

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

Civic Affairs and Audit Committee, Monday 5 October 2026

Report by:

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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: - Note the Provisional Audit Plan - Note the auditors' update on rebuilding assurance and consider whether there are any additional matters that should influence their risk assessment - 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