

From Reset to Recovery

Borough Council of King's Lynn & West Norfolk

Audit Committee briefing

August 2026

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01 | Reset and sector context

The breakdown of local audit in English local government is widely seen as the result of a cumulative set of structural reforms and system pressures, rather than a single failure point. A perfect storm of conditions led to widespread delay in audit completion.

The structural break: lack of system leader

- In 2015, the Audit Commission was abolished which had previously provided a centralised, integrated system for local audit, inspection and oversight. This redesign led to the loss of a single system leader.
- A lack of consensus between government departments, regulators, standard setters and other stakeholders about the scope of local government financial reporting and audit. Changes to the accounting framework were difficult to implement, with even relatively narrow reforms taking significant time to secure agreement between government bodies.
- This led to increasing audit requirements without a corresponding reassessment of whether the reporting framework remains useful for users of financial statements.

Fragility in capacity exposed by the pandemic

- Local government finance teams have experienced underinvestment in capacity and capability. Many bodies struggle to recruit and retain qualified finance staff and increasingly rely on temporary resources, creating high turnover and loss of organisational knowledge.
- There are weaknesses in finance skills, financial reporting capability and audit readiness across some bodies, including difficulties keeping pace with increasingly data-driven audit approaches.
- Public sector audit became less attractive because of compressed timetables, regulatory scrutiny and increasing compliance expectations. This led to higher attrition and recruitment difficulties.
- There has been no workforce strategy for local audit despite sector support, suggesting an insufficiently coordinated response to emerging workforce risks.

Financial reporting system unfit for purpose

- Financial reporting and decision-making in local government has become significantly more complex, driven by commercialisation, investment activities and other developments in local authority business models.
- There is a mismatch between local bodies' concerns about the volume of audit work and regulators' expectations for ever-increasing audit procedures and evidence. The result is a framework that continuously expands rather than being tailored to users' needs.
- Meaningful simplification of financial reporting and audit has proved difficult.
- Outdated digital capability in some bodies can also be a factor, with systems that are unable to support the increasingly data-driven nature of modern audit.

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01 | Reset and sector context continued

The challenge has shifted: from restoring timeliness to rebuilding assurance

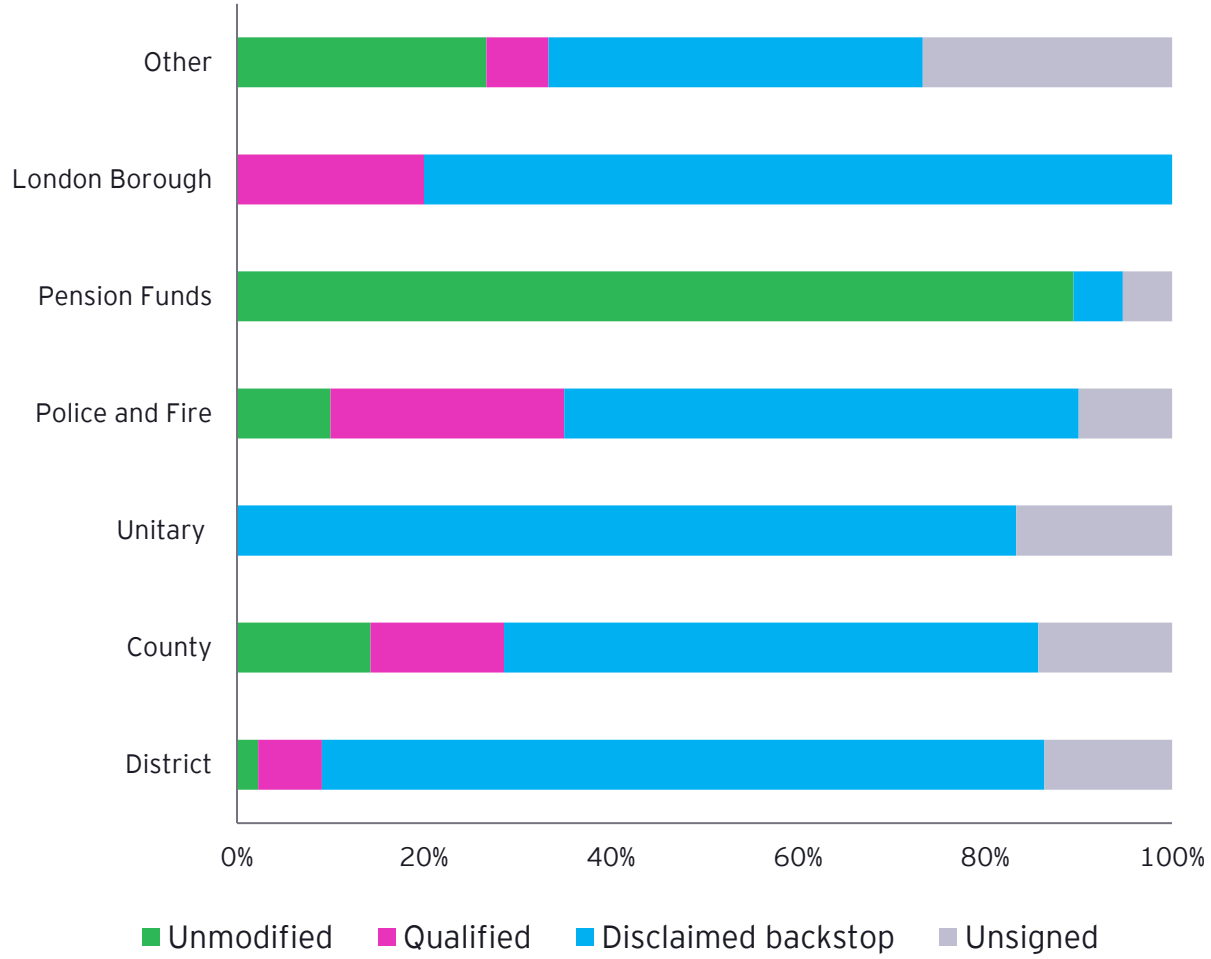
While there were improvements in the level of unmodified and qualified opinions, key outcomes in 2024/25 included:

- Widespread disclaimed opinions due to limited audit scope
- Continuing gaps in audit evidence and historic assurance remain

As a result, audit opinions no longer imply full assurance for local bodies or key stakeholders.

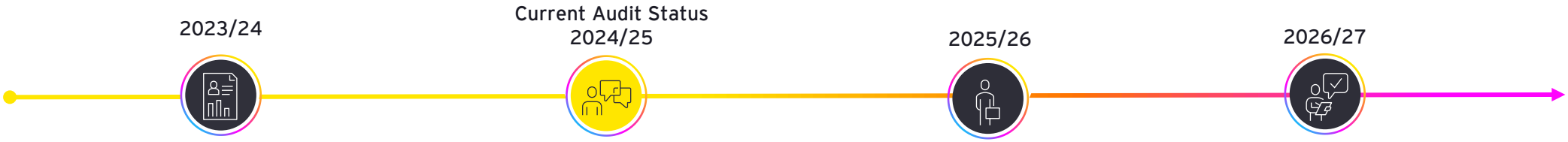


Figure 1
Most EY local government body audit opinions continued to be disclaimed in 2024/25



01 | Reset and sector context continued

Audit committees should judge progress by assurance recovery trajectory



EXPECTED TIMELINE

Disclaimer opinion

- Pervasive gaps over opening balances, comparators, and in-year movements.
- Lack of assurance over PPE which are valued on a cyclical basis, from the 2020/21 audit.
- Lack of assurance over Reserves (cumulative nature).

Disclaimer or qualified opinion

Continuing impact from 2023/24

- Lack of assurance over all the comparator PPE and reserves.
- Due to gaps in PPE assurance, there is a likely lack of assurance over related in-year transactions.
- Potential for qualified except for, but more likely to be disclaimed.

Qualified (except for) opinion

- Assurance in place over opening and closing balances, and assurance gained over each in-year movement.
- Likely gap over specific comparator balances may remain on PPE due to the extent items have not been valued since 2020/21. The impact on the CIES & reserves would require to be assessed.
- However, with the anticipation of incorporating build-back guidance focusing on reserves, there is increasing probability that gaps in assurance can be specifically identified, leading to higher likelihood of a qualified report (not disclaimed).

Unqualified opinion

- Expectation that all items resolved.
- Auditor will need to reassess the PPE cyclical valuation impact - but may be able to work with the authority to ensure that items previously valued in 2020/21 were revalued by this time or would be immaterial.

CURRENT AUDIT STATUS OF BOROUGH COUNCIL OF KING'S LYNN & WEST NORFOLK

- The Council's progress is behind the expected timescales set out in LARRIG 01.
- This is because no or limited procedures were completed in 2020/21, 2021/22, 2022/23 or 2023/24- being multiple years as opposed to the single year of the LARRIG example.
- We have not able to complete all planned procedures on a number of areas of the 2024/25 financial statements, therefore extending the period over which we will need to rebuild audit assurances. This means it is unlikely that audit assurances can be rebuilt to enable an unqualified opinion by 2026/27.

Extract from Appendix A in the 2024/25 Audit Results Report.

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02 | Monitoring progress: the summary of assurances

For most local government body audits, there are cumulative gaps in assurances brought forward

Our audit reporting across our local government portfolio highlights areas with continuing assurance gaps.

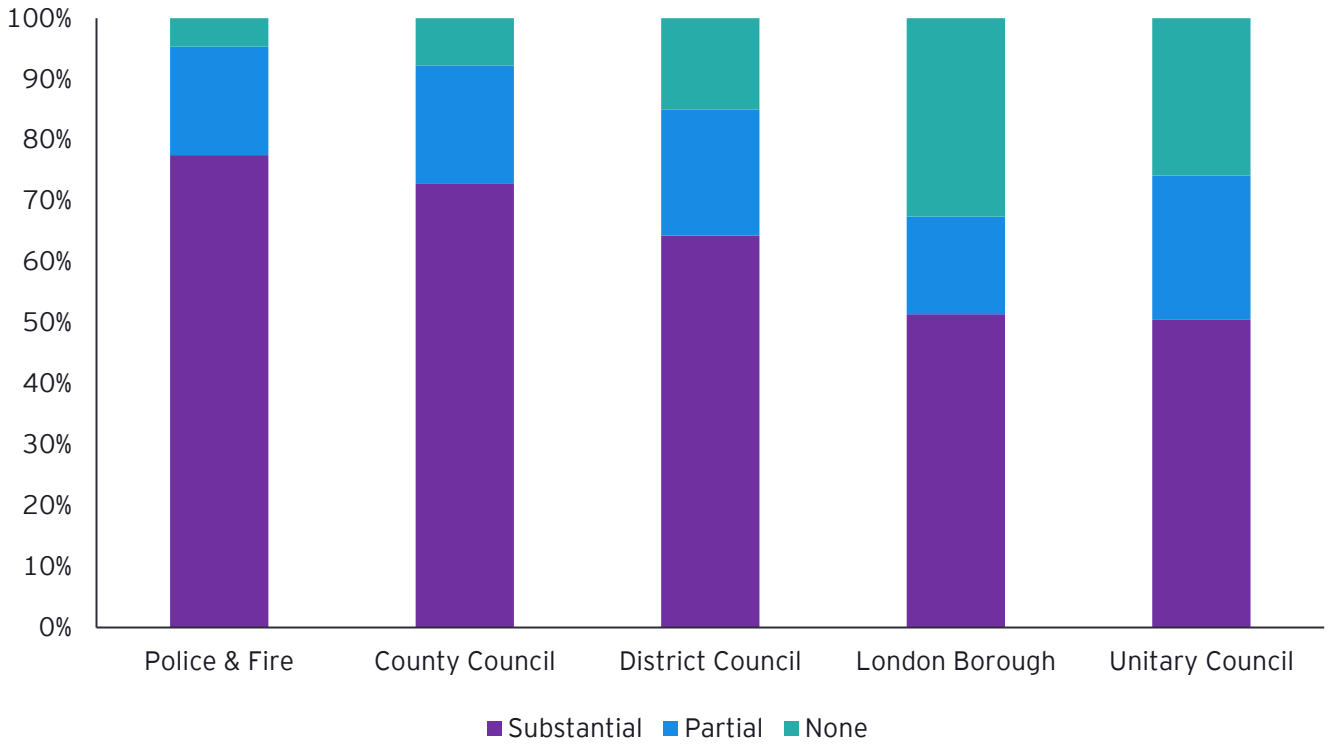
Across local government, the gaps most commonly impact:

- Reserves
- Property, Plant and Equipment; and
- Income & expenditure.

Assurance is rebuilt incrementally over time. A simplified buildback trajectory is:

Year 1:	Year 2:	Year 3:
Disclaimer (or disclaimer with emphasis on remedial work)	Qualified opinion(e.g., limitation of scope confined to specific balances)	Unmodified opinion

Figure 2
We were more likely to complete full audit procedures for less complex bodies, including Police & Fire bodies, but this was not consistent



02 | Monitoring progress: the summary of assurances continued

Significant gaps remain in assurance across reserves

Why does this matter?

- Reserves are a critical lens on sustainability and risk
- Misclassification can misstate financial capacity and resilience.



Figure 3
In many local government bodies, reserves are analysed into two categories: usable and unusable and are inherently more complex.

In normal circumstances, auditors can audit any movements in-year, and rely on the prior year audited closing balance as the opening balance. After a disclaimer opinion, the opening balance was never audited. Instead of understanding what changed this year, the auditor has to ask whether the entire balance, built up over several years, is accurate.

Usable reserves

- Result from the body's activities.
- Can be spent in the future and therefore are the key focus of assessments of financial resilience.
- Include:
  - General Fund
  - Earmarked reserves
  - Capital receipts reserve.

Unusable reserves

- Derive from accounting adjustments such as revaluations (for assets that typically cannot be sold) and pension valuation movements.
- Cannot be used.
- Include:
  - Pensions reserve
  - Revaluation reserve
  - Capital adjustment account.

If movements are incorrectly recorded balances may appear in the General Fund when they are not actually available.

Elected members may therefore make decisions on the assumption of flexibility that isn't there.

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02 | Monitoring progress: the summary of assurances continued

Our assessment of audit readiness informed our reporting to all committees

Our ability to complete the audit is reliant on the timely development of well-supported accounting judgements, the provision of accurate and relevant supporting evidence, access to the finance team, and management's responsiveness to issues identified during the audit.

In this context, we assessed audit preparedness for each local government body against eight criteria (Figure 4) and reported the outcomes to Those Charged with Governance within the Audit Results (ISA 260) Report for each body.

In 2024/25 we found that:

- 87% of local government bodies met earlier timescales for the production of the financial statements.
- However, quality and completeness – not speed – increasingly constrained audit progress.

Figure 4
Most local government bodies were well prepared for audit and met deadlines for the delivery of draft financial statements that were of a good quality



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03 | How do you compare to peers?

Our assessment of audit readiness informed our reporting to all committees

Bodies that were able to produce well-supported draft financial statements and respond effectively to audit queries are significantly more likely to progress from disclaimer to qualified opinions.

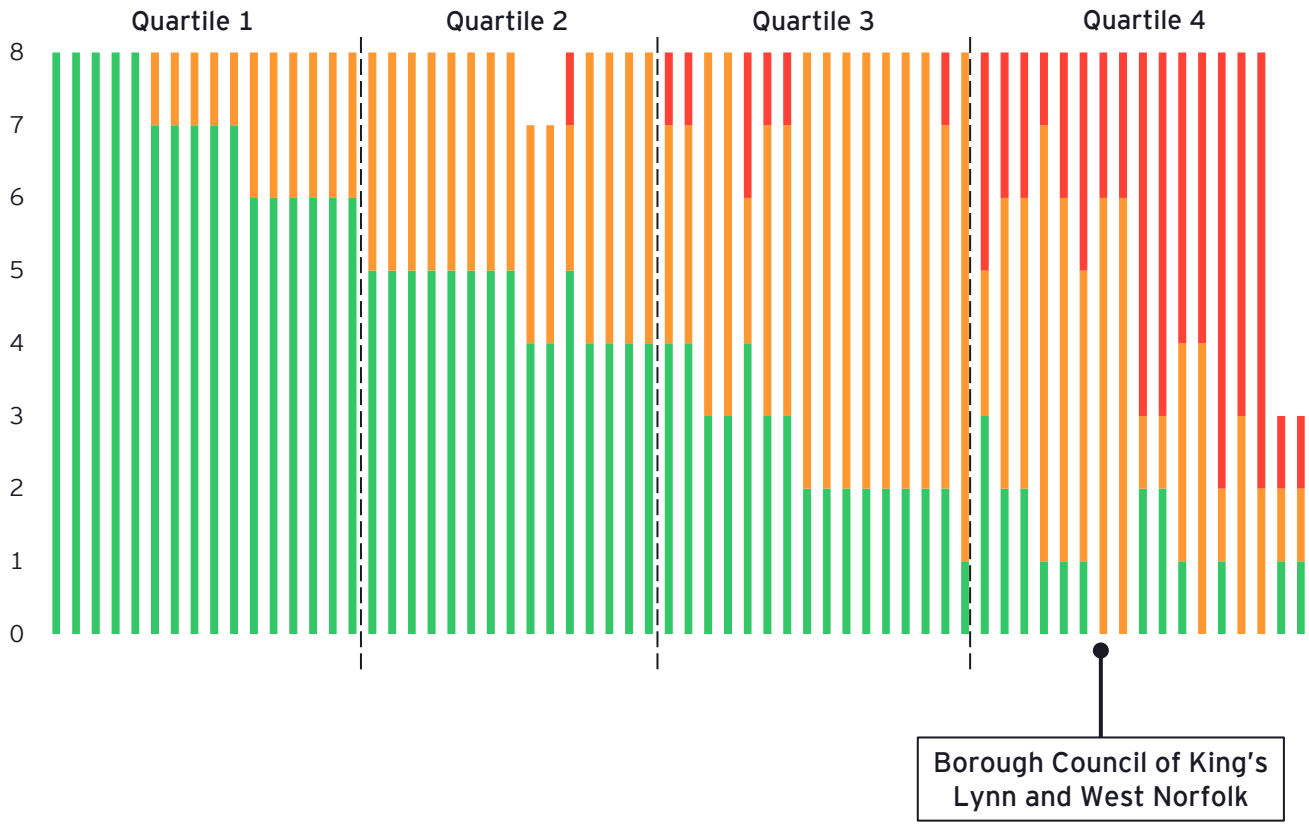
Where readiness remained weak, auditors were often unable to complete sufficient planned procedures, regardless of the body's complexity or size.

Arrangements were effective

Improvements required

Arrangements were ineffective

Figure 5
Where the opinion remained on disclaimed or qualified, we found that we could split bodies into 4 main groups, with advanced, well-prepared bodies in Quartile 1.



03 | How do you compare to peers? Continued

Our assessment of audit readiness: District Councils

Key factors include:

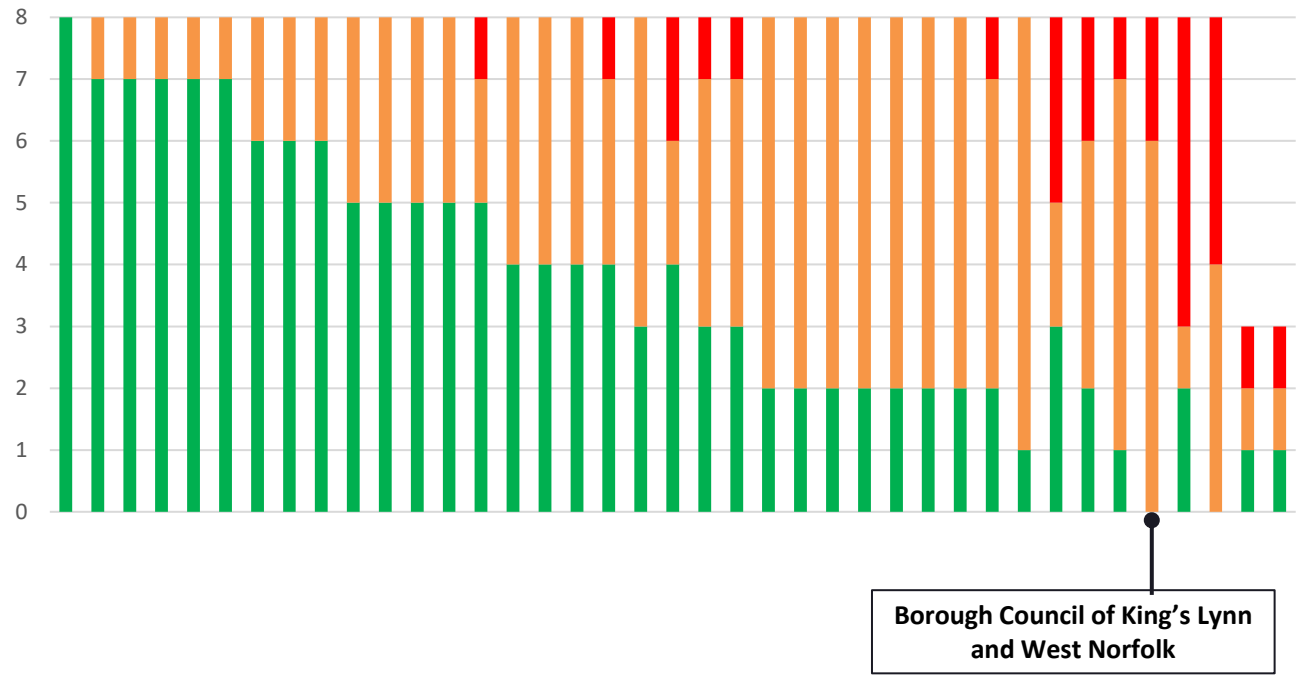
- Timely draft financial statements;
- Quality working papers;
- Robust evidence including from management specialists; and
- A responsive finance team.

Arrangements were effective

Improvements required

Arrangements were ineffective

Figure 6
How the council compares to similar bodies (district councils) that met the backstop deadline



03 | How do you compare to peers? (cont'd)

Summary of assurances: District Councils

There were two district councils where no assurance could be provided.

Assurance gaps can compound over time, leading to an increased risk of disclaimers in years beyond the timelines set by the National Audit Office.

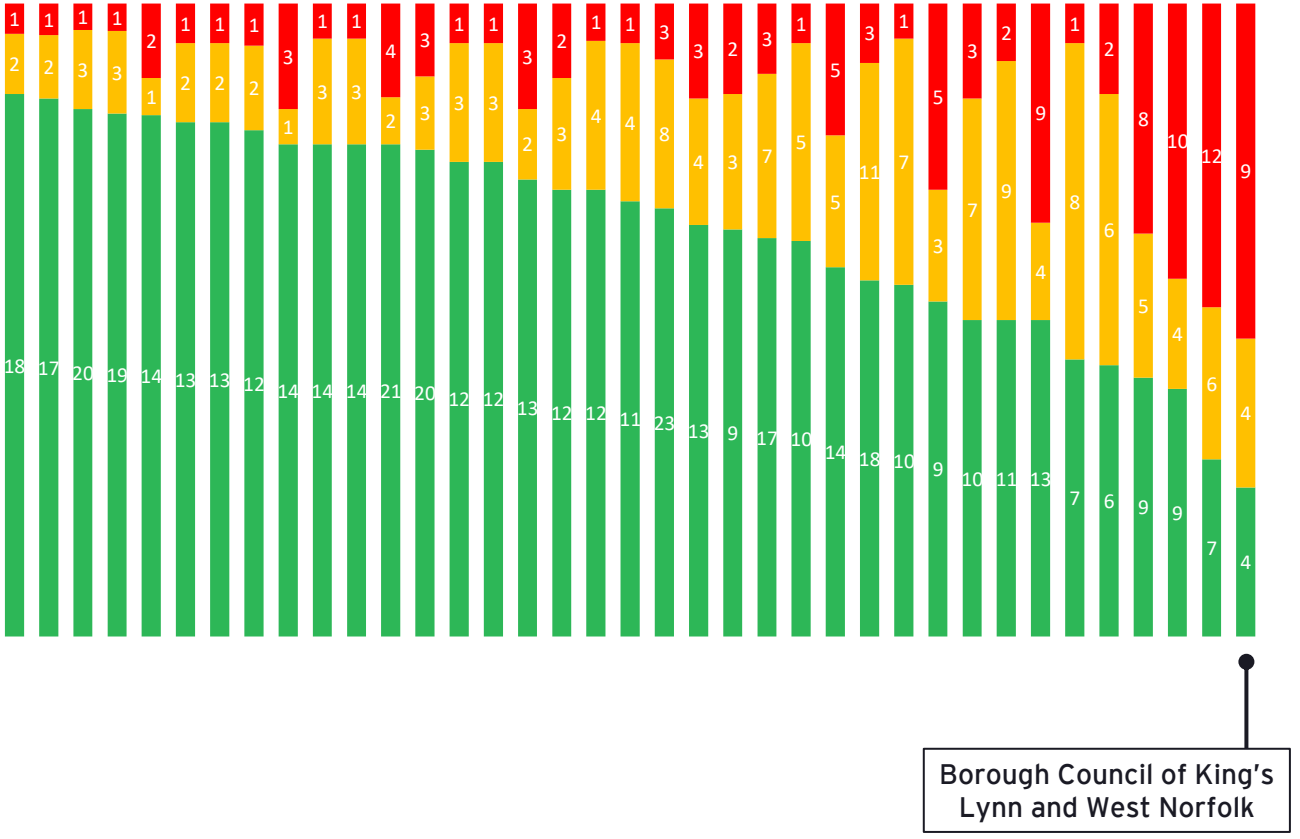
Full assurance

Partial assurance

None

Figure 7 How the council compares to other district councils that met the backstop deadline

2024/25 summary of assurances



03 | How do you compare to peers? (cont'd)

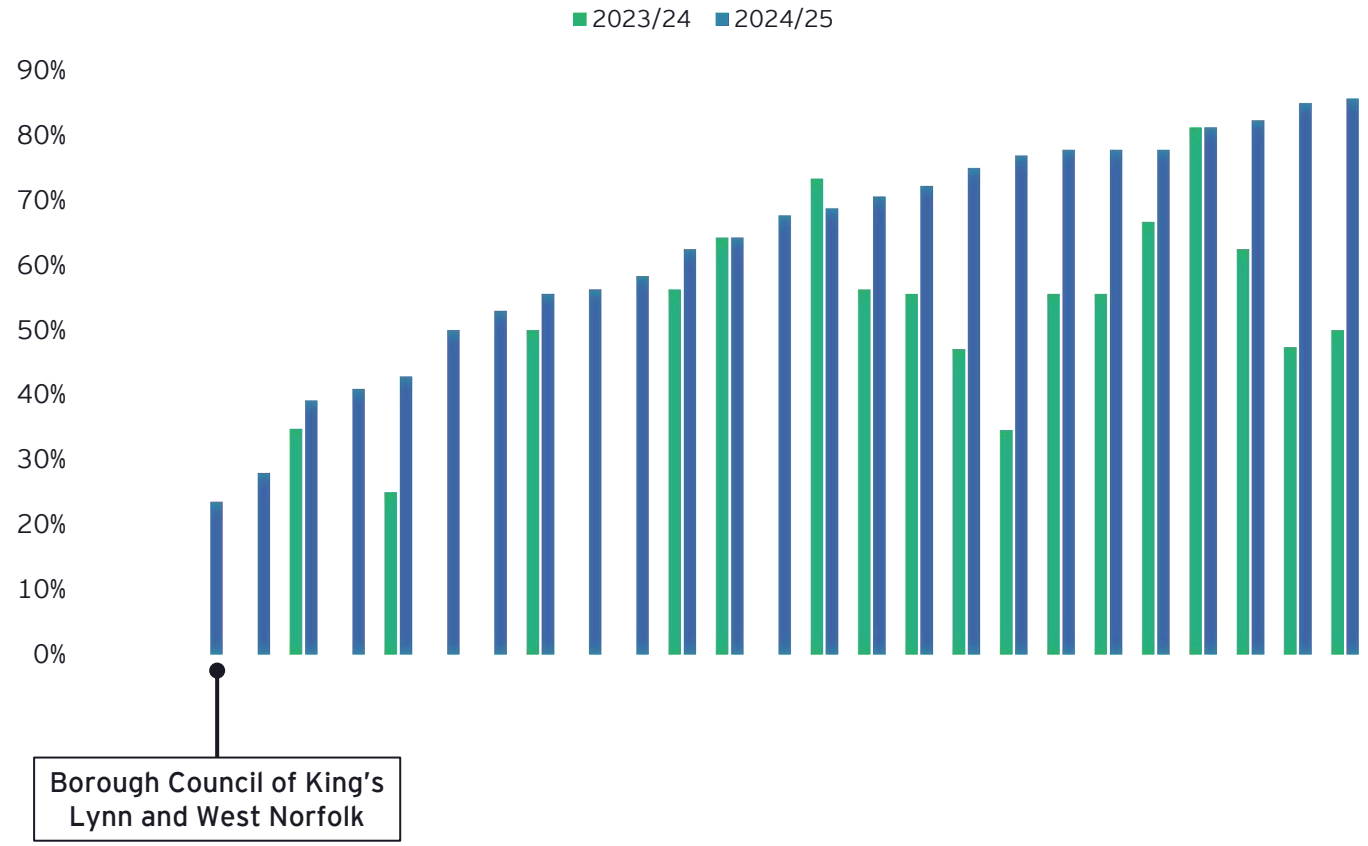
Summary of assurances:

District Councils

Assurance gaps can compound over time, leading to an increased risk of disclaimers in years beyond the timelines set by the National Audit Office.

We reported on improved assurance between 2023/24 and 2024/25 for most audited bodies but gaps in assurance remain, particularly for reserve and property, plant and equipment balances.

Figure 8 How the council compares to other district councils that met the backstop deadline



04 | Practical actions for the committee to consider

Figure 9
The next phase of recovery is in rebuilding assurance. The committee's role is critical in driving readiness and overseeing governance to support the recovery trajectory



Focus on assurance, not just the opinion

Do you understand what has been audited and where gaps remain?

Treat audit readiness as a standing risk

Regular reporting on readiness and gaps

Track assurance recovery across balances.

Technology development and execution

Is the finance system fit for purpose and does it support the finance team to deliver?

Strengthen governance and controls, including internal audit

Reinforce the three lines of defence, and ensure that recommendations on control weaknesses are addressed

Strengthening finance capacity

Challenge capacity and resource levels

Support investment in people and expertise

Ensure stability in leadership where possible.

Sustain recovery

Active oversight

Clear prioritisation

Early intervention if off-track

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