Borough Council of King's Lynn & West Norfolk

Rebuilding audit assurance: the path to an unqualified opinion

Year ended 31 March 2026

11 August 2026

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11 August 2026

Audit Committee
Borough Council of King's Lynn & West Norfolk
King's Court, Chapel Street
King's Lynn
Norfolk
PE30 1EX

Dear Audit Committee Members

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 Provisional 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 14 September 2026, and to understand whether there are any additional matters which the committee considers may influence our risk assessment.

Yours faithfully

David Riglar, Partner

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 the Borough Council of King's Lynn and West Norfolk. Our work has been undertaken so that we might state to the Audit Committee and management of the Borough Council of King's Lynn and West Norfolk 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 the Borough Council of King's Lynn and West Norfolk 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.

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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 Borough Council of King's Lynn & West Norfolk's (the Council's) current position. During 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.

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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
General Fund Reserves	Significant Risk	The General Fund is sensitive to statutory adjustments and is a key indicator of the authority's financial resilience, increasing its susceptibility to misstatement and management bias. The General Fund balance is material and represents the cumulative impact of revenue and expenditure decisions over a number of financial periods. No audit procedures were performed in 2020/21 to 2023/24, and not all planned procedures were completed in 2024/25. As a result, 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.
Earmarked Reserves	Significant Risk	Earmarked reserves are material. No audit procedures were performed in 2020/21 to 2023/24, and not all planned procedures were completed in 2024/25. As a result, 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.

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Rebuilding audit assurance – risk assessment update

3. Summary of risk assessment findings

Reserve	Risk Assessment	Rationale for Risk Assessment
Capital Receipts Reserve	Significant Risk	Capital Receipts Reserve is material. No audit procedures were performed in 2020/21 to 2023/24, and not all planned procedures were completed in 2024/25. As a result, 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.
Capital Grants Unapplied Account	Significant Risk	Capital Grants Unapplied Account represents cumulative capital grant income received but not yet applied to finance capital expenditure, with balances carried forward across financial periods. No audit procedures were performed in 2020/21 to 2023/24, and not all planned procedures were completed in 2024/25. As a result, there remains an increased risk that misstatements arising in the disclaimed period, including incorrect recognition or timing of capital grants, were not fully identified or corrected through movement-only testing and may persist within the opening balance for the current audit year.
Revaluation Reserve	Significant Risk	The Revaluation Reserve is material and arises from periodic valuation, impairment and disposal of property, plant and equipment, which are inherently judgemental. No audit procedures were performed in 2020/21 to 2023/24, and not all planned procedures were completed in 2024/25. There have been historic risks and weaknesses relating to the Council's Fixed Asset Register and accounting of capital transactions that further heighten the risk. As a result, 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.

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Rebuilding audit assurance – risk assessment update

3. Summary of risk assessment findings

Reserve	Risk Assessment	Rationale for Risk Assessment
Capital Adjustment Account	Significant Risk	The Capital Adjustment Account is material and highly complex, comprising cumulative capital-related accounting and statutory adjustments arising from asset valuations, depreciation, impairments, disposals and financing transactions over multiple years. No audit procedures were performed in 2020/21 to 2023/24, and not all planned procedures were completed in 2024/25. There have been historic risks and weaknesses relating to the Council's Fixed Asset Register and accounting of capital transactions that further heighten the risk. As a result, there remains an increased risk that errors or misstatements arising in the disclaimed period have not been fully identified or corrected and may persist within the opening balance for the current audit year. Given the direct interaction between the Capital Adjustment Account and the General Fund, this heightens the inherent risk associated with the reserve.
Financial Instruments Adjustments Account	Significant Risk	No audit procedures were performed in 2020/21 to 2023/24, and not all planned procedures were completed in 2024/25. As a result, 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.
Pensions Reserve	Significant Risk	No audit procedures were performed in 2020/21 to 2023/24, and not all planned procedures were completed in 2024/25. As a result, 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.

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Rebuilding audit assurance – risk assessment update

3. Summary of risk assessment findings

Reserve	Risk Assessment	Rationale for Risk Assessment
Collection Fund Adjustment Account	Significant Risk	No audit procedures were performed in 2020/21 to 2023/24, and not all planned procedures were completed in 2024/25. As a result, 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.
Accumulated Absences Account	Significant Risk	No audit procedures were performed in 2020/21 to 2023/24, and not all planned procedures were completed in 2024/25. As a result, 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.

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Rebuilding assurance over reserves – Risk assessment

4. Implications for the 2025/26 audit

Our risk assessment process has indicated that the pre-2024/25 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; and
- limitations in management capacity to support a historic rebuild alongside the 2025/26 audit.

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.

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Appendix A

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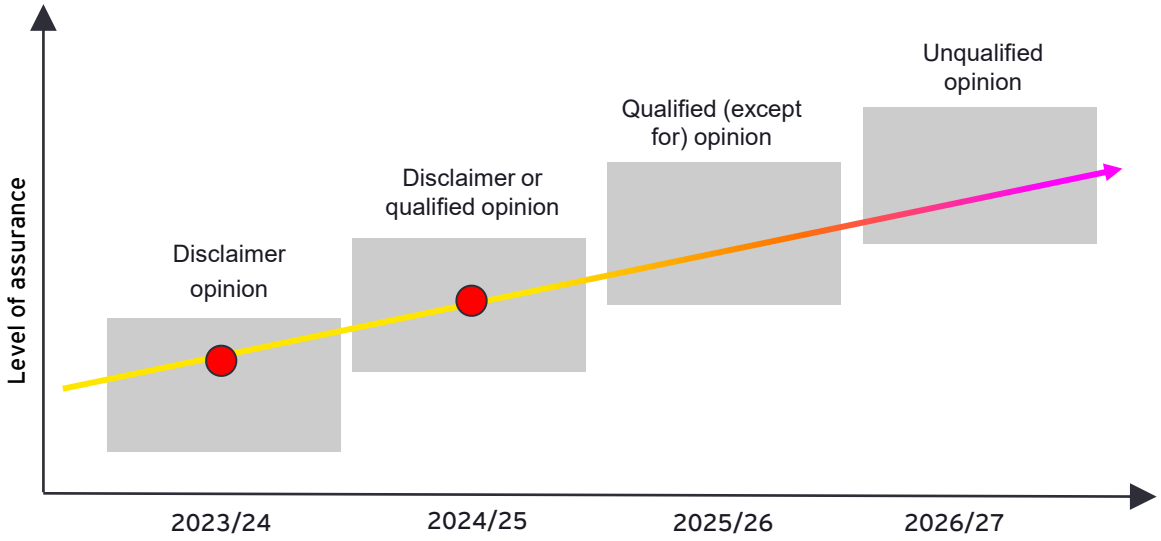
Appendix A – Rebuilding assurance

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 2020/21 to 2023/24 disclaimer of opinions were issued as the Council were unable to prepare financial statements and supporting working papers ahead of the backstop dates for those years. In 2024/25 a disclaimer of opinion was issued due to the application of the backstop. This means the auditor was 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.

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