Oxfordshire County Council

Rebuilding audit assurance: the path to an unqualified opinion

Year ended 31 March 2026

30 July 2026

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

Shape the future with confidence

Private and Confidential

30 July 2026

Audit and Governance Committee
Oxfordshire County Council
Oxford
OX1 1ND

Dear Audit and Governance Committee Members

Rebuilding audit assurance – risk assessment update

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

The purpose of this paper is to provide the Audit and Governance 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 qualified and 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 6 May 2026.

We welcome the opportunity to discuss this report with you at the meeting on 16 September 2026, and to understand whether there are any additional matters which the committee considers may influence our risk assessment.

Yours faithfully

Simon Mathers, Partner

For and on behalf of Ernst & Young LLP

Enc

Contents

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 Oxfordshire County Council. Our work has been undertaken so that we might state to the Audit Committee and management of Oxfordshire County 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 Oxfordshire County 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 Oxfordshire County 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, as all planned audit procedures for the 2023/24 and 2024/25 audits were completed, the Council's "natural" rebuild is now well progressed.

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.

Usable Reserve	Risk Assessment	Rationale for Risk Assessment
General Fund Balance	Higher inherent risk	Given the sensitivity of the General Fund balance as a key measure of financial resilience, together with its susceptibility to management bias in determining available usable reserves, and the material unaudited movements identified during the disclaimed periods, this reserve has been assessed as higher inherent risk.
Capital Grants Unapplied Account	Higher inherent risk	The Capital Grants Unapplied Account reserve requires judgement regarding the timing of grant recognition and includes material balances that require further risk assessment procedures. Therefore, this reserve has been assessed as higher in inherent risk.
Revaluation Reserve	Higher inherent risk	The Revaluation Reserve is assessed as having higher inherent risk due to its reliance on valuation judgements and technical accounting adjustments arising from movements in property, plant, and equipment (PPE). Material balances requiring further audit procedures increase inherent risk, notwithstanding the mitigation provided through the use of external valuers.
Capital Adjustment Account	Higher inherent risk	The Capital Adjustment Account is assessed as having higher inherent risk due to the complexity and volume of statutory capital adjustments required, as well as its direct interaction with the General Fund. However, these adjustments are largely governed by statutory capital finance regulations and prescribed accounting treatments. In addition, no factors have been identified that indicate heightened management override risk or complexity beyond that ordinarily expected; therefore, the risk is not assessed as significant.
Earmarked Reserves	Lower inherent risk	Earmarked Reserves are assessed as lower inherent risk, as the accounting treatment is relatively straightforward, representing amounts set aside for specific purposes, with movements driven by management decisions rather than complex statutory or technical adjustments. There is limited susceptibility to management bias, as the complexity and funding implications primarily reside within the General Fund rather than within the reserve themselves.

Rebuilding audit assurance – risk assessment update

3. Summary of risk assessment findings

Usable Reserve	Risk Assessment	Rationale for Risk Assessment
Collection fund adjustment account	Lower inherent risk	The Collection Fund Adjustment Account is assessed as lower inherent risk, as it reflects timing differences between statutory collection fund arrangements and accrual-based accounting, with limited impact on the overall financial statements if misstated. Despite a degree of mechanical complexity, the reserve does not affect the reported financial position or financial resilience and provides limited scope or incentive for management bias.

Unusable Reserve	Risk Assessment	Rationale for Risk Assessment
Dedicated schools grant adjustment account	Lower inherent risk	The Dedicated Schools Grant (DSG) Adjustment Account is assessed as lower inherent risk, as its accounting treatment is prescribed by statute. Movements are driven by clearly identifiable DSG deficits with minimal judgement involved, and the reserve cannot be used to support the General Fund. As a result, there is limited scope or incentive for management bias.
Pension reserve	See right	We have obtained assurance over the closing balance as at 2024/25; therefore, no rebuild procedures are required.
Financial instruments adjustment account	See right	The reserve balance is immaterial
Accumulated absences account	See right	The reserve balance is immaterial
Pooled investments fund adjustment account	See right	The reserve balance is immaterial

Rebuilding assurance over reserves – Risk assessment

4. Implications for the 2025/26 audit

Our risk assessment process has found that the pre-2023/24 gaps in assurance - particularly those relating to reserves and other cumulative balances - can be sufficiently addressed as part of the 2025/26 audit, supporting future progression towards an unmodified audit opinion.

Before we commence our audit procedures, it will be essential for management to have completed a robust review and reconciliation of both usable and unusable reserves in the disclaimed periods, and to provide assurance to Those Charged with Governance that these balances are accurate, supportable, and appropriately documented. This reflects management's primary responsibility for preparing the financial statements and maintaining the underlying evidence base.

To rebuild assurance over the historic position, we will need to audit certain transactions and movements from 2022/23 (and earlier years, where applicable). We will share details of these transactions with management and will require confirmation that high-quality working papers and supporting evidence can be provided, together with sufficient management capacity to support this historic rebuild without compromising the delivery of planned audit procedures for 2025/26 over closing balances and in-year movements. We will then take the decision, with management, when is most appropriate time to commence the rebuild of reserves.

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 6 May 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.

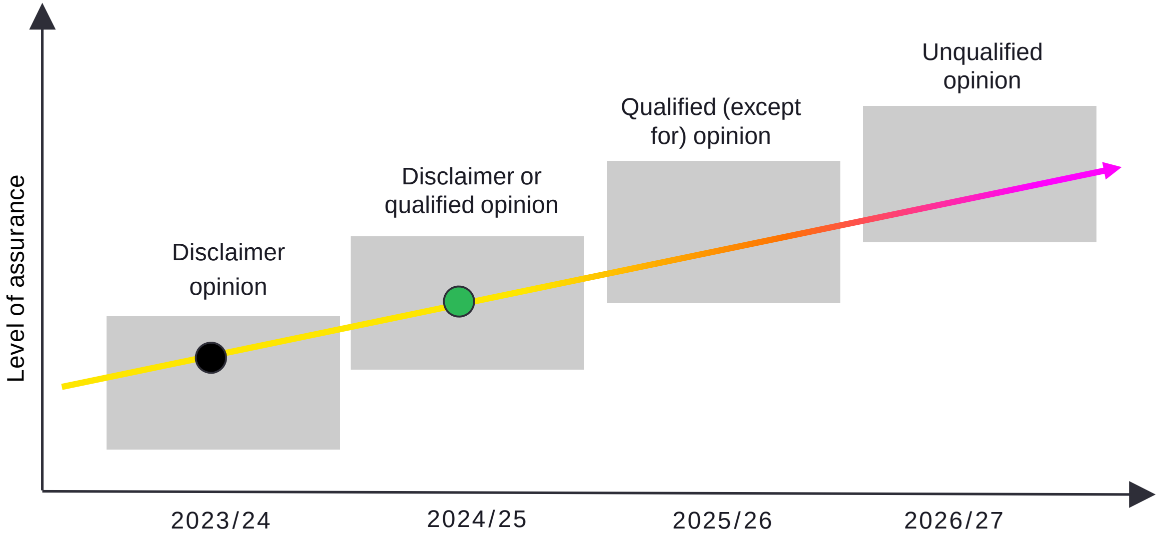
Appendix A

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 the audit report for the year ended 31 March 2025, a qualified audit opinion was issued which drew attention to the areas where we had yet to obtain sufficient appropriate audit evidence. This was the valuation of property, plant and equipment (PPE) assets that were last revalued in the financial years 2022/23 and classification of reserves between useable and unusable.
- In the audit report for the year ended 31 March 2024 a disclaimer of opinion was issued due to the application of the backstop.

The timing of the Council's valuation cycle for PPE is an important factor for this timeline. The Council has a rolling 3-year programme. At the end of 2025/26, all PPE last valued in 2022/23, the original disclaimed year, has now been subsequently revalued. We will not however have assurance over the comparative disclosure of the valuation of that PPE in the current year accounts and associated movements in income and expenditure.

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.

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.

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

ey.com/uk