

Divisions Affected - All

AUDIT & GOVERNANCE COMMITTEE

4 June 2025

Local Audit Reform: Audit Consultation Outcome

Report by the Executive Director of Resources and Section 151 Officer

RECOMMENDATION

1. **The Committee is RECOMMENDED to**
 - (a) Note the update on Local Audit Reform and the establishment of a Local Audit Office.
 - (b) Note the on-going backstop arrangements following the disclaimed opinions for the council's accounts for 2022/23 and 2023/24.

Executive Summary

2. This report sets out an update on Local Audit Reform following the national consultation that ran from December 2024 to January 2025.
3. It also provides background to the issues that have impacted on the audit and opinion on the council's accounts from 2020/21 onwards and explains the on-going impact for the audit of the 2024/25 accounts and potentially future years.

Background: Addressing the local audit backlog in England

4. Nationally there were 918 outstanding unaudited accounts in September 2023. The Whole of Government Accounts for financial year 2022/23 was subsequently disclaimed in autumn 2024 – primarily due to a lack of audit assurance on local government accounts.
5. In early February 2024 Department for Levelling Up, Housing and Communities issued a [consultation](#) with the aim of clearing the backlog of local audits in England. The consultation sought views on amending the Accounts and Audit Regulations 2015 as part of a package of cross-system measures to clear the backlog and put the system on a sustainable footing for the future.

6. [Secondary legislation](#) has subsequently been put in place to amend the Accounts and Audit Regulations (2015) to set a series of backstop dates for audits to be completed.
7. The first backstop date, 28 February 2025, cleared the backlog of unaudited accounts up to and including 2022/23. Where auditors were unable to complete audits, they issued a 'disclaimed' or 'modified' audit opinion.
8. The legislation includes further backstop dates up to and including financial year 2027/28 to allow full assurance to be rebuilt over several audit cycles. The remaining backstop dates are:
 - Financial year 2024/25: 27 February 2026
 - Financial year 2025/26: 31 January 2027
 - Financial year 2026/27: 30 November 2027
 - Financial year 2027/28: 30 November 2028
9. While the expectation is that there will be modified and disclaimed opinions, auditors' other statutory duties – including to report on Value for Money (VfM) arrangements, to make statutory recommendations and issue Public Interest Reports – remain a high priority.
10. The Government set out that local bodies should not be unfairly judged based on disclaimed or modified opinions, caused by the introduction of backstop dates that are largely beyond their control.

Background: Publication and Audit of the council's Statement of Accounts for 2020/21, 2021/22, 2022/23 and 2023/24

11. The audit of the council's accounts for 2020/21 and 2021/22 was initially impacted both by the COVID-19 pandemic and by a technical accounting issue which arose nationally relating to the valuation of infrastructure assets such as highways and bridges, which are used to deliver services but cannot be sold.
12. In November 2022 the Department of Levelling Up, Housing & Communities (DLUHC) introduced a statutory override to set out accounting practices with respect to accounting for infrastructure assets and to help address ongoing delays in the completion of financial audits. The council subsequently received audit opinions on the 2020/21 and 2021/22 accounts on 25 September 2023 and 25 January 2024, respectively.
13. The unaudited Statement of Accounts for 2022/23 was published on the council's website for public inspection on 23 January 2024.
14. While the council's auditors, Ernst & Young LLP, did not complete detailed testing of the financial statements for 2022/23 they requested updates on key areas to ensure that they were sighted on developments and to form a view on aspects that they report on. A [disclaimed opinion and completion report](#) was

shared with Audit & Governance Committee on 27 November 2024 ahead of the 2022/23 backstop date of 13 December 2024.

15. The unaudited 2023/24 Statement of Accounts was published on the council's website on 28 June 2024 and a full audit of the accounts, including a substantial amount of transactional sampling, took place from July 2024 onwards with completion in early 2025. The draft audit letter was issued by Ernst & Young LLP on 10 February 2025 ahead of the 2023/24 backstop date of 28 February 2025.
16. The [Audit Completion Report](#) for 2023/24 notes that while Ernst & Young LLP commenced work to rebuild assurance ahead of the backstop date there was insufficient evidence to enable them to have reasonable assurance over all closing balances. As a result of the 2022/23 disclaimed audit report, they did not have assurance over the brought forward balances from that year (the opening balances for 2023/24). This means they did not have assurance over 2023/24 in-year movements and some closing balances. They also did not have assurance over the 2022/23 comparative amounts disclosed in the 2023/24 financial statements.
17. Taken together with the requirement to conclude their audit work by the 2023/24 backstop date, the lack of evidence over these movements and balances, meant they were unable to conclude that the 2023/24 financial statements were free from material and pervasive misstatements. They therefore issued a further disclaimed audit opinion for 2023/24.

Audit of the Statement of Accounts for 2024/25 and 2025/26

18. The 2024/25 statement of accounts is required to be published by 30 June 2025 and the audit needs to be completed by the backstop of 27 February 2026.
19. At this stage it is unclear what approach will be taken regarding the on-going impact of unaudited balances brought forward from 2022/23. There is also a linked issue in 2025/26 related to the three yearly asset valuation cycle. For the 2025/26 Statement of Accounts, the last valuation would have been conducted in 2022/23. Therefore, the opening audit valuation for 2025/26 will be based on the valuations in 2022/23 which were not fully audited.
20. Because of this it is anticipated that the council may receive further modified or disclaimed opinions.

Local Audit Reform

21. On 18 December 2024, the government published a statement of intent and consultation on proposals to overhaul the current local audit system in England. The strategy set out a local audit vision based on eight core principles and a commitment to establish a statutory and independent Local Audit Office (LAO). This intention is that this will stop fragmentation in the system by co-ordinating functions previously spread across different

organisations including the Public Sector Audit Appointments Ltd, the National Audit Office and the Financial Reporting Council.

22. The consultation closed on 29 January 2025, with over 200 responses received from a range of organisations including local authorities, auditors, sector bodies, and professional organisations.
23. On [9 April 2025](#) the Government announced 16 new commitments to overhaul local audit in response to the consultation including the establishment of a Local Audit Office as a statutory and independent body, simplifying financial reporting requirements and increasing capacity to avoid reliance on a small number of auditors.
24. The role of the Local Audit Office will be set out in legislation through statutory objectives which will seek to ensure that the local audit system operates effectively and promotes high quality, proportionate local audit.
25. The eight core principles underpinning local audit and the operation of the Local Audit Office (LAO) will be:
 - **Value for money.** A system that provides confidence that bodies and the new Local Audit Office have arrangements in place to deliver value for money for taxpayers.
 - **Transparency** of the sector's financial health and value for money arrangements.
 - **Capacity and capability.** A sustainable and resilient market with access to the right expertise and with sufficient capacity to serve all eligible bodies.
 - **External scrutiny** to independently identify issues, challenge and drive improvement
 - **Professionalism.** Building a sector attractive to auditors to build careers and become future audit leaders.
 - **Proportionality.** Local audit that is proportionate and relevant, from regulations to governance.
 - **Stronger accountability.** Scrutiny and reporting of issues and high standards of financial reporting to promote public accountability.
 - **Timely.** High quality accounts audited and published on time to ensure relevance and increase value to the public, including timely reporting of issues.
26. The intention is that the LAO will streamline and simplify the local audit system and will take on the appointment and contracting of auditors for local authorities. The LAO will also adopt ownership of the Code of Audit Practice and associated guidance from the NAO and deliver relevant training. It will have powers to interpret and apply ISA requirements for the local audit context. The LAO will also hold responsibility for quality oversight of local audit, including overseeing an inspection programme, enforcement and

appropriate elements of supervision. It will publish national insight reports on local audit health, which could include emerging trends, quality, market sustainability, value for money arrangements and statutory recommendations and Public Interest Reports. It will also oversee professional bodies with regard to their remit for the registration, eligibility, and conduct of local auditors.

27. To strengthen early warning, auditors will be required to escalate significant issues, with the knowledge of the relevant council, to both the LAO and relevant Secretary of State. The LAO will be required to share issues with audit firms, government departments and inspectorates. The LAO will produce and publish guidance for the management of issues, including escalation to the LAO and sharing with other organisations, to encourage consistency and transparency, and to mitigate risks raised by stakeholders.
28. The Government has also committed to removing Key Audit Partner criteria requirements and building public provision of audit services.
29. The reforms outlined in the strategy and Government response will be backed by up to £49 million of non – ringfenced grant funding to cover the net additional cost of the backlog clearance provisions in 2024/25 and 2025/26 for those bodies that received disclaimed audit opinions. Releasing funds to councils will be reliant on compliance with statutory backstops and linked to the publication of audited accounts and audit fees being paid.
30. The intention is that this funding will support councils in clearing their backlogs and will enable local bodies to meet the additional costs of fully restoring audit assurance within five years, and sooner for many bodies. In addition to this, a further £15m of grant was paid to 537 eligible local bodies in March 2025 as part of an existing package to help meet the wider costs of meeting audit requirements and fees. This funding, which covered increased audit fee expenditure for 2024/25, was distributed proportionally in line with Public Sector Audit Appointment fee scales. The council received £0.052m.

Infrastructure Assets Statutory Override

31. In addition to the reform of local audit, the Ministry of Housing, Communities and Local Government (MHCLG) has also extended the infrastructure assets statutory override until 1 April 2029. As noted above this was introduced in 2022 to set out accounting practices with respect to accounting for infrastructure assets and help address ongoing delays in the completion of financial audits.
32. MHCLG took the position that without a longer-term solution there is a risk that the expiration of the override “would disrupt the planned audit backstop programme and create additional burden for account preparers”. They will continue to work with system partners to devise a long-term solution to accounting for infrastructure assets within the sector.

Financial Implications

33. There are no financial implications arising directly from the report. However, the Council is required to pay its external auditor for conducting the audit of the Statement of Accounts each year.
34. Further information is awaited on the council's share of the £49m funding announced as part of Local Audit Reform.

Comments checked by:

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Legal Implications

35. There are no legal implications arising directly from the measures set out in the report. However, the Council will need to ensure that arrangements are put in place to comply with any amendments to the Local Audit and Accountability Act 2014, Accounts and Audit Regulations 2015 and statutory guidance, including the Code of Practice on Local Authority Accounting in England and Wales.

Comments checked by:

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Background papers: Nil

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