

Contents

1. General Audit Information	4
2. Audit Team	10
3. Timetable	11
4. Audit Fees	12
5. Ethical Issues	13

Appendices

1. Required communications with the Audit, Scrutiny and Standards Committee
2. Sector updates

Welcome

The purpose of this report is to give you an overview of the nature and scope of our audit work and bring to your attention the key aspects of the audit. The document also ensures that there is good communication between us, as auditors, and you.

If you have any queries regarding the plan, including the arrangements noted below, then please do not hesitate to contact us.

This Audit Plan has been prepared for the sole use of the management and those charged with governance of Hereford and Worcester Fire Authority (the Authority). Except where required by law or regulation, this report should not be made available to any other parties without our prior written consent. No responsibilities are accepted by Bishop Fleming towards any party acting or refraining from action as a result of this plan.

We are issuing our 2025/26 External Audit Plan now to ensure that there is timely discussion of the key areas of focus.

Alex Walling – Key Audit Partner

T: 01172 358838

E: AWalling@bishopfleming.co.uk

1. General Audit Information

Engagement objectives and scope

The scope of our work is set in accordance with the National Audit Office's Code of Audit Practice (the Code) and the International Standards on Auditing (ISAs) (UK). Our work is planned to provide a focused and robust audit. We are required to provide an independent opinion as to whether the financial statements:

- give a true and fair view of the financial position of the Authority at the year end and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2025/26; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Throughout the audit we will also ensure that, in line with the latest Auditing Standards, we communicate on a regular basis with the Audit, Scrutiny and Standards Committee as those charged with governance.

We are also required to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2026. The Code requires us to report on the Authority's arrangements under three specified reporting criteria:

- Financial sustainability – how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance – how the Authority ensures it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness – how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

The respective responsibilities of the audited body and the auditor are summarised in the Code. They are also set out in the Public Sector Audit Appointments' Statement of Responsibilities of auditors and audited bodies as the body responsible for appointing us as your external auditor.

Audit reports

Financial statements

On completion of our audit work on the financial statements, we will issue our Audit Completion Report to the Audit, Scrutiny and Standards Committee, which will set out our findings.

In our auditor's report, we will report on the basis under which the financial statements have been prepared and whether they give a true and fair view. The auditor's report will also:

- report on whether other information presented with the audited financial statements (for example, the Narrative Report and Annual Governance Statement) is materially consistent with the financial statements or our knowledge obtained in the audit; and
- conclude on the appropriateness of management's use of the going concern basis of accounting.

As you will be aware, our auditor's report was disclaimed in 2024/25. Further detail on this is shown later in the Audit Plan. The form and content of our auditor's report will therefore need to be amended in light of this and any audit findings.

We are required to report to you by exception the following matters, if:

- the Annual Governance Statement does not comply with 'Delivering Good Governance in Local Government: Framework 2016 Edition' published by CIPFA/SOLACE and the subsequent Addendum published in May 2025 – see Page 16 for more detail on the Addendum; or
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or

- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

Where no matters are identified, this will also be confirmed.

Value for Money arrangements

On the completion of our work on whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, we will issue our Auditor's Annual Report to the Audit, Scrutiny and Standards Committee. This will provide a commentary on the Authority's arrangements under the three specified criteria. The report will also set out whether any significant weaknesses were identified and any relevant recommendations.

Audit materiality

In planning and performing our audit work we will consider whether the financial statements are free from 'material misstatement'.

Materiality is an expression of the relative significance of a particular matter in the context of the financial statements as a whole. In general, misstatements, including omissions, are considered to be material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

The assessment of whether a misstatement is material in the context of the financial statements is a matter of professional judgement and will have regard to both the size and the nature of the misstatement, or a combination of both. It is also affected by our perception of the financial information needs of users of the financial statements. Thus, different materiality levels may be appropriate when considering different aspects of the financial statements.

If there are any areas of specific concern in which you would like us to pay particular attention to then we will be pleased to discuss this with you, and whether our audit approach can be readily adapted to accommodate such a level in that area, or whether it will be more appropriate for a special exercise to be carried out on the area.

Our basis of materiality has been set as follows:

	Basis of materiality
Hereford and Worcester Fire Authority	2% of gross expenditure This equates to £866,000*

**Based on the 2024/25 financial statements. We will update our materiality on receipt of the 2025/26 unaudited financial statements, published for public inspection.*

Whilst the level of materiality is applied to the financial statements as a whole, we must also address the risk that any identified unadjusted audit differences are material when considered in aggregate. To reduce the risk of this being the case, we apply a lower level of materiality which we utilise within our work, known as Performance Materiality. This is set at a lower level than overall materiality and is determined by our assessment of the element of audit risk that pertains to the internal control environment of the Authority.

Risk assessment and significant risks

Financial statements

When planning our audit work, we will seek to minimise the risk of material misstatements occurring in the financial statements. To do this, we consider both the risk inherent in the financial statements themselves and the control environment in which the Authority operates. We then use this assessment to develop an effective approach to the audit.

This risk assessment directs our testing towards the balances and transactions at the greatest risk of material misstatement so as to minimise the risk of undetected material misstatements. However, we do not test every group of transactions or balances but carry out sample testing of balances and transactions.

Therefore, there is an inherent and unavoidable risk that some material misstatements may not be detected and therefore audit procedures should not be relied upon to detect all material misstatements, fraud, irregularities or instances of non-compliance.

Based on our knowledge of the Authority, we have identified the following as significant risk areas to be addressed during the audit along with our proposed audit approach.

Significant risks:

Risk	Audit Approach
<p>Management override of controls (required under the ISAs)</p>	<p>We are required by auditing standards (ISA 240) to consider fraud and management override of controls to be a significant risk for all audits as no matter how strong a control environment, there is the potential for controls to be overridden or bypassed. To address this risk, we will:</p> <ul style="list-style-type: none"> • Review the reasonableness of accounting estimates and critical judgements made by management; • Test material journals processed at the year end; and • Test other journals with key risk attributes. <p>In testing journals, we will use data analytics tools to interrogate the whole population of journals posted in the year and focus on those with key risk factors.</p>
<p>Valuation of land and buildings</p> <p><i>There are a number of changes required to local authority financial statements as a result of CIPFA/LASAAC having regard to HM Treasury's Thematic Review on Non-investment Assets. Further detail is set out in our Sector Update at the back of this Plan. Our audit approach has been updated to reflect these changes.</i></p>	<p>There is a risk over the valuation of these assets due to the values involved and the high degree of estimation uncertainty, due to the sensitivity of the estimate to changes in key assumptions and judgements. To address this risk, we will:</p> <ul style="list-style-type: none"> • Hold early discussions with key officers within the Authority to ascertain how the Code changes required are being implemented and whether proposed actions are in line with the guidance; • Document our understanding of the processes and controls put in place by management, and evaluate the design of the controls; • Review the instructions provided to the valuer and the valuer's skills and expertise, in order to determine if we can rely on the management expert; • Write to the valuer to confirm the basis on which the valuation was carried out; • Confirm that the basis of valuation for assets valued in year is appropriate based on their usage; • Review the appropriateness of assumptions used in the valuation of land and buildings; • Review accuracy and completeness of information provided to the valuer, such as floor areas; • Test a sample of revaluations made during the year to ensure that they have been input correctly into the Authority's asset register;

Risk	Audit Approach
	<ul style="list-style-type: none"> Form our own expectations regarding the movement in property values and comparing this to the valuations reflected in the Authority's financial statements, following up valuation movements that appear unusual; Consider whether the accounting treatment applied is in accordance with the updated requirements of the Code, that the selection of accounting policies is reasonable and appropriate to the Authority's circumstances and that accounting treatments have been applied consistently across asset types.
<p>Valuation of the pension fund net liability (Local Government Pension Scheme)</p>	<p>There is a risk over the valuation of the pension fund net liability due to the values involved and the high degree of estimation uncertainty, due to the sensitivity of the estimate to changes in key assumptions. To address this risk, we will:</p> <ul style="list-style-type: none"> Document our understanding of the processes and controls put in place by management, and evaluate the design of the controls; Review the instructions provided to the actuary and the actuary's skills and expertise, in order to determine if we can rely on the management expert; Consider the accuracy and completeness of the information provided to the actuary; Ensure that the disclosures in the financial statements in respect of the pension fund liability are consistent with the actuarial report from the actuary; Carry out procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and Obtain assurances from the auditor of Worcestershire Pension Fund in respect of the controls around the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.
<p>Valuation of the pension fund net liability (Firefighters' Pension Schemes)</p>	<p>There is a risk over the valuation of the pension fund net liability due to the values involved and the high degree of estimation uncertainty, due to the sensitivity of the estimate to changes in key assumptions. To address this risk, we will:</p> <ul style="list-style-type: none"> Document our understanding of the processes and controls put in place by management, and evaluate the design of the controls; Review the instructions provided to the actuary and the actuary's skills and expertise, in order to determine if we can rely on the management expert; Consider the accuracy and completeness of the information provided to the actuary; Ensure that the disclosures in the financial statements in respect of the pension fund liability are consistent with the actuarial report from the actuary; Carry out procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.

As part of our planning, we have rebutted the risks of fraud in revenue recognition (required under the ISAs) and fraud in expenditure recognition (required under the Financial Reporting Council's Practice Note 10: Audit of Financial Statements and regularity of public sector bodies in the United Kingdom).

Building back assurance

The Authority's 2023/24 financial statements were given a disclaimed opinion, due to the unaudited financial statements not being published before this backstop date and no substantive audit work having been carried out. As a result, we did not have assurance over the opening balances for the 2024/25 audit. We therefore issued a disclaimed opinion for the 2024/25 financial statements, as we did not have sufficient appropriate audit evidence over the following:

- the opening balances for the comparative period and as a result, we have not been able to obtain sufficient assurance over the balance sheet, comprehensive income and expenditure statement and cash flow statement and accompanying notes that are calculated as a movement between the opening and closing balances;
- the valuation of property assets, measured on a depreciated replacement cost basis and included within 'other land and buildings' at £26.3m, for which we were unable to obtain sufficient assurance over the key inputs used in the valuation; and
- the closing reserves balance of £252.1 million as at 31 March 2025, due to the uncertainty over their opening amount and the split between usable and unusable reserves.

We have been developing our approach to building back assurance over the Authority's financial statements, with the plan being to get to an unqualified audit opinion in 2026/27.

Our approach is being developed in accordance with the National Audit Office Local Audit Reset and Recovery Implementation Guidance (LARRIG), in particular *LARRIG 05 – Rebuilding of assurance following a disclaimed audit opinion* and *LARRIG 06 – Special considerations for rebuilding assurance for specified balances following backstop-related disclaimed audit opinions*. The approach is in three phases:

Phase 1	An initial risk assessment plan for building back assurance. This focuses on: <ul style="list-style-type: none">• Reasons for the initial disclaimed opinion and any emerging risks• Changes in the system of internal control since the last unqualified opinion including consideration of the outcomes of internal audit work• Any issues noted from our VFM work The outcome from this is our overall risk assessment for the audit and informs our materiality level and quantum of work needed to regain assurance.
Phase 2	A more in-depth risk assessment process using a bespoke, internally created methodology on an audit-by-audit basis to ascertain the appropriate risk-based approach for building back assurance on each area of the accounts where we do not have appropriate audit evidence.
Phase 3	Undertaking the detailed work as concluded upon in Phase 2.

In the table below we have set out our plan to get to an unqualified opinion for Hereford and Worcester Fire Authority in 2026/27. This is consistent with the illustrative timescale set out in *LARRIG 01 – General arrangements supporting guidance for auditors in implementing the reset and recovery*.

2023/24	2024/25	2025/26	2026/27
Opinion: Disclaimed	Opinion: Disclaimed	Planned opinion: Qualified	Planned opinion: Unqualified
Audit work carried out: No audit procedures were completed over the 2023/24 balances.	Audit work carried out: All audit procedures, including work on PPE valuations for the Authority's assets revalued in year, except for those assets revalued on a Depreciated Replacement Cost basis.	Audit work planned: All audit procedures.	Audit work planned: All audit procedures.
Build back work: Review of predecessor auditor working papers. No further specific procedures completed in 2023/24 for build back, due to the late delivery of the financial statements.	Build back work: Phase 1 as described above. This work included meetings with external bodies e.g. the National Audit Office, internal discussions on audit approach with colleagues (including technical leads) and other firms.	Build back work: Phase 2 and 3 as described above.	Build back work: None – all build back work planned for 2025/26.
Areas with no assurance: 2023/24 financial statements as a whole.	Areas with no assurance: <ul style="list-style-type: none"> • 2024/25 opening balances • Valuation of land and buildings at 31 March 2025 • Split of the reserve balances 	Areas with no assurance: Lack of sufficient, appropriate evidence over comparative figures, due to previous disclaimed opinions, but the potential effects on the final statements are not deemed to be pervasive.	Areas with no assurance: None

We will report back to you, as part of our Audit Completion Report, on the outcome of our work addressing the significant risk areas and progress on rebuilding assurance.

Value for money arrangements

As part of our planning work, we have also considered whether there are any risks of significant weakness in the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources that we need to perform further procedures on.

We have not identified any risks of significant weakness at this stage.

We will keep our risk assessment under continual review, and any changes will be communicated to those charged with governance.

Control environment

Through our audit planning procedures, we will continue to develop our understanding of the control environment in which the Authority operates.

At the time of issuing our Audit Plan we have concluded that the control environment in which the Authority operates is effective and we will tailor our audit approach accordingly.

Although we consider that the Authority operates effective and formalised controls, we will not incorporate controls-based testing into our audit approach. Therefore, our work will focus on substantive procedures.

Adjusted and unadjusted items

Of the potential audit adjustments that we identify during our audit work, some may require adjustment. The decision to make an adjustment to the financial statements is one that the Authority will need to make.

At the conclusion of the audit, we shall provide you with a schedule of potential adjustments that we identified during our audit work.

We will require you to confirm that you have considered the items and whether you have decided to adjust them in the financial statements; this will be included in the letter of representation.

We shall also provide you with a schedule, detailing those items that we identified during our audit work, which have not been adjusted for in the financial statements. This summary will not include errors that are 'clearly trivial', defined by us as those errors which individually account for no more than 5% of our materiality level.

We will require you to confirm that you have duly considered these unadjusted errors and that you have decided not to adjust for them in the financial statements; this will also be included in the letter of representation.

Fraud

While the Authority has the ultimate responsibility for the prevention and detection of fraud, we are required to obtain reasonable assurance that the financial statements are free from material misstatement, including those arising as a result of fraud. Our audit approach includes the consideration of fraud throughout the audit, including making enquiries of management and those charged with governance.

Prior year recommendations

We will follow up on the progress made by the Authority in addressing the recommendations made by us in respect of issues reported in our 2024/25 Audit Completion Report and our 2024/25 Auditor's Annual Report.

2. The Audit Team

Key Audit Partner:	Alex Walling
Email:	AWalling@bishopfleming.co.uk
Manager:	Jonathan Saunders
Email:	Jonathan.Saunders@bishopfleming.co.uk
In-Charge:	Nic Brown
Email:	NBrown@bishopfleming.co.uk

3. Timetable

A full audit timetable has been included below:

Hereford and Worcester Fire Authority			
YEAR END: 31 March 2026			
Date	Requirement	Bishop Fleming	Authority
Throughout 2026	Regular liaison meetings with management and the Chair of Audit, Scrutiny and Standards Committee	✓	✓
w/c 23 February 2026	Date for issue of audit deliverables	✓	
February – March 2026	Completion of phase 2 and 3 build back procedures as outlined above	✓	
27 March 2026	Date for receipt of audit deliverables		✓
27 March 2026	Date for receipt of VFM self-assessment from management		✓
w/c 30 March 2026	Planning procedures and interim audit work undertaken, examining systems and controls in place, and completion of early substantive testing on transactions to January 2026.	✓	✓
w/c 30 March 2026	Audit team to undertake VFM work	✓	
30 June 2026	Date for receipt of the draft financial statements		✓
w/c 20 July 2026	Audit fieldwork to be undertaken, completing work on significant risk areas and other material balances.	✓	✓
w/c 28 September 2026	Audit completion meeting to discuss draft Audit Completion Report	✓	✓
20 January 2027	Presentation of Audit Completion Report and Auditor's Annual Report to the Audit, Scrutiny and Standards Committee.	✓	✓
31 January 2027	Backstop date for 2025/26 local government audits	✓	✓

4. Audit Fees

Hereford and Worcester Fire Authority, in line with most other local government bodies, opted into the national scheme run by PSAA for the appointment of its external auditor for the five-year period with effect from 2023/24. PSAA set the scale fee for the audit of Hereford and Worcester Fire Authority under the contract. The audit scale fee set by PSAA for the Authority and our proposed variations are set out below:

	2024/25	2025/26
PSAA scale fee	£108,288	£111,320
Proposed fee variations at the planning stage:		
Variation 1 – Phase 2 detailed risk assessment for building back assurance as detailed on Page 8		TBC
Variation 2 – Phase 3 detailed work to build back assurance		TBC
Fee variations in respect of work completed as part of the 2024/25 audit:		
Review of implementation of IFRS 16	£6,092	-
Phase 1 detailed work to build back assurance	£11,626	-
Additional procedures in relation to testing floor plan Gross Internal Areas for Depreciated Replacement Cost assets	£2,243	-
Total (excluding VAT)	£128,249	TBC

The scale fees set by PSAA:

- are based on the expectation that complete and materially accurate financial statements, with supporting working papers, will be available within agreed timeframes (as set out in [PSAA's Statement of Responsibilities document](#)); and
- reflect as far as possible the previous assessment of audit risk and complexity.

Where work was substantially more or less than envisaged by the scale fee, we will propose that the fees should be varied. PSAA determine the outcome of any fee variations. The proposed fee variations set out above reflect issues that were not reflected in the scale fee when it was set by PSAA.

As the individual responsible for the project management of the audit, Jonathan will monitor the position in relation to any issues that could potentially give rise to a fee variation and discuss them with the Section 151 Officer at the earliest opportunity.

There are no non-audit fees proposed at the planning stage.

5. Ethical Issues

In order to comply with professional and ethical standards we are required to communicate to you all significant facts and matters that, in our professional judgement, may affect the firm's independence. This is for reference only, and unless you wish to make any comments, there is no need to respond.

Threats & safeguards

The standards require us to consider the perceived potential threats to our objectivity and independence in carrying out the audit. We are not providing any other audit related or non-audit related services. We have not identified any threats to the firm's independence.

Overall assessment

We can confirm that we comply with the Financial Reporting Council's (FRC) Ethical Standard and are able to issue an objective opinion on the financial statements. There are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention.

Maintaining objectivity & independence

As a firm we have policies and procedures in place to monitor auditor objectivity and independence on a regular basis. If any additional threats are identified, we will of course advise you immediately.

We also perform an annual review of completed audit engagements for quality control purposes.

If you would like to discuss any of the above, please contact us.

1. Required communications with the Audit, Scrutiny and Standards Committee

Under the auditing standards, there are certain communications that we must provide to the Audit, Scrutiny and Standards Committee as those charged with governance. These include:

Required communication	Where addressed
Our responsibilities in relation to the financial statement audit and those of management and those charged with governance.	Audit Plan
The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks.	Audit Plan
With respect to misstatements: <ul style="list-style-type: none"> • uncorrected misstatements and their effect on our audit opinion; • the effect of uncorrected misstatements related to prior periods; • a request that any uncorrected misstatement is corrected; and • in writing, corrected misstatements that are significant. 	Audit Completion Report
With respect to fraud communications: <ul style="list-style-type: none"> • enquiries of those charged with governance to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity; • any fraud that we have identified or information we have obtained that indicates that fraud may exist; and • a discussion of any other matters related to fraud. 	Audit Completion Report Discussions at committee meetings
Significant matters arising during the audit in connection with the entity's related parties.	Audit Completion Report
Significant findings from the audit including: <ul style="list-style-type: none"> • our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; • significant difficulties, if any, encountered during the audit; • significant matters, if any, arising from the audit that were discussed with management; • written representations that we are seeking; • expected modifications to the audit report; and • other matters significant to the oversight of the financial reporting process or otherwise identified during the audit that we believe will be relevant to the Committee when fulfilling their responsibilities. 	Audit Completion Report
Significant deficiencies in internal controls identified during the audit.	Audit Completion Report
Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.	Audit Completion Report
Audit findings regarding non-compliance with laws and regulations	Audit Completion Report Discussions at committee meetings
Significant matters in relation to going concern.	Audit Completion Report
Indication of whether all requested explanations and documents were provided by the entity.	Audit Completion Report
Confirmation of independence and objectivity of the firm and engagement team members.	Audit Plan Audit Completion Report

2. Sector updates

Key changes to the Code of Practice on local authority accounting in the United Kingdom 2025/26

Valuation of Property, Plant and Equipment

There are a number of changes required to local authority financial statements as a result of CIPFA/LASAAC having regard to HM Treasury's Thematic Review on Non-investment Assets. The main changes are:

- A revaluation expedient for property, plant and equipment, requiring valuations once every five years or on a five-year rolling basis and supported by indexation in intervening years. Alternatively, a desktop valuation in year three in rare cases where no index is available;
- Intangible assets to be held at historical cost only;
- Transitional arrangements when applying these changes so they will be applied prospectively, with no restatement of prior year figures;
- To assist authorities, an existing adaptation has been removed to allow both options permitted by IAS 16 for the treatment of accumulated depreciation when assets are revalued. This aligns with existing arrangements in the FrEM; and
- A clarification to ensure that undertaking a full revaluation should not be a default process to demonstrate there has not been a material impairment of an asset and to comply with IAS 36 (impairment of assets).

Guidance is set out in [CIPFA Bulletin 22 Indexation application guidance](#).

Annual Governance Statement

Following the publication of [Delivering Good Governance in Local Government: addendum / Solace covering the annual review of governance and the annual governance statement \(2025\)](#), the content of the annual governance statement (AGS) has changed. Local authorities should refer to the addendum for full details; however, the AGS should contain the following elements:

- An executive summary, including an overall opinion on whether governance arrangements were fit for purpose;
- An assessment of effectiveness, setting out how the overall opinion was arrived at;
- Where governance needs to improve, including an action plan;
- How governance has been improved over the current financial year; and
- A forward look on governance.

Revised guidance on minimum revenue provision

Under the Prudential Framework (the "Framework"), local authorities have wide freedoms to borrow and invest without seeking the government's prior approval.

The duty to make Minimum Revenue Provision ("MRP") is an important component of the Framework. Where local authorities finance capital expenditure with debt, they must set aside an amount of money each year to ensure that debt can be repaid ensuring that local authorities do not take on more debt than they can afford. Therefore, in deciding whether any capital expenditure is affordable, an authority must consider whether it can meet the cost of the associated MRP charged within an affordable budget. The amount of MRP should be determined with respect to a local authority's Capital Financing Requirement ("CFR").

Local authorities are required to charge MRP to their revenue account in each financial year in respect of all capital expenditure financed by debt. Before 2008, the 2003 Regulations contained details of the method that local authorities were required to use when calculating MRP. This has been replaced by the current regulation 28, which gives local

authorities flexibility in how they calculate MRP, providing the amount is 'prudent'. In calculating a prudent provision, local authorities are required to have regard to this guidance.

The 2003 Regulations were further amended with full effect from [April 2025](#) to expressly provide that in determining a prudent provision, local authorities cannot exclude any amount of CFR from its calculation, unless by an exception set out in statute. Further, that capital receipts cannot be used to directly replace, in whole or part, the prudent charge to revenue. Specific exceptions were introduced for capital loans, alongside appropriate risk mitigations. These measures were taken to strengthen compliance with the duty to make MRP.

Local authorities must comply with the duty to make MRP and failure to do so, through under-charging of MRP, creates risk to the authority, the finance system and to local and national taxpayers. Under-provision can result in a local authority being unable to repay a proportion of its debt, passing the liability to future taxpayers, which will need to be met from capital receipts or accelerated MRP payments. Further, if a prudent charge is not made, then this can also encourage the local authority to take on greater levels of debt than might otherwise be affordable. The duty to charge MRP is an important mechanism in the Framework to constrain risk and ensure the affordability of capital expenditure.

The guidance in full can be found on [Capital finance: guidance on minimum revenue provision \(5th edition\) - GOV.UK](#).

English Devolution and Community Empowerment Bill

In last year's Audit Plan we outlined the Government's proposals around devolution and Local Government reorganisation which were set out in the English Devolution White Paper published in December 2024.

The White Paper announced planned changes to the Devolution Framework, aimed at "completing the map" by establishing new Strategic Authorities throughout England. Although the White Paper allowed for other options, these Strategic Authorities were intended to be partnerships of multiple local authorities across a large geography with their own Mayor. These Strategic Authorities would be given "areas of competence" such as performing functions in transport and local infrastructure and skills and employment support and empowered to deliver on them.

Since then the Government has drafted the English Devolution and Community Empowerment Bill which is currently going through Parliament. Alongside the changes outlined above, provisions within the Bill will also enable the establishment of a new public body, the Local Audit Office (LAO), to oversee the local audit system. These provisions set statutory objectives for the LAO and prescribe key elements of its governance processes and structures. The LAO's functions will include setting fees, appointment of auditors to eligible bodies, setting the Code of Audit Practice and overseeing a regulatory framework.

In concert with the Devolution Framework, the White Paper also announced a significant programme of Local Government Reorganisation with an end to the remaining two-tier areas, resulting in all local authorities reorganised into unitary councils.

The Local Government and Public Involvement in Health Act 2007 (the 2007 Act) provides the statutory process for making structural changes to councils. The following paragraphs explain how this process works with specific reference to the invitation to all councils in two-tier areas (and small neighbouring unitary authorities) to develop proposals for unitary local government. Broadly, the stages are:

- 1. Stage one: Inviting unitary proposals.** Invitations went to the 21 two-tier areas and their neighbouring small unitary authorities and included statutory guidance pursuant to the 2007 Act, specifying criteria for establishing new unitary authorities and matters that should be taken into account.
- 2. Stage two: Submission of formal unitary proposals.** Each council could only make one formal proposal for unitary local government, and a proposal could either be submitted individually by a council or jointly with other councils that were invited. The Secretary of State could decide to take forward proposals that are submitted by areas with or without modification.
- 3. Stage three: Statutory consultation.** The Government will carry out a statutory consultation in accordance with the requirements of the legislation, which is that the Secretary of State must first consult any council affected that has not submitted the proposal, as well as any other persons considered appropriate, before a proposal can be implemented.
- 4. Stage four: Decision to implement a proposal.** Once a statutory consultation is concluded, Ministers will decide, subject to Parliamentary approval, which, if any, proposal is to be implemented, with or without modification. In taking these decisions, Ministers will judge proposals in the round against the criteria. In making a decision, Ministers will have

regard to all the representations that were received, including the consultation responses, and any other relevant information available. The decision taken will be subject to collective agreement across Government.

5. Stage five: Making secondary legislation – the Structural Changes Order (SCO). Once a decision is taken on which proposal to implement, the Ministry for Housing, Communities and Local Government (MHCLG) will prepare the necessary legislation (the SCO) for Parliamentary approval. The SCO establishes the new single tier of local government in the relevant area and makes provision to abolish the predecessor councils. MHCLG will work with the current councils during the preparation of the legislation, seeking input on specific matters which might include names of the new councils, transitional arrangements and electoral arrangements:

a. **The Order:** will specify arrangements for the first elections for the new unitary council/s, councillor numbers, the functions the new council has in the transition period and establish suitable governance arrangements for the transition period before new councils go live, by giving powers to the relevant executive or joint committee overseeing the transition.

b. **Elections:** Typically, the first elections to new unitary councils take place on electoral arrangements specified in the SCO, and which are built using a mixture of existing wards, divisions or, in some cases, parishes.

c. **Transition period arrangements:** The SCO will specify the governance arrangements for the new unitary councils in the transition period i.e. what sort of transition body will be in place during the transition period until predecessor councils are abolished and new unitary councils go live.

6. Stage six: Transition period. Once the SCO has been made, the existing councils carry on delivering services and fulfilling their duties until vesting day, while preparing to transfer all assets, functions and staff on vesting day when the predecessor councils are dissolved and the new unitary authority takes on the legal duties and powers for providing local government to the area.

7. Stage seven: New unitary authority goes live. This is vesting day. While preparatory work may start with the development of proposals and continue through the process, a minimum of around a year is allowed to enable safe and legal transfer of key services from the point the legislation is made, to when the new unitary council/s goes live. Elections to the new unitary councils, in the transition year ahead of vesting day, aid a safe and legal transition by ensuring those who will be responsible for governing the new authority/ies are accountable for decisions on transition arrangements.

Final proposals were submitted at the end of November 2025. On 5 February, a written ministerial statement was made to Parliament about the statutory consultations on proposals for unitary local government made by councils in 14 areas. Details can be found on [Local government reorganisation: Policy and programme updates - GOV.UK](#)

Following these consultations, decisions on which proposal to implement could be announced before the summer recess. Secondary legislation would then be prepared, to be laid in the House after the summer recess. The legislation could then be made, subject to Parliamentary approval. This would allow for elections to the new unitary authorities on 6 May 2027. The new authorities would then go live on 1 April 2028.

Local audit reform and the local audit backstop

The local audit system has faced a significant backlog of outstanding unaudited accounts at local authorities (and some other local bodies including police, fire and national parks authorities), covering multiple financial years. Just one per cent of these bodies published audited accounts for 2022/23 by the original deadline. The audit backlog was also the key factor in the Comptroller and Auditor General's decision to issue disclaimed opinions on the Whole of Government Accounts for financial 2022/23 and 2023/24.

In 2024, the Government introduced a local audit backstop programme, structured around six publication dates for audited accounts, to clear the backlog and enable a greater focus on recent accounts, setting in motion the reestablishment of discipline required for the timely publication of both unaudited and audited accounts.

While the backstops have also resulted in many disclaimed audit opinions, auditors' other statutory duties – including to report on value for money arrangements, to make statutory recommendations and issue Public Interest Reports – remain a high priority.

For the next three years, the statutory publication date for unaudited accounts will be 30 June, while the planned backstop dates are:

- 2025/26: 31 January 2027
- 2026/27: 30 November 2027
- 2027/28: 30 November 2028.

In the interests of transparency, the Government committed to publishing a non-compliance list of local bodies failing to publish audited accounts by the backstop dates. See [Addressing the local audit backlog in England: Non-compliance lists](#).

Given the large number of disclaimed opinions, the backstops were announced alongside a five-year programme for building back assurance, with an aspiration that local audit recovers as soon as possible within that period. The Government continues to work with local bodies and audit firms to achieve this aim, and is considering what further measures may be necessary to support the process.

The Government has written to all audit firms and to all local bodies in the process of rebuilding assurance to underline the need for everyone to work together to accelerate progress and prioritise resources accordingly.



© Bishop Fleming. All rights reserved.

Bishop Fleming is a trading name of Bishop Fleming LLP, a limited liability partnership registered in England and Wales No. OC391282, and Bishop Fleming Audit Limited, a limited company registered in England and Wales No. 07869428. Registered offices: Bishop Fleming, Brook House, Winslade Park, Manor Drive, Clyst St Mary, Exeter, EX5 1GD. A list of members' names for the LLP is available at the above address.

