



Cambridge City Council Civic Affairs and Audit Committee

Date: Monday, 5 October 2026

Time: 5.30 pm

Venue: Rooms 1 and 2 - The Meadows Community Centre, 299 Arbury Rd, Cambridge, CB4 2JL

Contact: democratic.services@cambridge.gov.uk, tel:01223 457000

Agenda

- 1 Apologies
- 2 Declarations of Interest
- 3 Minutes - 22 June 2026 (Pages 5 - 8)
- 4 Public Questions
- 5 Recognition of Mayoress/Mayors Consort (Pages 9 - 14)
- 6 Motion submitted by Councillor Tong – City of Sanctuary (Pages 15 - 26)
- 7 Internal Audit Update (Pages 27 - 40)
- 8 2025-26 Audit Plan and rebuilding assurance (Pages 41 - 120)

Civic Affairs and Audit Committee Members: McPherson (Chair), Toye Scott (Vice-Chair), Ashton, Dalzell, Davison, Taylor and Wade

Alternates: Bennett, Bick, Blackburn-Horgan, Clough and Sheil

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The full text of any public question must be submitted in writing by noon two working days before the date of the meeting or it will not be accepted. All questions submitted by the deadline will be published on the meeting webpage before the meeting is held.

Further information on public speaking will be supplied once registration and the written question / statement has been received.

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CIVIC AFFAIRS AND AUDIT COMMITTEE

22 June 2026

5.35 - 6.42 pm

Present: Councillors McPherson (Chair), Toye Scott (Vice-Chair), Ashton, Davison and Taylor

In Attendance: Councillors Bennett and Flaubert

Officers:

Chief Financial Officer: Jody Etherington

Chief Audit Executive: Jonathan Tully

Democratic Services Manager (Deputy Monitoring Officer): Dan Kalley

Democratic Services Officer: Matthew Hussey

FOR THE INFORMATION OF THE COUNCIL

26/25Civ Apologies

Apologies for absence were received from Councillors Dalzell and Wade

26/26Civ Declarations of Interest

No interests were declared.

26/27Civ Minutes - 19 May 2026

The minutes of the meeting held on 19 May 2026 were approved as a correct record and signed by the Chair.

26/28Civ Public Questions

There were no public questions.

26/29Civ Internal Audit Update

The Committee received a report from the Chief Audit Executive.

The Chief Audit Executive said the following in response to Members' questions:

- The review of Bank Reconciliation - Recurring Payments recognised fraud risk-based intelligence that other Local Authorities had been targeted. A new fraud risk relating to controls of recurring payments had been identified and added to the corporate risk register. A prompt implementation date was agreed for the action in the review.
- Long term timescales were in place for Assurance Plans. However, the Council would need to be flexible and adapt plans in response to LGR.
- Steps were being taken to mitigate the impact of LGR and ensure Local Authorities were not working in silos and avoid high level impacts.
- In regard to specific risks of LGR within audit planning context, these could potentially be classed as 'Control Stability' – areas with increased risk during significant change and needed to 'keep the ship running' for example key systems; 'Transformation' – areas which support LGR process, and 'Readiness' – areas which if not ready could impact the change and transition.
- Net Zero, Carbon, Climate Change and Environment Implications of the report were classed as 'none' due to no change from previous report. Agreed they were 'minor, in the context of flexible working across multiple sites.
- Use of agentics referred to development of AI systems to support routine tasks with minimal risks and increased insight.
- The forward plan included a follow-up review of HRA - Safety - Fire which was a limited assurance review; and we would review the improved system which was being implemented.
- The council would work with recruitment and training providers to appoint apprenticeships under the new revised Institute of Internal Auditors Apprenticeship Scheme.

Resolved: (i) That the quarterly update on Governance Risk and Internal Control report be noted.

(ii) That the annual progress update be noted.

(iii) That the Annual Plan of Work as set out at Appendix A be approved.

(iv) That the Internal Audit Charter as set out at Appendix B be approved.

(v) That the Code of Ethics as set out at Appendix C be noted.

26/30Civ Constitution Updates

The Committee received a report from the Head of Governance & Democracy (Deputy Monitoring Officer) in regard to minor amendments to the Constitution around speaking rights for Group Leaders at Cabinet and the guillotine in relation to formal meetings of the Council including Full Council.

The Head of Governance & Democracy (Deputy Monitoring Officer) said the following in response to Members' questions:

- Two groups would receive an allowance as main opposition groups.
- In response to concerns that the Guillotine prevented detailed discussion of agenda items, it would be difficult to pre-plan agendas so officers did not know what Members would discuss in detail.
- The area around allowances would require further review.

At the Chairs discretion, Councillor Flaubert proposed the following amendment to the Glossary: Main Opposition Parties. The Current wording was:

'Where the Council operates under a minority administration, any opposition political group whose membership comprises at least 20% of the total number of councillors shall be recognised as a Main Opposition Group and shall be treated as such for all purposes relating to the Council's governance arrangements, decision-making structures, and constitutional provisions'

The Proposed addition wording was:

'For the purposes of Cabinet speaking rights and participation in governance arrangements, any formally constituted opposition political group comprising three or more councillors shall be treated as an Opposition Group.'

This amendment was intended to ensure that recognised opposition groups have meaningful and proportionate rights within Cabinet proceedings, and to provide a more inclusive and future-proof framework that does not rely solely on a percentage-based threshold.

The Chair suggested that Councillors take away the above proposed amendment back to their relevant political groups and Group Leaders email

their position back to the Head of Governance & Democracy (Deputy Monitoring Officer).

Cllr Bennett proposed a recommendation to Full Council requesting explicit detail on Financial Allowances be included in the Constitution.

Resolved (unanimously) (i) To recommend to Full Council the changes to the Constitution as set out at Paragraph 4.1 to the report.

(ii) That Group Leader respond with their position on the proposed additional wording suggested by Councillor Flaubert via email to Head of Governance & Democracy (Deputy Monitoring Officer).

(iii) That Full Council be requested to include explicit detail on Financial Allowances in the Constitution.

The meeting ended at 6.42 pm

CHAIR

**REPORT TITLE: Recognition of Mayoress/Mayors Consort****To:**

Civic Affairs & Audit Committee (5 October 2025)

Report by:

Dan Kalley, Head of Governance and Democracy (Deputy Monitoring Officer)

Email: dan.kalley@cambridge.gov.uk

Wards affected:

All

Director Approval: Director Robert Pollock confirms that the report author has sought the advice of all appropriate colleagues and given due regard to that advice; that the equalities impacts and other implications of the recommended decisions have been assessed and accurately presented in the report; and that they are content for the report to be put to the Committee.

1.	Recommendations
1.1	It is recommended that the Civic Affairs & Audit Committee approve the award of the badges to previous Mayoress' and Mayors Consorts in recognition of their support to the City Council Mayor's
2.	Purpose and reason for the report
2.1	The Civic Affairs & Audit Committee have previously requested that recognition of previous Mayoress' and Consorts are recognised by the Council for the work they do in supporting the Mayor during their term of office. Officers have investigated different ways to honour that role and are proposing that badges, similar to the Mayor's badge, are presented to previous Mayoress' and Consorts with this being carried out at the next Annual Council meeting in May 2027 with invites being sent to these eligible to receive this.
3.	Alternative options considered

3.1	The alternative option is to not proceed with any formal recognition with the current practice of recognising this support during the Annual meeting.
4.	Background and key issues
4.1	The office of Mayor is a significant civic role, involving representation of the Council and the city at a wide range of civic, community, charitable and ceremonial events throughout the Mayoral year. The Mayor will regularly attend engagements on behalf of the Council, meet community organisations and voluntary groups, support local charities and represent Cambridge at events both within and outside the city. The badge would provide a visible and appropriate means of recognising the contribution made by the Mayor's Mayoress or Consort during the Mayoral year. It would also provide an identifiable piece of civic insignia which could be worn when attending civic engagements alongside, or on behalf of, the Mayor. The introduction of a badge would not create a new office or confer any additional authority on the Mayoress or Consort. Rather, it would formally recognise the supportive and representative role undertaken during the Mayoral year and acknowledge the contribution made to the Mayor's civic programme and to the city.
	The Mayor's Mayoress or Consort can provide an important source of personal and practical support to the Mayor during their year of office. Depending on the Mayor's wishes and the individual circumstances of the Mayoress or Consort, this can include accompanying the Mayor at civic and community engagements, attending events independently on the Mayor's behalf, supporting the Mayor's chosen charities and helping to build relationships with local organisations and community groups. The role is not an elected office and does not carry any independent decision-making authority on behalf of the Council. The Mayoress or Consort acts in support of the Mayor and, where attending an engagement in their own right, does so as part of the Mayor's civic programme and in accordance with the Council's civic protocols.

4.3	There is established practice among local authorities of recognising the contribution of a Mayoress or Mayor's Consort through a badge or other civic insignia. There is current practice of presenting badges to Mayoresses and Consorts at annual civic ceremonies. Worcester City Council, for example, presents a Consort's or Mayoress's Badge when the new Mayor announces their Mayoress or Consort, and presents past Mayoress and Consort badges to those completing their year of service. Similarly, Stockport Council has formally invested Mayoresses with a Badge of Office as part of its Mayoral arrangements.
4.4	The badge would provide a visible and appropriate means of recognising the contribution made by the Mayor's Mayoress or Consort during the Mayoral year. It would also provide an identifiable piece of civic insignia which could be worn when attending civic engagements alongside, or on behalf of, the Mayor. The introduction of a badge would not create a new office or confer any additional authority on the Mayoress or Consort. Rather, it would formally recognise the supportive and representative role undertaken during the Mayoral year and acknowledge the contribution made to the Mayor's civic programme and to the city.
6.	Consultation, engagement and communication
6.1	Civic Affairs & Audit Committee have briefly discussed this proposal at previous meetings and is being brought back for final decision. Past Mayors have also welcomed the introduction of this proposal
7.	Anticipated outcomes, benefits or impact
7.1	Badges would be presented to outgoing Mayoress' or Consorts following their year in office. As mentioned earlier in the report any previous Mayoress' or Consort will be able to receive a badge.
8.	Implications

	Relevant risks
8.1	None.
	Local Government Reorganisation (LGR)
8.2	None.
	Financial Implications
8.3	The overall cost to procure badges is £450 and is a one of cost that is managed within the Mayor's overall budget.
	Legal Implications
8.4	There are none.
	Equalities and socio-economic Implications
8.5	None.
	Net Zero Carbon, Climate Change and Environmental implications
8.6	None.
	Procurement Implications
8.7	None.
	Community Safety Implications
8.8	None.

9.	Background documents Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985
9.1	None.
10.	Appendices
10.1	None.
	To inspect the background papers or if you have a query on the report please contact Dan Kalley, Head of Governance and Democracy (Deputy Monitoring Officer), email: dan.kalley@cambridge.gov.uk

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**REPORT TITLE: Motion submitted by Cllr Tong – City of Sanctuary****To:**

Civic Affairs & Audit Committee, 5th October 2026

Report by:

Jody Etherington, Chief Finance Officer; jody.etherington@cambridge.gov.uk Keryn Jalli, Strategic Resettlement and Community Equity Lead; keryn.jalli@cambridge.gov.uk Dan Kalley, Head of Governance and Democracy; dan.kalley@cambridge.gov.uk

Wards affected:

All

Director Approval: the S151 confirms that the report author has sought the advice of all appropriate colleagues and given due regard to that advice; that the equalities impacts and other implications of the recommended decisions have been assessed and accurately presented in the report; and that they are content for the report to be put to the Committee.

1.	Recommendations
1.1	It is recommended that Civic Affairs & Audit Committee note the progress of the council in respect of the City of Sanctuary motion from February 2026 and provide comment.
2.	Purpose and reason for the report
2.1	The report is presented to Committee following the request from Cllr Tim Bick for the substantive motion presented at Full Council in February 2026 to be put to the Civic Affairs & Audit Committee to review.
3.	Alternative options considered
3.1	As the request was agreed at Full Council the committee has the responsibility to review the motion.
4.	Background and key issues
4.1	The full motion wording submitted by Cllr Tong can be seen below:

1. City of sanctuary

This council asserts that it wishes Cambridge to be a city of sanctuary in both name and deed.

This council asserts that this aspiration is shared by its residents, including particularly those who have become Cambridge residents by choice after becoming refugees. This council wishes to re-affirm its commitment to be a city of sanctuary and take concrete steps to ensure that it plays no part in directly or indirectly financing the warfare and war crimes that force innocent people to flee for their lives.

2 Pension scheme divestment

The council notes with concern that, despite passing a divestment motion and several questions asked by councillors, it has been unable to provide residents, employees and councillors with clear information on whether any of the pension contributions it pays from employees' salaries and council tax are invested in ways that directly finance aggressive acts of war and war crimes. This undermines the credibility of Cambridge's claim to be a city of sanctuary.

This council resolves to write to all other local authorities in their current and expected pension pool to request them to vote for this information to be obtained, circulated and a divestment plan put in place at the earliest possible date.

The council notes that the current pension pool is ACCESS and that this will join the BTCPP pension pool and accordingly proposes to write to members of both as well as the managers and trustees of the pension funds.

3 Barclays Bank

The council reaffirms its commitment to withdraw its accounts from Barclays Bank plc at the earliest date that the contract can be terminated without penalty and find a more ethical banking partner. This is on the grounds that this bank has loaned over £2 billion to companies providing arms to Israel alone.

4 Flag policy

The council commits to reviewing its flag protocol at the next Civic Affairs & Audit meeting and including the flag of the newly recognised state of Palestine in the list of national flags to be flown on appropriate occasions. It also commits to illuminating the Guildhall in the colours of the Palestinian flag on 28 November, the UN's International Day of Solidarity with the Palestinian People.

4.2

City of Sanctuary

[City of Sanctuary](#) is a charity founded in 2005 with a vision that, *“The UK will be a place of welcome for all – and committed to justice and solidarity for people seeking sanctuary”*

For over a decade Cambridge City Council has proudly welcomed and supported refugees navigating their new lives in Cambridge and the surrounding areas, consistently delivering on our [Resettlement Pledge](#). Cambridge City Council has been a non-award member of the City of Sanctuary since 2015.

The Council’s in-house, multi-lingual resettlement team provides holistic support to refugees resettling in Cambridge and South Cambridgeshire. The team of specialists provide a trauma-informed approach, supporting people on their journey to independence, enabling access to ESOL, healthcare, education, benefits and employment.

Cambridge City Council have successfully supported over 1,000 newly arrived refugees to resettle in Cambridge and the surrounding areas. The majority of refugees resettled are from Ukraine and Afghanistan.

In 2024, the Resettlement team delivered focus groups with those with lived experience of forced displacement and local refugee charities, to better understand what supported people’s resettlement journey and the barriers they face. As a result, the council has procured specialist services for therapeutic support, English language and employment support. The council also commissions specialist immigration advice service for refugees delivered by Cambridge Ethnic Community Forum.

The council convenes a quarterly meeting with community organisations involved in resettlement and enables community organisations to support people displaced by war, conflict, and persecution through our [Resettlement Community Grants](#).

The council plays an active role locally with the City of Sanctuary, is currently pursuing full accreditation and is due to submit its application by spring 2027.

4.3**Pensions**

In respect of the council's pension investments, the February motion presupposes a lack of clear information on how the council's pension fund is invested. However, the website of the [Cambridgeshire Pension Fund](#) includes a great deal of information, including the fund's [Investment Strategy Statement](#), which describes how the fund's money is invested; the approach to risk; and its policy about how Environmental, Social and Governance considerations are taken into account in investment decisions.

In addition, the fund publishes on a quarterly [detailed schedule](#) of its investment holdings.

Under the [Local Government Pension Scheme \(Pooling, Management and Investment of Funds\) Regulations 2026](#), setting the Investment Strategy is the responsibility of the Pension Fund Committee of Cambridgeshire County Council, as administering authority. In addition, the Local Pension Board, comprising representatives of fund members and employers, performs an oversight role and is engaged during its formulation.

In setting the Strategy, the Pension Fund Committee is required to have regard to [statutory guidance](#) issued by the Secretary of State. In summary, the guidance provides that:-

- The administering authority's primary obligation is to act in the best financial interest of the fund.
- Administering authorities may also take non-financial considerations into account provided that doing so would not involve risk of significant financial detriment to the fund and that they have good reason to think that scheme members would support their decision.
- Administering authorities should exercise caution against undue influence from campaign groups whose positions may not reflect the views of members or align with the fund's fiduciary responsibilities.
- Administering authorities should ensure that any consideration of member sentiment takes place with due account given to long-term risk management and regulatory compliance.

	• The responsible investment approach should not set exclusions for investments in individual countries, investment styles or companies. The Cambridgeshire Pension Fund is currently consulting on a new draft Investment Strategy. This includes a Responsible Investment policy which seeks to go beyond the minimum required to comply with relevant regulations and demonstrate good practice. For example, it sets out the following: • Good Environmental, Social and Governance (ESG) and stewardship practices should be integrated throughout the investment process of the Fund. • The Fund is committed to being a long-term steward of the assets in which it invests. It believes in the importance of its Pool and investment managers acting as active asset owners through proactive voting and engagement with companies. • The Fund believes that engaging with managers and companies, rather than setting exclusions or divesting based on country, sector or style, should be the primary route for seeking positive change. • The Fund supports the objectives of the Paris Agreement and believes that keeping a global temperature rise this century to well below 2°C relative to pre-industrial levels is entirely consistent with securing strong financial returns. • The Fund also believes in a “just transition” to a low carbon economy that ensures fair treatment for employees and communities that would otherwise bear the brunt of industrial change. • The Fund expects its Pool to consider strategies that target long-term ESG themes (e.g. energy, water, demographic trends) including those themes set out in the United Nations Sustainable Development Goals (SDGs) on the basis that such opportunities will generate good risk adjusted investment returns. Subject to adoption, this updated Investment Strategy will serve to support the ESG goals of the fund and the council, without exposing it to the potentially significant legal risk associated with a country or sector-specific boycott.
4.4	Barclays

The council's day-to-day banking services have been provided by Barclays since 2016, following a joint procurement exercise with South Cambridgeshire District Council (SCDC). The contract has been extended on two occasions since, and the current contract runs until 31 March 2028 with further opportunities to extend.

In May 2024, Full Council passed a motion which included the following:

- a. Investigate the implications of stopping banking with Barclays - which is known for investing over £2 billion in and providing financial services to companies arming Israel worth £6.1 billion - and instead banking with an ethical bank.

Note that, contrary to the wording of Cllr Tong's February 2026 motion, no firm commitment was made to withdraw the council's accounts from Barclays.

A May 2024 report by Campaign Against Arms Trade, War on Want and the Palestine Solidarity Campaign claimed that Barclays:

- held over £2 billion in shares in nine arms companies whose weapons or technology have been used in Israel's attacks on Palestinians;
- provided £6.1 billion in loans and underwriting to those same companies. The report doesn't separate the loans from the underwriting.

Barclays disputes this framing. The bank states that it sold its remaining Elbit (Israeli/US defence contractor) shares in late 2024, and that it does not hold any other shares as its own investments but only on behalf of clients. Barclays does not appear to have publicly challenged the £6.1bn loans and underwriting figure.

Following the 2024 motion, significant work has been carried out by officers, including:

- Investigation and soft market testing of alternative suppliers.
- Investigation into the implications of changing banking providers for the council and its service users.
- Discussions with SCDC about their appetite to undertake a new joint procurement exercise.
- Clarification of the legal position in respect of the Procurement Act 2023 and the council's ability to restrict potential suppliers on the basis of their other business interests.

The conclusion of that work is as follows:

- Changing banking suppliers causes significant disruption both to the council and its service users. For example, those who make payments to the council by standing order or direct bank transfer for council tax, business rates, housing rents etc would need to be contacted and asked to update the council's bank details. There is a significant administrative cost of this exercise both for the council and its residents, businesses and customers, along with an increased risk of missed payments impacting the council.
- New banking arrangements will be required for a new unitary authority following local government reorganisation (LGR), should this proceed. Whilst the LGR programme is currently under review, the current expectation remains that LGR will proceed in the medium-term.
- Whilst this council and SCDC bank with Barclays, Cambridgeshire County Council bank with Natwest. This means any future unitary authority will already need to bring together banking services from two different providers.
- SCDC have expressed no appetite to retender their banking service at this time. If the council were to proceed with a retendering process alone, this would introduce a third provider into the mix in advance of LGR, thus significantly increasing the complexity and risk involved. In addition, there is a strong likelihood that residents, businesses and customers would be subject to two changes in council bank details in the space of a few short years, with the administrative burden this brings. This would be further exacerbated by the timescales required to procure and implement a new banking solution, which will be in the region of 12-18 months and take us even closer to vesting day.
- Soft market testing has not identified any 'ethical' banking providers with the ability to service the local authority market which do not have any involvement in the defence and/or fossil fuel industries.
- The Procurement Act 2023 requires the council to treat suppliers equally unless there is a lawful justification for different treatment. This means that procurement exercises should take into account only those factors which are relevant to a

	supplier's ability to perform the contract. Taking into account the supplier's external business interests is likely to breach these requirements. • The government has issued strong advice that UK foreign policy is a matter for central government, and that councils should not engage in local politically motivated boycotts. Disregarding this advice could leave the council open to legal challenge. In light of all of the above, it is the strong advice of the Chief Finance Officer that no change be made to the council's banking provider in advance of LGR. It will then be for the new unitary council to determine its banking provider following transition. Should LGR be cancelled or postponed for a significant period of time, this position can be revisited. However, any resulting procurement exercise would need to be carried out in line with the requirements of the Procurement Act 2023 and associated guidance, and whilst the service specification could take reasonable account of ESG considerations, excluding named suppliers based upon external campaigning activity is likely to present a significant legal risk to the council.
4.5	Flags The council's current flag policy was updated most recently by the Civic Affairs Committee in February 2024. The purpose of the policy is to provide a clear and transparent framework, setting out the occasions when flags will be flown over the Guildhall. The protocol lists flags that commemorate national and international occasions, as well as flags that have associations with communities or causes. The Flag protocol was review by the Civic Affairs & Audit Committee on 23 Feb 2026 - Agenda for Civic Affairs and Audit Committee on Monday, 23rd February, 2026, 5.30 pm - Cambridge Council The Committee has agreed that, from time to time, additional flags may be flown in special circumstances where this is consistent with the council's vision, objectives and obligations, with agreement from the Leader and Chief Executive at the time.

	The proposed addition of the Palestinian flag would therefore represent an amendment to the council's established list of occasions for flying national flags. In considering the proposal, the Committee may wish to consider how the addition would fit within the existing principles and structure of the flag protocol, including the circumstances in which national flags are flown and the provision for additional flags to be flown on appropriate occasions. Officers have previously noted that the council should also consider its statutory obligations to promote community cohesion, and undertake appropriate risk assessments when required, if flying particular flags undermine the safety and wellbeing of all residents.
5.	Corporate plan
5.1	The motion touches on a number of corporate policies that affect the council. Members of the Committee will have the opportunity to discuss some of these at the meeting with any actions to be taken forward by officers.
6.	Consultation, engagement and communication
6.1	The subject matters contained within the motion sit primarily within the remit of the Civic Affairs & Audit Committee. The Committee are requested to note the contents of the motion and to seek any further work with regards to the asks of the motion before any work commences.
7.	Anticipated outcomes, benefits or impact
7.1	That the Committee review the motion and request officers to carry out any further work if necessary or required.
8.	Implications
8.1	Relevant risks

	<i>Summarise any potential risks to the Council if the decision is made. This could be financial/legal/reputational.</i>
	Local Government Reorganisation (LGR)
8.2	List here any risks or implications relating to LGR if applicable.
	Financial Implications
8.3	<i>Summarise here any financial implications related to this item and seek input from finance service.</i>
	Legal Implications
8.4	<i>Summarise here any legal implications related to this item and seek input from legal service.</i>
	Equalities and socio-economic Implications
8.5	<i>Summarise here any equalities implications related to this. Guidance for completing an assessment can be found on the Council's intranet site Cambridge City Council Equality Impact Assessment guidance notes 230818.docx (sharepoint.com)</i> <i>An Equality Impact Assessment must be completed and attached as an appendix to your report.</i>
	Net Zero Carbon, Climate Change and Environmental implications
8.6	<i>Summarise here the net zero, climate change and environmental impacts of the decision and include the rating from the Climate Change Rating Tool. Guidance for completing an assessment can be found on the Council's intranet site: Climate Change Ratings</i> <i>For more information please refer to following link. Chief Executive Office - Guidance on completing the net zero climate change and environmental implications section .pdf - All</i>

	Documents (sharepoint.com)
	Procurement Implications
8.7	<i>Summarise here any procurement implications related to this item and seek input from procurement (if applicable).</i>
	Community Safety Implications
8.8	<i>Summarise here any Community Safety implications (if applicable).</i>
9.	Background documents Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985
9.1	None
10.	Appendices
10.1	None.

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REPORT TITLE: Internal Audit Update

To:

Civic Affairs and Audit Committee [05/10/2026]

Report by:

Jonathan Tully, Chief Audit Executive

Tel: 01223 458180 Email: jonathan.tully@cambridge.gov.uk

Wards affected:

All

1.	Recommendations
1.1	The Civic Affairs and Audit Committee is requested to note the quarterly update on Governance Risk and Internal Control.
2.	Purpose and reason for the report
2.1	This report provides the Committee with an update on internal audit activity, assurance outcomes, and strategic developments. It reflects our evolving approach to meet new professional standards and maintain effective governance. The information supports the Committee's understanding of governance, risk, and control within the organisation. It includes outputs from assurance and advisory work, as well as foresight on emerging and topical issues. This provides: - Reasonable assurance on the internal control environment, governance and risk management arrangements. - Updates on how we are responding to the latest Internal Audit Standards
2.2	This is not a key decision, as the report is presented in accordance with the Committee's terms of reference.
3.	Alternative options considered
3.1	The reports are to note and do not have alternative options, although we welcome feedback from the Committee on format and presentation to inform future versions.
4.	Background and key issues

4.1	Strategic and Professional Requirements The Accounts and Audit Regulations 2015 require that the Council “<i>must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes; taking into account public sector internal auditing standards or guidance.</i>” In 2024, the Institute of Internal Auditors (IIA) issued new Global Internal Audit Standards. Within the UK Local Government public sector, these standards are adopted under the authority of the Relevant Internal Audit Standard Setters (RIASS). The Chartered Institute of Public Finance and Accountancy (CIPFA) is the RIASS responsible for determining the standards and requirements applicable to internal auditing across local government in the UK. The new standards take effect from the 2025/2026 financial year. While full compliance is not immediately required, we conducted an internal assessment to identify areas where our processes need to evolve to meet the new requirements. Our report includes progress updates on implementing the new standards.
4.2	Internal Audit Plan Opinion on Control Environment The Global Internal Audit Standards in the UK Public Sector require that the Chief Audit Executive “must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation’s goals.” Our Plan and supporting documents are developed in line with guidance set out by CIPFA and the IIA. It is developed using a range of inputs, including the Council’s Risk Registers, Corporate Plan, stakeholder consultation, committee reports, other assurance processes, and horizon scanning to identify emerging risks and opportunities. It is considered good practice to operate an agile Audit Plan that adapts continuously to changes in the governance, risk, and control environment. Our plan is structured around a long-term framework of reviews, typically spanning a three-year cycle. Individual audits are prioritised using a range of risk-based criteria. Maintaining relevance, speed, and flexibility in our planning approach is essential to ensure that resources are used effectively. This enables us to provide a robust audit opinion and proactively communicate topical risks and assurance to the Committee. Members of the Committee are encouraged to propose areas where they would welcome assurance, for potential inclusion in the audit plan. This helps ensure the plan remains responsive to organisational priorities and emerging risks.

	The current plan is considered sufficient to support the provision of an audit opinion for the Annual Governance Statement. Our report includes the output of our work in the recent quarter to provide insight on governance, risk, and control environment. We also include information and signpost to news articles to help provide foresight on topical matters and help develop the knowledge and skills of the Committee.
5.	Corporate plan
5.1	Internal Audit work contributes to all priorities of the Corporate Plan . Whilst our work is predominantly risk-based, we also map our work program to Corporate Priorities for assurance that we contribute to a breadth of Corporate Plan areas.
6.	Consultation, engagement and communication
6.1	The Internal Audit Plan is agile and based on continuous engagement with colleagues. Requests for work are considered alongside our own risk appraisal. Members of the Civic Affairs and Audit Committee can also contribute to the plan by identifying areas where they would welcome assurance.
7.	Anticipated outcomes, benefits or impact
7.1	Delivery of the Internal Audit Plan will enable me to provide an opinion on the overall adequacy and effectiveness of the organisation's internal control environment, governance, and the risk management framework. The attached report outlines the outcomes of recent audit work. This will form part of the Annual Governance Statement.
8.	Implications
8.1	Relevant risks
	In the writing of this report, there are no significant implications or risks to the Council. The Internal Audit Plan enables the Council to review the effectiveness of our risk management framework.
	Financial Implications

8.2	None, budget already approved.
	Legal Implications
8.3	None
	Equalities and socio-economic Implications
8.4	None
	Net Zero Carbon, Climate Change and Environmental implications
8.5	None
	Procurement Implications
8.6	None identified.
	Community Safety Implications
8.7	None.
9.	Background documents Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985
9.1	• Global Internal Audit Standards • Application Note: Global Internal Audit Standards in the UK Public Sector • Code of Practice for the Governance of Internal Audit in UK Local Government • Council Corporate Plan • Civic Affairs and Audit Committee Terms of Reference • Internal Audit Charter
10.	Appendices
10.1	A) Governance Risk and Control update report
	To inspect the background papers or if you have a query on the report please contact Jonathan Tully, Chief Audit Executive, email: jonathan.tully@cambridge.gov.uk .

Committee update - October 2026

Introduction

Overview and background

The purpose of this document is to provide an update to the Committee on key audit and governance themes.

This document provides summary updates for the Committee. Statistics are included to help provide an overview of work in progress and these are taken from the last financial quarter.

Committee information

[Calendar of meetings](#)

[Committee Membership and Functions](#)

Internal Audit Information

[Internal Audit Charter](#)

Governance information

[Annual Governance Statement](#)

Governance, Risk and Control

Internal Audit outcomes

Internal Audit reviews provide assurance on the Governance Risk and Control environment, and this contributes to the [Annual Governance Statement](#).

Below are a summary of reviews completed in the last quarter:

Review	Assurance and actions		Summary of report
Carbon Management – Data Quality 	Assurance: Current: Previous: Actions: Critical High Medium Low	Full Full 0 0 0 0	The Council has published a comprehensive Climate Change section on its website, which includes the Council’s updated Climate Change Strategy 2026-31. Statistical information is reported in the Greenhouse Gas (GHG) annual report. This includes emissions from the estate and operations owned and controlled by the Council. The Council has been reporting annual GHG emissions accounts since 2015/2016, following the principles in the Environmental Reporting Guidelines issued by the Departments for Environment, Farming and Rural Affairs (DEFRA) and Energy, Security and Net Zero (DESNZ, formerly BEIS). We completed a data quality check for the reporting period 1st April 2025 – 31st March 2026. This included reviewing the accuracy of data input, and that all calculations and formulae were correct. Data was also verified back to available source data. We assessed the impact of any changes to data collation during the year, such as the move from 130 Cowley Road to the Operational Hub, as well as any smaller issues/changes to the methods used for collating usage data. Feedback was provided where we identified minor adjustments, and the revised data sets were subsequently rechecked. This provides assurance that the data was reliable. There were no actions arising.

Review	Assurance and actions		Summary of report
VAT Follow Up 	Assurance: Current: Previous: Actions: Critical High Medium Low	Full Full 0 0 0 0	We reviewed the implementation of previously agreed actions following the May 2022 audit of Value Added Tax (VAT), which had originally received a 'Full' assurance rating. The follow-up confirmed that all three actions from the 2022 audit have either been implemented or formally reassessed resulting in a continued 'Full' assurance rating. In addition to evaluating the revised internal controls, we tested all transactions from the Finance System that were flagged by the National Fraud Initiative (NFI) exercise for possible VAT errors. All transactions, with the exception of one item, were reviewed satisfactorily, providing continued assurance over the control framework. The exception was an immaterial amount with a current supplier. We have advised the service to obtain clarification and/or credit note resolution from the supplier and have not raised this as a formal audit recommendation.

Current updates and new reviews

There are no adjustments to the plan since our previous report.

We are currently concluding testing on Grant assurance – Disabled Facility Grant, and expect this to be concluded by the date of the Committee meeting.

Overall assurance

The internal audit work and assurance mapping enables me to form an opinion on the governance, risk management and internal control environment.

There is currently a **Reasonable level of assurance** overall, which is similar level to the previous period.

This assurance directly informs the Annual Governance Statement (AGS), which accompanies the Statement of Accounts and is published on our [website](#)



Continuous improvement

New Global Internal Audit Standards and the supporting UK Public Sector Application Note (GIASUKPS) became effective from 1 April 2025.

Following a readiness assessment, we developed an action plan for compliance. We maintain a quality assurance and improvement programme that covers all aspects of the Internal Audit activity.

Development activities are included in this report to help the committee satisfy itself on the effectiveness of internal audit, including conformance with auditing standards. The committee can use this information for their annual report to those charged with governance.

Our revised Internal Audit Charter and Code of Ethics were presented to the [June Committee](#).

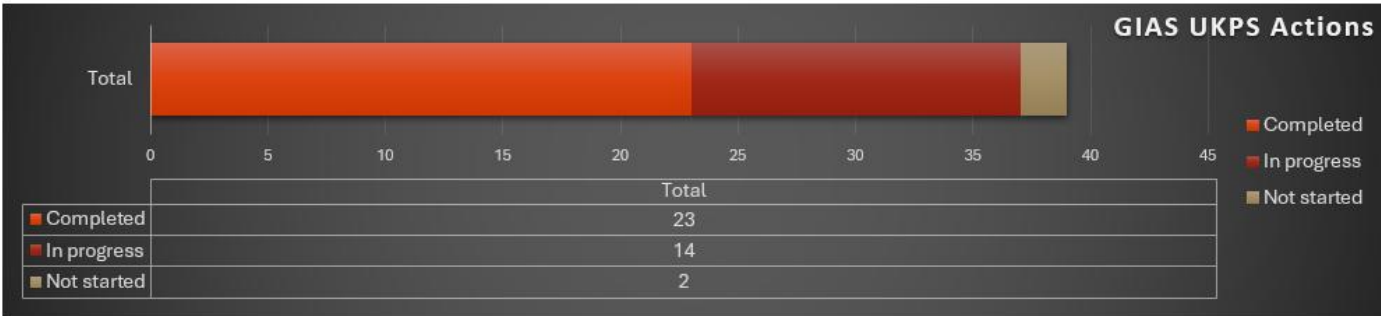
Our team holds quarterly sessions dedicated to reviewing our professional standards and identify opportunities for continuous improvement. This process informs our annual internal quality assurance and improvement programme.

Actions progress

Our regular internal reviews, combined with assessment tools provided by our professional bodies, enable us to develop and maintain a robust action plan for continuous improvement.



We have identified 39 actions to support our compliance with the new professional standards. Of these, 23 have already been completed, and 14 are currently in progress. We have implemented two actions since our last report to the Committee.



We prioritise our actions. All “urgent” and “important actions” have been implemented, and all other actions are on track for implementation. We identified two new actions in the last quarter which will help continue to improve our service delivery and will implement these during 2026/2027.

Governance updates

National Fraud Initiative

The Cabinet Office confirmed the [data specifications for the 2026/2027 National Fraud Initiative](#) exercise.

The [National Fraud Initiative \(NFI\)](#) is an exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud. The data sets we are required to provide are the same as in previous exercises: Trade Creditors; Payroll; Licenses; Housing; Electoral Register; Council Tax.

We have started preparing for the data collation. We have engaged with data owners and confirmed that there are adequate information governance arrangements in place. Data is planned for extract on the 30th September, and we will complete quality assurance and processing in October.

Training, development and risk insight

Below are topical updates that the Committee may find useful.

Risk in Focus 2026 / 2027

[Risk in Focus](#) is an annual thought leadership research project analysing the top risks faced by organisations across Europe. Now in its 11th year, it is an essential tool for internal auditors, audit committees and boards seeking to understand the evolving risk landscape and the priorities of Chief Audit Executives (CAEs) across Europe.



Risk in Focus 2026/ 27 examines a rapidly changing environment shaped by increasingly interconnected risks. Cybersecurity remains the dominant concern, while digital disruption, new technologies and AI, alongside macroeconomic and geopolitical uncertainty, form a closely grouped second tier of risks. The findings highlight how the speed of technological change, geopolitical instability and regulatory complexity are challenging traditional approaches to governance, risk management and internal audit planning.

The [Board Briefing](#) provides a concise summary of the report's findings for boards and senior executives.

Whilst the review considers input from European and Private Sector, it is still a useful document to help review the contents of our Risk Register and Audit Plan.

Whole of Government Accounts 2024-25

In June 2026 HM Treasury has published the [Whole of Government Accounts for 2024-25](#).

The Whole of Government Accounts consolidates the accounts of over 10,000 public sector bodies, including central and local government and public corporations such as the Bank of England, to provide the most complete and accurate picture of the UK's public finances.

The Comptroller and Auditor General (C&AG) has disclaimed his opinion on the financial statements, providing no assurance to Parliament on the financial statements. This is due to continuing backlogs in English local authority accounts and audits.



National Audit Office

Useful Links

Link	Details
Public Sector Audit Appointments	PSAA is responsible for appointing an auditor and setting scales of fees for relevant principal authorities that have chosen to opt into its national scheme.
EY	EY is our externally appointed auditor.
Cabinet Office NFI (National Fraud Initiative)	The National Fraud Initiative is a data matching exercise which helps public sector organisations to prevent and detect cases of fraud and error.

Note

This document will have links to external websites where it provides more information. We are not responsible for the content of external websites.

Glossary of terms

Assurance ratings

Internal Audit provides management and Members with a statement of assurance on each area audited. This is also used by the Chief Audit Executive to form an overall opinion on the control environment operating across the Council, including risk management, control and governance, and this informs the Annual Governance Statement (AGS).

Term	Description
Full Assurance	Controls are in place to ensure the achievement of service objectives and good corporate governance, and to protect the Authority against significant foreseeable risks.
Reasonable Assurance	Controls exist to enable the achievement of service objectives and good corporate governance, and mitigate against significant foreseeable risks. However, occasional instances of failure to comply with control process were identified and/or opportunities still exist to mitigate further against potential risks.
Limited Assurance	Controls are in place and to varying degrees are complied with, however, there are gaps in the process which leave the service exposed to risks. Therefore, there is a need to introduce additional controls and/or improve compliance with existing ones, to reduce the risk exposure.
No Assurance	Controls are considered to be insufficient, with the absence of at least one critical control mechanism. There is also a need to improve compliance with existing controls, and errors and omissions have been detected. Failure to improve controls leaves the Authority exposed to significant risk, which could lead to major financial loss, embarrassment, or failure to achieve key service objectives.

Action ratings

Opportunities for improvement are developed into actions with Management to improve the effectiveness of the governance, risk management arrangements, and the internal control environment.

Management are responsible for implementing their actions and providing assurance when they are completed. Timescales for implementing actions should be proportionate and achievable to the available resources. To help prioritise the actions we have produced guidance below:

Priority	Description	Timescale for action	Monitoring
Critical	Extreme control weakness that jeopardises the complete operation of the service.	To be implemented immediately.	Within 1 month
High	Fundamental control weakness which significantly increases the risk / scope for error, fraud, or loss of efficiency.	To be implemented as a matter of priority.	Within 6 months
Medium	Significant control weakness which reduces the effectiveness of procedures designed to protect assets and revenue of the Authority.	To be implemented at the first opportunity.	Within 12 months
Low	Control weakness, which, if corrected, will enhance control procedures that are already relatively robust.	To be implemented as soon as reasonably practical.	Within 24 months

The Council has an Action tracking system, which is used for monitoring progress. This will be updated upon distribution of the report and we will follow up the actions where appropriate.

Assurance – Direction of Travel

The symbols below indicate the direction of travel when we have concluded a review:

Control Status	Improvement	Consistent	Decrease	New
Symbol				
Details and factors	Actions have been implemented New controls established Risk factors have reduced	Controls continue to operate at the same level The risk environment has stayed consistent	Controls have reduced, or not been complied with Risks factors have increased, or new risks have emerged	This is a new review and we do not have a comparable benchmark.

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REPORT TITLE: 2025-26 Audit Plan and Rebuilding Assurance
To:

Civic Affairs and Audit Committee, Monday 5 October 2026

Report by:

Matthew Fernandez-Graham, Head of Finance (Deputy S151 Officer)

Tel: 01223 458134 Email: matthew.fernandezgraham@cambridge.gov.uk

Wards affected:

All

Director Approval: Jody Etherington, Chief Finance Officer (S151 Officer), confirms that the report author has sought the advice of all appropriate colleagues and given due regard to that advice; that the equalities impacts and other implications of the recommended decisions have been assessed and accurately presented in the report; and that they are content for the report to be put to the Committee for decision.

1.	Recommendations
1.1	It is recommended that the Committee: 1. Note the Provisional Audit Plan 2. Note the auditors' update on rebuilding assurance and consider whether there are any additional matters that should influence their risk assessment 3. Note the steps taken by Officers to support the audit and rebuilding assurance and consider whether there are any additional steps that should be taken to build back to full assurance.
2.	Purpose and reason for the report
2.1	As the Council's body charged with governance, the Civic Affairs and Audit Committee plays a crucial role in ensuring assurance over both the quality of the draft financial statements prepared by Council Officers and the Council's wider arrangements to support a timely and efficient audit. The provisional Audit Plan report is presented to this Committee so that it can play its

	role in ensuring assurance over the quality of the financial statements and a timely and efficient audit. The purpose of the second paper is to provide the Civic Affairs and Audit Committee Members with further detail on the risk assessment procedures performed in respect of opening reserve balances and an update on the timeline towards full assurance. This is based on the outcome of previous work up to and including the 2024/25 audit and does not take account of work done to date on delivering the 2025/26 audit. The statutory “backstop” date for the audited accounts for 2025/26 is Sunday 31 January 2027. The equivalent date for the 2026/27 accounts will be Tuesday 30 November 2027.
2.2	Ernst & Young regularly rotate audit partners to ensure continued independence and the new audit partner for work with Cambridge City Council is Natalie Clark. Both the reports are signed by Debbie Hanson, however this was a temporary measure while Natalie went through the necessary process to allow her to sign off reports from Ernst & Young LLP, so it is Natalie Clark who will present these reports to the Committee.
3.	Alternative options considered
3.1	There is a statutory requirement to produce annual accounts each year, most recently set out in the Local Audit and Accountability Act 2014. In the past our auditors have chosen not to carry out a full audit, as a result of the widespread issues with the local government audit system in England. However, to do so again would simply push back the year when full assurance can once again be provided to this Committee.
4.	Background and key issues
4.1	The Provisional Audit Plan is attached as Appendix A and is summarised below. Changes in the planning since this report was written will be highlighted when it is presented to the Committee. Audit Strategy and Rebuilding Assurance The 2025/26 audit focuses on rebuilding assurance after previous delays, with limited progress on 2022/23 and 2023/24 audits.

- The Council's readiness and quality of supporting evidence are critical for timely completion.

Key Audit Risks and Focus Areas

- Significant inherent risks include management override, revenue recognition, valuation of investment properties, and pension assumptions.
- Changes include reduced focus on pension valuation risk due to prior year assurances and applying CIPFA Bulletin 22 for asset valuations which mandates annual indexation in the intervening years of a 5 year revaluation programme for non-investment assets.

Materiality and Audit Scope

- Group and Council materiality was provisionally set at £3.58 million, based on 2% of 2024/25 gross expenditure. Since the development of the provisional plan, this has been increased to £3.98 million based on 2% of 2025/26 gross expenditure in the unaudited accounts published on 30 June 2026.
- Performance materiality is £1.79 million, with uncorrected misstatements over £0.18 million to be reported. This has now been increased to £1.99 million based on 1% of 2025/26 gross expenditure in the unaudited accounts published on 30 June 2026, with uncorrected misstatements over £0.2 million to be reported.
- The audit covers 99% of total assets, 100% of income and expenditure, with components scoped for full or specific audits.

Risks and Planning for Value for Money

- No significant weaknesses in financial sustainability or efficiency were identified; however, financial governance shows a significant weakness due to capacity issues.
- The 2025/26 risk assessment highlights concerns about finance team capacity, based on the significant weakness identified during the 2024/25 audit.
- The auditor plans to continue monitoring arrangements and assess management's response to previous weaknesses.

Audit Process and Timeline

- The audit aims to provide an opinion on financial statements and assess arrangements for value for money.
- Internal audit reviews and component work are integrated into the audit plan.
- The timetable includes planning, walkthroughs, substantive testing, and reporting, with the key deliverables of the Audit Results Report and the Auditor's

	Annual Report being presented to this Committee at its meeting on Monday 30 November 2026. This will provide sufficient time for the auditors to complete their work and sign off the accounts by the statutory “backstop” date of Sunday 31 January 2027.
4.2	The Head of Finance has put interim arrangements in place within the technical accounting team to cover the Chief Accountant role while this person is on leave. To strengthen the team, an external final accounts specialist has been working temporarily with the Council since the beginning of March 2026 and helped to ensure that the draft accounts were published on the deadline of 30th June 2026. The auditors have been in regular communication throughout the year and the full team started fieldwork on Monday September 7th. A verbal update on the progress of the audit will be provided to the Committee when it meets.
4.3	The Rebuilding Audit Assurance update report is attached as Appendix B and is summarised below. Purpose and Scope of Risk Assessment - The audit team updated risk procedures on reserves due to previous disclaimed opinions. - The assessment focused on identifying risks of material misstatement in reserves, including historical balances. Key Findings on Reserve Risks - A significant risk was identified in relation to the Housing Revenue Account balance because of disclaimed audits in previous years. - Higher inherent risks identified in General Fund, Earmarked Reserves and Capital Grants Unapplied Account, as well as the Revaluation Reserve and the Capital Adjustment Account, due to size, movements, and the inherent risk of management bias. - Lower inherent risks were found in Capital Receipts Reserve, Major Repairs Reserve, and the Collection Fund Adjustment Account. Implications for 2025/26 Audit - Assurance gaps from previous disclaimed years cannot be fully addressed in 2025/26. - Focus will be on high-quality financial statements and supporting evidence to support future assurance rebuild.

	- Assurance over historic balances will be reassessed in 2026/27. Timeline and Progress to Full Assurance - Full assurance is a multi-year process, with previous years issued disclaimers. - Based on the audit findings for 2024/25, the Council's progress is behind schedule, emphasising the need for improved documentation and evidence. - The goal remains to achieve an unqualified opinion for 2027/28 through sustained effort and high-quality reporting
4.4	The Capital and Treasury Accountant acted as Chief Accountant for this year's accounts preparation and audit and has learnt a great deal from the experience. Other key staff were working on parts of the accounts for the first time at Cambridge City Council. Recruitment to all posts for the Finance Team structure under the Group redesign was completed in August 2026.
5.	Corporate plan
5.1	This work contributes towards the Corporate Plan priority: Modernising the council to lead a greener city that is fair for all
6.	Consultation, engagement and communication
6.1	The statutory public inspection period during which the public can request to review the accounts and supporting documents and ask questions of the auditors ran from 1 July 2026 to 11 August 2026.
7.	Anticipated outcomes, benefits or impact
7.1	It is one sign of strong financial governance for a Council to achieve an unqualified audit opinion on its accounts. The financial impact of returning to full assurance will be that the auditors will no longer need to do additional work to rebuild assurance, which avoids potential costs.
8.	Implications

8.1	Relevant risks
	The audit addresses risks around financial governance and the audit process helps to avoid risk to the Council's reputation relating to financial governance.
	Local Government Reorganisation (LGR)
8.2	Should Local Government Reorganisation proceed, it is important that the Council hands over a set of unqualified accounts to its successor body to give it the best possible start for its financial governance
	Financial Implications
8.3	The reports set out the implication for the fees that can be charged in relation to the audit and rebuilding assurance, EY will be seeking permission from the Public Sector Audit Appointments for additional fees, there is a possibility that MHCLG will provide the Council with additional funding that would cover this in whole or in part.
	Legal Implications
8.4	Meeting the backstop date is a statutory requirement.
	Equalities and socio-economic Implications
8.5	None
	Net Zero Carbon, Climate Change and Environmental implications
8.6	None
	Procurement Implications
8.7	None

	Community Safety Implications
8.8	None
9.	Background documents Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985
9.1	The unaudited Statement of Accounts is available on the Council's website at Statement of accounts - Cambridge City Council
10.	Appendices
10.1	Appendix A Provisional Audit Planning Report for Year ended 31 March 2026 Appendix B Rebuilding Audit Assurance: the path to an unqualified opinion
	To inspect the background papers or if you have a query on the report please contact Matthew Fernandez-Graham, Head of Finance, tel: 01223 458134, email: matthew.fernandezgraham@cambridge.gov.uk

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Cambridge City Council

Provisional Audit Planning Report

Year ended 31 March 2026

29 April 2026



The better the question. The better the answer. The better the world works.



Shape the future
with confidence

Private and Confidential

29 April 2026

Civic Affairs and Audit Committee
The Guildhall
Peas Hill
Cambridge
CB2 3QJ

Dear Civic Affairs and Audit Committee Members,

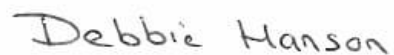
Provisional Audit Planning Report 2025/26

We are pleased to attach our Audit Planning Report for the forthcoming meeting of the Civic Affairs and Audit Committee. The purpose of this report is to provide the Committee with a basis to review our proposed audit approach and scope for the 2025/26 audit, in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2024 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards, and other professional requirements.

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

We welcome the opportunity to discuss this report with you on 22 June 2026 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

A handwritten signature in blue ink that reads "Debbie Hanson".

Debbie Hanson
For and on behalf of Ernst & Young LLP
Enc

Contents

1 Overview of our
2025/26 audit
strategy

2 Audit risks

3 Value for money

4 Audit materiality

5 Scope of the audit

6 Audit team

7 Audit timeline

8 Appendices

Public Sector Audit Appointments Ltd (PSAA) issued the 'Statement of responsibilities of auditors and audited bodies'. It is available from the PSAA website (<https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/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 1 October 2025)' issued by the PSAA (<https://www.psaa.co.uk/managing-audit-quality/contract-monitoring-2023-24-to-2027-28/terms-of-appointment-from-2023-24/terms-of-appointment-and-further-guidance-from-1-october-2025/>) sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice 2024 (the NAO Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Civic Affairs and Audit Committee and Management of Cambridge City Council. Our work has been undertaken so that we might state to the Civic Affairs and Audit Committee and Management of Cambridge 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 Civic Affairs and Audit Committee and Management of Cambridge 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

Overview of our 2025/26 audit strategy

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2025/26 audit strategy overview: Rebuilding Assurance

The purpose of this report

As the Council's body charged with governance, the Civic Affairs and Audit Committee plays a crucial role in ensuring assurance over both the quality of the draft financial statements prepared by management and the Council's wider arrangements to support a timely and efficient audit. Failure to achieve this will significantly increase the level of resources required to fulfil our respective responsibilities.

As part of our responsibilities, we assess and report on the adequacy of the Council's external financial reporting arrangements, as well as the effectiveness of the Civic Affairs and Audit Committee in fulfilling its role within those arrangements as part of our Value for Money assessment. 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. Wherever necessary, we will consider invoking other statutory reporting powers to highlight any weaknesses in these arrangements. We direct Civic Affairs and Audit Committee members and officers to the Public Sector Audit Appointment Limited's Statement of Responsibilities (paragraphs 26-28) for expectations on preparing financial statements (see Appendix A).

Our shared strategy to rebuild assurance

53 We are now in Phase 2 of the implementation of the Ministry for Housing, Communities and Local Government's (MHCLG) measures to address the backlog facing local government audit. Throughout 2023/24 and 2024/25, we have applied a structured, risk-based prioritisation approach to local government audits to support a return to unqualified audit opinions wherever feasible, while still meeting statutory backstop requirements. Our approach recognises that recovery depends heavily on the Council's own capacity and preparedness and that audit effort must be targeted where it can deliver meaningful assurance.

53 Management has overall responsibility for leading and sustaining the Council's recovery from a disclaimed audit opinion. This includes ensuring that the financial statements are prepared in accordance with proper practices and supported by complete, accurate and timely audit evidence.

To deliver this, it is essential that management:

- Strengthen the underlying control environment, particularly in areas linked to prior year disclaimers.
- Provide high quality working papers and ensure that all audit evidence is complete, consistent and readily accessible.
- Allocate sufficient, knowledgeable resources throughout the audit cycle.
- Actively engage with auditors, promptly addressing findings and resolving weaknesses in financial reporting arrangements.
- Communicate transparently with the Audit and Risk Committee, as Those Charged with Governance, ensuring that Committee members have clear visibility of risks, progress and emerging issues.

In line with the National Audit Office's Local Audit Reset and Recovery Implementation Guidance (LARRIGs) - and specifically the guidance on rebuilding assurance following a disclaimed opinion - management must support the restoration of reliable opening balances and enable a phased progression from disclaimed to qualified and ultimately unmodified audit opinions. Achieving this requires sustained delivery of the "natural rebuild," through the completion of all planned audit procedures across successive annual cycles, alongside targeted work to rebuild assurance over historical balances, including both usable and unusable reserves, where cumulative gaps in evidence present the most significant challenges.

2025/26 audit strategy overview: Rebuilding Assurance

Our shared strategy to rebuild assurance continued

Appendix A explains the expected timeline to full assurance set out within the NAO's LARRIG 01 guidance, along with our assessment of the Council's status. We did not undertake any audit procedures on the 2022/23 financial statements and issued a disclaimer opinion under the agreements to reset and recover local government audit.

During 2023/24 and 2024/25, the focus of the rebuild process has been on this "natural" rebuild, to complete all planned audit procedures for each respective audit year. As we set out in Appendix A and in our Audit Completion Report and Audit Results Report dated 01 May 2025 and 11 February 2026, respectively, we were not able to complete all planned audit procedures for the following reasons:

2023/24

We were not able to commence any work to rebuild assurance ahead of the 2023/24 backstop date, as the Council did not publish its draft financial statements by the target date outlined in the Accounts and Audit Regulations 2015 (31 May 2024). The unaudited statements for 2023/24 were published on 28 February 2025. Taken together with the requirement to conclude our work by the 2023/24 backstop date, the lack of evidence over these movements and balances means we are unable to conclude that the 2023/24 financial statements are free from material and pervasive misstatements.

2024/25

Due to the disclaimers of opinion on the financial statements in the prior years, delays in receiving associated audit evidence and inability to support the audit in advance of the backstop date, we have not been able to complete all the detailed audit procedures that would be needed to obtain sufficient appropriate audit evidence to issue an unmodified audit report on the Council's financial statements for the year ended 31 March 2025. The detail of balances where we have a lack of assurance are set out in Appendix A.

2025/26

As part of our interim audit procedures for 2025/26, we will undertake a detailed risk assessment to evaluate the risk of material misstatement in the opening reserves balances at 1 April 2025, and to assess management's readiness to support the historic rebuild process over transactions and balances in 2022/23 and 2023/24 that were not subject to audit. This work is expected to be completed by 30 June 2026 and is essential to determining whether the pre-2024/25 gaps in assurance - particularly those relating to reserves and other cumulative balances - can be sufficiently addressed to support future progression towards qualified or unmodified audit opinions. We will discuss the outcome of our risk assessment over the opening reserves balances with management to confirm our planned approach for 2025/26. However, because we were unable to complete planned audit procedures for 2023/24 and 2024/25 for the reasons outlined above, it is unlikely that we will commence any rebuilding of assurance over the historic position during the 2025/26 audit cycle. In line with our established prioritisation principles, we will focus our audit resources on rebuilding assurance for those bodies where planned audit procedures were completed in 2023/24 and 2024/25, to support the sector wide objective of returning to unmodified audit opinions as quickly and sustainably as possible.

It is therefore critical that Management ensure they can provide high quality working papers, robust audit evidence, and resolve the underlying issues identified in prior years as part of the 2025/26 audit cycle. This will be essential to avoid any further delay in the eventual process for rebuilding assurance over the Council's historic position.

2025/26 audit strategy overview: Rebuilding Assurance

Preparedness for 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. Our 2024/25 reporting included our assessment of the effectiveness of the Council's arrangements to support the external audit process across a range of relevant measures (reproduced in Appendix A). We concluded that the Council was not fully prepared for the audit and that improvements were required in relation to:

- The timeliness and quality working papers and supporting evidence provided in accordance with the agreed timetable.
- The availability of key finance personnel to support the execution phase of the audit in accordance with the agreed project plan.

We will continue to report on our assessment of the quality of the Council's financial statements' preparation and support, to support ongoing transparency of the audit process to those charged with governance, and to facilitate benchmarking and tracking of progress in future years.

Scope of our audit

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In accordance with the NAO Code, our primary objectives are to conduct work that supports the delivery of our audit report to the Council. Additionally, we aim to ensure that the Council has established proper arrangements for securing economy, efficiency, and effectiveness in its use of resources, as mandated by relevant legislation and the requirements of the NAO Code. We will issue an Audit Results Report that summarises our opinion on the financial statements by 30 November 2026 and other procedures required by the Code. This includes our assessment of the control environment, including our follow up of the recommendations that we made in 2024/25 (refer to Appendix D). In addition, our Auditor's Annual Report will conclude on whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources and report a commentary on those arrangements.

In addition to the audit of the Council, we will also audit the in-scope balances of the subsidiary company, Cambridge City Housing Company Ltd as part of our Group audit procedures. Our Group risk assessment and procedures are outlined in Section 5.

Timeline

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

Our independence considerations

We have not identified any matters that would compromise our independence in relation to the 2025/26 audit.

Please refer to Appendix B for our update on independence.

2025/26 audit strategy overview: Audit risks and materiality

Audit risks and areas of focus

The purpose of our audit is to obtain reasonable assurance to express an opinion about whether the group financial statements as a whole are free from material misstatement, whether due to fraud or error. There is one significant change to the scoping for the audit of the 2025/26 financial statements, relating to the implementation of CIPFA's Bulletin 22 in relation to the valuation of Property, Plant and Equipment.

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

Risk/area of focus	Risk identified	Change from PY	Details
Presumptive risk of management override of controls	Fraud risk	No change in risk or focus	There is a risk that the financial statements as a whole are not free from material misstatement whether caused by fraud or error. We perform mandatory procedures regardless of specifically identified fraud risks.
Risk of fraud in revenue and expenditure recognition, through inappropriate capitalisation of revenue expenditure including Revenue Expenditure Funded from Capital Under Statute (REFCUS)	Fraud risk	No change in risk or focus	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 and REFCUS.
Valuation of investment properties	Significant risk	No change in risk or focus	The Council's investment property is a material balance (£171.30 million at 31 March 2025) disclosed on the Council's Balance Sheet. There is a significant level of judgement around assumptions within valuations, especially where these assumptions rely on market data or income-based measures, given difficulties in estimating future income.
Pension valuation	Risk of material misstatement (previously referred to as inherent risk)	Decrease in risk or focus	Accounting for the Council's participation in the Cambridgeshire Pension Fund involves significant estimation and judgement, including financial and demographic assumptions. There is a risk that the net pension asset/liability recognised is materially misstated, as its recognition and measurement is subject to significant management judgement, including the application of the IAS 19 asset ceiling and the assessment of the Council's ability to realise future economic benefits. The Council 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. This was assessed as a significant risk in the prior year due to asset ceiling considerations. As no issues were identified through our prior year audit work, we have reduced the risk for 2025/26.

2025/26 audit strategy overview: Audit risks and materiality

Audit risks and areas of focus (cont'd)

Risk/area of focus	Risk identified	Change from PY	Details
Valuation of land and buildings, including right of use (ROU) assets	Risk of material misstatement (previously referred to as inherent risk)	No change in risk or focus	Other land and buildings (OLB) and right of use (ROU) assets represent a significant balance in the Council's accounts. These assets are subject to valuation changes, impairment reviews and depreciation charges. Significant judgemental inputs and estimation techniques are required to calculate the year-end balances. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates. In the 2025/26 financial statements, the Council will be required to apply CIPFA Bulletin 22 which reassesses the current regime of valuation for non-investment assets across the public sector. The guidance mandates a quinquennial revaluation or a five-year rolling programme for formal valuations, supported by annual indexation in the intervening years. Successful implementation will depend on the Council ensuring that their existing valuation programme is adapted in line with the guidance and that appropriate indices are selected to be applied in intervening years.
Council dwellings valuation	Risk of material misstatement (previously referred to as inherent risk)	No change in risk or focus	Council dwellings represent a significant balance in the Council's accounts (£831 million at 31 March 2025) and are subject to valuation changes, impairment reviews and depreciation charges. As the value of council houses are significant, and the outputs from the valuer are subject to estimation, there is a higher inherent risk that balances may be under/overstated, or the associated accounting entries incorrectly posted.
Group accounting	Risk of material misstatement (previously referred to as inherent risk)	No change in risk or focus	The Council prepares consolidated Group Accounts. The Council will need to undertake its annual assessment of the group structure and boundary to determine the procedures required to consolidate the relevant component entities. We will consider the need to engage with the auditors of the significant components to understand and evaluate any risks they have recognised on the 2025/26 audits and what impact this has on our risk procedures in relation to the group accounts.

2025/26 audit strategy overview: Audit risks and materiality

Group and Council materiality



Materiality has been set at £3.58 million, which represents 2% of total gross expenditure in 2024/25 (2024/25: £3.64 million, 2%).



Performance materiality has been set at £1.79 million, which represents 50% of materiality.



We will report all uncorrected misstatements relating to the income statement and balance sheet that have an effect on income and misstatements in the CIES over £0.18 million. Other misstatements identified will be communicated to the extent that they merit the attention of the Civic Affairs and Audit Committee.

2025/26 audit strategy overview: Value for Money

Our risk assessment

Under the NAO Code we are required to:

- Satisfy ourselves that the Cambridge City Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources, having regard to [NAO AGN 03](#).
- Design work to provide sufficient assurance to support reporting against the Code's specified reporting criteria outlined below; and
- Apply a risk-based approach to our work, informed by sector knowledge, the annual governance statement, evidence from the financial statements audit and relevant work of other bodies.

In undertaking our risk assessment, we obtain an understanding of the key processes the Council has in place, including financial management, risk management and partnership working arrangements. Our Auditor's Annual Report, which will be issued before 30 November 2026 will include a summary of our commentary on the arrangements in place against each of the three value for money criteria and recommendations raised as a result of any significant weaknesses identified. A key part of our work will be the follow up of previous recommendations to provide the Committee with assurance on the pace of planned improvements. Refer to Appendix D for recommendations identified in 2024/25.

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Risks of significant weaknesses in arrangements identified in 2025/26 based on work completed to date which remains in progress:

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.
No risks of significant weakness identified	Capacity and capability of the Finance Team to support the 2025/26 audit process	No risks of significant weakness identified



02 Audit risks

Our response to significant risks

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

Presumptive risk of management override of controls*

What is the risk, and the key judgements and estimates?	Our response: Key areas of challenge and professional judgement
In accordance with ISA 240, the presumptive risk of management override of controls is present at every entity and we design the appropriate procedures to consider such risk. - Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud. - Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. We consider this risk to be relevant to the Group and Council as a single entity.	To address the risks outlined we will carry out a range of procedures including: - Identifying fraud risks during the planning stages. - Inquiry of management about risks of fraud and the controls put in place to address those risks. - Understanding the oversight given by those charged with governance of management's processes over fraud. - Discussing with those charged with governance the risks of fraud in the entity, including those risks that are specific to the entity's business sector (those that may arise from economic industry and operating conditions). - Considering whether there are any fraud risk factors associated with related party relationships and transactions and if so, whether they give rise to a risk of material misstatement due to fraud. - Considering the effectiveness of management's controls designed to address the risk of fraud and determining an appropriate strategy to address those identified risks of fraud. - Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements. - Undertaking procedures to identify significant unusual transactions. - Considering whether management bias was present in the key accounting estimates and judgements in the financial statements. Having evaluated this risk, we have considered whether we need to perform other audit procedures not referred to above. We concluded that those procedures included under 'Inappropriate capitalisation of revenue expenditure and REFCUS' are required.

Our response to significant risks (cont'd)

Risk of fraud in revenue and expenditure recognition, through inappropriate capitalisation of revenue expenditure including REFCUS*

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Financial statement impact	What is the risk, and the key judgements and estimates?	Our response: Key areas of challenge and professional judgement
We have assessed that the risk of misreporting revenue outturn in the financial statements is most likely to be achieved through: - Revenue expenditure being inappropriately recognised as capital expenditure at the point it is posted to the general ledger. - Expenditure being classified as revenue expenditure financed as capital under statute (REFCUS) when it is inappropriate to do so. - Expenditure being inappropriately transferred by journal from revenue to capital codes on the general ledger at the end of the year. If this were to happen it would have the impact of understating revenue expenditure and overstating Property, Plant and Equipment (PPE) additions and REFCUS in the financial statements.	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 and REFCUS.	To address the risks outlined we will carry out a range of procedures including: - Testing Property, Plant and Equipment (PPE) additions to ensure that the expenditure incurred and capitalised is clearly capital in nature. - Assessing whether the capitalised spend clearly enhances or extends the useful life of asset rather than simply repairing or maintaining the asset on which it is incurred. - Considering whether any development or other related costs that have been capitalised are reasonable to capitalize, i.e., the costs incurred are directly attributable to bringing the asset into operational use. - Testing REFCUS, if material, to ensure that it is appropriate for the revenue expenditure incurred to be financed from ringfenced capital resources. Based on our work at the planning stage of the audit we do not expect there to be material REFCUS in the year. - Seeking to identify and understand the basis for any significant journals transferring expenditure from revenue to capital codes on the general ledger at the end of the year.

Our response to significant risks (cont'd)

Valuation of Investment Properties		
Financial statement impact	What is the risk, and the key judgements and estimates?	Our response: Key areas of challenge and professional judgement
The Council's Investment Property portfolio is a material balance (£171.30 million at 31 March 2025) disclosed on the Council's Balance Sheet. The value of Investment Property represents a significant balance in the Council's accounts and is subject to valuation based on market information. Given potential impacts of market uncertainty, this may limit the valuer's scope in determining reasonable estimates within the valuation model of investment properties at 31 March 2026. This leads to a risk of material uncertainty in the valuations of Investment Property within the Council's financial statements.	Individual asset markets may react differently to ongoing uncertainties and considerations must be given to ensure sufficient and appropriate market data is used for valuations in 2025/26. There is a significant level of judgement around assumptions within valuations, especially where these assumptions rely on market data or income-based measures, given difficulties in estimating future income.	To address the risks outlined we will carry out a range of procedures including: ▪ Considering 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 testing key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre); ▪ Engaging EY internal specialists to review the underlying assumptions used to value any material investment property assets; ▪ Considering if there are any specific changes to assets that have occurred and that these have been communicated to the valuer; ▪ Reviewing assets not subject to valuation in 2025/26 to confirm that the remaining asset base is not materially misstated; ▪ Testing accounting entries have been correctly processed in the financial statements; ▪ Reviewing financial statement disclosures to ensure that adequate disclosures have been made in relation to estimation uncertainty.

Other areas of audit focus

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

Financial statement impact	What is the risk, and the key judgements and estimates?	Our response: Key areas of challenge and professional judgement
Pension valuation The Council's net pension liability is measured as the sum of the long-term payments due to members as they retire against the Council's share of the Cambridgeshire Pension Fund investments. The Council's pension valuation is a material estimated balance. At 31 March 2025 the Council's net liability totalled £30.63 million.	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. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the Council. 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.	In response to the risk, we will: ▪ Liaise with the auditor of Cambridgeshire Pension Fund to obtain assurances over the information supplied to the actuary and confirm joint assurances in respect of employer and employee contributions, as well as the membership data used for the 31 March 2025 triennial valuation. ▪ Engage our actuarial specialists to assess the work of the actuary. This will involve a consideration of the net asset/liability and any calculation of the asset ceiling in accordance with IFRIC 14 where relevant . ▪ Assess the work of PwC, appointed to consider actuarial assumptions used at the year end for all local government sector bodies. ▪ Review and test the accounting entries and disclosures made within the Group Council's financial statements in relation to IAS19. ▪ Assess whether there have been no material movement in the value of pension fund assets between the initial IAS19 report, and the signing of the financial statements. ▪ Consider the valuation and disclosure of unfunded liabilities, for which there are no plan assets to meet the pension liabilities. As part of our audit procedures, we will request that the Group and Council obtain an asset ceiling report from their actuaries. Our actuarial specialists will review the asset ceiling report to satisfy themselves that it is materially correct. Following review, we will also ensure that pension assets and liabilities are appropriately recorded within the Group financial statements.

Other areas of audit focus

Financial statement impact	What is the risk, and the key judgements and estimates?	Our response: Key areas of challenge and professional judgement
Valuation of other land and buildings (including RoU assets)		
The relevant 2024/25 account balances in the audited financial statements were: - Property, plant and equipment: £1,075.99 million - Relating to other land and buildings: £116.35 million; - ROU assets included within the other land and buildings: £37 million. OLB and ROU Assets constitute a significant balance in the Council's accounts and is subject to valuation changes, impairment reviews and depreciation charges.	Material judgemental inputs and estimation techniques are required to calculate the year-end balances held in the balance sheet. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates. In the 2025/26 financial statements, the Council will be required to apply CIPFA Bulletin 22 which reassesses the current regime of valuation for non-investment assets across the public sector. The guidance mandates a quinquennial revaluation or a five-year rolling programme for formal valuations, supported by annual indexation in the intervening years. These changes do not impact investment property which is still required to be revalued in full each year. The Council intends to implement a five-year rolling programme for a number of assets, with indexation applied to the remainder. In our 2024/25 Audit Results Report, we reported control deficiencies in relation to asset values being incorrectly recorded in the Fixed Asset Register, and discrepancies between the data and assumptions used in valuation calculations. These matters are described in more detail in Appendix D.	In response to the risk, we will: - Review and assess management's assessment and planned approach to CIPFA Bulletin 22, in the context of other challenges in the application. In particular, considering the appropriateness of indices applied to assets not revalued during intervening years and triggers for revaluation; - Review and appraise the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; - Sample test key asset information and assess assumptions used by the valuers in performing their valuation (e.g. floor plans to support price per square metre, yields and future income); - Involve EY internal specialists, where necessary, to challenge the work performed by the Council's valuers, focusing on more material assets which have been subject to audit differences in the past; - Assess any changes to useful economic lives against the most recent valuer assessments; - Test accounting entries have been correctly processed in the financial statements; - Sample test transfers from assets under construction and confirm for a sample that remain within assets under construction that development is still in progress; - Review and assess management's impairment assessment of ongoing and completed capital projects to ensure assets are held at an appropriate value.

Other areas of audit focus

Financial statement impact	What is the risk, and the key judgements and estimates?	Our response: Key areas of challenge and professional judgement
Council dwellings valuation		
The relevant 2024/25 account balances in the audited financial statements is: Council dwellings: £831 million.	These assets are subject to valuation changes, impairment reviews and depreciation charges. As the value of council dwellings are significant, and the outputs from the its valuer are subject to estimation, there is a higher inherent risk balances may be under/overstated or the related accounting entries incorrectly posted.	To address this risk, we will undertake the following audit procedures: - Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; - Sample test key asset information and assess assumptions used by the valuer in performing their valuation; - Consider changes to useful economic lives as a result of the most recent valuation; and - Test accounting entries have been correctly processed in the financial statements.
Group accounting		
We have assessed that the risk of misreporting in Group consolidation is most likely to occur from the complexity of the group structure, which increases the likelihood that changes in subsidiaries or joint ventures (such as additions, disposals, or ownership changes) are not appropriately identified and accounted for.	The Council prepares Group Accounts and will therefore need to undertake its annual assessment of the group structure and boundary to determine the procedures it needs to undertake to consolidate the relevant component entities. During the year, the Council entered into a new joint venture arrangement with Cambridge Social Investments Ltd, which was incorporated in May 2025.	To address this risk, we will undertake the following audit procedures: - Review the Council's assessment of its group structure - Consider the need to liaise with the component auditors to understand any risks that they are recognising; - Evaluate any risks at component level on the group accounts; and - Review the consolidation adjustments and group accounts. - Assess management's judgement over the accounting and disclosure of the newly established joint venture.



03 Value for money

Value for money

Council's responsibilities for value for money

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

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

Auditor responsibilities

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

The specified reporting criteria are:



Financial sustainability

How the Council plans and manages its resources to ensure it can continue to deliver its services.



Governance

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



Improving economy, efficiency and effectiveness

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

Value for money

Planning and identifying risks of significant weakness in value for money arrangements

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

- The 2024/25 Annual Governance Statement;
- Evidence of arrangements during the reporting period;
- Evidence obtained from our audit of the financial statements;
- The work of inspectorates and other bodies; and
- Any other evidence that we deem necessary to facilitate the performance of our statutory duties.

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

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

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

Reporting on value for money arrangements

If we determine that the Council has not made proper arrangements for securing economy, efficiency, and effectiveness in its use of resources, the NAO Code mandates that we reference this by exception in the audit report on the financial statements.

Additionally, we are required to provide a commentary on the value for money arrangements in the Auditor's Annual Report. The NAO Code specifies that this commentary should be clear, readily understandable, and highlight any issues we wish to draw to the Council's or the wider public's attention. This may include matters that are not considered significant weaknesses in arrangements but should still be brought to the Council's attention. It will also cover details of any recommendations from the audit and the follow-up of previously issued recommendations, along with our assessment of their satisfactory implementation. Our 2025/26 Auditor's Annual Report must be issued in draft by 30 November 2026 to comply with the revised requirements of the NAO Code.

Value for money

Value for money risk assessment

We have completed our initial value for money planning, subject to Manager and Partner review, where we have considered:

- Our entity level controls and understanding the business assessment
- The Council's Risk Register
- Council meeting minutes and our planning meetings with Management
- Key financial and budget information
- Key performance reports (including Internal Audit reports)
- Value For Money reporting in 2024/25

As part of our initial planning work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing value for money that we needed to perform further procedures on. The risks we have identified are detailed on the table below along with the further procedures we will perform. We will continue to review the Council's arrangements and report.

Criteria	2024/25 judgements on arrangements	2025/26 risk assessment	2025/26 expected procedures to respond
Financial sustainability	No significant weakness identified.	▪ No weakness identified	▪ Not Applicable
Governance	Significant weakness in arrangements identified	▪ A risk of significant weakness has been identified relating to capacity and capability of the Finance Team to support the 2025/26 audit process. ▪ The prior year significant weakness is an indicator of a risk in the current year.	▪ As part of our discussions with the Council, Management advised that new recruitments have been completed and that an additional resource has been put in place to support the audit, in response to issues identified in the prior year. We will continue to assess the adequacy of the Council's arrangements to ensure that the audit process is appropriately supported, and that working papers and supporting evidence are provided in accordance with the agreed timetable.
Improving economy, efficiency and effectiveness	No significant weakness identified.	▪ No weakness identified	▪ Not Applicable



04 Audit materiality

Materiality

Group and Council materiality

For planning purposes, Group and Council materiality for 2025/26 has been set at £3.58 million. This represents 2% of the Group and Council's 2024/25 gross expenditure on provision of services. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix G.

Gross expenditure on provision of services

£179.23 million – Council
£179.37 million – Group

Planning
materiality
**£3.58
million**

Performance
materiality
**£1.79
million**

Component
performance
materiality
**£0.36
million**

Audit
differences
**£0.18
million**

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

Key definitions

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

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £1.79 million which represents 50% of group materiality. This reflects the higher level of risk of material misstatements considering disclaimed audit opinions, and the material misstatements and control deficiencies identified in 2024/25.

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

Audit difference threshold – We will report to you all uncorrected misstatements over £0.18 million, relating to the income statement and balance sheet that have an effect on income and misstatements in the CIES.

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



05 Scope of our audit

Audit process and strategy

Objectives of our audit scoping

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

1. Financial statement audit

Our opinion on the financial statements:

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

Our opinion on other matters:

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

Other procedures required by the Code:

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

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

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

Internal audit

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

In 2024/25, the Council's Internal Audit Annual Report concluded that reasonable assurance can be provided regarding the adequacy and effectiveness of the Council's internal control, governance, and risk management arrangements. This level of assurance was consistent with the previous reporting period.

Scoping the group audit

Group scoping

The Council prepares its annual report and financial statements on a group basis. In line with ISA (UK) 600, our audit strategy for performing an audit of a group with multiple components is risk-based and our scoping of the group audit responds to the risks of material misstatement that we have identified for the group financial statements.

We first determined whether centralised procedures could be performed before we determined which components to include in the group audit scope, and the work to be performed at those components. We determined that centralised audit procedures can be performed on components.

We next identified individually relevant components based on various risk characteristics and applied professional judgement to determine which accounts were to be included in the work performed at these components. We then considered whether the remaining group significant account balances not yet subject to audit procedures, in aggregate, could give rise to a risk of material misstatement of the group financial statements. When

determined that these residual balances could give rise to a risk of material misstatement of the group financial statements, we determine whether it is necessary to perform audit procedures on further accounts in components which are individually relevant and/or include accounts in additional components within the group audit scope to address the risks of material misstatement of the group financial statements. Having identified the components for which work will be performed, we determined the scope to assign to each component.

For the remaining residual amount of balances and accounts of the group financial statements which are not included within the group scope we perform further risk assessment procedures to confirm that there is no risk of material misstatement within those amounts.

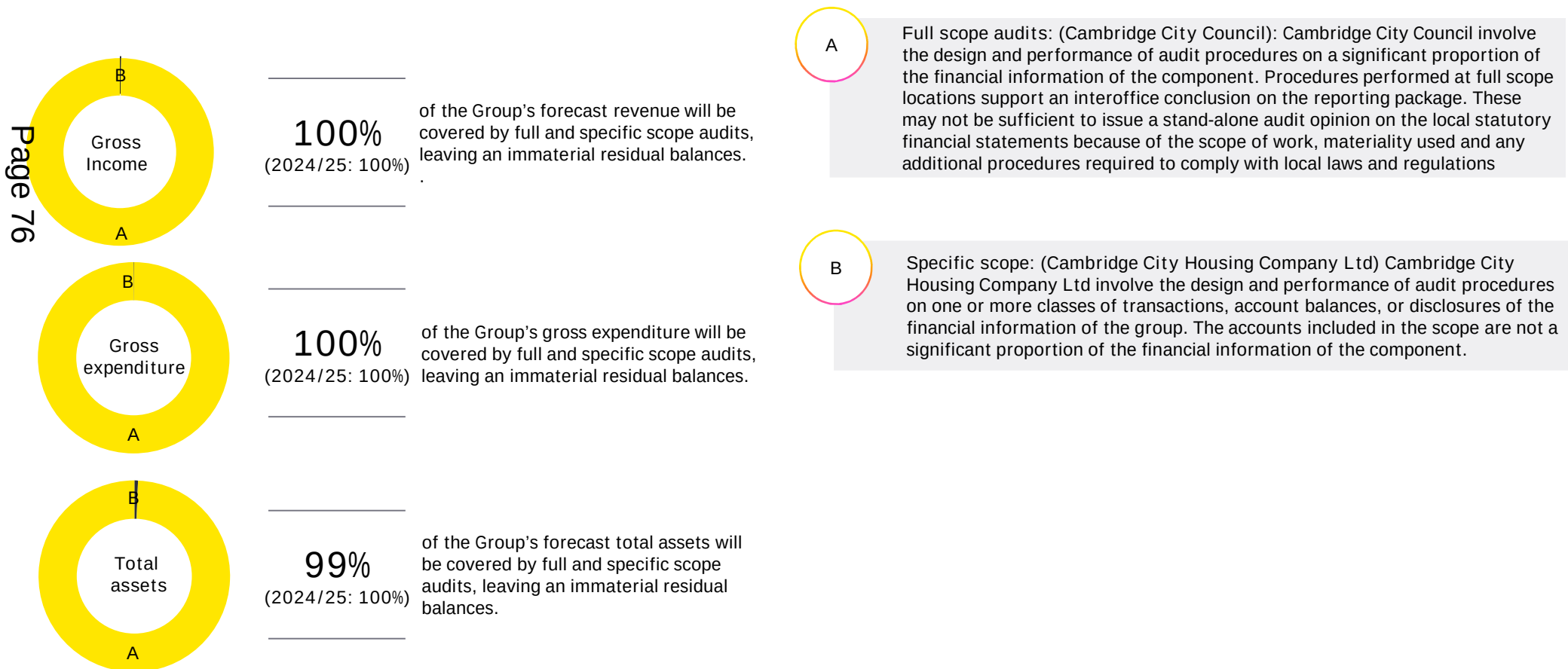
Details of procedures performed centrally

We determined that centralised audit procedures can be performed in certain areas, refer to Appendix C for further details on procedures that will be performed centrally.

Scoping the group audit

Coverage of gross income/gross expenditure/total assets

Based on the Group's prior year results, our scoping is expected to achieve the following coverage of the Group's gross income, gross expenditure and total assets. The remaining components, individually do not exceed more than 15% of the Group's gross income, gross expenditure and total assets. Our audit approach is risk based and therefore the data below on coverage is provided for your information only. Further details on the scoping of the Group audit can be found at Appendix C.





06 Audit team

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Audit team

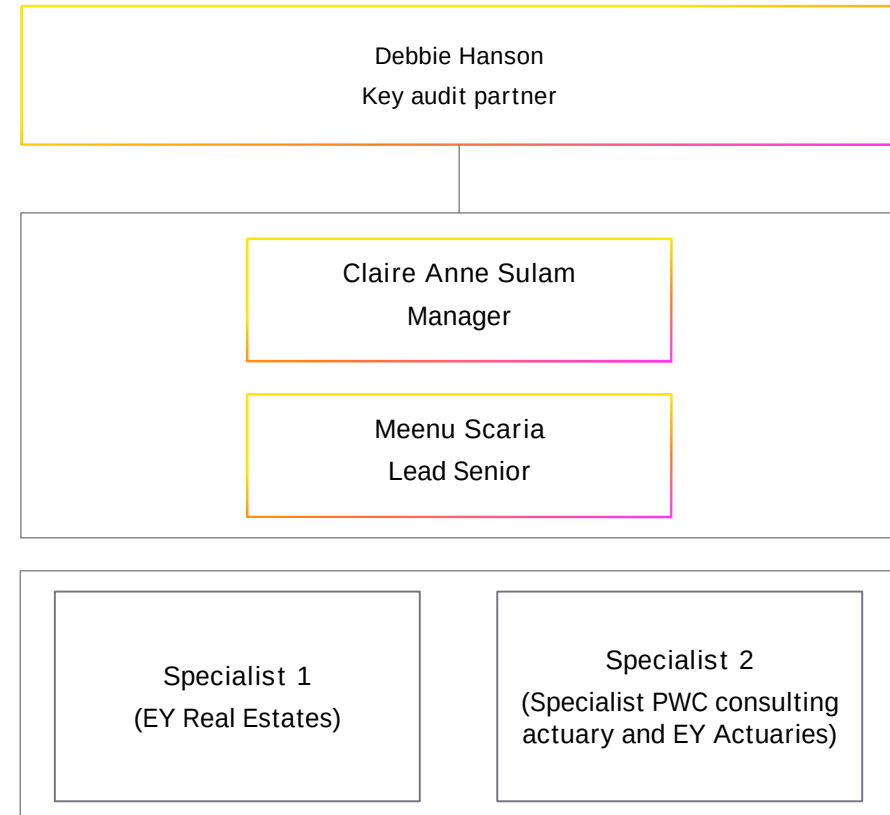
Audit team leadership

The global engagement team is led by Debbie Hanson, who has overall responsibility for the performance of the audit and for the auditor's report issued on behalf of EY.

Our approach to the use of specialists

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

Area	Specialists
Valuation of land and buildings and investment properties	EY Real Estates Management specialist – Bruton Knowles
Valuation of council dwellings	Management specialist – Wilkes Head & Eve
Pensions disclosure	EY Actuaries PwC (Consulting Actuary commissioned by NAO) Management Specialist – Hymans Robertson (Actuary to Cambridgeshire Pension Fund)
NDR appeals provision	Management Specialist – Inform CPI
Financial instruments	Management Specialist – MUFG Pension & Market Services



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

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

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

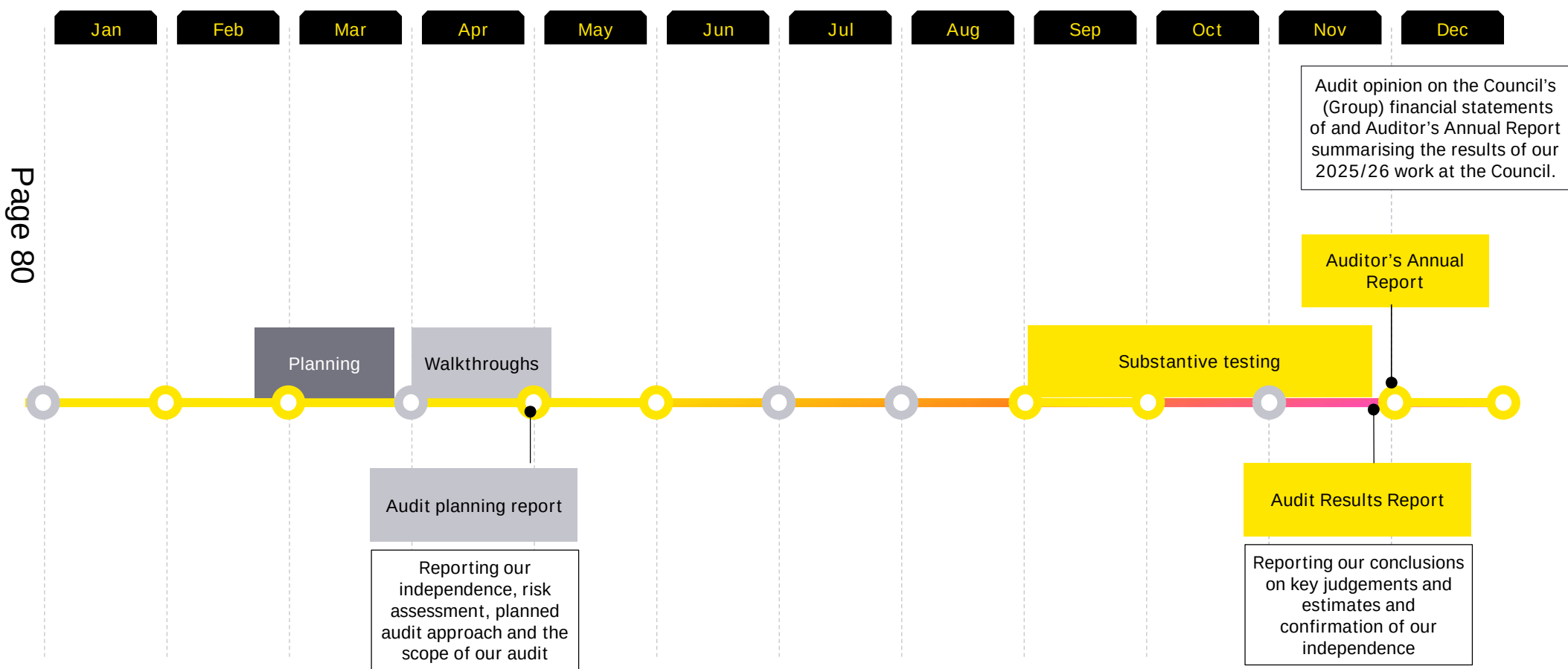


07 Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2025/26. From time to time matters may arise that require immediate communication with the Civic Affairs and Audit Committee and we will discuss them with the Civic Affairs and Audit Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.





08 Appendices

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Appendix A – Rebuilding assurance: responsibilities

The Council's responsibilities

As set out in Appendix B our fee is based on the assumption that the Council complies with PSAA's Statement of Responsibilities of auditors and audited bodies. See <https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>. In particular, the Council should have regard to paragraphs 26-28 of the Statement of Responsibilities which clearly set out what is expected of audited bodies in preparing their financial statements. We set out these paragraphs in full below:

Preparation of the statement of accounts

26. Audited bodies are expected to follow Good Industry Practice and applicable recommendations and guidance from CIPFA and, as applicable, other relevant organisations as to proper accounting procedures and controls, including in the preparation and review of working papers and financial statements.

27. In preparing their statement of accounts, audited bodies are expected to:

- prepare realistic plans that include clear targets and achievable timetables for the production of the financial statements;
- ensure that finance staff have access to appropriate resources to enable compliance with the requirements of the applicable financial framework, including having access to the current copy of the CIPFA/LASAAC Code, applicable disclosure checklists, and any other relevant CIPFA Codes.
- assign responsibilities clearly to staff with the appropriate expertise and experience;
- provide necessary resources to enable delivery of the plan;
- maintain adequate documentation in support of the financial statements and, at the start of the audit, providing a complete set of working papers that provide an adequate explanation of the entries in those financial statements including the appropriateness of the accounting policies used and the judgements and estimates made by management;
- ensure that senior management monitors, supervises and reviews work to meet agreed standards and deadlines;
- ensure that a senior individual at top management level personally reviews and approves the financial statements before presentation to the auditor; and
- during the course of the audit provide responses to auditor queries on a timely basis.

28. If draft financial statements and supporting working papers of appropriate quality are not available at the agreed start date of the audit, the auditor may be unable to meet the planned audit timetable, and the start date of the audit will be delayed.

Observations from 2024/25

As we have outlined in prior years, 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. We presented our views on the effectiveness of the Council's arrangements to support external financial across a range of relevant measures as part of our 2024/25 Audit Results Report.

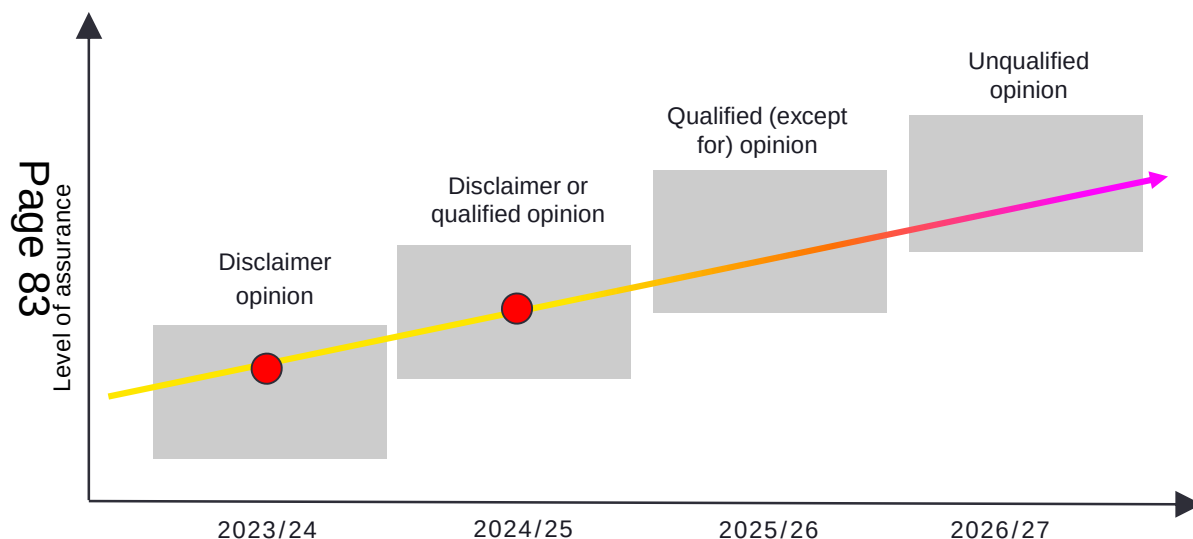
We have repeated this assessment on the following page. Where we have been unable to undertake all planned procedures, this is likely to extend the timetable to recover assurance on the Council's financial statements, see the following page for further details for further details.

Appendix A – Rebuilding assurance continued

Progress to full assurance

The chart below sets out the illustrative timescale for the process of rebuilding assurance set out in the NAO's Local Audit Reset and Recovery Implementation Guidance (LARRIG) 01, together with our view of the Council's actual progress against that timescale, the reasons for that assessment and what still needs to be done to successfully rebuild assurance.

The guidance recognises that the path to full assurance, and therefore an unqualified opinion, will usually take a number of years to achieve, and depends upon co-ordination and engagement between the Council and audit team. Since 2022/23, we have applied a structured, risk-based prioritisation approach to local government audits to support a return to unqualified audit opinions wherever feasible, while still meeting statutory backstop requirements.



Cambridge City Council progress

● In the audit reports for the years ended 31 March 2024 and 31 March 2025, a disclaimer of opinion was issued due to the application of the backstop. This means the auditor has not been able to form an opinion on the financial statements.

In our view, the Council's progress falls behind the expected timescales set out in LARRIG 01.

In 2024/25, additional assurance was achieved in relation to Borrowings (short term and long term), Investments (short term and long term), Leases (IFRS 16), Long Term Debtors, Provision for HRA Liabilities, REFCUS, Net cost of services - Employee costs. However, there is a continuing lack of assurance over comparator income and expenditure balances, property, plant and equipment balances, Short-term Debtors, Short-term Creditors (including Receipts in Advance), Provisions, Reserves, Collection Fund and Housing Revenue Accounts. As a result, we anticipate that for 2025/26:

- We will have limited assurance over the opening balances for 2025/26; and
- Limited assurance over the closing reserves balance, due to uncertainty over the opening amount.

We will continue to work with the Council to rebuild assurance over time and monitor management's progress as to our recommendations in Appendix D. Our objective is to continue to rebuild assurance, by providing assurance over the in year 2025/26 transactions and movements, where possible, and closing balances which can be materially determined without the opening balance, such as debtors and creditors.

Appendix A – Rebuilding assurance: responsibilities continued

Factors impacting the execution of the 2024/25 audit

Area	Status			Explanation
	R	A	G	
Timeliness of the draft financial statements	Effective			The financial statements were published by the 30th June 2025 deadline set out in the Accounts and Audit Regulations.
Quality and completeness of the draft financial statements	Effective			There were few non-material internal inconsistencies, typographical and arithmetic errors in the draft financial statements that should have been detected through internal quality review prior to publication.
Delivery of working papers in accordance with agreed client assistance schedule	Ineffective			Working papers and supporting evidence were not provided in line with the agreed timetable.
Quality of working papers and supporting evidence	Ineffective			Working papers and supporting evidence were generally not to the required standard to support the audit.
Timeliness and quality of evidence supporting key accounting estimates	Ineffective			There have been significant delays in receiving the required supporting working papers for the audit from the Council. The documentation was not provided within the agreed timetable. The absence of timely, supporting working papers, has impacted our ability to perform all of our planned audit procedures. As reported in Appendix B of 2024/25 Audit Results Report, key audit procedures in a number of areas are incomplete because essential evidence was not made available for review. The timely provision of working papers is a critical component of an effective audit process, ensuring that planned work can be completed efficiently and that any emerging issues can be addressed promptly.
Access to finance team and personnel to support the audit in accordance with agreed project plan	Requires improvement			The primary finance team member responsible for the financial statements has not been available to support the audit process due to long term leave. In addition, we have experienced delays in obtaining responses and evidence from other members of the finance team. As a result, certain areas have been significantly delayed.
Volume and value of identified misstatements	Requires improvement			We have identified a number of material misstatements as a result of our work which have been corrected by Management.
Volume of misstatements in disclosure	Effective			A limited number of misstatements in disclosure were detected in our work.

Key:

■ Red: Ineffective. In our judgement, significant improvements are required in the Council's arrangements to support the rebuilding of assurance. Action should be taken to respond immediately.

■ Amber: Requires Improvement. Matters and/or issues had an impact on the delivery of the audit and should be addressed in future years.

■ Green: Effective. There were no significant matters that impacted the timing or effectiveness of audit procedures.

Appendix B - Independence and fees

The FRC Ethical Standard 2024 and ISA (UK) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage

- The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us;
- The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;
- The overall assessment of threats and safeguards;
- Information about the general policies and process within EY to maintain objectivity and independence

Final stage

- In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;
- Details of non-audit/additional services provided and the fees charged in relation thereto;
- Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;
- Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner
- Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;
- Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence (for breaches of the FRC Ethical Standard include details of its significance); and
- An opportunity to discuss auditor independence issues.

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

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

Appendix B - Independence and fees (continued)

Relationships, services and related threats and safeguards

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

Overall assessment

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

Self interest threats

A self interest threat arises when EY has financial or other interests in your company. Examples include where we have an investment in your company; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees. We currently do not provide any non-audit services or additional services to you. No safeguards are therefore required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with FRC ES Section 4. There are no other self interest threats at the date of this report.

Appendix B - Independence and fees (continued)

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements. There are no self review threats at the date of this report.

Management threats

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

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

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report

EY Transparency Report

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the period ended 30 June 2025 and can be found here: [EY UK 2025 Transparency Report](#).

Appendix B – Independence and fees (continued)

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/LASAC, and the professional standards applicable to auditors' work.

The agreed fee presented is based on the following assumptions:

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

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

	Current Year 2025/26	Prior Year 2024/25
	£	£
Total Fee – Code Work	205,767	200,163
Other	Note 2	Note 1
Total audit	TBC	TBC

All fees exclude VAT

1. As set out in the joint statement on update to proposals to clear the backlog and embed timely audit issued by DHLUC, PSAA will use its fee variation process to determine the final fee the Council have to pay for the 2024/25 audits. We submitted a proposed scale fee variation to PSAA covering the following areas, which has yet to be determined by PSAA:
 - Implementation of new IFRS 16 Leases standard
 - Use of internal specialists (PPE/IP and Pensions)
 - Completion of ISA 315 work
 - Group
 - Pension Valuation
 - PPE Valuation
 - Non-compliance with laws and regulation (NOCLAR) matter
 - Value For Money risks
 - Quality or preparation issues leading to extra work
 - Build back costs
 - Disclaimer planning and reporting
2. The 2025/26 scale fee also may be impacted by a range of other factors which will result in additional work, which include but are not limited to:
 - Consideration of correspondence from the public and formal objections
 - Non-compliance with law and regulation with an impact on the financial statements
 - VFM risks of, or actual, significant weaknesses in arrangements and related reporting impacts
 - The need to exercise auditor statutory powers
 - Prior period adjustments
 - Modified financial statement opinions

Appendix C – Scoping the group audit

The below table sets out the scoping details of all locations. We assign a scope of work to each component for which procedures are required, which when taken together in addition to procedures performed centrally by the group audit team, enable us to form an opinion on the group financial statements.

Detailed scoping							
Component/location	One or more account balance is subject to centralised audit procedures	Individually relevant component (IRC) / Additional relevant component (ARC)	Scope	Statutory audit performed by EY	Coverage		
					Gross Income	Gross Expenditure	Total assets
Cambridge City Council	Yes	IRC	Full	✓	99.81%	99.92%	99.33%
Cambridge City Housing Company Limited	Yes	IRC	Specific	Williamson and Croft	0.19%	0.08%	0.64%
Total full & specific scope coverage					100%	100%	99.97%

Centralised audit procedures will be performed in the following audit areas:

Key audit area on which procedures will be performed	Overview of procedures that will be performed centrally	Components subject to the centralised procedures	Team responsible for performing the centralised procedures
All significant accounts	Centralised testing will be performed for all the relevant accounts.	Cambridge City Council	Team: Primary Team
- Investment property - Cash and cash equivalents	Specific audit procedures will be performed for these accounts.	Cambridge City Housing Company Limited	Team: Primary Team

Appendix C - Scoping the group audit continued

Scoping for relevant components

The below table provides an overview of the initial relevant components identified and scopes assigned to these components:

	Total	Full scope	Specific scope	Specified procedures
Total relevant components	2	1	1	0
Individually relevant components (IRC) ¹	2	1	1	0
Relevant component identified as IRCs due to risks of material misstatement associated with several account balances of the component (i.e. FR and higher IRs which are areas of higher assessed ROMMs) associated with the component and financial size of the component relative to the group.	0	0	0	0
Additional relevant components (ARC) ²	0	0	0	0

¹ An individually relevant component is a component that individually has a risk of material misstatement to the group financial statements

² An additionally relevant component is a component at which audit procedures are to be performed to address the remaining risks of material misstatement present in the significant account balances that are not subject to audit procedures performed centrally or at individually relevant components.

Appendix C – Scoping the group audit continued

Identification of individually relevant components and additional relevant components:

We considered the following when identifying individually relevant components and the accounts to be included in the work to be performed at these components:

- Identification of individually relevant components (IRC): IRC components, are components that individually have a risk of material misstatement to the group financial statements. We considered the following matters to determine which components were individually relevant:
 - The significant risks (including fraud risks), and other areas of higher assessed risk associated with the component and the nature of the circumstances related to those risk(s) of material misstatement, including the relative size of the balance at the component.
 - The financial size of the component relative to the group
- Accounts to be included in the work to be performed by IRCs: We applied professional judgment in determining those accounts having considered:
 - The reasons the component was identified as individually relevant and the accounts affected by risks associated with the component
 - The extent of centralised procedures
 - Whether the accounts are affected by other assessed risks of material misstatement of the group financial statements
 - The relative size of the balance at the component.

We identify additional relevant components when we determined that the remaining group significant account balances (residual balances) not yet subject to audit procedures, in aggregate, could give rise to a risk of material misstatement of the group financial statements. In determining the number of additional components and extent of procedures to be performed took into consideration:

- The extent of evidence already planned to be obtained from components which are individually relevant and the related in-scope accounts
- Whether centralised procedures can be performed on the residual account balances, including testing direct entity-level controls that operate throughout the group
- The results of risk assessment analytical procedures performed
- The results of the analysis on the residual significant account balances

Key changes to our group scoping from the last year

- Centralised procedures: No changes
- Individually relevant components and additional relevant components: In the prior year, the Council's joint venture, Cambridge Investment Partnership LLP (CIP), was scoped under Specified Procedures. As CIP has been assessed as immaterial for 2025/26, no audit procedures are planned for the current year.
- Assigned scopes: No changes.

Appendix C - Scoping the group audit continued

Group audit team involvement in component audits

Auditing standards require us to be involved in the work of our component teams.

The group audit team's involvement in the work of the component teams is not uniform. The involvement is affected by the assessed risks of material misstatement, their effect on different locations, the nature and extent of work and scope assigned to component teams and the group audit team's experience and understanding of the component teams. The group audit team's involvement takes different forms and will include: site visits; involvement in key decision discussions, such as: component team's involvement in discussions of the group audit team or the group team's involvement in component team discussions; other discussions and sharing of information, such as: regular team discussions/touch points, risk assessment discussions, discussions with component management and/or those charged with governance of components, or other ad hoc discussions; review of component team workpapers, such as: audit deliverables and underlying workpapers.

We have listed the significant aspects of our planned involvement below.

Location name	Planned involvement by the Group team
All full scope- Cambridge City Council	All full scope locations and specific scope entities will participate in the Group audit team's planning event to be held virtually. Review of Cambridge City Council audit working papers covering the significant risk areas and other areas of assessed higher risk.
Specific scope -Cambridge City Housing Company Ltd.	Risk assessment discussions.

Appendix D – Prior year recommendations

As part of our annual audit procedures we will follow up the specific open and in progress recommendations reported within our 2024/25 reporting, including those relating to value for money arrangements. The six open recommendations from prior years are outlined below, along with the response from Management.

Classification of recommendations		
Grade 1: Key risks and / or significant deficiencies which are either critical to the achievement of strategic objectives or significant risks to material compliance with regulatory requirements. Management needs to address and seek resolution urgently.	Grade 2: Risks or potential weaknesses which impact on objectives and compliance, or impact the operation of a single process, and so require prompt but less urgent immediate action by management.	Grade 3: Less significant issues and / or areas for improvement which consider merit attention but do not require to be prioritised by management.

Internal control weaknesses

No.	Finding and/or risk	Recommendation and grading	Management response / Implementation timeframe
	Delays in Receiving Key Working Papers There were delays in receiving key working papers and responses to audit queries throughout the audit, with many items not provided in line with the agreed timescales. In several instances, the working papers submitted were incomplete, required further clarification, or did not meet the required format and evidential standards to enable us to perform our planned procedures efficiently. These delays caused significant disruption to the audit timetable, increased the level of rework required, and restricted our ability to progress audit testing in accordance with the agreed project plan. The cumulative impact of these matters has materially affected our ability to obtain sufficient and appropriate audit evidence on a timely basis and to complete the audit as scheduled.	We recommended that the Council strengthens its year-end closedown and audit preparation processes to ensure that all required working papers are prepared to the expected standard and provided in line with the agreed timescales. Management should establish clear internal ownership for each working paper, introduce appropriate quality review checks prior to submission, and implement realistic internal deadlines to ensure documentation is complete, accurate, and audit-ready. Improving the timeliness and quality of working papers will support a more efficient audit process, reduce the need for repeated requests and rework, and help ensure that the audit can progress in accordance with the planned timetable.. Grade 1	Management response: Management acknowledges that delays occurred in responding to certain audit requests. In several cases, the format of the request contributed to response times, particularly where proof of payment was sought for individual items embedded within very large BACS files. Clarification was required to determine the appropriate method of evidencing these transactions, including whether to provide disaggregated extracts, controlled read-only access to the finance system, or guided system walkthroughs. Despite this, the majority of evidence was supplied, with only a small proportion delayed due to staff turnover and operational pressures. We will work with EY in advance of next year's audit to ensure early understanding of their working paper requirements and put in place an action plan to ensure delivery of these.

Appendix D – Prior year recommendations (continued)

Internal control weaknesses (cont'd)

No.	Finding and/or risk	Recommendation and grading	Management response / Implementation timeframe
2	Property, Plant and Equipment (PPE) Valuation – Agreement to the Fixed Asset Register (FAR) The agreement of the PPE valuation schedules to the Fixed Asset Register (FAR) identified several instances where land values had not been updated in the FAR, resulting in assets being recorded at a valuation of £nil as at 31 March 2025. The carrying values of these assets were consequently treated as downward revaluation movements. This issue resulted in a material misstatement, as reported in Section 05.	A comprehensive review of the Council's fixed asset accounting processes should be undertaken to ensure that appropriate rigour is applied consistently and that the accounting treatment for all asset transactions is accurate and compliant with the relevant accounting standards. Grade 1	Management response: Management acknowledges the audit finding that several land asset values were not updated in the Fixed Asset Register (FAR), resulting in incorrect valuations and associated revaluation movements at 31 March 2025. This issue arose from system limitations and historic manual update processes. The affected assets have now been reviewed and corrected. Processes have been strengthened to ensure valuation updates are captured promptly and consistently, supported by additional review checks to confirm accuracy before year-end. Management is committed to ensuring the FAR reliably reflects all valuation movements and to preventing recurrence in future years. A second review checkpoint has been introduced to ensure valuation movements—particularly for land—are verified and reflected in both systems before final accounts preparation
3	Debtors and Creditors Listings The Council's debtors listing as at 31 March 2025, amounting to £17.22 million, and creditors listing, amounting to £43.28 million, contained opening balances that management was unable to cleanse for audit purposes. As a result, we were unable to complete our planned audit procedures in these areas.	We recommended that the Council performs a review of all creditor and debtor balances to ensure that opening balances are understood and cleansed so that the balance only contains year-end amounts. Grade 1	Management response: Management acknowledges the audit finding regarding the inclusion of opening balances within the debtors (£17.22m) and creditors (£43.28m) listings as at 31 March 2025. These balances reflected historic items that could not be fully cleansed within the audit timeframe due to the scale of the listings, the age of certain entries, and the level of manual review required. While efforts were made to validate and clear older balances, some items required further investigation or historic supporting information that was not readily accessible, particularly where staff turnover had impacted knowledge of legacy transactions. Management did, however, provide explanations and supporting detail for current-year balances and for the majority of material items. Finance team will undertake a comprehensive review and cleansing of all historic debtors and creditors entries, prioritising aged balances and legacy items and improving system reporting to meet the audit requirements and standards.

Appendix D – Prior year recommendations (continued)

Internal control weaknesses (cont'd)

No.	Finding and/or risk	Recommendation and grading	Management response / Implementation timeframe
4	Agreement of the Fixed Asset Register (FAR) to the Property, Plant and Equipment (PPE) Note in the Financial Statements We obtained the Fixed Asset Register (FAR) for Property, Plant and Equipment (PPE) and reconciled the closing balances to the financial statements. However, we were unable to agree the in-year movements across the asset categories to the figures reported in the PPE note within the financial statements. The Council did not respond to our queries in relation to the variances identified, and therefore we were unable to conclude our audit work in this area.	We recommended that the Council have robust review process in place to ensure that all in-year movements are fully reconciled to the figures reported in the financial statements. Grade 2	Management acknowledges the audit finding. This issue arose from system limitations and historic manual update processes. Processes have been strengthened to ensure valuation updates are captured promptly and consistently, supported by additional review checks to confirm accuracy before year-end. Management is committed to ensuring the FAR reliably reflects all valuation movements and to preventing recurrence in future years. A second review checkpoint has been introduced to ensure valuation movements— particularly for land—are verified and reflected in both systems before final accounts preparation.
5	Bank reconciliation Our review of the Council's bank reconciliation identified a reconciling item, amounting to £2.8 million, which the Council was unable to provide any evidence and explanation to support it. We cannot therefore conclude on its appropriateness as a reconciling item in the bank reconciliation. The issue has arisen due to the individual responsible for preparing bank reconciliation as part of the year-end closing process has since left the Council, resulting in difficulties in obtaining the necessary documentation and clarification.	We recommended that the Council ensure that all key reconciliations have proper documentation and corroborating evidence to support the process. This should be kept centrally and remain accessible regardless of staff turnover. Grade 3	Management response: Management acknowledges the audit findings and the concerns raised in relation to the lack of supporting documentation for the £2.8m reconciling item. Upon notification, the Finance Team commenced a detailed internal review to reconstruct the reconciliation and identify the underlying transactions associated with this balance. This work included a review of all available bank statements, general ledger postings, and associated schedules for the relevant period, alongside engagement with service areas to investigate potential matches. However, the findings in the investigations were not conclusive to evidence the appropriateness of the original accounting treatment. Monthly reconciliation procedures have been strengthened, with improvements to quality checks, supervision, and escalation arrangements, meaning that all reconciling items in the monthly bank reconciliations during 2025/26 have supporting documentation.

Appendix D – Prior year recommendations (continued)

Internal control weaknesses (cont'd)

No.	Finding and/or risk	Recommendation and grading	Management response / Implementation timeframe
6	Valuation of Investment Properties and Right of Use Assets We have been unable to obtain a clear explanation or corroborating evidence from either the Council or the Valuer regarding certain assumptions used in the valuation of Investment Properties and Right of Use Assets. In addition, we identified discrepancies between the rent data provided by the Council and the information used by the Valuer in their valuation calculations.	We recommend that the Council and the property valuer work together to address the findings from our audit. The Council should ensure that valuation assumptions are supported by accurate and verifiable data. A clear process should be in place to review and validate information provided and used by the Valuer. Grade 2	Management response: Management acknowledges the audit finding concerning the lack of clear explanation and corroborating evidence for certain assumptions used by the Valuer, as well as the discrepancies noted between the rent schedules provided by the Council and the rental information used within the Valuer's calculations. Certain valuation assumptions (including yield assumptions, discount rates, lease terms, and market rent estimates) were not fully documented or supported in a manner sufficient for audit evidence. A more robust review process is being introduced, requiring Finance and Property Services to jointly verify the inputs and outputs of the valuation models and to challenge assumptions where necessary.

Appendix D – Prior year recommendations (continued)

Value for money arrangements

No.	Value for money reporting criteria	Finding and/or risk	Recommendation and grading	Management response / Implementation timeframe
1.	Governance: How the body ensures effective processes and systems are in place to support its statutory financial reporting requirements.	Capacity and capability of the Finance Team to support the audit process	The Council should strengthen its approach to preparing financial statements and supporting the audit process. The Finance Team must: • Ensure a thorough understanding of the Local Government accounting framework and the CIPFA Code of Practice; • Deepen its knowledge of the Council's financial operations to support accurate reporting; • Maintain sufficient capacity of skilled professionals with appropriate training to produce high-quality audit-ready working papers; and • Provide timely and effective support throughout the audit cycle. ▪ High	Management response: Draft financial statements were published on time, and we note that EY have rated the timeliness, quality and completeness of these statements as 'effective'. We believe this demonstrates that we have a sufficient understanding of the accounting framework and the council's financial operations to support accurate reporting. We acknowledge that there were delays and difficulties in providing high quality audit-ready working papers as a result of key staff absences which were unavoidable. Going forwards, additional resource has been brought in for 2025/26 to avoid a repeat of these issues.

Appendix E – Regulatory update

Key regulatory changes

There are a number of key regulatory developments underway relating to local authority governance and the audit of the Council's financial statements. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures	Impact on Cambridge City Council
English Devolution and Community Empowerment Bill	The Bill has completed all scrutiny stages in the House of Commons and is now at Committee stage (Grand Committee) in the House of Lords. The following measures therefore remain proposals until Royal Assent is granted: - Local audit system reforms: The Bill includes provisions to reform elements of the local audit framework in England alongside support measures intended to address the audit backlog. The Bill will also enable changes to the way audit oversight and local audit responsibilities operate. Section 61 of the Bill provides for the establishment of the Local Audit Office (LAO). Legislation will set out that the main objective of the LAO is to secure the effective operation of the system of audit, with a view to meeting the needs of users of audited accounts. The LAO will appoint auditors to non-NHS bodies, determine audit fees and prepare one or more Code of Audit Practice. - Combined authorities and Combined County Authorities: The Bill expands powers and functions of combined authorities and places combined county authorities on a clearer statutory footing. This will allow further transfer of functions from constituent councils. - Devolution of functions to "Strategic Authorities": The Bill expands the category of Strategic Authorities and allows transfer of responsibilities from central government and councils. - Local Government Reorganisation: The Bill supports changes to council structures to support devolution.	- Local audit system reforms may result in changes to audit timescales or responsibilities and there may therefore be transition risks in future years. - The Bill provides that the Council must have an audit committee, and that at least one member of the committee be an independent person.
Renters Right Act	- The Renter's Rights Act became law on 27th October 2025. Under the Act, Councils are going to gain new powers to investigate landlords; act against rogue landlords; and ensure landlord compliance with new standards expected of them. - Local housing authorities will receive £18.2 million in 2025/26 to support preparations for the implementation of the Renters' Rights Act 2025 and to build enforcement capacity. Funding will be allocated based on the number of private rented sector properties in each local area.	Enforcement guidance for local Councils has now been published. The guidance provides the critical information that enforcement officers will need to know to carry out their work in line with the new legislation. There will be a bespoke programme of training, webinars and resources through 'Operation Jigsaw', a cross-local Councils initiative; Changes will start coming into effect from 1st May 2026.

Appendix E – Regulatory update continued

Key regulatory changes continued

Name	Summary of key measures	Impact on Cambridge City Council
Public Office (Accountability) Bill	The Public Office (Accountability) Bill aims to impose a duty on public authorities and public officials to “at all times act with candour, transparency and frankness in their dealings with inquiries and investigations.” Breach of the duty would be a criminal liability. The Bill is expected to apply not only to both core public bodies delivering public services but also private bodies delivering public functions such as those on a government contract. The Bill also proposes: ▪ A new statutory duty on public authorities to promote and take steps to maintain high standards of ethical conduct, as defined by the Seven Principles of Public Life, or “Nolan Principles”; ▪ Reforms that will make it easier to prosecute misconduct in public office; and ▪ An offence of misleading the public.	▪ While the Bill continues to make its way through the House of Commons Committee processes, the Council should ensure that training and support for Councillors is enhanced to take account of greater expectations in relation to local government standards.
Fair Funding Review	▪ On 20 November 2025, the government announced a multi-year Local Government Finance Settlement in a decade, together with the Fair Funding Review . Key measures include: ▪ There will be a single settlement for 2026/27 to 2028/29 ▪ The government plans to use up to date English Indices of Multiple Deprivation, together with up-to-date services cost and demand data to calculate individual council allocations for 2026/27 to 2028/29; and ▪ The Children and Young People’s Services formula will use the latest index of deprivation affecting children. The new indices are expected to lead to greater transparency and a reduced reliance on competitive bidding for funds. The Government also announced it will simplify 33 funding streams, worth almost £47 billion over three years.	Using new indices will result in some Councils seeing increases in their allocations, whilst others see decreases. The government has, however, set out transitional arrangements to help with managing change: ▪ A Recovery Grant funding guarantee to upper tier authorities in receipt of Recovery Grant; ▪ Funding floors and phasing in of new allocations across the multi-year settlement; and ▪ Additional money in the national settlement for children’s social care and a new ring-fenced combined Homelessness, Rough Sleeping and Domestic Abuse grant over three years.

Appendix E – Regulatory update continued

National Audit Office reporting

There are a number of key publications from the National Audit Office that have an impact on the Council. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key messages	Impact on Cambridge City Council
Local government finance report 2026 to 2027	The 2026–27 Local Government Finance Report introduces a multi-year settlement covering 2026/27 to 2028/29 and implements the Fair Funding Review 2.0. Updated distribution formulas will reallocate resources between councils, reflecting more recent demographic and deprivation data. The report confirms the continuation of council tax referendum principles and introduces significant changes to Special Educational Needs and Disabilities (SEND) funding, including the extension of the statutory override for DSG deficits to 2027/28 and a government-funded write-off of approximately 90% of historical DSG deficits. These policy changes represent one of the most substantial re-baselining exercises in recent years.	▪ Councils must re-model their Medium-Term Financial Plans (MTFPs) to account for formula redistribution effects and redesigned SEND funding arrangements. The ongoing restrictions on council tax increases will continue to limit local financial flexibility. For many authorities, particularly those with substantial DSG deficits, the reforms will have material implications for reserves management and financial stability.
Exceptional Financial Support for local authorities for 2025-26	Exceptional Financial Support (EFS) remains a mechanism for councils facing acute short-term financial pressures. For 2025–26, thirty authorities received in-principal approval for EFS, allowing them to treat certain revenue costs as capital expenditure through capitalisation directions. The government has removed the additional 1% borrowing premium previously applied and has imposed conditions including enhanced assurance reviews and restrictions on community-asset disposals. The NAO notes that, although EFS can prevent immediate failure, it shifts the burden to future years through increased borrowing.	▪ For the sector, the continuation of EFS signals sustained financial fragility. Authorities using EFS must demonstrate credible, independently-scrutinised recovery and savings plans, along with significant improvements in governance, financial management, and internal controls. ▪ Councils should expect intensive oversight and stringent follow-up from central government when accessing this mechanism.
Local audit reform: Government response to the consultation to overhaul local audit in England	The government response sets out a comprehensive overhaul of the local audit system in England. Central to the reforms is the creation of the Local Audit Office (LAO), which will assume responsibility for appointing auditors, preparing Codes of Audit Practice, enforcing quality standards, and overseeing audit delivery. A phased transition plan will move existing responsibilities from Public Sector Audit Appointments (PSAA) and other bodies to the NAO between 2026 and 2027, with the aim of stabilising the system, addressing audit backlogs, and restoring confidence in the timeliness and quality of local audit.	▪ For councils, the reforms will lead to more prescriptive expectations around audit readiness, governance, documentation quality, and responsiveness. Authorities should anticipate tighter reporting deadlines and increased scrutiny of working papers, internal controls, and VFM arrangements.

Appendix E – Regulatory update continued

National Audit Office reporting continued

Name	Summary of key messages	Impact on Cambridge City Council
Local Government Financial Sustainability	The National Audit Office most recently reported on the context of local government finances in February 2024, which included their consideration of service and financial pressures. They concluded that although total local government funding has risen modestly in recent years, it has not kept pace with population growth, rising service demand, or the increasing complexity and cost of supporting people with high needs. Real-terms funding per person fell between 2015-16 and 2023-24, while demand for essential services such as adult social care, children's social care, SEND provision and homelessness continued to escalate. The NAO highlights growing evidence of strain across services, including delays in Education, Health and Care Plans and a sharp rise in families housed in temporary accommodation for longer than legally permitted. Repeated delays to long-promised funding reforms mean councils continue to rely on short-term, stop-gap measures. Exceptional Financial Support has become increasingly common, but while it prevents immediate failure, it also shifts financial risk into future years, reflecting underlying structural weaknesses in the local government finance system	▪ The report signals deepening financial fragility across the sector, with many councils facing heightened risk of issuing Section 114 notices unless systemic pressures are addressed. Rising demand and cost escalation in statutory services are absorbing an ever-greater share of local authority budgets, reducing the capacity to invest in preventative activity and long-term service improvement. The NAO warns that widespread reliance on temporary fixes—including Exceptional Financial Support—creates additional future liabilities and limits councils' ability to plan sustainably. Without coordinated, cross-government reform of funding, accountability and service oversight frameworks, councils will remain locked in reactive financial management, with growing consequences for service quality, citizen outcomes and long-term financial resilience.
Unlocking land for housing	The National Audit Office reported in February 2026 that the government aims to deliver 1.5 million new homes by July 2029. To support this ambition, various land-unlocking programmes have been introduced to address constraints such as inadequate infrastructure, land assembly challenges, and site viability issues. Since 2016, £10.5 billion has been allocated across 768 projects, with £8.4 billion committed and £5.7 billion spent. Although these programmes collectively predict enabling around 713,000 homes, the NAO highlights that only a small proportion—around 33,300 homes—can currently be evidenced as completed, pointing to gaps in monitoring and programme assurance. Additionally, the creation of the National Housing Delivery Fund and a new National Housing Bank from April 2026 signals a shift toward a more consolidated and strategic funding model.	▪ The sector will experience increased expectations to produce detailed and evidence-based infrastructure planning to secure funding from the new mechanisms. Councils will be required to strengthen the robustness of business cases, improve monitoring of actual housing delivery, and anticipate tighter central-government scrutiny of riskier or larger projects. The shift to a single-gateway funding structure will also compel councils to maintain well-developed pipelines to access multi-year support.
Improving local areas through developer funding	The NAO identifies developer contributions—primarily Section 106 agreements and the Community Infrastructure Levy (CIL)—as essential tools for funding local infrastructure and affordable housing. However, the report finds significant variation across councils in both the application and governance of these mechanisms. Negotiated viability assessments often reduce the contributions developers agree to provide, while only around half of planning authorities have formally adopted CIL. Developer contributions account for roughly 44% of affordable housing delivery nationally, yet over 17,000 S106-linked affordable homes with planning consent lacked a housing association buyer at the time of review, indicating a delivery bottleneck. The government is providing additional planning capacity funding and establishing a Section 106 Affordable Homes Clearing Service to support councils in unlocking stalled developments.	▪ For councils, strengthening internal governance and transparency around developer contributions will be increasingly important. Authorities will need improved planning capacity, including specialist viability expertise, to mitigate risks of reduced contributions and ensure developer obligations are properly monitored. With the proposed Infrastructure Levy no longer being taken forward, councils must optimise and professionalise the existing S106 and CIL frameworks.

Appendix F – Required communications with the Civic Affairs and Audit Committee

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

		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	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of: ▪ The planned scope and timing of the audit ▪ The planned use of internal audit ▪ The significant risks identified	Audit Planning Report - 22 June 2026 – Civic Affairs and Audit Committee
Significant findings from the audit	▪ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▪ Significant difficulties, if any, encountered during the audit ▪ Other significant matters, if any, arising from the audit that were discussed, or subject to correspondence with management ▪ Circumstances that affect the form and content of our auditor's report ▪ Other matters if any, significant to the oversight of the financial reporting process	Audit Results Report - November 2026 – Civic Affairs and Audit Committee

Appendix F – Required communications with the Civic Affairs and Audit Committee continued

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▪ Whether the events or conditions constitute a material uncertainty 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 - November 2026 – Civic Affairs and Audit Committee
Misstatements	▪ A request that any uncorrected misstatement be corrected ▪ Material misstatements corrected by management ▪ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▪ The effect of uncorrected misstatements related to prior periods	Audit Results Report - November 2026 – Civic Affairs and Audit Committee
Fraud	▪ 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, unless prohibited by law or regulation any identified or suspected fraud involving: ▪ Management; ▪ Employees who have significant roles in internal control; or ▪ Others, when the identified or suspected fraud is other than clearly inconsequential. ▪ 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 - November 2026 – Civic Affairs and Audit Committee

Appendix F – Required communications with the Civic Affairs and Audit Committee continued

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	Significant matters arising during the audit in connection with the entity's related parties	Audit Results Report - November 2026 – Civic Affairs and Audit Committee
Independence	Communication of the relevant ethical requirements, including those related to independence, that we apply for the audit engagement, including any independence requirements specific to audits of financial statements of the entity. Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, integrity, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▪ The principal threats ▪ Safeguards adopted and their effectiveness ▪ An overall assessment of threats and safeguards ▪ Information about the general policies and process within the firm to maintain objectivity and independence ▪ Breaches of IESBA Code of Ethics, local independence regulations or professional standards (for breaches of the FRC Ethical Standard, include details of the breach and its significance) Communication whenever significant judgements are made about threats to integrity, objectivity and independence and the appropriateness of safeguards put in place. Communication of relevant information to those charged with governance, to enable them to provide concurrence on the non-audit services being provided.	Audit Planning Report - 22 June 2026 – Civic Affairs and Audit Committee Audit Results Report - November 2026 – Civic Affairs and Audit Committee

Appendix F – Required communications with the Civic Affairs and Audit Committee continued

		Our Reporting to you
Required communications	What is reported?	When and where
External confirmations	- Management's refusal for us to request confirmations - Inability to obtain relevant and reliable audit evidence from other procedures	Audit Results Report - November 2026 – Civic Affairs and Audit Committee
Consideration of laws and regulations	- Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur - Enquiry of the audit 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	Audit Results Report - November 2026 – Civic Affairs and Audit Committee
Internal controls	Significant deficiencies in internal controls identified during the audit	Audit Results Report - November 2026 – Civic Affairs and Audit Committee
Group audits	- An overview of the work to be performed at the components and the nature of the group audit team's planned involvement in the work to be performed by component teams - Instances when the group audit team's review of the work of a component team gave rise to a concern about the quality of that team's work, and how the group audit team addressed the concern - Any limitations on the ability to obtain sufficient appropriate audit evidence in support of the group audit opinion, for example, where the group audit team's access to people or information may have been restricted - Fraud or suspected fraud involving group management, component management, employees who have significant roles in the group's system of internal control or others when the fraud has the potential for having a "more than inconsequential" effect - Significant deficiencies identified in the group's system of internal control	Audit Results Report - November 2026 – Civic Affairs and Audit Committee

Appendix F – Required communications with the Civic Affairs and Audit Committee continued

		Our Reporting to you
Required communications	What is reported?	When and where
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report - November 2026 – Civic Affairs and Audit Committee
System of quality management	How the system of quality management (SQM) supports the consistent performance of a quality audit	Audit Results Report - November 2026 – Civic Affairs and Audit Committee
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report - November 2026 – Civic Affairs and Audit Committee
Auditors report	Any circumstances identified that affect the form and content of our auditor's report	Audit Results Report - November 2026 – Civic Affairs and Audit Committee
Auditor's Annual Report	A summary of the conclusions of our audit and our detailed Value for Money Commentary	Auditor's Annual Report - November 2026 – Civic Affairs and Audit Committee

Appendix G – Additional audit information

Objective of our audit

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

Other required procedures during the course of the audit

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

Purpose and evaluation of materiality

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

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the Group financial statements
- The level of work performed on individual account balances and financial statement disclosures

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

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Cambridge City Council

Rebuilding audit assurance: the path to an
unqualified opinion

Year ended 31 March 2026

5 August 2026



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5 August 2026

Civic Affairs and Audit
Committee
The Guildhall
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CB2 3QJ

Dear Civic Affairs and Audit Committee Members

Rebuilding audit assurance – risk assessment update

We attach our risk assessment update for consideration at the forthcoming meeting of the Civic Affairs and Audit Committee Members.

The purpose of this paper is to provide the Civic Affairs and Audit Committee Members with further detail on the risk assessment procedures performed in respect of opening reserve balances. These procedures have been undertaken in response to the prior-year disclaimed audit opinions and in accordance with the National Audit Office's Local Authority Reset and Recovery Implementation guidance.

This update should be read in conjunction with our Audit Planning Report for the 2025/26 audit, issued on 29 April 2026.

We welcome the opportunity to discuss this report with you at the meeting on 5 October 2026, and to understand whether there are any additional matters which the committee considers may influence our risk assessment.

Yours faithfully

Debbie Hanson, Partner

For and on behalf of Ernst & Young LLP

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1 Background and regulatory context

2 Scope of our risk assessment

3 Summary of risk assessment findings

4 Implications for the 2025/26 audit

5 Appendix A

Public Sector Audit Appointments Ltd (PSAA) issued the 'Statement of responsibilities of auditors and audited bodies'. It is available from the PSAA website (<https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The 'Terms of Appointment and further guidance (updated October 2025)' issued by the PSAA (<https://www.psaa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/>) sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice 2024 (the NAO Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Civic Affairs and Audit Committee Members and management of Cambridge City Council. Our work has been undertaken so that we might state to the Civic Affairs and Audit Committee Members and management of Cambridge 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 Civic Affairs and Audit Committee Members and management of Cambridge 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.

Management agree that they remain solely responsible for management decisions relating to the audited body and that we do not, and cannot, act in a managerial capacity nor can we make business decisions for management/the audited body in connection with the services or otherwise, nor advise or recommend that any accounting policy, treatment or reporting is suitable for any particular purpose or specific facts, and management agrees that they will not rely on us as having done so.

If you wish to discuss how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may raise the matter with the Key Audit Partner responsible for services provided under our appointment by PSAA Ltd. Alternatively, you may contact Stephen Reid, UK Head of Government and Public Sector Audit, at 1 More London Place, London SE1 2AF. We will consider any concerns carefully and promptly and will make every effort to explain our position clearly. If your concerns remain unresolved, you may escalate the matter to Anna Anthony, UK&I Regional Managing Partner, at 1 More London Place, London SE1 2AF. If you remain dissatisfied, you may refer the matter to PSAA Ltd or raise it with our professional institute; further details are available on request.

Rebuilding audit assurance – risk assessment update

1. Background and regulatory context

Appendix A explains the expected timeline to full assurance set out in the National Audit Office's (NAO) Local Authority Reset and Recovery Implementation Guidance (LARRIG 01), together with our assessment of Cambridge City Council's (the Council's) current position. During 2023/24 and 2024/25, the focus of the rebuild process has been on the Council's "natural" rebuild, through completing planned audit procedures for each respective audit year.

As set out in Appendix A, planned procedures could not be completed in either 2023/24 or 2024/25. Therefore, while the "natural" rebuild process has commenced, it has not yet significantly rebuilt assurance.

LARRIG 06, issued by the NAO, requires auditors to perform specific risk assessment procedures over reserves. The guidance recognises that reserves balances may contain the cumulative effect of unaudited transactions over more than one financial year and may therefore represent an area of accumulated audit risk. The purpose of this risk assessment is to identify the likelihood and potential magnitude of risks of material misstatement within reserves balances, together with management's readiness to support the historical rebuild process. This assessment informs audit planning, and any potential rebuild of assurance over future audit cycles as well as completion of the capacity and risk assessment return that we are required to make to the Ministry for Housing, Communities and Local Government ('MHCLG').

2. Scope of our risk assessment procedures

Our risk assessment covered all reserves disclosed in the Council's Movement in Reserves Statement, including both usable and unusable reserves. In performing the assessment, we considered:

- the nature and purpose of individual reserves;
- the scale and significance of movements during periods subject to disclaimer;
- susceptibility to material misstatement, including the risks of fraud and management bias;
- the wider governance and control environment of the Council's financial reporting processes; and
- risks associated with the classification of reserves between usable and unusable categories.

The assessment did not seek to re-establish assurance over historic balances. Its objective was to determine whether, where and when, such assurance could be rebuilt over time.

Rebuilding audit assurance – risk assessment update

3. Summary of risk assessment findings

The risk assessment process identified that the risk of material misstatement is not uniform across reserves. Certain reserves were assessed as presenting a higher risk of material misstatement, reflecting factors including:

- the size of balances and the extent of movements during periods subject to disclaimed opinions;
- the degree of judgement required in determining the appropriate accounting treatment; and
- reliance on complex statutory and capital accounting arrangements.

Other reserves were assessed as lower risk, with characteristics that may support a more targeted and proportionate rebuilding of assurance, without undermining audit quality, subject to the availability of sufficient appropriate audit evidence. This assessment underpins the differentiation in audit response which will be adopted across reserves and is intended to promote a consistent and proportionate approach.

The following dashboard summarises our assessment of the risk of material misstatement by reserve following the disclaimers of opinion.

Reserve	Risk Assessment	Rationale for Risk Assessment
Usable Reserves		
General Fund Balance	Higher inherent risk	The General Fund closing balance is material and represents the cumulative impact of revenue and expenditure decisions over a number of financial periods. Higher inherent risk given the sensitivity of the General Fund balance as a key measure of financial resilience and the potential susceptibility to management bias in determining available usable reserves, with material unaudited movements identified in the disclaimed periods.
Earmarked Reserves	Higher Inherent Risk	Earmarked reserves are part of a Council's usable reserves and represent amounts set aside for specific purposes at the discretion of the Council. They are created to manage known or anticipated risks, to fund future expenditure, or to smooth the impact of uneven expenditure patterns. Although earmarked reserves are usable, they are not available for general spending unless the authority formally decides to change their purpose. The Code requires authorities to disclose movements on earmarked reserves separately, including opening balances, transfers in and out, and closing balances. As no procedures were performed in the disclaimed periods, there remains an increased risk that misstatements arising in the disclaimed period were not fully identified or corrected through movement-only testing in 2024/25 and may persist within the opening balance for the current audit year. Therefore, overall higher inherent risk has been applied to this reserve.

Rebuilding audit assurance – risk assessment update

Reserve	Risk Assessment	Rationale for Risk Assessment
Housing Revenue Account	Significant risk	The Housing Revenue Account (HRA) balance is material and represents the cumulative impact of income and expenditure relating to the Council's housing landlord function. The HRA is a statutory ring-fenced account and must be kept separate from the General Fund, with balances only available for housing-related purposes. The audits for 2022/23, 2023/24 and 2024/25 were disclaimed. Assurance has therefore not been obtained over all brought-forward balances and movements during the disclaimed period. There remains an increased risk that misstatements arising in the disclaimed years were not identified or corrected and may persist in the opening balance for the current audit year. Given the statutory ring-fencing of the HRA, its interaction with capital financing, depreciation and the Major Repairs Reserve, we consider it as significant risk.
Capital Receipts Reserve	Lower Inherent Risk	The Capital Receipts Reserve is a usable capital reserve that holds proceeds from the disposal of non-current assets, such as land, buildings and other property. Amounts credited to the reserve are normally used to finance capital expenditure or repay debt. This reserve has been assessed as lower inherent risk. The capital receipt has already been received, and the reserve primarily serves to manage the timing of the application of the resource. There is limited incentive for manipulation, as the reserve exists to ensure capital receipts are applied to fund capital expenditure and does not have a significant impact on the Council's reported financial position.
Major Repairs Reserve	Lower Inherent Risk	The Major Repairs Reserve (MRR) is a statutory reserve linked to the HRA and is used to fund capital expenditure on council housing, including major repairs, component replacements and other HRA capital works. Transfers to and from the reserve are reflected through the Movement in Reserves Statement and are linked to depreciation, capital expenditure and statutory financing requirements. Whilst the 2022/23, 2023/24 and 2024/25 were disclaimed, and not all planned procedures were completed for 2024/25, the reserve follows a prescribed statutory mechanism and involves less judgement than the General Fund or HRA balance itself. On balance, we assess the MRR as lower inherent risk, as no specific issue has been identified which indicates increased complexity or management bias beyond the wider rebuild evidence limitations.

Rebuilding audit assurance – risk assessment update

Reserve	Risk Assessment	Rationale for Risk Assessment
Capital Grants Unapplied Account	Higher inherent risk	The Capital Grants Unapplied Account is a usable reserve that holds capital grants and contributions which have been recognised as income but have not yet been applied to finance capital expenditure at the reporting date. When the related capital expenditure is incurred, amounts are transferred from the Capital Grants Unapplied Account to the Capital Adjustment Account (CAA), reflecting the financing of capital expenditure. Capital Grants Unapplied is assessed as higher inherent risk as it requires judgement over the timing of grant recognition and contains material balances requiring further risk assessment procedures. No indicators of inappropriate classification between usable and unusable reserves or management bias were identified from our risk assessment procedures.
Unusable Reserves		
Revaluation Reserve	Higher inherent risk	The Revaluation Reserve is material. This account contains accumulated unrealised gains arising from increases in the value of the Council's property, plant and equipment (PPE) and intangible assets. The reserve is reduced when assets are revalued downwards or impaired, when gains are consumed through depreciation, or when assets are disposed of and the gains are realised. The Revaluation Reserve is assessed as higher inherent risk due to its reliance on valuation judgements and technical accounting adjustments arising from Property, Plant, and Equipment (PPE) movements. Material balances identified as requiring further procedures increase inherent risk, notwithstanding mitigation from the use of external valuers.
Capital Adjustment Account	Higher inherent risk	The Capital Adjustment Account (CAA) balance is material. The CAA absorbs the timing differences between the accounting treatment for non-current assets and the statutory funding arrangements for capital expenditure. It records adjustments relating to depreciation, impairment, revaluation movements, disposals, capital financing and other statutory capital adjustments. The Capital Adjustment Account is assessed as higher inherent risk due to its high level of technical complexity and volume of statutory and accounting adjustments arising from capital transactions, asset valuations, depreciation and financing movements. While it interacts directly with the General Fund and requires precise application of capital finance regulations, no specific factors have been identified that would elevate this to a significant risk.
Collection Fund Adjustment Account	Lower inherent risk	This account is driven by statutory Collection Fund accounting arrangements. Assurance was obtained over the underlying Collection Fund balances and movements in previous years. Thus, the risk of material misstatement in this reserve is reduced. The account is also largely mechanical in nature, with limited management judgement or incentive to manipulate the balance. On this basis, we therefore consider it appropriate for the inherent risk assessment to remain lower for this account.

Rebuilding audit assurance – risk assessment update

Reserve	Risk Assessment	Rationale for Risk Assessment
Pooled Investments Fund Adjustment Account	Higher inherent risk	The Pooled Investments Fund Adjustment Account is a mechanism that is required by the capital finance and accounting regulations in England and Wales to hold the fair value movements in those pooled investment funds specified by the regulations in relation to investments in place at 1 April 2024. The difference between the amount charged or credited in the year to surplus or deficit on the provision of services in accordance with the Code and the amount charged or credited to the General Fund in accordance with regulations should be debited or credited to the General Fund balance with the double entry going to the pooled investment funds adjustment account such that the General Fund is charged or credited with the amount that accords with the applicable regulations. The Pooled Investments Fund Adjustment Account is assessed as higher inherent risk due to management incentives to apply the statutory override in a way that protects the General Fund. There is a risk of misclassification or incorrect treatment of investment movements, which could delay or suppress recognition of losses and present an artificially stronger financial position.

Any other reserves are considered to be very low risk. This is either on the basis of immaterial balances or transactions through those reserves, or that the nature of the reserves are such that they mirror the balances on the top half of the balance sheet and, therefore, no additional rebuild procedures are required.

Rebuilding assurance over reserves – Risk assessment

4. Implications for the 2025/26 audit

Our risk assessment process has indicated that the pre-2023/24 gaps in assurance - particularly those relating to reserves and other cumulative balances - cannot be sufficiently addressed as part of the 2025/26 audit to support future progression towards qualified or unmodified audit opinions, for the following reasons:

- the scale and complexity of historic balances requiring reconstruction, including opening balances, comparatives, reserves and other cumulative balances, where assurance gaps have accumulated as a result of three consecutive disclaimed audit opinions and the inability to complete all planned audit procedures in 2024/25; and
- insufficient quality or availability of historic supporting evidence including incomplete or unsupported working papers, lack of clear audit trails, unresolved audit queries and evidence gaps across several significant account areas

In line with our established prioritisation principles, we will therefore focus our audit resources on rebuilding assurance for those bodies that have demonstrated they are able to adequately support the completion of all 2025/26 planned audit procedures, supporting the sector-wide objective of returning to unmodified audit opinions as quickly and sustainably as possible. It remains critical that management focus on producing high quality financial statements for publication and ensure high-quality working papers and robust audit evidence is available, and that the underlying issues identified in prior years are addressed as part of the 2025/26 audit cycle to facilitate the natural rebuild of assurance. This will be essential to avoid any further delay in the eventual process of rebuilding assurance over the Council's historic position. We will reperform our risk assessment procedures as part of our 2026/27 audit planning to update the assessment of whether the Council can proceed with the historical rebuild of assurance.

5. Fees

The activities undertaken in relation to this risk assessment, the preparation of the submission required by MHCLG, and the drafting of this addendum are outside the scope of the scale fee set out in our Audit Planning Report issued on 29 April 2026. In addition, procedures relating to the rebuilding of historical assurance will also be outside the scale fee.

Accordingly, we will seek a variation to the scale fee to reflect these changes to the scope of our work and will communicate further through our reporting once the costs are agreed.



Appendix A

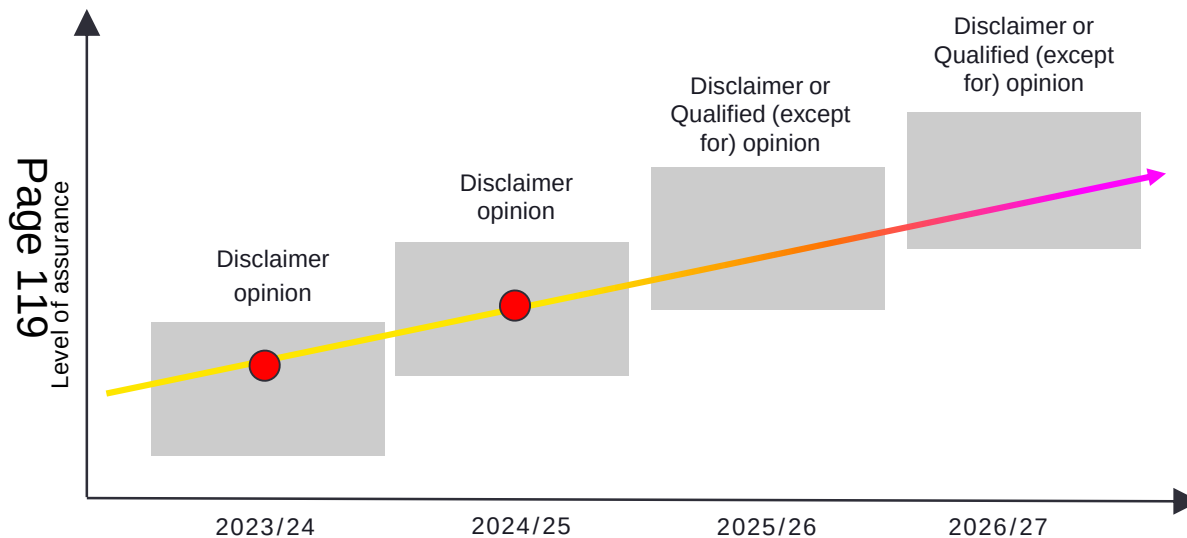
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Appendix A – Rebuilding assurance

Progress to full assurance

The chart below illustrates the expected timescale for rebuilding audit assurance as set out in the NAO's LARRIG 01. It also shows our assessment of the Council's progress against that illustrative timescale, together with the reasons for that assessment and the key actions required to successfully rebuild assurance.

The guidance recognises that the journey to full assurance - and therefore an unqualified audit opinion - will typically take a number of years. Progress depends on sustained coordination and engagement between the Council and the audit team across successive audit cycles. Since 2022/23, we have applied a structured, risk-based prioritisation approach to local government audits. This approach is designed to support a return to unqualified audit opinions wherever feasible, while continuing to meet the statutory backstop requirements introduced as part of the local audit reset.



Council progress

- In 2023/24 and 2024/25 a disclaimer of opinion was issued due to the application of the backstop and planned audit procedures not being completed in a number of areas. As a result, we were unable to form an opinion on the financial statements.

In our view, the Council's progress falls behind the expected timescales set out in LARRIG 01. Until the natural rebuild process has commenced, it is not possible to complete the rebuild of assurance over the historic gaps in assurance arising from the disclaimers of opinion.

For 2025/26 the Council's focus should be on the preparation of high-quality financial statements and associated working papers to facilitate completion of the audit process and allow the natural rebuild of assurance to commence.

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