REPORT of
DIRECTOR OF FINANCE

to
PERFORMANCE GOVERNANCE AND AUDIT COMMITTEE
17 SEPTEMBER 2026

EXTERNAL AUDIT: BUILDING BACK ASSURANCE

1. PURPOSE OF THE REPORT

1.1 The Committee is aware of the national situation regarding external audit of local government, whereby there are currently significant numbers of council sets of accounts which are unsigned or ‘disclaimed’. Maldon has had disclaimed opinions since 2021/22. This report from KPMG (External Auditors) sets out the approach being taken to returning Maldon District Council (MDC) to an unmodified opinion.

2. RECOMMENDATIONS

That the Committee:

(i) notes the outcomes of the risk assessment for MDC undertaken by KPMG (a ‘B’ rating in the range A-D)

(ii) notes the impact of that in terms of the timetable for returning to an unmodified audit opinion by November 2027

(iii) notes the indicative fee arising

3. SUMMARY OF KEY ISSUES

Current position

3.1 External audit opinions are grouped into three categories

- <u>Disclaimed</u> – meaning that the auditor has been unable to form an opinion of the accounts of the audited body. This is effectively a ‘nil’ response.
- <u>Qualified (sometimes called modified)</u> – meaning that the auditor has been able to undertake sufficient work form an opinion of the accounts and is able to give a positive opinion overall ‘except for’ certain aspects. In other words, the overall opinion is ‘qualified’ by some matters.
- <u>Unmodified (sometimes called unqualified)</u> – meaning that the auditor has undertaken sufficient work to be able to form an opinion and that opinion is a positive one which can be made without any qualification.

3.2 For a range of reasons already reported to and discussed by the Committee, the number of ‘disclaimed’ opinions reported in recent years has increased substantially. This is recognised as an unsatisfactory state of affairs, and government is working with the audit sector to identify a process whereby the accounts of local government can return to being substantially unmodified (unqualified). This process is referred to a ‘rebuilding assurance’, or sometimes ‘build-back’.

3.3 The attached report from KPMG (**APPENDIX 1**) sets out how this is proposed to be undertaken at MDC.

3.4 The report includes:

3.4.1 Page 3: Feedback 2025/26 audit process which included completion of the rebuilding assurance risk assessment process undertaken with the Ministry of Housing, Communities and Local Government (MHCLG).

3.4.2 Page 3: The associated costs (estimated in the range of £98,000 to £110,000). This is chargeable in addition to the scale fee (plus additional costs on the main audit) estimated for the year at £182,000. It is understood that MHCLG will be providing funding for this although the value has not yet been confirmed.

3.4.3 Page 5: The expected timetable for rebuilding assurance at MDC (2024/25 accounts received a ‘disclaimed’ opinion; it is expected that a ‘qualified’ opinion can be secured as the outcome of the audit of the 2025/26 accounts, and an ‘unmodified’ opinion can be secured as a result of the audit of the 2026/27 accounts).

3.4.4 Page 6: The feedback on the MHCLG capacity assessment. This defined categories A-D where ‘A’ rated councils are expected to return to unmodified opinions more quickly, ‘B’ rated councils are expected to achieve this but over a longer period, ‘C’ rated councils are not expected to secure unmodified opinions by the end of the audit of the 27/28 accounts, or ‘D’ rated councils which are not expected to return to unmodified opinions at all. Maldon District Council is rated at ‘B’ on the basis of more than three years of disclaimed opinions. Feedback from other Essex Councils indicates that around 30% of councils are rated at ‘B’ (including Maldon) while some are at ‘C’.

3.5 The principle focus of the work required to secure the unmodified opinion is to fully track (reconcile) the final balance sheet position as at 31 March 2021 (the last year for MDC with an unmodified opinion) back the final balance sheet position at 31 March 2027. This requires ensuring both the arithmetical consistency of these and intervening balance sheet positions as well as the compliance with proper accounting rules throughout.

3.6 Government has previously indicated that funding may be provided against some of these costs, but that has not yet been confirmed.

4. CONCLUSION

4.1 This is report from KPMG sets out the timetable for the rebuilding of assurance and return to unmodified audit opinions. Some of the content has been presented previously, but this report brings together previous information and the update on the risk assessment work.

5. IMPACT ON PRIORITIES AS SET OUT IN THE CORPORATE PLAN 2026 - 2028

5.1 **Delivering good quality services.**

5.1.1 Strong financial management which is compliant with proper accounting principles and rules provide assurance to residents that the council is well led and well managed.

6. IMPLICATIONS

(i) **Impact on Customers** – The Council is funded by taxpayers. It has a legal duty to provide a complete account of how it spends the money received. The statement of accounts and the audit review of them is the principle means by which this duty is fulfilled.

(ii) **Impact on Equalities** – None.

(iii) **Impact on Risk (including Fraud implications)** – Ensuring proper accounting throughout helps reduce the risk of error and misstatement within the accounts as well as providing safeguards against fraud.

(iv) **Impact on Resources (financial)** – The current expectation is that the audit fees for the year will amount to £250,000. This report from KPMG indicates that the actual costs may now be higher – around £280,000-£300,000 – depending on the progress made against the objectives set out in the report. The council will be obliged to pay this amount. There may be a grant receivable from government to reduce the net impact on local taxpayers, but that is not yet confirmed.

(v) **Impact on Resources (human)** – This work will be absorbed within the existing finance team.

(vi) **Impact on Devolution / Local Government Reorganisation** – Securing an unmodified opinion for the 2026/27 accounts by the backstop date of November 2027 would provide substantial assurance of the accuracy of the financial position at Maldon Council ahead of reorganisation into a new unitary authority.

Background Papers: None.

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