

East Cambridgeshire District Council

Rebuilding audit assurance: the path to an
unqualified opinion

Year ended 31 March 2026

12 August 2026



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12 August 2026



Audit Committee
East Cambridgeshire District Council
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Dear Audit Committee

Rebuilding audit assurance – risk assessment update

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

The purpose of this paper is to provide the Audit Committee 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 30 April 2026.

We welcome the opportunity to discuss this report with you at the meeting on 20 October 2026, and to understand whether there are any additional matters which the committee considers may influence our risk assessment.

Yours faithfully

David Riglar

For and on behalf of Ernst & Young LLP

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Public Sector Audit Appointments Ltd (PSAA) issued the 'Statement of responsibilities of auditors and audited bodies'. It is available from the PSAA website (<https://www.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 Audit Committee and management of East Cambridgeshire District Council. Our work has been undertaken so that we might state to the Audit Committee and management of East Cambridgeshire District Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of East Cambridgeshire District 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 East Cambridgeshire District 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	Significant risk	The General Fund closing balance is material and represents the cumulative effect of the Council's revenue and expenditure decisions over a number of financial periods. It is also a key indicator of financial resilience. While a good level of assurance was obtained in 2023/24, no audit procedures were performed in 2022/23 due to the disclaimer of opinion, and planned audit procedures were not completed in 2024/25. As a result, audit assurance has not been obtained over all relevant balances and movements that affect the opening balance for the current audit year. In addition, recommendations were raised in 2021/22 and 2023/24 for the Council to review its Minimum Revenue Provision (MRP) policy to ensure compliance with updated guidance. As no audit work was performed over MRP in 2022/23 or 2024/25, we have not obtained assurance that these matters have been appropriately addressed. There is therefore a risk that misstatements arising in prior periods may not have been identified or corrected and could continue to be reflected in the opening balance for the current audit year. We have therefore identified a significant risk due to the sensitivity of the balance and the potential for management bias in determining the level of available usable reserves, particularly given the material unaudited movements recorded in periods where audit opinions were disclaimed.
Earmarked reserves	Higher inherent risk	Earmarked reserves represent amounts set aside by the Council for specific purposes and reflect management decisions regarding the allocation and intended use of available resources. The accounting treatment is generally straightforward and involves limited judgement; however, the underlying General Fund transactions from which these reserves are funded may involve greater complexity and judgement. During audit procedures performed in 2023/24, a misstatement was identified in the 2022/23 earmarked reserves balance. Planned audit procedures over the 2022/23 balance were not completed due to the backstop arrangements and, consequently, no audit assurance was obtained over that balance at that time. Although the identified misstatement was not material, it demonstrates that errors existed within the unaudited 2022/23 balance. Given the lack of audit assurance over that period, there remains a risk that other misstatements may not have been identified or corrected and may therefore continue to affect the opening balance for the current audit year. On this basis, we have increased the risk assessment to higher inherent risk.

Rebuilding audit assurance – risk assessment update

3. Summary of risk assessment findings (cont'd)

Reserve	Risk Assessment	Rationale for Risk Assessment
Capital grants unapplied account	Significant risk	The Capital Grants Unapplied Account represents capital grants that have been recognised as income but have not yet been applied to finance capital expenditure. Judgement is required in determining whether the relevant grant conditions have been met and, therefore, whether income should be recognised. The complexity of the balance arises primarily from the timing of income recognition and the need to ensure compliance with the conditions attached to individual grants. During our 2023/24 audit work, we identified a historic accounting error relating to the classification of a grant, which resulted in a prior-period adjustment affecting reserves and creditor balances. Although this matter was identified through 2023/24 audit procedures, it related to balances previously reported in 2022/23, a year for which a disclaimer of opinion was issued. This demonstrates that errors may exist within historic grant-related balances that were not subject to sufficient audit procedures and may not otherwise have been identified. As no audit procedures were performed over the Capital Grants Unapplied Account in the years where disclaimer opinions were issued, audit assurance has not been obtained over the opening balance. There is therefore a risk that misstatements arising in prior periods may not have been identified or corrected and could continue to be reflected in the opening balance for the current audit year. Accordingly, we have assessed this area as a significant risk due to the judgement involved in determining the appropriate accounting treatment for grant income, the lack of assurance over historic balances, and the identification of a prior-period adjustment affecting a year subject to a disclaimer of opinion.
Capital receipts reserve	Lower inherent risk	Lower inherent risk due to the nature of the reserve and the absence of any entity-specific risk factors that would increase the assessed level of inherent risk.
Unusable Reserves		
Revaluation reserve	Significant risk	The Revaluation Reserve is material and represents accumulated unrealised gains arising from increases in the value of the Council's property, plant and equipment and intangible assets. The reserve is reduced where assets are revalued downwards or impaired, where gains are consumed through depreciation, or where assets are disposed of and the associated gains are realised. Changes identified within the fixed asset register in 2021/22, together with errors identified through audit testing, indicate weaknesses in controls over asset data and reserve movements. We have assessed the Revaluation Reserve as a significant risk due to its reliance on valuation judgements and the technical accounting adjustments arising from property, plant and equipment movements. The existence of material balances requiring further audit procedures increases this risk, notwithstanding the mitigation provided by the Council's use of external valuers. There is therefore a risk that misstatements affecting asset values and related reserve movements may not have been identified or corrected and could continue to be reflected in the opening balance for the current audit year.

Rebuilding audit assurance – risk assessment update

3. Summary of risk assessment findings (cont'd)

Reserve	Risk Assessment	Rationale for Risk Assessment
Capital adjustment account	Significant 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 CAA interacts directly with the General Fund and requires precise application of capital finance regulations, The Capital Adjustment Account is assessed as a significant 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.
Pensions reserve	Lower inherent risk	Lower inherent risk as the Pensions Reserve reflects the accounting treatment of pension obligations and should broadly mirror the pension liability recognised on the Balance Sheet. There is limited opportunity or incentive for management to manipulate the reserve, and no additional risk factors have been identified. While only partial assurance was obtained over the pension liability due to the lack of assurance over the opening balance at 1 April 2023, this does not increase the inherent risk assessment.
Collection fund adjustment account	Lower Inherent risk	No additional risk factors have been identified that would increase the risk.
Accumulated absences account	N/A	Immaterial balance, no additional work required.
Financial instruments adjustment account	N/A	Immaterial balance, no additional work required.
Deferred capital receipts reserve	N/A	Immaterial balance, no additional work 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;
- insufficient quality or availability of historic supporting evidence;
- limitations in management capacity to support a historic rebuild alongside the 2025/26 audit; and
- unresolved control deficiencies or accounting issues from prior years

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, which is critical given the timing of upcoming Local Government Reorganisation. We will reperform our risk assessment procedures as part of our 2026/27 audit planning to update the assessment of whether the Council is in a position to 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 30 April 2026.

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.



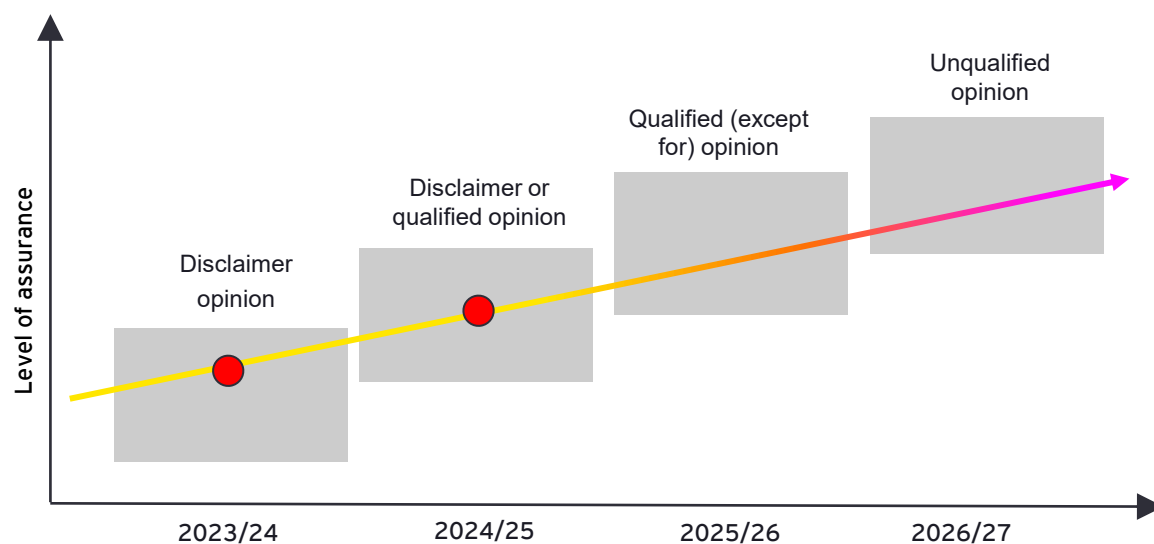
Appendix A

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 the following areas:
 - ▶ No assurance was obtained over Short term debtors, Short term Creditors, Grants received in advance, Reserves, Staff costs, Other Income and Expenditure, Leases, Collection Fund, Other Disclosures, Cash Flow Statement;
 - ▶ Limited assurance was obtained over Property, Plant and Equipment ('PPE'), Local Government Pension Scheme, Group Accounts due to uncertainties relating to opening balances. Limited assurance was also obtained over the and Journal Testing as a consequence of the impact of areas where no assurance was obtained.

In our view, the Council's progress falls behind the expected timescales set out in LARRIG 01. Focus for 2025/26 should be providing high quality audit evidence to support completion of all planned audit procedures to allow the natural rebuild process to commence.

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