

**REPORT of  
CHIEF FINANCE OFFICER**

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**to  
PERFORMANCE, GOVERNANCE AND AUDIT COMMITTEE  
17 JULY 2025**

**PLAN FOR THE AUDIT OF THE ACCOUNTS FOR FINANCIAL YEAR 2024/25**

**1. PURPOSE OF THE REPORT**

- 1.1 This report presents the draft plan provided by the appointed external auditor (KPMG) for their audit review of the accounts for the year 2024/25 (**APPENDIX 1 - DRAFT – KPMG External Audit Plan & Strategy for the year ended 31 March 2025**).
- 1.2 The key findings and recommendations from the review will be presented by the external auditor later in the year, before issuing their opinion on the Statement of Accounts.
- 1.3 The Audit Plan is included for review. This report is normally presented before the audit takes place.

**2. RECOMMENDATIONS**

- (i) That Members consider the DRAFT – KPMG External Audit Plan & Strategy for the year ended 31 March 2025 (**APPENDIX 1**) and provide comments on it;
- (ii) That Members discuss the context of the performance framework for external audit;
- (iii) That Members consider the compensating controls in place to provide assurance on financial reporting, in lieu of a robust external audit approach;
- (iv) That Members consider the evidence presented in the report including the context of the current plan from the external auditor for the audit of the 2024/25 accounts, its sufficiency and robustness; the pressures cited by external auditors compared to those experienced in local government finance teams; the rationale provided by KPMG for their proposed timetable to February 2026, given the clear guidance issued by the National Audit Office (NAO).

**3. SUMMARY OF KEY ISSUES**

- 3.1 The Committee is familiar with the detail set out below, as noted in the various previous reports set out at the end of this current report.
- 3.2 The Financial Reporting Council 'accessible guide' provides a helpful overview of the position ([Local Audit Backlog Rebuilding Assurance](#)).

### 3.3 Local Government External Audit

- 3.3.1 External audit functions for local councils were performed by the Audit Commission until 2016/17. The abolition of the Audit Commission in 2014 led to the replacement of their audit functions by commercial audit firms from 2018/19. Despite initial indications that this would be a saving to the taxpayer, the reality is that the fees charged for audit services have risen to 50% above the estimated levels at the time of letting the initial round of contracts.
- 3.3.2 Nationally, in 2016, 97% of council's accounts were signed off by external auditors by the national deadline; for 2023/24 accounts, this fell to 1%.
- 3.3.3 Local authorities are required by the Accounts and Audit (Amendment) Regulations 2024 to publish their financial statements and audit reports by a legislative 'backstop' date. This is 27 February 2026 for the 2024/25 financial year.
- 3.3.4 The introduction of the backstop date has been necessitated by the accumulation of accounts where an opinion was not provided by the external auditor. The backstop provides a route whereby not all aspects of an audit review are required to be completed in the usual way, or by the previously published legal deadline. The route for a condensed audit review is achieved by limiting the testing to be performed. This has enabled 'disclaimed' opinions to be confirmed by external auditors but leaves a question over the actual status of the review undertaken and the assurance it does (or does not) provide.
- 3.3.5 The risks presented through this nationally agreed reduction in the efficacy of a key financial control has led to local arrangements being implemented to mitigate the risk. These mitigations include the more frequent reconciliation of the estimated reserves position to the known value of cash and cash equivalents based on third party banking and investment information, and enhanced use of the internal audit reviews.
- 3.3.6 Audit firms have cited a range of issues as contributory factors leading to the current situation, including
- Inability to recruit and retain sufficient staff.
  - Impact of a changing audit environment, including new International Financial Reporting Standards (IFRS) requirements and International Audit Standards (IAS) requirements – these include IFRS 16 (leases), IFRS 9 (Financial Instruments), IFRS 15 (Revenue from Contracts with Customers).
  - Sector wide changes arising from high-profile organisational failures (e.g. Carillion, Patisserie Valerie, Exxon). In the UK Local Government Sector, this has had the impact of requiring much greater oversight of 'third party' estimates for values such as the pensions net liability or asset and the valuation of property, plant and equipment. This also led to less reliance being placed on the work of internal auditors, for the same reason (although internal audit advice remains a key element of the internal controls environment in all councils).
  - Auditing the results of changed patterns of public sector funding arising from UK government's response to the COVID pandemic.
- 3.3.7 Contracts for external audit work are managed by 'Public Sector Audit Appointments' (PSAA). PSAA are wholly owned by the Improvement and Development Agency (IDeA), itself now part of the Local Government Association (LGA). This aspect of the work of the LGA is funded through a 'top-slice' of Revenue Support Grant (RSG) applied each year through the Ministry of Housing, Communities and Local

Government (MHCLG). The PSAA website ([www.psaa.co.uk](http://www.psaa.co.uk)) includes a wealth of information on the current performance of the audit firms against the different contracts.

- 3.3.8 The area of local audits has also been reviewed by the Public Accounts Committee of the House of Commons, reaching the following conclusion:

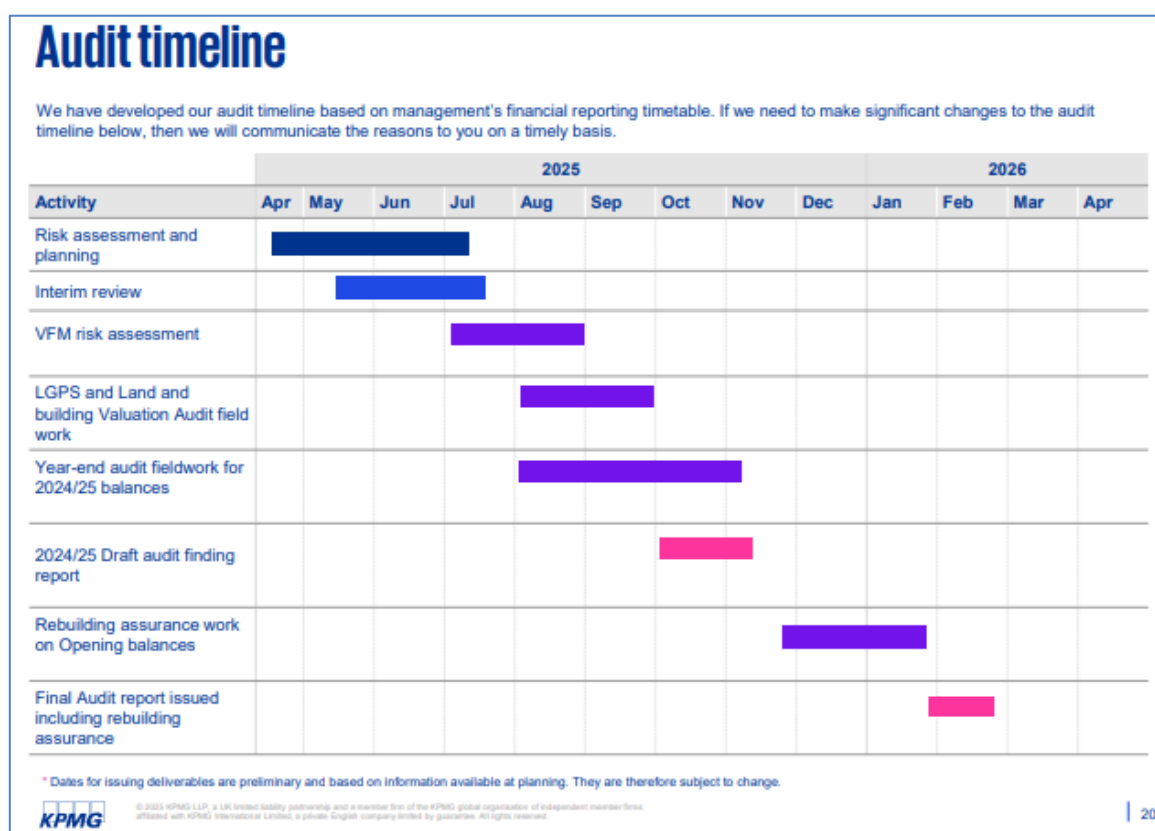
*The Department and the Financial Reporting Council (FRC) do not yet have the detailed understanding they claim they need in order to address the issues prevalent in the system. While the Department has made some interventions intended to help improve timeliness, these sticking plaster approaches have so far had little effect in a system which has no incentives, levers, or sanctions for those who fail to deliver on time.<sup>1</sup>*

- 3.3.9 The Committee may wish to compare these pressures and the response to them by external auditors with those also experienced in local government finance teams (which are the same).

### 3.4 Maldon District Council (MDC) accounts 2024/15: audit review timeline and fee


- 3.4.1 These have been prepared in advance of the deadline, having been published on the Council's website by 30 May 2025, in advance of 30 June 2025 deadline.

- 3.4.2 The draft audit plan provided to MDC by KPMG includes at slide 20 the proposed timetable for the audit of the 2024/25 accounts, reproduced below. This indicates that the audit opinion will not be signed off until February 2026, i.e. the backstop date, regardless of the findings of the audit review (not yet begun). It is not yet clear if the process of rebuilding assurance is included in the 'scale fee' estimate for 2024/25.



<sup>1</sup> [Timeliness of local auditor reporting](#), summary, page 3, para. 3.

- 3.4.3 This would appear to be in direct contravention of the NAO Local Audit Reset and Recovery Implementation Guidance (LARRIG) 5 guidance, shown below. **The Committee may wish to consider the rationale provided by KPMG for their proposed timetable, given the clear guidance issued by the NAO.**

 National Audit Office	<b>LARRIG 05</b> Rebuilding of assurance following a disclaimed audit opinion Issued on 10 September 2024
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## General principles

5. The first, and overarching, principle that auditors should follow when applying this guidance is that **powerful public interest considerations require a return, as soon as possible, to a position where auditors are able to issue opinions on relevant local authority financial statements that are based on sufficient appropriate audit evidence.** This is because the timely delivery of high-quality financial reporting and external audit is vital for the provision of accountability, transparency, and assurance for local people and their elected representatives, and the consolidation of these financial statements into the Whole of Government Accounts to support parliamentary accountability.

- 3.4.4 The draft audit plan provided to MDC by KPMG includes at slide 21 the proposed fee for the audit of the 2024/25 accounts, reproduced below. As previously advised by PSAA, external audit statutory fees are expected to increase to approximately twice the previous rate for all councils in 2024/25.
- 3.4.5 It is not yet clear if the process of rebuilding assurance is included in the 'scale fee' estimate for 2024/25.

Fees		
<b>Audit fee</b>		
Our fees for the year ended 31 March 2025 are set out in the PSAA Scale Fees communication and are shown below.		
Entity	2024/25 (£'000)	2023/24 (£'000)
Statutory audit, including VFM*	158	86
Agreed PY fee variations (includes 17k for ISA315r scope changes included in CY base fee)	-	68
<b>TOTAL</b>	<b>158</b>	<b>154</b>
* In 23/24 given the disclaimer we only charged £86,261 of the scale fee of £143,768 in recognition of the disclaimer.		
The fees also assume no significant risks are identified as part of the Value for Money risk assessment. Additional fees in relation to these areas will be subject to the fees variation process as outlined by the PSAA.		

- 3.4.6 Audit fees charged to the Council in recent years are shown below. While factors such as staff resource availability, increasing pressure on local council finances, new reporting requirements, and COVID have undoubtedly created additional pressure for external auditors, it is hard to understand how fees have increased to such an extent while the level of assurance has fallen so drastically as a result of the backlog and the 'disclaimed' opinion approach.

financial year	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Audit fee (per accounts)	£79k	£103k	£53k	£87k	£183k	£153k (estimated)

## 4. CONCLUSION

- 4.1 The Committee is invited to consider the context of the current plan from the External Auditor for the audit of the 2024/25 accounts, their sufficiency, and robustness.

## 5. IMPACT ON PRIORITIES AS SET OUT IN THE CORPORATE PLAN 2025 - 2028

### 5.1 Delivering good quality services

- 5.1.1 A key objective of the Council's Corporate Plan is to continue to have good governance arrangements in place. The external audit opinion is one of the main sources of assurance of the achievement of this objective for the Performance, Governance and Audit Committee. The lack of a clear opinion and its replacement with a 'disclaimed' opinion (due to lack of time and other resources required) is being replaced by reliance on other, robust, ways to provide Members with assurance on the accuracy of financial reporting.

## 6. IMPLICATIONS

- (i) **Impact on Customers** – Lower than planned assurance on the council's financial position.
- (ii) **Impact on Equalities** – None directly.
- (iii) **Impact on Risk (including Fraud implications)** – Disclaimed opinions by external audit reduce the effectiveness of internal financial controls and are being replaced by alternative measures. Corporate risk approaches are being updated accordingly.
- (iv) **Impact on Resources (financial)** – the expected costs of the audit are set out in the report. It is expected that charges will exceed the stated scale fee, as they have done in recent years. An appropriate provision will be included in the financial forecasts of the Council.
- (v) **Impact on Resources (human)** – the finance team and other officers are ready to support the work of KPMG, as and when required, including being diverted from other work as necessary.
- (vi) **Impact on Devolution / Local Government Reorganisation (LGR)** – No impact on devolution preparation; accounting information, alongside other

relevant service and financial performance data, forms a key part of the planning for the local government reorganisation in Greater Essex. External Audit play a vital assurance role in the preparation of baselines for the new configuration of councils in Essex. The report notes the possible conflict between the timeliness of the reestablishment of assurance on financial baselines per auditors and LARRIG guidance and the current implementation timeline for LGR.

## **7. RELATED REPORTS**

### **7.1 MDC reports**

- Audit Findings Report, FY 2020/21 (Deloitte), Performance, Governance and Audit Committee (PG&A) 16 November 2023 (item 7): [\(Public Pack\)Agenda Document for Performance, Governance and Audit Committee, 16/11/2023 19:30](#)
- Audit Findings Report, FY 2021/22 and 2022/23 (Deloitte), PG&A 5 December 2024 (item 8): [\(Public Pack\)Agenda Document for Performance, Governance and Audit Committee, 05/12/2024 19:30](#)
- Audit Findings Report, FY 2023/24 (KPMG), PG&A 20 February 2025 (item 7): [\(Public Pack\)Agenda Document for Performance, Governance and Audit Committee, 20/02/2025 19:30](#)

### **7.2 Other reports**

- Financial Reporting Council (FRC) accessible guide: [Local Audit Backlog Rebuilding Assurance](#)
- Chartered Institute of Public Finance and Accountancy (CIPFA) - CIPFA Bulletin 18 – Local audit backlog in England; October 2024: [CIPFA Bulletin 18 Local audit backlog in England | CIPFA](#)
- LARRIG guidance notes  
[Guidance and information for auditors - National Audit Office \(NAO\)](#)
  - [LARRIG 01 – General arrangements supporting guidance for auditors in implementing the reset and recovery](#)
  - [LARRIG 02 – Guidance on the impact of backstop arrangements on audits of English local authorities](#)
  - [LARRIG 03 – Modifications of independent auditor's opinions on the financial statements for audits of English local authorities](#)
  - [LARRIG 04 – Auditor reporting requirements under ISA\(UK\) 250A \(Consideration of Laws and Regulations in an Audit of Financial Statements\) and reporting in the public interest](#)
  - [LARRIG 05 – Rebuilding of assurance following a disclaimed audit opinion](#)
  - [LARRIG 06 – Special considerations for rebuilding assurance for specified balances following backstop-related disclaimed audit opinions](#)
- PSAA quarterly monitoring pack (1 Jan to 31 Mar 2025): [Presentation](#)
- House of Commons; Public Accounts Committee [Timeliness of local auditor reporting](#)

Background papers: See above.

Enquiries to: Ben Jay, Chief Finance Officer.