and discussions were required before suitable listings were provided, which in turn delayed the sampling process. For HRA, the listings initially received had not been sufficiently reviewed or cleansed, which prevented us from selecting a reliable sample. It was only after additional intervention from the finance team that a suitably cleansed listing was produced, giving us the necessary assurance to proceed with sampling. Following these initial delays, and further delays in providing the required support, management were ultimately unable to facilitate completion of the audit procedures ahead of the backstop.
- Property, Plant and Equipment (PPE) Valuations: There have been numerous initial queries arising from our work reconciling the Fixed Asset Register (FAR) to the property, plant and equipment note. In addition, we noted discrepancies that occurred because the disclosure table had been prepared before the FAR revaluation dates were finalised, resulting in the note 14 table needing to be re-worked. Furthermore, we were unable to complete our planned audit procedures over the work performed by the Council's valuer due to significant issues arising during the input-testing phase, including delays in obtaining essential evidence. Although some responses were provided, further clarification and additional evidence would have been required to conclude the work.
- NDR Appeals Provision: We experienced significant delays in this area. The team member responsible for this area was new to the role and had limited familiarity with the process and the data requirements, which resulted in incomplete and, in some cases, inaccurate information being provided. We facilitated several discussions to clarify the required data, challenged management's assumptions, and identified errors and discrepancies within both the provision calculations and the supporting information.

Areas of Audit Focus (cont'd)

Fraud Risk

Presumptive risk of management override of controls:
Misstatements due to fraud or error

What is the risk, and the key judgements and estimates?

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

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

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

What are our conclusions

We obtained and considered responses to our fraud enquiries from management and those charged with governance and updated our understanding of the Council's environment.

We performed testing of the Council's related parties' disclosures. This work remains subject to review.

We have, however, been unable to complete all planned procedures in this area due to the matters identified on pages 9 and 11, and we are unable to conclude on whether there is management bias in journal entries, the key accounting estimates or in management's judgments.

Our response to key areas of challenge and professional judgement

In response to this risk, we undertook the following procedures:

- We made inquiries of management regarding fraud risks and the controls implemented to address those risks.
- We obtained an understanding of the oversight exercised by those charged with governance over management's fraud-related processes.
- We discussed with those charged with governance the fraud risks relevant to the entity, including risks specific to its business sector and those arising from economic, industry and operational conditions.
- We considered the presence of fraud risk factors relating to related-party relationships and transactions and assessed whether these gave rise to risks of material misstatement due to fraud.
- We evaluated the effectiveness of management's controls designed to mitigate the risk of fraud.
- We determined an appropriate audit strategy to address the identified fraud risks.
- We performed mandatory audit procedures, regardless of whether specific fraud risks were identified, including testing journal entries and other adjustments made in preparing the financial statements.
- We performed procedures to identify significant unusual transactions.
- We assessed whether there was evidence of management bias in key accounting estimates and judgments.

Areas of Audit Focus (cont'd)

Fraud Risk

Risk of fraud in expenditure recognition: Inappropriate capitalisation of revenue expenditure

What is the risk, and the key judgements and estimates?

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

We have assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure, including expenditure being classified as revenue expenditure financed as capital under statute (REFCUS) when inappropriate to do so.

If this were to happen it would have the impact of understating revenue expenditure and overstating Property, Plant and Equipment (PPE)/Investment Property (IP) additions and/or REFCUS in the financial statements.

What are our conclusions?

We have completed our testing, and work is currently undergoing review. Subject to these review procedures we will have no matters to bring to report.

Our response to the key areas of challenge and professional judgement

In response to this risk, we undertook the following procedures:

- We tested additions to Property, Plant and Equipment (PPE) and Investment Property (IP) to confirm that the expenditure incurred and capitalised was clearly capital in nature.
- We assessed whether the capitalised expenditure enhanced or extended the useful life of the asset, rather than representing repairs or maintenance.
- We evaluated whether development and related costs that had been capitalised were reasonable, ensuring that the costs were directly attributable to bringing the asset into operational use.
- We considered the need to test REFCUS, where material, to ensure that revenue expenditure financed from ring-fenced capital resources was appropriate.
- We identified and reviewed any significant year-end journals that transferred expenditure from revenue to capital codes in the general ledger, to understand the basis and appropriateness of such transfers.

Areas of Audit Focus (cont'd)

Fraud Risk

Misstatement due to fraud or error : Change in accounting policy – Minimum Revenue Provision

What is the risk, and the key judgements and estimates?

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.

The Council has reviewed and updated its minimum revenue provision (MRP) accounting policy in 2023/24. The changes to the policy will reduce the amount of MRP charged annually to the general fund. We have assessed this change as an area where there may be misstatement of revenue due to improper revenue recognition.

What are our conclusions?

We have performed a reconciliation of the Capital Financing Requirement (CFR) and understood the elements that make up the annual MRP charge. We have assessed the Council's policy with the appropriate regulations. We are currently concluding our audit procedures in relation to the Minimum Revenue Provision. We will provide an update to Members at the Audit Committee.

Our response to the key areas of challenge and professional judgement

In response to this risk, we undertook the following procedures:

- We tested the application of the Minimum Revenue Provision (MRP) to confirm that the Council's calculation complied with the statutory guidance.
- We re-performed the MRP calculation to verify its accuracy.
- We reviewed any capital receipts included in the MRP calculation, assessing whether their use was consistent with the requirements of the Prudential Code.

Areas of Audit Focus (cont'd)

Significant Risk

IFRS 16 Implementation

What is the risk, and the key judgements and estimates?

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

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

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

The Council performed an initial impact assessment in 2023/24 and expected to recognise a right of use (ROU) asset. There was no value disclosed in the 2023/24 accounts however based on our inspection of operating leases disclosed, the lease value will be material to our responsibilities. We have therefore included the implementation of IFRS 16 as a new significant risk.

Our response to the key areas of challenge and professional judgement

In response to this risk, we undertook the following procedures:

- Reviewed the IFRS 16 disclosure requirements in accordance with the CIPFA Code of Practice.
- Reviewed management's IFRS 16 accounting policies, including the application of the portfolio approach, the low-value asset threshold, and the use of practical expedients for non-lease components, to confirm these had been applied consistently and appropriately
- We obtained and reviewed the work of the Council's appointed expert and performed sample testing of lease inputs, including verification of the lease term, commencement date, rental amounts and the discount rate applied, to ensure accuracy and appropriateness of the data used in the IFRS 16 calculations.
- Verified that the Council had applied the transitional arrangements correctly and that recognition and measurement under IFRS 16 had been performed appropriately.
- Confirmed the discount rate used in calculating the ROU asset and lease liability and assessed its reasonableness with reference to supporting documentation and relevant benchmarks.
- Obtained assurance over the lease liability and ROU assets recognised in the 2024/25 financial statements through recalculation procedures, and inspection of supporting evidence.
- Verified lease liability movements by agreeing them to actual payment activity to confirm that the accounting treatment appropriately reflected the underlying cash flows.
- Considered the accounting treatment of below-market leases, including peppercorn and nil-consideration arrangements, and assessed whether adjustments were required to reflect the appropriate cost of the ROU assets at the balance sheet date.
- Verified whether any impairment of right-of-use (ROU) assets was required.

What are our conclusions?

We have completed our testing, and work is currently undergoing review.

To date, we have identified disclosure amendments to notes 1, 14, 36 and 37. Management has adjusted the disclosures in the financial statements.

Areas of Audit Focus (cont'd)

Significant Risk

Valuation of land and property

What is the risk, and the key judgements and estimates?

The fair value of Property, Plant and Equipment (PPE) represents a significant balance in the Council's financial statements and is subject to valuation changes, impairment reviews and depreciation charges.

At 31 March 2025, the net book value of PPE and IP were £1,079.20 million and £96.04 million respectively. We note that within PPE, our focus is on Land and Buildings.

Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the Balance Sheet.

What are our conclusions?

We were unable to complete our planned audit procedures over the work performed by the Council's valuer. Significant issues emerged during the input-testing phase, where we experienced delays in obtaining essential evidence from the valuer. Although responses were received to some of these queries, further clarification and additional evidence would have been required to conclude the work.

Given the statutory 27 February 2026 backstop date, we do not have sufficient time remaining to resolve these outstanding matters and finalise the valuation testing. The unresolved valuation work will therefore form part of the rebuilding of assurance process in subsequent audit cycles.

Our response to the key areas of challenge and professional judgement

In response to this risk, we undertook the following procedures:

- Considered the work performed by the valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample tested key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre); and
- Considered the annual cycle of valuations to ensure that assets have been valued within a 5-year rolling programme as required by the Code for PPE. We have also considered if there were any specific changes to assets that have occurred and that these have been communicated to the valuer.

However, due to issues outlined below we were not able to complete all of our planned procedures including finalising our sample testing and also the following from our Audit Planning Report:

- Review assets not subject to valuation in 2024/2025 to confirm that the remaining asset base is not materially misstated;
- Consider changes to useful economic lives as a result of the most recent valuation;
- Test accounting entries have been correctly processed in the financial statements; and
- Review Financial Statement disclosures to ensure that adequate disclosures have been made in relation to estimation uncertainty.

Areas of Audit Focus (cont'd)

Significant Risk

Group Accounting - Consolidation Procedures

What is the risk, and the key judgements and estimates?

We were unable to obtain assurance over the group statements as the component auditor has not reported to us on Lion Homes Ltd. We also did not have assurance over the opening group balances, and therefore we did not have assurance over the group statements.

The Council will need to undertake its annual assessment of the group boundary to determine the procedures it needs to undertake to consolidate the relevant component entities.

Update:

A financial sustainability risk has been identified concerning the council's wholly owned subsidiary, Lion Homes Ltd. The Council has significant long term debtor balances, arising from loans issued to the subsidiary. There is a risk that some of these balances may not be recoverable.

In addition, material errors have been identified in the draft financial information for Lion Homes Ltd, that were consolidated into the Council's 2023/24 financial statements. This will require a prior period adjustment in the Council's 2024/25 financial statements.

What are our conclusions?

We have been unable to complete our planned procedures in this area due to following reasons:

- Lion Homes (Norwich) Ltd is currently undergoing a Member Voluntary Liquidation process. The Company's financial statements for 2023/24 have not been audited and filed. The 2024-25 financial statements have not yet been prepared. As a result, no subsidiary auditor reporting was prepared for 2024/25. The company has therefore been consolidated into the Group financial statements on a break-up basis, and we are unable to obtain assurance over the subsidiary's financial information.
- We have not received the Norwich City Services Limited (NCSL) subsidiary auditor's Group reporting pack as they have not concluded their work on the subsidiary's financial statements. Therefore, we are unable to gain assurance over the group financial statements.

From the work we have completed:

- The Council has appropriately assessed the recoverability and subsequently impaired balances owed by Lion Homes Ltd to the Council.
- Material errors have been identified in the draft financial information for Lion Homes Ltd, that were consolidated into the Council's 2023/24 financial statements. This has led to a prior period adjustment in the Council's 2024/25 financial statements.

Our response to the key areas of challenge and professional judgement

In response to this risk, we undertook the following procedures:

- Reviewed the Council's assessment of its group boundary;
- Considered the need to liaise with the component auditors to understand any risks that they are recognising and issue Group Instructions as necessary; and
- Evaluated any risks at component level on the group accounts.

However, due to issues outlined below we could not complete the following planned procedures:

- Issue instructions to the component auditors we intend to place reliance on;
- Review audit procedures performed by the component auditor; and
- Audit the consolidation process and group accounts.

Areas of Audit Focus (cont'd)

Other area of focus

Pension liability valuation (Risk of Material Misstatement)

What is the risk, and the key judgements and estimates?

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by the Council.

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2024 this totalled £2.8 million.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary.

The Council prepaid £15.24 million in April 2023 pension deficit payments for financial years 2023/24, 2024/25 and 2025/26 to benefit from a 4.3% discount in doing so.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Our response to key areas of challenge and professional judgement

In response to this risk, we undertook the following procedures:

- We liaised with the auditor of the Norfolk Pension Fund to obtain assurance over the information provided to the actuary in respect of the Council.
- We assessed the work of the pension fund actuary, including the assumptions used, by drawing on the work of PwC-Consulting Actuaries commissioned by the National Audit Office for all local government auditors, and by considering relevant reviews performed by the EY actuarial team.
- We assessed whether any pension asset was recognised in accordance with IAS 19 and IFRIC 14 and aligned with our understanding of the Local Government Pension Scheme.
- Engaged EY specialists to assess the Council's asset ceiling calculations.
- We reviewed and tested the accounting entries and disclosures within the Council's financial statements to ensure compliance with IAS 19.

What are our conclusions?

We note that in 2023/24, the Council did not request an asset ceiling adjustment, therefore the balances in these financial statements (upon which we disclaimed our audit opinion) may contain a material misstatement. Consequently, management obtained an updated asset ceiling report from the actuary highlighting that the defined pension liability is overstated by £35.1 million. We have included this misstatement in the basis for disclaimer within our audit opinion, and within section 05 of this report.

Areas of Audit Focus (cont'd)

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Authority's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Scope of the consolidation, including any exclusion criteria applied to non-consolidated entities if any and whether they are in accordance with the financial reporting framework;
- Significant difficulties, if any, encountered during the audit;
- Significant matters, if any, arising from the audit that were discussed with management;
- Matters regarding management's process for identifying and responding to the risks of fraud in the entity;
- Disagreements with management, if any arising during the audit;
- Other matters if any, significant to the oversight of the financial reporting process, including the strengths and weaknesses of the finance function and the quality of the financial statement preparation process;
- Related parties;
- Going concern;
- External confirmations;
- Consideration of laws and regulations;
- Group audits; and
- Use of auditor's external specialists.

We have no further matters, other than those identified elsewhere in this report, to bring to your attention.



03 Value for Money

Value for Money

The Authority's responsibility for Value for Money (VFM)

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 its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Authority tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the NAO Code of Audit Practice. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Risk assessment and status of our work

We are required to consider whether the Council has made 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

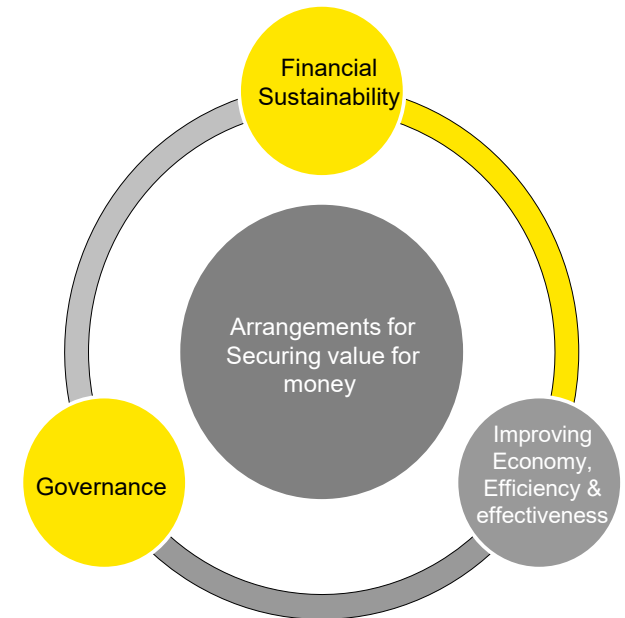
Our value for money planning and the associated risk assessment is focused on gathering sufficient evidence to enable us to document our evaluation of the Council's arrangements, and to enable us to draft a commentary under three reporting criteria (see below). This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.

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

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

In our Audit Planning Report presented to the 13 May 2025 Audit Committee meeting and the addendum presented on 21 October 2025, we reported that we had identified a risk of significant weakness arising from our risk assessment procedures. This risk related to whether the Council has adequate governance arrangements to establish, monitor and manage partnerships to ensure these do not impact negatively on the Council's objectives. We have reported a significant weakness in respect of this risk.

Having updated and completed the risk assessment and associated planned procedures, we have also identified a further weakness relating to the Council's arrangements for effective processes and systems to support statutory financial reporting requirements.



Value for Money risks of significant weakness (cont'd)

Risk of significant weakness in VFM arrangements

What is the risk of significant weakness?	What arrangements did this impact?	What did we do?
<p>Arrangements over the solely owned subsidiary company - Lion Homes Limited.</p> <p>During the 2024/25 statutory audit we were made aware of increased risk concerning the financial sustainability of Lion Homes Limited, a subsidiary company of the Council.</p> <p>The Council is the sole shareholder of Lion Homes Limited which was incorporated in 2015. Management are considering the options for the future of the company.</p>	<p>Governance</p> <p>Improving economy, efficiency and effectiveness</p>	<p>We have :</p> <ul style="list-style-type: none"> Ascertained if there are documented governance arrangements to monitor the performance and related risks for the Council's Companies. Tested compliance with the documented arrangements and determined what partnership-related governance arrangements are in place for Lion Homes Ltd if there is no over-arching policy/procedure. Documented whether and how subsidiaries related risks are reflected in the Council's risk management arrangements and used to inform decision making.

Findings

The Council did not have in place adequate policies, procedures or governance oversight of its part, or wholly, owned companies. This lack of oversight resulted in Council Members and Officers being unaware of inappropriate operating procedures and challenges at one of its subsidiaries. This meant that the Council was unable to consider these, or the associated risks, in Council decision-making. Furthermore, on incorporation, the subsidiary was established with Articles of Association which did not appropriately include sufficient requirements to interact with the Council. Whilst the subsidiary had a Board of Directors and the Council had a Shareholder Panel committee, their terms of reference provided for minimal interaction with the Council and there was no further Council guidance regarding reporting, governance or decision-making processes. This resulted in the subsidiary operating independently, with no mandatory requirement to report to the Council; and financial issues at the subsidiary were not identified by the Council in a timely manner, preventing effective intervention and exposing the Council and local taxpayers to increased risk of financial loss. Where issues have been experienced, the directors of the subsidiary had the power to report issues to the Council at their discretion and, since there were no established policies, there was no breach of procedure if they chose not to do so. The absence of structured oversight and clear directives significantly contributed to the challenges faced by this subsidiary, ultimately leading to the company entering a member voluntary liquidation process and subsequent reintegration into the Council.

In response to the financial issues identified at the subsidiary, the Council commissioned external support in October 2024 to assess the level of financial risk to which the Council was exposed. As a result of this review, the Council paused activity at the company and raised concerns as to whether its business plan was viable. In July 2025, Cabinet approved a member voluntary liquidation of the company.

Review of the Council's constitution, identified that not all subsidiaries have been included with only one referenced; nor is there any consideration given to potential future arrangements that the Council may wish to explore. Terms of reference for committees and boards only pertain to those committees within the Council and there is no provision determining: the reporting responsibilities of a subsidiary; how a subsidiary shall report to the Council; or how the Council communicates with the subsidiary. This means that subsidiaries have been left to govern themselves independently and report to the Council at their own discretion. The Council has been exposed to risks of poor decision making and has been unable to exercise governance, adequately support, or monitor the activities of, its subsidiaries. Addressing these failure is critical for introducing and maintaining robust governance practices that reduces the exposure to risks for the Council and taxpayers.

Conclusion: This is evidence of significant weaknesses in proper arrangements that the Council does not have effective oversight of subsidiaries or to deliver its role with significant partnerships, monitor performance against expectations or ensure action is taken where necessary to improve.

Recommendation: The Council should update its constitution to make provision for effective governance and management of any companies in which it has an interest, to provide comprehensive oversight of governance guidelines for all subsidiaries and explicitly reference where these policies can be found.

Value for Money risks of significant weakness (cont'd)

Other significant weakness

In the course of our work on the 2024/25 audit, we have identified one other significant weakness in the Council's arrangements that was not originally identified as a risk. We have set out our findings below

Findings	What arrangements did this impact?	Conclusion and Recommendation
<p>Timely financial reporting</p> <p>The financial statements were not published by the 30 June 2025 deadline set out in the Accounts and Audit Regulations. This was due to delays in finalising the Group financial statements. The required Notice of Delay was issued, and the financial statements were subsequently published on 26 September 2025.</p> <p>A number of key working papers were not provided in accordance with the agreed timetable or in a suitable format for sampling. The most significant of these were working papers relating to creditors, debtors, property, plant & equipment, other income and expenditure and the Housing Revenue Account expenditure. In particular, the creditors and debtors working papers did not meet the requirements set out in our working paper request, as they included significant opening and gross balances. Management acknowledges that further work is required in these areas.</p> <p>We have not received adequate supporting evidence for the valuation of land and buildings within property, plant and equipment. In particular, the input data provided for the valuation was insufficient, and responses to our queries were not provided in a timely fashion. This affected our ability to complete the planned audit procedures in this area. We also experienced delays in receiving the detailed working papers and supporting evidence for the NDR appeals provision. Working papers supporting the other key accounting estimates within the Statement of Accounts were provided in line with the agreed project plan.</p>	<p>Governance</p>	<p>Conclusion: This issue is evidence of significant weaknesses in proper arrangements that the Council does not have effective processes and systems in place to support its statutory financial reporting requirements.</p> <p>Recommendation: To meet its objectives and the requirements of the Audit and Accounts Regulations the Council needs to:</p> <ul style="list-style-type: none"> ▪ continue to re-assess roles, responsibilities and resource requirements for financial reporting; and ▪ take action to ensure that sufficient and appropriate audit evidence is available in relation to transactions in the financial statements.

Value for Money (cont'd)

Non-compliance with laws and regulations

As external auditor, we have specific responsibilities to consider the implications of any suspected or actual non-compliance with laws and regulations. During 2024/25, there was one instance of non-compliance for which we performed procedures.

In performing these procedures, we consider the implications of non-compliance matters on the financial statements and the Council's arrangements for securing value for money. We have identified weaknesses in the Council's governance arrangements.

In addition to the findings that have been listed on page 22, we have identified the following:

- Officers did not inform us of the matter in a timely fashion. Actions were taken internally to investigate the matter from October 2024, however, EY were not informed until May 2025. The delays experienced were due to officers taking steps to understand the complexity and seriousness of the matter, however the time taken to do this, exceeds an acceptable interval. In Appendix F to this report, we have provided summary information to remind officers of their, and our, responsibilities relating to suspected or actual non-compliance with laws and regulations. We also note that a lack of appropriation action initially was exacerbated by disruption in two of the key roles, s151 Officer and Monitoring Officer, with both being new in post when this matter was emerging.
- Although the Council has engaged outside specialists to support in their investigation process, we have identified the following weaknesses in their process:
 - The Council was slow to recognise the significance of this issue;
 - The Council do not maintain formal whistleblowing logs; and
 - There were elements of the investigation that were only considered following audit challenge.

We do not consider this to be a significant weakness, but we do consider this issue is evidence of weaknesses in proper arrangements for governance, in particular:

- how the body demonstrates that it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency; and
- how the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour.

Further to the recommendation made on page 22, we are recommending the following:

- The Council should ensure that appropriate individuals are aware of their responsibilities to report suspected or actual non-compliance with laws and regulations.
- The Council should maintain formal whistleblowing logs.
- The Council should perform a lessons learned of both the matters that led to the investigations, but also of their response, and put in place appropriate arrangements for dealing with such matters in the future.



04 Audit Report

Audit Report

Draft audit report

As a result of the 2023/24 disclaimed audit report, we do not have assurance over the brought forward balances from that year (the opening balances). This means we do not have assurance over 2024/25 in-year movements and some closing balances. We also do not have assurance over comparative amounts disclosed in the financial statements and did not plan to rebuild assurance in our 2024/25 audit.

As set out within this report we have also not been able to complete our planned programme of work to obtain sufficient evidence to have reasonable assurance over all closing balances and in-year transactions. The lack of evidence over these movements and balances mean we are unable to conclude that the 2024/25 financial statements are free from material and pervasive misstatement of the financial statements.

We therefore anticipate issuing a disclaimed 2024/25 audit opinion.

The form and content of the opinion will be shared with Management.



05 Audit Differences

Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as 'known' or 'judgemental'. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

We highlight the following misstatements which have been corrected by Management that were identified during the course of our audit:

- Factual misstatements:
 - Our audit procedures identified an audit difference of £2.5 million because of pension fund asset value re-measurement.

Summary of adjusted disclosure differences

- Narrative report
 - The Narrative Report contains several inconsistencies where figures and dates do not agree with other sections of the financial statements, including mismatches in the capital programme, personal debt, Cabinet report date, Net Assets, and Collection Fund disclosures.
- Note 14 - Property Plant and Equipment
 - A disclosure misstatement of £5.0 million was identified within the Valuation Cycle disclosures in Note 14, relating to Other Land and Buildings (OLB). The 2024/25 figure was overstated and the 2023/24 figure understated due to amounts being mapped to the incorrect year.
 - The PPE disclosure note showed the balance of £5.9 million of right of use assets recognised on implementation of the IFRS 16 amendments as in-year additions. This should have been represented as an adjustment to opening balances.
 - Reclassification of £2.0 million between 'Assets Reclassified (to) / from Held for Sale' and 'Other Movements in Cost or Valuation'.
- Note 16 - Investment Properties
 - The IFRS 16-related fair value movement of £3.1 million had not been separately identified, requiring an adjustment to the existing fair value adjustments figure from £4.4 million to £1.3 million.
- Note 18 - Financial Instruments
 - Note required revision to present the IFRS 16 lease liabilities separately within both the short-term and long-term; to transfer the relevant amounts currently included within 'liabilities not defined as financial liabilities' so that the remaining balances in that category reflect only non-IFRS 16 items:
 - Short term financial liabilities: Reducing from £27.3 million to £24.9 million, a difference of £2.4 million relating to IFRS 16 lease liabilities
 - Long term financial liabilities: Reducing from £6.8 million to £0.4 million, a difference of £6.4 million relating to IFRS 16 lease liabilities

Audit Differences (cont'd)

Summary of adjusted disclosure differences continued

- Note 21 - Inventories
 - The addition and disposal of the Dibden Road asset were not included in the inventory, despite the property being both acquired and disposed of within the year. This has resulted in an understatement of £1.2 million in both additions and disposals for inventories in 2024/25.
- Note 25 Unusable Reserves - Capital Adjustment Account
 - The opening balance for 2024/25 was incorrect because of amendments being incorrectly applied to the 2023/24 closing balance.
 - Further adjustments were required to the opening balance following an amendment made to the Opening Capital Financing Requirement as the fair value of investment property was not included (£3 million).
 - 'Movements in the market value of investment properties debited or credited to the Comprehensive Income & Expenditure Statement' required amendment from £4.3 million to £1.3 million, reflecting a £3.0 million adjustment for IFRS 16 valuation.
- Note 32 - Officers remuneration
 - The disclosure note was incomplete and did not fully comply with the Code requirements. Specifically, the start and end dates for senior officers were not clearly disclosed.
- Note 36 - Capital Financing Requirement
 - The 'Other capital movement: IFRS 16 on adoption' amount of £9 million was omitted from the 'Adjustment to the opening balance due to the implementation of IFRS 16' line as part of the opening CFR adjustment.
- Note 37 - Leases
 - Our review of the Council's lease disclosures highlighted the need for:
 - clearer signposting to the related Right-of-Use asset table;
 - confirmation whether disclosures appropriately exclude transactions relating to investment properties in line with Note 12 and Note 16; and
 - correction of typographical errors.
- Note 40 - Defined Benefit Pension Schemes
 - Under the heading "Movement in Reserves" and within the line "Employer's pension contributions and direct payments to pensioners payable in the year," the draft accounts report no amount. However, an amount of £10.1 million should have been disclosed in this line.
 - Related disclosures required updating to reflect the impact of the new IAS 19 report, which applied an amended pension asset ceiling for 2024/25.

Audit Differences (cont'd)

Summary of unadjusted differences

Below we highlight the following misstatements which have not been corrected by management. We ask that the Audit Committee request of management that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the Audit Committee and provided within the Letter of Representation:

Uncorrected misstatements 31 March 2025 (Currency'000)	Effect on the current period		Net assets (Decrease)/Increase			
	OCI	Income statement	Assets current	Assets non-current	Liabilities current	Liabilities non-current
Errors	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)	Debit/(Credit)
Known differences:						
Understatement of expenditure due to the omission of an accrual		646,478			(646,478)	
Overstatement of Council Dwellings depreciation, which was written out on revaluation	201,706	(201,706)				
Understatement of Housing Benefit expenditure		626,577			(626,577)	
Understatement of Housing Benefit income		(304,659)	304,659			
Balance sheet totals	201,706		304,659		(1,273,055)	
Cumulative effect of uncorrected misstatements before turnaround effect		766,690				
Turnaround effect. See Note 1		(526,332)				
Cumulative effect of uncorrected misstatements, after turnaround effect		240,358				

Note 1: in the course of the audit, we identified an invoice posted to rent and rates, in respect of water that should have been included in 2023/24. We have reflected this error as an unadjusted misstatement impacting the prior year and show the impact of this error as a turnaround misstatement for 2024/25.

Overleaf we have included unadjusted disclosure misstatements.

Audit Differences (cont'd)

Summary of unadjusted disclosure differences

- Movement in Reserves Statement
 - A reclassification of £3.0 million is required between unusable reserves and usable reserves because of the adjustment for the implementation of IFRS 16.
- 40. Defined Benefit Pension Schemes
 - Our work over pensions in 2024/25 identified that the prior year pension asset balances are misstated as management had not applied an asset ceiling calculation under IFRS 14. To correct for this a prior period adjustment of £35.1 million would be required in the 2024/25 financial statements. Management has opted not to make the required amendment in the financial statements.

In addition to the above unadjusted misstatements, we also report that the Council has made adjustments to the prior year group statements. These adjustments were made in relation to a restatement of the financial statements of Lion Homes Ltd to be prepared on a break-up basis. These adjustments were not prepared in time for the 2023/24 financial statements; however, the prior year figures in the 2024/25 statements have been amended to ensure consistency with the financial statements that have since been filed with Companies House. We are reporting this difference as management has elected to make the amendment which does not meet the IAS 8 criteria for a prior year adjustment on the grounds of being immaterial.



06

Assessment of Control Environment

Assessment of Control Environment

Financial controls

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control including group-wide or at components.

The matters reported in this section are limited to those that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you.

The adjacent table provides an overview of the 'high' 'moderate' and 'low' rated observations we have from the 2024/25 audit.

	High	Moderate	Low	Total
Open from PY 2023/24	0	0	0	0
Closed during FY 2024/25	0	0	0	0
New points raised in FY 2024/25	1	5	0	6
Open for 2024/25	1	5	0	6

Key:

- A weakness which does not seriously detract from the internal control framework. If required, action should be taken within 6-12 months.
- Matters and/or issues are considered to be of major importance to maintenance of internal control, good corporate governance or best practice for processes. Action should be taken within six months.
- Matters and/or issues are considered to be fundamental to the mitigation of material risk, maintenance of internal control or good corporate governance. Action should be taken either immediately or within three months.

Summary of control observations and recommendations

Control observation and impact	Grading			Recommendation	Management Response
	H	M	L		
<p>Debtor and Creditor Listings did not meet the requirements set out in our working paper request, as they included significant opening balances and gross balances. In addition, the finance system was migrated from the E5 Financial System to a Unit4 ERP system, which consolidates all balance sheet data into a single brought-forward balance.</p> <p>For creditors specifically, we also experienced difficulties in identifying who was responsible for cleansing the listings. Despite raising this during our initial sampling work in July, we were redirected multiple times before the correct ownership was confirmed.</p>	H			<p>Management should work closely with the finance systems team to ensure that accurate and complete debtor and creditor listings can be generated for future audits.</p>	<p>The Council has already agreed with EY to work closely with the audit team to understand their requirements and how to ensure that the information required is presented in the appropriate format they require. An initial planning meeting has already taken place and the Council's Deputy Chief Accountant tasked with leading on the action plan.</p>
<p>We experienced delays in receiving cleansed and accurate transaction listings for sampling. For both HRA expenditure and Other income and expenditure (non HRA), multiple iterations and discussions were required before suitable listings were provided, which in turn delayed the sampling process.</p>		M		<p>Management should ensure that the main finance team exercises stronger oversight over the preparation and cleansing of transaction listings provided for audit. Strengthening review procedures will help ensure that complete, accurate and audit-ready listings are provided at the outset.</p>	<p>The requests from audit did not clearly define the requirements or explain why the data needed to be in a specific format. A more detailed and clear definition of data requirements would've shortened the period between the provision of the original and final cleansed data files. The Council is willing to work with EY to fully review these types of requests to ensure delays are eliminated.</p>

Assessment of Control Environment (cont'd)

Summary of control observations and recommendations

Control observation and impact	Grading			Recommendation	Management Response
	H	M	L		
<p>The financial statements were not published by the 30 June 2025 deadline set out in the Accounts and Audit Regulations. This was due to delays in finalising the group financial statements. The required Notice of Delay was issued and the financial statements were subsequently published on 26 September 2025.</p> <p>We identified a low number of non-material internal inconsistencies, disclosure, typographical and arithmetic errors in the draft Statement of Accounts, overall the draft financial statements was of a good quality.</p>	M			<p>Management should strengthen the year-end closedown and Group consolidation timetable to ensure the financial statements can be prepared, reviewed, and published by the statutory deadline. This should include earlier completion of group components, clearly assigned responsibilities, and improved monitoring of progress against key milestones.</p> <p>In addition, management should enhance the quality review process of the draft financial statements to identify and correct internal inconsistencies, disclosure issues, and typographical or arithmetic errors prior to submission for audit. Strengthening these controls will support timely publication and maintain the quality of the financial statements.</p>	<p>The delayed publication was a one-off event linked to the governance issues in Lion Homes and is not evidence of a systemic failure of its closedown processes. The rest of the single entity financial statements were ready for publication by the 30 June. The Council already has robust closure processes that include timetabling group components and quality reviews. Where any improvement can be made the Council is willing to learn from best practice elsewhere and will work with EY to incorporate these into its closedown process.</p>
<p>We identified errors in the Council's IFRS 16 disclosures (see Section 05).</p>	M			<p>In preparing the financial statements, the Council should complete the CIPFA disclosure checklist to ensure full compliance with the required disclosures.</p>	<p>The Council employed a specialist to assist with this implementation of IFRS16 and disclosure in the financial statements. Council staff have worked closely with EY to address all audit queries. The CIPFA disclosure checklist was completed.</p>

Assessment of Control Environment (cont'd)

Summary of control observations and recommendations

Control observation and impact	Grading			Recommendation	Management Response
	H	M	L		
We identified a control deficiency in the preparation and review of the NDR appeals provision, the team member responsible for this area was new to the role and had limited familiarity with the process and underlying data requirements, resulting in incomplete and, in some cases, inaccurate information being provided for audit.		M		Management review should be performed to check the completeness and accuracy of inputs, challenge key assumptions, and verify calculations before the estimate is finalised.	Collection Fund Accounting is highly specialised and technical area of the Council's financial statements. Due to the retirement of a member staff in 2025 who had responsibility for the Collection Fund, the Council took steps to include a new post in the Finance team as part of the restructure of the Finance function during 2025. Applicants with Collection Fund accounting experience are in short supply so recruitment focussed on an applicant who could be trained and developed into the role. The Council will incorporate the recommendations in the training and development for the Collection Fund post going forward.
During our testing of Revenue Grants Received in Advance, we identified an instance where income had been recognised prior to the Council actually receiving the funds. The extrapolation of this error fell below our reporting threshold.		M		Management should strengthen controls over the recognition of revenue grants received in advance to ensure that income is only recognised when the Council has obtained an enforceable right to the funds. This should include enhanced review procedures at year-end to confirm that all grants recorded as income have been formally received or meet the recognition criteria set out in the Code	For FY 2025-2026 an additional control will be added to the preparation of the Grants Note to check all RIA transactions (where NCC have invoiced for the income) against the aged debt report at 31.03.2026. This will provide assurance for any amounts not received and mean they can be presented in the appropriate disclosure note.



07

Other Reporting Issues

Other Reporting Issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the 2024/25 Statement of Accounts with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance. Following our review of the draft financial statements and Annual Governance Statement we can confirm it is materially consistent with other information from our audit of the financial statements and we have no other matters to report.

Whole of Government Accounts

We have not yet performed the procedures required by the NAO on the Whole of Government Accounts submission. We cannot issue our Audit Certificate until these procedures are complete, and the NAO has confirmed no further procedure are required.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 (the Act) to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Council to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We are also able to issue statutory recommendations under Schedule 7 of Section 27 of the Act. Statutory recommendations under Schedule 7 must be considered and responded to publicly and are shared with the Secretary of State.

We have no matters to report.



08

Independence

Independence

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, and its directors and senior management and its affiliates, including all services provided by us and our network to the Council, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

Relationships

There are no relationships from 1 April 2024 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by EY

There are no services provided by EY from 1 April 2024 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

EY Transparency Report

The [2025 Transparency Report](#) for EY UK provides details regarding the firm's system of quality management, including EY UK's system of quality management annual evaluation conclusion as of 31 October 2025.

Independence

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.

A breakdown of our fees is shown in the table to the right.

As set out in our Audit Planning Report the agreed fee presented was based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our financial statements opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by the Council; and
- The Council has an effective control environment
- The Council complies with PSAA's Statement of Responsibilities of auditors and audited bodies. See <https://www.psa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>. In particular, the Council should have regard to paragraphs 26 - 28 of the Statement of Responsibilities.

If any of the above assumptions prove to be unfounded, we seek a variation to the agreed fee. A narrative summary of the areas where we expect to raise scale fee variations for the audit of the Council are set out in the fee analysis on this page.

	2024/25	2023/24
	£	£
Scale Fee - Code Work	229,859	212,891
Proposed scale fee variation	Note 2	Note 1
Total fees	TBC	269,629

All fees exclude VAT

1. As set out in the joint statement on update to proposals to clear the backlog and embed timely audit issued by DLUHC (now MHCLG), PSAA will use its fee variation process to determine the final fee the Council have to pay for the 2023/24 audits.

PSAA determined a final for these years as: 2021/22 £68,871, and 2022/23 £43,294. The 2023/24 final fee has not been determined.

2. The scale fee also may be impacted by a range of other factors which will result in additional work, which includes, but are not limited to:
 - Changes to the client engagement risk assessment;
 - Implementation of IFRS 16;
 - Additional hours incurred in relation to testing the Housing Revenue Account;
 - Time incurred relating to PPE Valuations testing;
 - Non-compliance with law and regulation with an impact on the financial statements;
 - VFM risks of significant weaknesses in arrangements and related reporting impacts;
 - Prior period adjustments; and
 - Modified financial statement opinions.

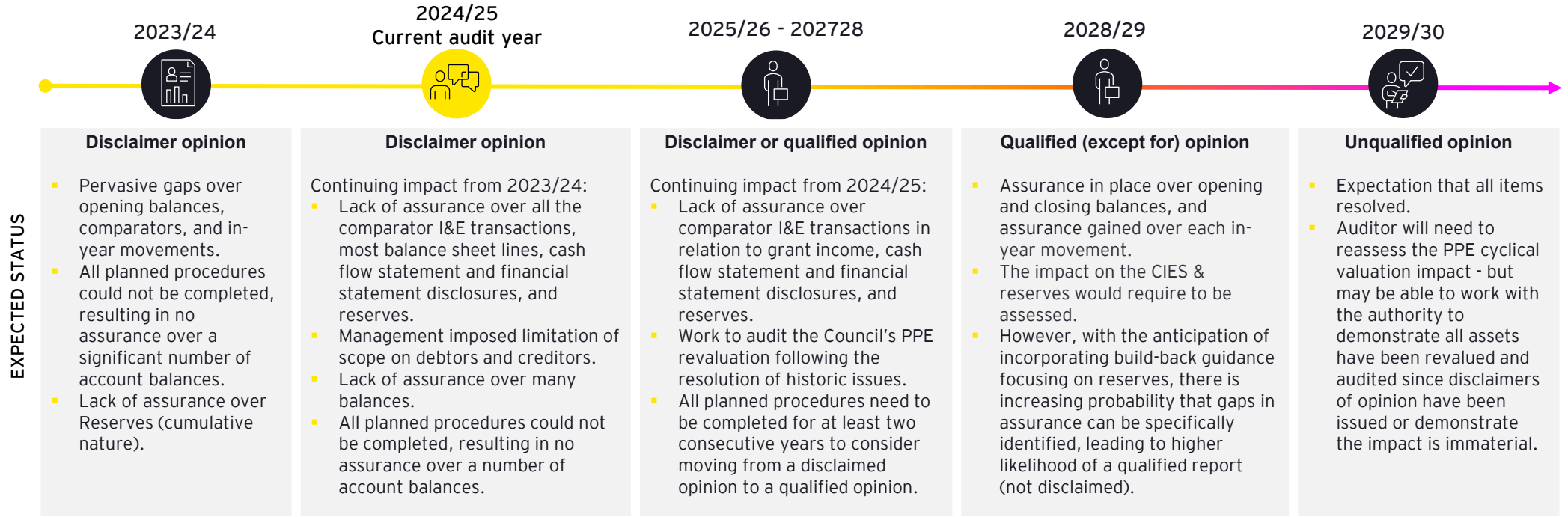


09 Appendices

Appendix A – Progress to full assurance

Progress to full assurance

The NAO's Local Audit Reset and Recovery Implementation Guidance (LARRIG) 01 has set out an indicative timetable for Councils to receive an unqualified audit opinion by the 2026/27 financial year. Set out below is the illustrative timescale for the Council based on actual progress against that timescale to date. We have included reasons for where the Council is on this timetable and what still needs to be done to successfully rebuild assurance.



EXPECTED STATUS

CURRENT AUDIT STATUS OF THE COUNCIL

- The Council's progress is behind the expected timescales set out in LARRIG 01.
- This is because limited procedures were completed for 2023/24 and 2024/25 because of the challenges set out earlier in this report, and as referenced in our value for money significant weakness on the Council's arrangements for statutory financial reporting.
- Appendix B sets out in more detail the assurance we have gained by accounts area.

FUTURE YEARS

The Council must be able to facilitate the completion of all planned procedures for two consecutive years before we can begin to consider whether a qualified opinion can be issued. Once this position is achieved, we can then begin to consider specifically rebuilding assurance on historic balances that have been subject to a disclaimer of opinion.

There remain several significant balances that we have been unable to audit in in the current or prior year such as PPE, debtors, creditors and group disclosures. The Council will need to consider how it builds the capacity and capability to respond to all audit requirements in a single year to enable progress to be made in working towards an unqualified opinion, recognising that the Council is on an extended trajectory. In the short term, this may require the Council to take decisions on areas of the financial statements they support during the audit and imposing a management limitation for certain balances whilst the historic challenges are addressed.

Appendix B – Updated summary of assurances

Summary of Assurances

The table below summarises the audit work we have completed on the 2023/24 and 2024/25 financial statements to demonstrate to the committee the level of assurance that has been obtained as a result of the financial statements audit. The assurance rating shown for 2024/25 is the rating we anticipate obtaining. However, as our audit procedures, including review, remain in progress, these ratings may be subject to change.

Account area	Assurance rating 2023/24	Assurance rating 2024/25	Summary of work performed
Property, Plant and Equipment ('PPE')	None	None	Due to difficulties with obtaining the required evidence to support the inputs in the valuations, we have been unable to obtain assurance over PPE valuations at 31 March 2025. However, we have completed our PPE additions and disposals testing; these are now subject to the completion of our review procedures
Heritage assets	Substantial	Substantial	We have completed our planned audit procedures in this area, and have obtained assurance over the closing balance as at 31 March 2025.
Investments (short and long term)	Substantial	Substantial	We have completed our planned audit procedures in this area, and subject to the completion of review procedures, we anticipate obtaining assurance over the closing balance as at 31 March 2025.
Investment Properties	None	None	Due to difficulties with obtaining the required evidence to support the inputs in the valuations, we have been unable to obtain assurance over PPE valuations at 31 March 2025.
Intangible Assets	None	Substantial	We have completed our planned audit procedures in this area, and have obtained assurance over the closing balance as at 31 March 2025.
Inventory	None	Substantial	We have completed our planned audit procedures in this area, and subject to the completion of review procedures, we anticipate obtaining assurance over the closing balance as at 31 March 2025.
Short Term Debtors	Partial	None	Due to difficulties with obtaining supporting schedules for this balance, this area was agreed with management to be halted due to time constraints. As a result, we have been unable to complete all planned procedures in relation to this balance as at 31 March 2025.
Cash and Cash equivalents	Substantial	Substantial	We have completed our planned audit procedures in this area, and subject to the completion of review procedures, we anticipate obtaining assurance over the closing balance as at 31 March 2025.
Short Term Creditors	None	None	Due to difficulties with obtaining supporting schedules for this balance, this area was agreed with management to be halted due to time constraints. As a result, we have been unable to complete all planned procedures in relation to this balance as at 31 March 2025.
Borrowings (short and long term)	Substantial	Substantial	We have completed our planned audit procedures in this area, and subject to the completion of review procedures, we anticipate obtaining assurance over the closing balance as at 31 March 2025.
Long Term Creditors	Partial	Substantial	We have completed our planned audit procedures in this area, and subject to the completion of review procedures, we anticipate obtaining assurance over the closing balance as at 31 March 2025.
Provisions (short and long term)	Partial	Partial	We have completed our planned audit procedures in this area, and subject to the completion of review procedures, with the exception of the NDR appeals provision, which is noted overleaf, we anticipate obtaining assurance over the closing balance as at 31 March 2025.
Capital grants received in advance	Partial	Partial	Due to difficulty obtaining the required evidence from management we have been unable to obtain substantial assurance over this area's closing balance as at 31 March 2025.

Appendix B – Updated summary of assurances

Summary of Assurances (continued)

Account area	Assurance rating 2023/24	Assurance rating 2024/25	Summary of work performed
Local Government Pension Scheme Liability	None	Partial	In 2023/24, the Council did not request an asset ceiling adjustment in the prior year, the balances to which we have issued a disclaimer may contain a material misstatement. Consequently, we are unable to conclude that the opening balances are stated fairly, and there remains a risk that in-year movements derived from those opening positions may also be misstated.
Collection Fund	Substantial	Partial	We have completed our planned procedures over this area with the exception of impairment testing and NDR appeals as a result of delays in receiving the detailed working papers. We anticipate only partial assurance over these balances at 31 March 2025.
Comprehensive Income and Expenditure Statement (excluding grant income and staff costs)	None	Partial	Subject to review, we expect to obtain substantial assurance over cost of services income and financing and investment income and expenditure and partial assurance over cost of services expenditure and housing benefit expenditure due to difficulty obtaining supporting schedules from management.
Comprehensive Income and Expenditure Statement - Grant income	Partial	Substantial	We have completed our planned audit procedures in this area, and subject to the completion of review procedures, we anticipate obtaining assurance over the transactions in the 2024/25 period.
Comprehensive Income and Expenditure Statement - staff costs	Partial	Partial	We have completed our planned audit procedures in this area, and subject to the completion of review procedures, we expect to obtain partial assurance over staff costs due to difficulty obtaining the required supports from the payroll team at the Council.
Reserves	None	None	Until we have completed our work programme on the rebuilding of assurance following the disclaimed audit opinions, we are unable to obtain substantial assurance over the useable and unusable reserves of the Council reported in the financial statements.
REFCUS	None	Substantial	We have completed our planned audit procedures in this area, and subject to the completion of review procedures, we anticipate obtaining assurance over the transactions in the 2024/25 period.
Group financial statements and consolidation	None	None	We were unable to obtain assurance over the group statements as the component auditor has not reported to us on the audit of subsidiaries. We also did not have assurance over the opening group balances, and therefore we do not have assurance over the group statements.
Housing Revenue Account	None	Partial	Whilst we have completed our planned procedures in relation to HRA income, we have been unable to complete planned procedures in relation to the HRA in its entirety, including expenditure, and we are unable to obtain substantial assurance over HRA disclosures due to a lack of assurance over associated balances such as reserves, balance sheet movements and PPE.
All other disclosures	Partial	None	Subject to review, we have completed planned procedures in relation to intangible assets, officer's remuneration, exit packages, members allowances and related parties. However, we have been unable to complete our procedures on all other disclosures, including the EFA and cash flow statement.
Minimum Revenue Provision	None	Partial	We are currently concluding our audit procedures in relation to the Minimum Revenue Provision.
Implementation of IFRS 16	N/A	Substantial	We have completed our planned audit procedures in this area, and subject to the completion of review procedures, we anticipate obtaining assurance over the closing balance as at 31 March 2025.

Appendix C – Required communications with those charged with governance

Required communications with those charged with governance

There are certain communications that we must provide to those charged with governance. We have detailed these here together with a reference of when and where they were covered:

		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the audit 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.	Audit planning report - May 2025 Audit planning report addendum - October 2025
Planning and audit approach	<p>Communication of:</p> <ul style="list-style-type: none"> ▪ The planned scope and timing of the audit ▪ Any limitations on the planned work to be undertaken ▪ The planned use of internal audit ▪ The significant risks identified <p>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.</p>	Audit planning report - May 2025 Audit planning report addendum - October 2025
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 planning report - May 2025 Audit planning report addendum - October 2025
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 - March 2026

Appendix C – Required communications with those charged with governance (cont'd)

		Our Reporting to you
Required communications	What is reported?	When and where
Fraud	<ul style="list-style-type: none"> ▪ Enquiries of the audit 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"> ▪ Management; ▪ Employees who have significant roles in internal control; or ▪ Others where the fraud results in a material misstatement in the financial statements. ▪ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▪ Matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud ▪ Any other matters related to fraud, relevant to Audit Committee responsibility. 	Audit results report - March 2026
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 related to going concern ▪ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▪ The appropriateness of related disclosures in the financial statements 	Audit results report - March 2026
Related parties	<p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▪ 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 - March 2026
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 - March 2026

Appendix C – Required communications with those charged with governance (cont'd)

		Our Reporting to you
Required communications	What is reported?	When and where
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, integrity, 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>Communications whenever significant judgements are made about threats to integrity, objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Audit planning report - May 2025</p> <p>Audit planning report addendum - October 2025</p> <p>Audit results report - March 2026</p>
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 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 committee may be aware of 	<p>Audit results report - March 2026</p>
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▪ Significant deficiencies in internal controls identified during the audit. 	<p>Audit results report - March 2026</p>
Written representations	<ul style="list-style-type: none"> ▪ Written representations we are requesting from management and/or those charged with governance 	<p>Audit results report - March 2026</p>
System of quality management	<ul style="list-style-type: none"> ▪ How the system of quality management (SQM) supports the consistent performance of a quality audit 	<p>Audit results report - March 2026</p>
Material inconsistencies or misstatements of fact	<ul style="list-style-type: none"> ▪ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	<p>Audit results report - March 2026</p>
Auditors report	<ul style="list-style-type: none"> ▪ Key audit matters that we will include in our auditor's report ▪ Any circumstances identified that affect the form and content of our auditor's report 	<p>Audit results report - March 2026</p>

Appendix D – Outstanding matters

Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item	Actions to resolve	Responsibility
Complete testing on pension asset ceiling	Management have provided response from actuary and then EY, work completed, subject to review.	Management and EY
Complete testing on IFRS 16 Leases	EY performing final recalculations of lease liabilities for selected sample. This work will also be subject to senior executive review.	Management and EY
Final Manager and Engagement Partner reviews	Review of the working papers	Management and EY
Final financial statements	Review of the final version of the financial statements	Management and EY
Management representation letter	Receipt of signed management representation letter	Management and audit committee
Subsequent events review	Completion of subsequent events procedures to the date of signing the audit report	Management and EY

Until all our audit procedures are complete, we cannot confirm the final form of our audit opinion as new issues may emerge or we may not agree on final detailed disclosures in the Annual Report. At this point no issues have emerged that would cause us to modify our opinion,

Appendix E – Regulatory update

The English Devolution and Community Empowerment Bill – Audit Measures

Background

On 16 December 2024, the Government published the English Devolution White Paper. The White Paper outlines how England is one of the most centralised countries in the world and contends that over-centralisation is holding back the prosperity of the regions. As a result, there is an intention from Government to widen and deepen devolution to local areas across England. The English Devolution and Community Empowerment Bill (the Bill) is intended to provide the legislative framework to do this by setting out a standardised framework of devolved powers, duties and functions. The bill is in six parts:

- Part 1 introduces the new devolution architecture for England, centred around the new category of “strategic authorities” (SAs). These are organisations designated by Government to have responsibility for strategy development and programme delivery over larger functional economic areas.
- Part 2 outlines the powers and duties which existing and future SAs will have, and the new process by which new powers and duties can be conferred on SAs by Government in the future.
- Part 3 is focused on measures designed to strengthen local government and communities.
- Part 4 is intended to strengthen the accountability of the local government sector by reforming the local audit system, including the establishment of the Local Audit Office (LAO) as the body responsible for overseeing local audit.
- Part 5 concerns the banning of upwards only rent review clauses for commercial leases to prevent vacant shops and regenerate high streets in communities across England.
- Part 6 contains the technical sections related to the Bill, including on regulations, commencement and extent.

The draft legislation can be found in full at [English Devolution and Community Empowerment Bill](#).

Part 4 of the Bill - Reforming local audit

The Bill is intended to overhaul the local audit system as is part of the wider measures to address the backlog in local government audit previously considered by this report. Specifically:

- The LAO will be established with the aim of radically simplifying the current audit system and bringing functions together under a single organisation with a clear remit. The LAO will be responsible for coordinating the system, standard setting, contracting, quality oversight and reporting. It will also support and enable wider measures to address pressing challenges, including reforms to financial reporting; strengthening audit capacity and capability; and establishing public provision of audit to support the private market.
- The LAO will be responsible for audit quality and the regulation of audit providers. Regulatory powers can be delegated.
- The LAO will be responsible for auditor appointment to all local audits other than for NHS bodies, will set indicative fees, publish those fees and make final determinations on the fees to be paid. The ability of local authorities to appoint their own auditors is removed.
- Audit firms will be required to nominate ‘lead individuals’ and have pre-approval of their own eligibility criteria.
- The responsibility for production of the Code of Audit Practice passes from the NAO to LAO. The LAO is also able to determine technical standards that auditors must follow.
- Statutory guidance for Audit Committees will be developed by LAO in conjunction with the Local Government Association, CIPFA and other relevant bodies.

We will continue to keep you updated as these arrangements develop.

Appendix F – Non-Compliance with Laws and Regulation (NOCLAR)

Non-Compliance with Laws and Regulations includes:

Any act or suspected act of omission or commission (intentional or otherwise) by the entity (including any third parties under the control of the entity such as subsidiaries, those charged with governance or management or an employee acting on behalf of the company), either intentional or unintentional, which are contrary to the prevailing laws or regulations.

Management Responsibilities:

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

ISA 250A, para 3

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

ISA 250A, para 3

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

Auditor Responsibilities

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

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

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

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

An understanding of the nature of the act and the circumstances in which it has occurred; and
Further information to evaluate the possible effect on the financial statements

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

ISA 250A, paras 19 and 22

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

Matter

- Suspected or known fraud or bribery
- Health and Safety incident
- Payment of an unlawful dividend
- Loss of personal data (including a cyber incident or ransomware attack)
- Allegation of discrimination in dismissal
- HMRC, PRA, FCA or other regulatory investigation
- Deliberate journal mis-posting or allegations of financial impropriety
- Transacting business with sanctioned individuals

Implication

- Potential fraud/breach of anti-bribery legislation
- Potential breach of section 2 of the Health and Safety at Work Act 1974
- Potential breach of Companies Act 2006
- Potential GDPR breach
- Potential non-compliance with employment laws
- Suspicion of non-compliance with laws/regulations
- Potential fraud / breach of Companies Act 2006
- Potential breach of sanctions regulations

Appendix F – Non-Compliance with Laws and Regulation (NOCLAR) (continued)

What are the implications of NOCLAR matters arising?

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

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

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



Actions required by management:

Timely communication of the matter to auditors (within a couple of days)

Determine who will carry out any investigation into the matter - in-house or external specialists or mix of both

Scope the investigation, in discussion with EY audit teams

Evaluate findings and agree next steps

Determine effect on financial statements including disclosures

Prepare a paper, summarising the outcome of the investigation and management's conclusions

Communicate the outcome to Those Charged With Governance (TCWG) and to us as your auditors. Report to regulators where required.

Key Reminders:

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

EY response:

Initial assessment of the NOCLAR matter and its potential impact

Initial consultation with risk team to determine responsive procedures and the involvement of specialists

Understand and agree scope of management's investigation with support from specialists as needed

Evaluate findings and undertake appropriate audit procedures

Determine audit related impact including accounting and disclosure and audit opinion implications

Document and consult on the outcome of our procedures

Communicate the outcome with management, TCWG and where necessary other audit teams within the group or regulators

Appendix F – Non-Compliance with Laws and Regulation (NOCLAR) (continued)

Practical examples of NOCLAR events

The key message is that management alone should not judge the materiality of a NOCLAR event. Auditing standards are stricter in this area, hence management must promptly notify EY of NOCLAR events and work with them to determine materiality and next steps. The list below includes some examples of NOCLAR incidents EY have seen in the past but is not limited to these types of events. If you are unsure if a matter needs to be reported, please discuss with your local EY contact.

Examples of matters where EY need to be informed immediately (within a couple of days of becoming aware of the incident)

- Cyber incident or ransomware attack
- All incidents of suspected or confirmed fraud involving a member of management; this also includes where there is evidence of manipulation of figures reported and non-compliance or fraud investigation by a regulatory authority
- Any allegations of bribery and conflicts of interest (including from whistleblowers, short seller reports and adverse mainstream media)
- Any matters which involve local Police or regulatory or other law enforcement (including raids of Company sites)
- Lawsuits or court cases involving external legal counsel or external forensics experts
- Loss or theft of sensitive, personal data (including customer or supplier data)
- Serious health and safety incidents involving employees or customers
- Any matters that constitute an imminent breach of law or regulation that would cause substantial harm to investors, creditors, employees or general public
- Significant environmental incidents
- Any transactions with sanctioned individuals or countries
- Allegations or evidence of insider trading

Examples of matters which can be discussed with EY as part of standard regular audit enquiries

- Theft of stock from a warehouse by an employee
- Theft or misuse of company equipment or assets
- Cash lost by the business making a payment to a fraudulent supplier (failed supplier due diligence, phishing attack)
- Falsifying of expenses by employees or mischarging of overtime
- Copyright infringements
- Evidence of incidents of unauthorised discounts or free samples being offered to customers
- Product recalls
- Any new matters involving tax authorities (notification of potential non-compliance or outstanding liability)
- Whistleblowing claims which relate to allegations of bullying and harassment
- Litigation being launched by the company

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