TITLE: Audit Committee Annual Report 2025/26

Committee: Audit Committee

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Report number: AB44

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Issue

1. To consider the Audit Committee Annual Report 2025/26.

Recommendations

2. Members are requested to recommend to Full Council the approval of the Audit Committee Annual Report 2025/26 as set out in Appendix 1.

Background/Options

3. It is considered best practice for the Audit Committee to report to Full Council on its activities.

4. The report includes (but is not limited to):

    - Chair's Statement
    - The role of the Audit Committee
    - Committee Membership
    - Training
    - Committee consideration of the following:
        - Annual Governance Statement
        - Internal Audit
        - Risk Management
        - Financial and External Audit
    - Audit Committee Self-Assessment and Action Plan

Additional Implications Assessment

5. In the table below, please put Yes or No in each box:

Financial Implications	Legal Implications	Human Resources (HR) Implications
The cost of training which has not be quantified but will be met within existing budget framework	None	None
Equality Impact Assessment (EIA)	**Carbon Impact Assessment (CIA)**	**Data Protection Impact Assessment (DPIA)**
Not required	Not required	Not required- no personal data will be shared

Appendices

Appendix 1: Audit Committee Annual Report 2025/26

Background documents

None.

Appendix 1

East Cambridgeshire
District Council

Audit Committee
Annual Report 2025/26

Chair's Statement

<u>Outgoing Chair</u>

I am pleased to co-present the 2025/26 Annual Report of the Audit Committee. The Committee is accountable to the Full Council and welcomes scrutiny of its effectiveness in fulfilling its terms of reference and the impact of its diligent work, to ensure the Council is properly fulfilling its obligations.

This report covers the work of the Audit Committee during the period May 2025 to May 2026. The Audit Committee plays a key role in providing the Council with assurance in respect of the adequacy and effectiveness of the Council's systems of risk management, financial management and internal controls. The Committee obtained assurances from multiple sources throughout the year, including both internal and external audit.

In addition to the summary of work undertaken, the report includes details of committee membership and officer support to the committee.

As the outgoing Chair, I would like to thank everyone who has participated in ensuring that the Council continues to thrive with proper controls in place. For 2026/27 I will continue to serve the Audit Committee as the Vice-Chair and support the new Chair and the Committee.

Councillor David Brown

<u>Incoming Chair</u>

Having served as Vice-Chair of the Audit Committee in 2025/26, and with the privilege of being elected Chair for 2026/27, I am pleased to co-present our 2025/26 Annual Report. The report has been expanded this year, compared to our first report to Full Council last year.

The Committee continuously reflects upon our effectiveness in the discharge of the Council's Audit function. During the 2026/27 municipal year, this ongoing work will encompass the reflections identified in our self-assessment, detailed in the report below.

These actions will result in an even more detailed understanding of, and assurance around, the governance arrangements of the Council, which underpins our ability to thrive as a local authority.

I look forward to the year ahead, and to ensuring that the Committee continues diligently and effectively to discharge the functions delegated to us by the Full Council. I would like to recognise and thank everyone who enables this to happen.

Councillor Lucius Vellacott

The Audit Committee

The Audit Committee operates in accordance with the CIPFA Position Statement 2022: Audit Committees in Local Government. This position statement sets out the role of an Audit Committee as follows:

"Audit committees are a key component of an authority's governance framework. Their purpose is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements. The committee's role in ensuring that there is sufficient assurance over governance risk and control gives greater confidence to all those charged with governance that those arrangements are effective.

"In a local authority the full council is the body charged with governance. The audit committee may be delegated some governance responsibilities but will be accountable to full council.

"The committee has oversight of both internal and external audit together with the financial and governance reports, helping to ensure that there are adequate arrangements in place for both internal challenge and public accountability."

This is important to ensure that the Council understands where things may go wrong and has controls in place to make sure that it mitigates against them.

Our role

The Audit Committee is a key component of the Council's governance framework. The objectives and Terms of Reference of the Audit Committee are detailed in Part 3D of the Council's Constitution.

Objectives

Oversight and approval of Statement of Accounts, Internal and External Audit and Risk Management matters (not otherwise the responsibility of Council or any other committee).

Terms of Reference

To act as the Council's Audit Committee and the discharge of these duties and responsibilities including:

- Consideration of Annual Audit letter to Members, Annual Audit and Inspection Fee Letter and the External Audit, Annual Governance Report, Annual Audit Plan and Code of Audit Practice and Statement of Responsibilities
- Approve the Annual Governance Statement
- Approve the Statement of Accounts
- Approve the Code of Corporate Governance
- To agree the Internal Audit Terms of Reference and Internal Audit Plan, review and consider the Plan, and any Annual Report and/or Opinion

- To oversee and approve the Code of Corporate Governance. To oversee the Council's Corporate Governance arrangements including Anti-Fraud and Corruption Policy
- To oversee and monitor the Council's Corporate Risk Register and recommend revisions to the Council's Rosk Management Strategy
- To appoint 'Member Champions' as required
- To make nominations to any relevant outside bodies for the Audit Committee from the wider membership of the Council for a period of up to 4 years

Membership

In accordance with the constitution the committee comprised 6 Members of the Council and 1 Lay Member (without voting rights). The quorum was 3. Members of the Finance & Assets Committee and the Leader and Deputy Leader of the Council are excluded from membership of the Audit Committee.

Full Member	Group
Councillor David Brown (Chair)	Conservative and Independent
Councillor Lorna Dupre	Liberal Democrat and Independent
Councillor Keith Horgan	Conservative and Independent
Councillor James Lay	Liberal Democrat and Independent
Councillor Ross Trent	Liberal Democrat and Independent
Councillor Lucius Vellacott (Vice-Chair)	Conservative and Independent

Substitute Member	Group
Councillor Christine-Ambrose Smith	Conservative and Independent
Councillor Mark Inskip	Liberal Democrat and Independent
Councillor Gareth Wilson	Liberal Democrat and Independent

In support of constitutional requirements for the Audit Committee, one Lay Member is appointed to the Committee. The Lay Member, Stephen Joyce, attended all 4 of the meetings held in the period.

The Committee reflected the political balance of the Council during almost all of the municipal year, comprising 3 Conservative Group councillors and three Liberal Democrat and Independent Group councillors. Its membership was revised by Full Council in May 2026 to match the new proportionality of the Council beginning from April 2026, appointing three Conservative Group councillors and two Liberal Democrat and Independent Group councillors.

Training

In the 2025/26 Audit Committee self-assessment it was recognised that formal training has not been undertaken recently. As a priority, the following two matters will be addressed:

1. A skills assessment will be undertaken to better understand where training should be focused, and following this assessment:
2. A training programme will be developed and programmed.

Any training will be provided either ‘in house’ or from a formal training provider, likely taking place as pre-meeting sessions on the same day as each Audit Committee meeting.

Meetings and Support

The Audit Committee met on 4 occasions during the 2025/26 Municipal Year:

- 15 July 2025
- 21 October 2025
- 20 January 2026
- 31 March 2026

The Lead Officer for the Committee is the Director Finance (S151 Officer), supported by the Director Legal (Monitoring Officer).

The Audit Committee is regularly supported by the Democratic Services Officer, Chief Internal Auditor and external auditors. Additionally, the Chief Executive attended the committee to present the draft and final Annual Governance Statement.

The Committee received the following reports during the year:

15 July 2025

- Internal Audit Annual Report and Opinion 2024/25
- Draft Annual Governance Statement
- External Audit Plan 2024/25
- Draft Statement of Accounts 2024/25
- Internal Audit Progress Report
- Internal Audit External Quality Assessment 2025
- Corporate Risk Management Update Report

21 October 2025

- Final Annual Governance Statement 2024/25
- External Audit Plan for 2024/25
- Internal Audit Plan for 2026/27
- Internal Audit Progress Report
- Information Governance Annual Report
- Anti-Fraud and Corruption Strategy- Policy Update

20 January 2026

- Statement of Accounts 2024/25
- External Audit Update 2024/25
- Internal Audit Progress Report
- Corporate Risk Management Update

31 March 2026

- External Audit Plan for 2025/26
- Internal Audit Work Plan for 2026/27
- Internal Audit Progress Report
- Internal Audit Charter and Mandate
- External Audit Recommendations Update

Annual Governance Statement

The Committee received the draft Annual Governance Statement at its meeting on 15 July 2025. The item was presented by the Chief Executive and invited comments from the Committee that would inform the final draft.

The Committee approved the Annual Governance Statement 2024/25 at its meeting on 21 October 2025. The Statement mostly incorporated the reflections of the Committee or gave an explanation as to why suggestions were not incorporated.

Internal Audit

The committee reviewed and approved the Internal Audit Charter and Mandate at its meeting on 31 March 2026.

The Committee was actively involved and consulted as part of the development of the Internal Audit plan for 2025/26. The Committee approved the internal audit plan coverage for 2025/26 and 2026/27.

The Committee has given positive feedback on the quality of the internal audit work and the assurances that this provides for Members. Further, the Committee strongly encourages all actions agreed as part of the audit outcomes to be dealt with expediently by Officers.

The Chief Internal Auditor has attended all 4 meetings of the Audit Committee, with an update on audit plan delivery provided at every meeting.

Based upon the work undertaken by Internal Audit during the year, the Chief Internal Auditor's overall opinion of the Council's system of internal control for 2025/26 is set out below:

I am satisfied that sufficient internal audit work has been undertaken to inform an opinion on the adequacy and effectiveness of governance, risk management and

internal control for 2025/26. In giving this opinion, it should be noted that assurance can never be absolute. The most that the internal audit service can provide is reasonable assurance that there are no major weaknesses in the system of internal control.

It is my opinion that **Good Assurance** can be given over the adequacy and effectiveness of the Council's control environment for 2025/26. This control environment comprises of the system of internal control, governance arrangements and risk management. Any limitations over this opinion are detailed and explained further within the report.

Financial control

Controls relating to the Council's key financial systems which were reviewed during the year were all concluded to be operating at a level of Moderate Assurance or above, with 63% of opinions given being of Good or Substantial Assurance.

Assurance over the outsourced revenues and benefits service has been provided in the form of internal audit reports issued for the Anglia Revenues Partnership shared service. These have all resulted in assurance opinions of 'Adequate / Reasonable' or 'Good / Substantial'.

Risk management

The Council's structures and processes for identifying, assessing and managing risk have remained generally consistent during 2025/26. The Risk Register has been presented to the Audit Committee during the financial year.

Internal control

For the audits completed by the Internal Audit service in 2025/26, 100% of the opinions given in relation to the control environment and compliance have been of at least Moderate Assurance. There have been no reports issued with an opinion of 'high' organisational impact. Of the audits completed by the Internal Audit service, 67% of opinions were of 'Substantial' or 'Good'.

Of the agreed management actions due for implementation during 2025/26, 95% had been completed during the year.

Key risks

The audit plan coverage had targeted areas of known risk and was informed through consultation with senior management and the Audit Committee. Key areas of risk for the Council during 2025/26 have included the impact of Local Government Reorganisation, the bereavement centre project delivery and regulatory compliance. The audit plan coverage sought to provide assurances in these areas, with audits on staff engagement and support during a period of change, embedded assurance work on the bereavement centre project and audits on key areas for compliance such as procurement and asset management.

The external audit report for 2024/25 noted issues with the effectiveness of internal quality review arrangements in ensuring timely, accurate and quality working papers to support the financial statements. Actions were agreed to strengthen controls and resilience within the finance team during 2025/26 and an update on progress was provided by management to the Audit Committee in March 2026.

Internal Audit has not been made aware of any further governance, risk or internal control issues which would reduce the above opinion. No systems of controls can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance.

Risk Management

During the year, the Committee reviewed and discussed two reports on the Council's risk management arrangements and the Corporate Risk Register. The Committee maintained oversight of the Council's key strategic risks and considered how these evolved throughout the year in response to changes in the external environment and organisational priorities.

Particular attention was given to risks relating to financial sustainability, local government reorganisation and devolution, workforce capacity, information governance and cyber security. The Committee reviewed the adequacy of mitigating actions in place and sought assurance that risk owners were actively managing risks and implementing agreed controls.

The Committee continued to encourage the development of a strong risk management culture across the organisation, promoting the integration of risk management into service planning and decision-making processes. Members provided feedback and suggestions to the Council's Risk Management Officer Group to support the ongoing enhancement of risk reporting, risk ownership and the monitoring of mitigating actions.

Financial Reporting and External Audit

During the period the Audit Committee signed off a disclaimed opinion for the 2024/25 accounts, and the conclusion of the Value for Money review was presented.

The Committee noted that Ernst and Young Ltd. (EY) issued a disclaimed opinion on the Council's 2024/25 Statement of Accounts. EY confirmed that the disclaimer was largely a consequence of the national local government audit recovery arrangements and the requirement to conclude audits by the statutory backstop date. EY reported that, due to the disclaimer opinion issued for the 2023/24 accounts, they were unable to obtain assurance over a number of opening balances and comparative figures and, when combined with the requirement to conclude the audit by the 2024/25 backstop date, were "unable to conclude that the 2024/25 financial statements are free from material and pervasive misstatement". EY therefore issued a disclaimed audit opinion on 20 February 2026.

The Committee recognised that disclaimed opinions have become a common feature across local government as part of the national audit reset programme, and that the opinion did not arise from any concerns regarding the Council's financial sustainability or wider governance arrangements.

The Committee also considered EY's Value for Money assessment. EY concluded that, "Based on the work performed, the Council had proper arrangements in place in 2024/25 to plan and manage its resources to ensure it can continue to deliver its services" and identified "No significant weakness" in relation to Financial Sustainability. EY also concluded that there were "No significant weakness identified" in relation to Improving Economy, Efficiency and Effectiveness. Furthermore, EY stated that "Based on the work performed, we have not identified any significant weaknesses in the Council's 2024/25 arrangements to make informed decisions and properly manage its risks."

Whilst EY identified weaknesses in the Council's arrangements for supporting the external audit process and made a number of recommendations to strengthen financial reporting and audit working papers, no Statutory Recommendations were issued, and EY confirmed that they "had no reason to use our auditor powers". The Committee welcomed the positive conclusions regarding the Council's governance, financial sustainability and arrangements for securing value for money.

The Committee formally recorded its concerns about the delays in the external audit process and questioned the Director Finance (S151 Officer) on the work completed by the Council Officer and sought assurances to overcome this, both in year and the future.

It should be noted that, during the year, the Director Finance (S151 Officer) retired. The new Director Finance (S151 Officer) was appointed by Full Council in September 2025.

Following the completion of the external audit of the Council’s 2024/25 Statement of Accounts, EY issued eight recommendations relating to improvements in financial reporting processes, working paper documentation, financial controls, and technical accounting processes.

No Statutory Recommendations were issued by EY.

At its meeting on 31 March 2026 the Director Finance (S151 Officer) provided a progress update on recommendations made.

Recommendation 1 – Financial Statement Preparation and Audit Support

The Finance Director has taken steps to strengthen the preparation of financial statements and the support provided during the audit process.

- An interim Technical Accountant is already in post to support financial statement preparation and strengthen technical accounting expertise.
- A Principal Accountant with extensive local government experience will commence employment on 23 March 2026, further enhancing leadership and technical capability within the finance team.
- Sample working papers have been requested from EY and are considered acceptable to them. Once received, they will be updated to support the 2025/26 Statement of Accounts.

Recommendation 2 – Fixed Asset Register Controls

- The Principal Accountant, who will commence employment on 23 March 2026, is familiar with the asset management system used by the Council to record fixed assets. As part of their responsibilities, the Principal Accountant will review the Fixed Asset Register to ensure that asset classifications, system settings and depreciation calculations are correctly configured.

  Any issues identified within the system will be reviewed and rectified to ensure that the Fixed Asset Register operates in accordance with relevant accounting standards and supports the accurate preparation of the 2025/26 Statement of Accounts.

Recommendation 3 – Group Accounts

- Additional review procedures have been introduced to ensure intercompany balances and transactions are eliminated correctly.
- Supporting working papers and calculations will be subject to enhanced internal review.

Recommendation 4 – Capital Grants Register

- The Council currently uses established systems to maintain and monitor developer contributions, including Community Infrastructure Levy (CIL) and Section 106 (S106) funding. For the 2025/26 audit, the Finance Team will continue to work with the external auditors to ensure that all relevant information relating to capital grants, including balances brought forward, income received during the year, and utilisation of funds, is clearly documented and available to support the audit process.

Recommendation 5 – Analytical Review of Financial Statements

- Analytical review procedures have been incorporated into the year-end closedown process.

- Finance officers will prepare explanations for material movements in the Comprehensive Income and Expenditure Statement and Balance Sheet.

Recommendation 6 – Cash Reconciliation Adjustments

- The year-end reconciliation process has been strengthened.
- The finance team have been briefed to ensure that all reconciliation differences identified during the closedown process are reviewed and corrected before the preparation of the Statement of Accounts.

Recommendation 7 – Classification of Cash Equivalents

- The classification of cash and investments has been reviewed to ensure compliance with accounting standards.
- Additional review procedures will be implemented during the closedown process.

Recommendation 8 – Control Account Mapping

- Control account mapping has been reviewed and corrected.
- Additional checks have been introduced to ensure accurate financial reporting.

The Committee's effectiveness

In May 2026, all Committee Members were invited to a self-assessment meeting. Three Members of the Committee and the Lay Member attended the meeting, which considered the assessment against the 2022 CIPFA guidance on the role of the Audit Committee. The template self-assessment tool (provided as Appendix E to the CIPFA guidance) was utilised.

The outcomes of this assessment were shared with the wider Committee who were also invited to make representations.

The latest progress update on the resulting actions is provided below.

The Committee reflected on a number of areas where performance against the standards was particularly strong, including:

- Good level of engagement by committee Members at all meetings;
- Chairing is very effective and ensures a clear focus on key issues;
- Apolitical nature of the meetings;
- Management appear to acknowledge and respect the committee's role and take on board the feedback from the committee.
- Relationships with Chief Finance Officer and Internal Audit are strong

The assessment has also resulted in an action plan and will be subject to monitoring.

The Self-Assessment Action Plan

Action ref	Description	Notes/Update
1	**Timing of Annual Report** If possible, to arrange for the Annual Report to be circulated and agreed ahead of the July committee meeting and in readiness for the Council papers for July 2026.	The Annual Report will be considered by Council in October 2026. In future years this will be addressed to be available more quickly. In July 2026, there was insufficient time between the Committee and Council for the report to be properly received by Full Council.
2	**Content of Annual Report** To expand the narrative in the report for 2026 to reflect the activity of the committee, against its core functions, and the value added.	Actioned
3	**Private meeting** To schedule the 2026 private meeting with the Internal and External Auditors.	To be programmed. Discussions underway for a possible July 2026 pre-Committee meeting. The new Chair will also meet with EY privately in June 2026.

Action ref	Description	Notes/Update
4	**Committee training / skills assessment** To conduct a committee skills/training assessment, using a matrix based on the CIPFA guidance.	To be programmed. Discussions underway
5	**Training plan** Based on the outcome of action 4, above, to develop a training plan which can be delivered as pre-meeting sessions and cover key areas, ideally relating to the topics on the agenda that day.	To be programmed. Discussions underway for pre-meeting training sessions delivered by the Chief Internal Auditor.
6	**Annual report – wording of recommendation to Council** To ask Council to 'approve' the Committee's Annual Report, rather than 'note', to encourage feedback on the committee's performance.	This has been actioned.
7	**Wording of recommendations on reports** To consult officers on whether report authors could provide reports for the Audit Committee 'to approve' or 'to endorse' wherever possible, where 'to note' is not suitable and this is considered appropriate. This is intended to encourage full consideration and discussion.	It is considered that this is broadly already happening. Where appropriate, officers will consider this request. However, items for information will continue to be presented to committee for noting and discussion as usual.

Action ref	Description	Notes/Update
8	**Committee attendance** Chair of Audit Committee to send open invitation to the Chief Executive to attend Audit Committee meetings.	The Chief Executive has been invited to meetings, and will attend where they feel it is necessary to do so. The Chief Executive currently attends to present the Annual Governance Statement and will continue to do so.