

Cambridge City Council

Rebuilding audit assurance: the path to an
unqualified opinion

Year ended 31 March 2026

5 August 2026



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



Shape the future
with confidence

Private and Confidential

5 August 2026

Civic Affairs and Audit
Committee
The Guildhall
Peas Hill
Cambridge
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

Enc

Contents

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.



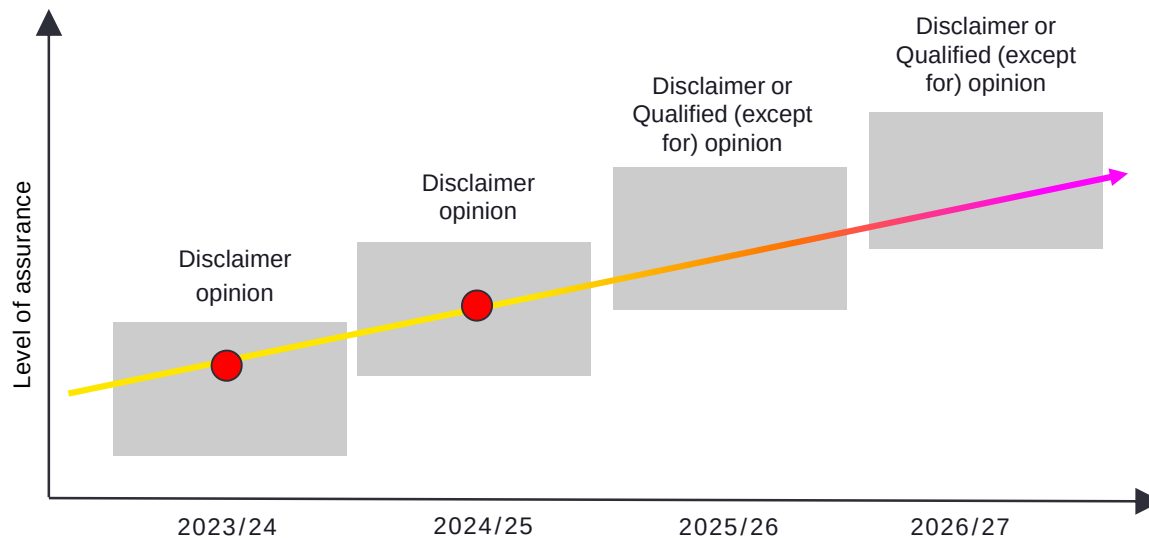
Appendix A

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.

EY | Building a better working world

EY is building a better working world by creating new value for clients, people, society and the planet, while building trust in capital markets.

Enabled by data, AI and advanced technology, EY teams help clients shape the future with confidence and develop answers for the most pressing issues of today and tomorrow.

EY teams work across a full spectrum of services in assurance, consulting, tax, strategy and transactions. Fueled by sector insights, a globally connected, multi-disciplinary network and diverse ecosystem partners, EY teams can provide services in more than 150 countries and territories.

All in to shape the future with confidence.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

Ernst & Young LLP

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited. Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

© 2026 Ernst & Young LLP. Published in the UK.
All Rights Reserved.

UKC-038208 (UK) 03/25. Creative UK.
ED None

Information in this publication is intended to provide only a general outline of the subjects covered. It should neither be regarded as comprehensive nor sufficient for making decisions, nor should it be used in place of professional advice. Ernst & Young LLP accepts no responsibility for any loss arising from any action taken or not taken by anyone using this material.

ey.com/uk