

# LGR finance essentials: Accounts and audit requirements through the LGR process

This second finance guidance note focuses on the importance of maintaining comprehensive and accurate financial records through local government reorganisation.

11 Dec 2025

## Background

On 5 February 2025, the Minister of State for Local Government and English Devolution **wrote (<https://www.gov.uk/government/publications/local-government-reorganisation-invitation-to-local-authorities-in-two-tier-areas>)** to all councils in two-tier areas and small neighbouring unitary authorities to formally invite proposals for local government reorganisation (LGR). **The Government's intention (<https://www.gov.uk/government/collections/local-government-reorganisation-policy-and-programme-updates>)** is that simpler local government structures can lead to better outcomes for residents, improved local accountability and savings which can then be reinvested in public services.

The process of LGR is complex and these **finance essentials guides (<https://www.local.gov.uk/our-support/devolution-and-lgr-hub/local-government-reorganisation-finance-essentials>)** have been developed for Chief Finance Officers, elected members and LGR programme teams, to aid the development and implementation of local LGR programmes.

They are informed by discussions with a number of councils which have recently been through LGR. They aim to provide practical and realistic advice on key areas where financial issues will need to be considered.

This guidance note focuses on the accounts and audit requirements of the LGR process and why ensuring that predecessor councils continue to adhere to statutory deadlines and requirements will support the new unitary council/s to effectively deliver their statutory responsibilities following vesting day.

This second guidance note focuses on the importance of maintaining comprehensive and accurate financial records through local government reorganisation.

## **Overview: Local authority accounts and audit requirements during LGR**

### **Local authority statement of accounts**

Every council is required to maintain comprehensive and accurate financial records throughout the financial year, culminating in the production and publication of an annual statement of accounts. The accounts will include the relevant local government pension fund accounts where the council is the administering authority for the fund.

The accounts must adhere to the **CIPFA - Code of Practice on Local Authority Accounting in the United Kingdom**, which is based on International Financial Reporting Standards (IFRS) as adapted for the public sector.

The accounts must provide a true and fair view of the authority's financial position and performance, acting as a cornerstone for effective financial management, informed decision-making, and stewardship of public resources.

Timely completion of draft accounts and of external audits should continue to be prioritised, even during periods of significant change such as LGR. Continued adherence to statutory requirements and timelines is expected for both the existing councils and any newly established unitary authorities.

The newly established unitary council/s will inherit the predecessor councils' positions as part of their opening balance sheet and hence it is critical that completion and audit of accounts remains a priority to ensure a robust and transparent starting position for the new unitary councils.

Throughout the LGR process robust financial systems and financial controls should be maintained to ensure that all financial transactions are accurately captured and that any risks to financial integrity are managed appropriately. A new unitary council/s will inherit a number of financial systems and ledgers from the predecessor councils and so understanding and mapping the financial controls across those systems is a critical part of planning for LGR.

### **External audit requirements and timescales**

External auditors are the regulated and independent professional firm appointed to audit the council. They provide assurance to residents and the council that the council's finances are soundly managed and that the annual accounts present a true and fair view of the council's income and expenditure and its asset and liabilities.

In recent years there have been delays and challenges in the completion of local authority audits and in response to that government has introduced a statutory local audit backstop framework.

This approach establishes clear deadlines (backstop dates) by which statement of accounts must be published and external audits completed.

The backstop framework is applicable to all councils including those going through LGR. Section 1 considers the potential implications for the new unitary councils from the backstop framework.

Councils must also publish an **Annual Governance Statement (AGS)** as part of the suite of documents alongside the Statement of Accounts. The AGS ensures that councils are accountable to the public and other stakeholders for maintaining a sound system of governance. The predecessor councils AGS' are a useful tool for identifying issues which may need to be considered in the planning of the new council.

As part of the external audit responsibilities the Code of Audit Practice requires auditors to carry out full scope audit of **Value for Money (VfM)** arrangements. This results in an Annual Audit Report (AAR), which contains the VfM commentary, being published. The VfM audit continues throughout the LGR process and can form a helpful part of the overall governance of the transition and formation of the new unitary council.

### **Audit Committees**

Audit Committees play a fundamental role in supporting strong financial management, accountability, and transparency within local government. Their core responsibilities encompass a broad range of oversight and assurance activities designed to ensure that councils remain compliant with statutory duties, maintain robust internal controls, and deliver value for money for residents. In some councils' audit committees are delegated the responsibilities for approving the statement of accounts as 'those charged with governance' from full council, otherwise their role will be to review them.

Throughout the LGR process Audit Committees have a critical role in holding the councils accountable for VfM and strong financial governance as they reach vesting day. They will also support the new council/s in establishment of new governance frameworks and assurance mechanisms. Section 5 goes into more detail on this.

This guide provides some essential advice on how these challenges can be managed covering the different key areas of:

- local authority statement of accounts:  
Statutory timelines and responsibilities
- Local Government Pension Fund:  
Statement of accounts
- annual governance statements
- Value for Money reporting
- the role of the Audit Committee
- resource implications.

### **Local authority statement of accounts: Statutory timelines and responsibilities**

New unitary councils with a vesting date of 1 April 2028 will have the responsibility of closing down and producing the 2027/28 accounts for predecessor councils. The deadlines for 2027/28 are currently expected to be to publish draft statement of accounts by 30 June 2028 and have them audited and published by 30 November 2028.

Where existing councils are wholly transferring to a new unitary council then it will be that new unitary council which has the responsibility to approve the final years statement of accounts.

Where existing councils are being disaggregated as part of the LGR process then it will need to be determined which of the new unitary council/s in that area will have the responsibility for producing and auditing the final year statement of accounts.

Additionally, the new administering authority for the relevant pension fund will have the responsibility for publishing and auditing the pre-vesting day financial year's statement of accounts for the pension fund accounts.

Consideration should be given to ensuring the retention of adequate experienced finance staff within the new unitary councils to retain corporate knowledge and expertise. It is also important that arrangements are in place to ensure mutual support across technical finance teams in the new authorities.

Preparing for the first closedown and preparation of the first set of unitary council accounts requires effective programming. It is likely that data will need to be sourced from a number of separate ledgers/finance systems. Clear working papers will be critical to explain how the financial information has been collected and aggregated into a single trial balance.

As part of the closedown process robust guidance documents will be necessary to clarify the financial controls required, including materiality levels for accruals, and so on.

Training for both finance and non-finance staff on closedown processes will also be needed to help prevent reversion to legacy practices.

### **Impact of the backstop framework on statutory reporting timescales**

The Accounts and Audit regulations were amended in 2024 and created a new 'backstop framework' for local government accounts. This was introduced to address delays and challenges in the completion of local authority audits.

**CIPFA bulletin 18 - Local audit backlog in England (<http://www.cipfa.org/policy-and-guidance/cipfa-bulletins/cipfa-bulletin-18-local-audit-backlog-in-england>)** - published in October 2024 provides detailed advice and guidance for councils on the requirements of the backstop framework and the consequences of applying it.

The following table sets out the statutory backstop dates:

Table 1: Statutory backstop dates

Financial year	Draft (unaudited accounts) publication date	Statutory audit backstop date
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Financial year	Draft (unaudited accounts) publication date	Statutory audit backstop date
2022/23 and before	31 October 2024	13 December 2024
2023/24	16 January 2025	28 February 2025
2024/25	30 June 2025	27 February 2026
2025/26	30 June 2026	31 January 2027
2026/27	30 June 2027	30 November 2027
2027/28	30 June 2028	30 November 2028

The objective of external audit is to enable the auditor to obtain sufficient evidence to conclude that they have reasonable assurance that the financial statements as a whole are free from material misstatement. If this is not possible then the relevant accounts may be certified with an appropriate disclaimer or 'modified' opinion. These will vary depending on the extent to which the auditor lacked evidence or found material misstatements, and whether these issues were limited to specific areas or affected the accounts more broadly.

Auditors will modify their opinion where they lack the evidence to support an opinion. The following table (taken from the FRC – Local Audit Backlog Rebuilding Assurance Guide) shows the types of modified opinion that auditors can issue:

Table 2: Types of modified opinion issued by auditors

	Material but not pervasive	Material and pervasive
Financial statements are materially misstated.	Qualified opinion	Adverse opinion

	Material but not pervasive	Material and pervasive
Auditor is unable to obtain sufficient evidence to conclude on whether the financial statements are materially misstated.	Qualified opinion	Disclaimer opinion

### Understanding the audit position across predecessor councils as part of LGR planning

In respect of LGR it is important to understand the audit position for all predecessor councils in an area since any outstanding ‘modified’ opinions at vesting day will affect the audit position for the new unitary councils.

For example, if the 2026/27 and/or 2027/28 statement of accounts continue to have a modified opinion then this will affect the opening balance sheet position for 2027/28 and/or 2028/29.

It is also unlikely that the auditor will be able to obtain sufficient evidence to conclude they have reasonable assurance over the in-year income, expenditure, cash flow and reserves movements without assurance over the opening balances.

In normal circumstances, where a disclaimed opinion is issued, an auditor would perform work to assure all the opening balances and prior year comparatives within a single year. The backstop framework recognises that this is unlikely to be possible and therefore allows auditors to rebuild assurance over multiple audit cycles. This reduces the risk of the backlog recurring.

The FRC published [Local Audit Backlog Rebuilding Assurance \(http://www.frc.org.uk/documents/7727/Local\\_Audit\\_Backlog\\_Rebuilding\\_Assurance\\_tIHNBWf.pdf\)](http://www.frc.org.uk/documents/7727/Local_Audit_Backlog_Rebuilding_Assurance_tIHNBWf.pdf) in September 2024 which provides a useful summary of how a disclaimed opinion can be removed over a number of years. This sets out that any councils that received

disclaimers in 2022/23 are unlikely to achieve unmodified opinions on the accounts until 2026/27 depending on individual council circumstances.

**Ideally for any new unitary council/s (assuming vesting day is 1 April 2028) the predecessor councils' statement of accounts should all have unmodified opinions on the 2027/28 statement of accounts.**

Where there is a risk or concern that this is not achievable then early discussions with the affected council/s and the relevant auditor/s should take place to understand whether additional resource both from the council's and auditor's perspective can be identified in order that the additional audit assurance work can be completed prior to vesting day.

**External Audit: Statutory and improvement recommendations affecting the new unitary council/s**

In addition to the overall audit opinion the new unitary council/s will be required to respond to all outstanding recommendations within previous audit reports relating to predecessor councils, including any Value for Money recommendations, statutory recommendations and improvement recommendations.

Predecessor council/s should work to complete any actions required to address any outstanding external audit recommendations ahead of vesting day. Where this isn't possible the management response in the audit reports should be explicit about the actions required and have clear timescales for delivery.

For the new unitary council/s it is suggested that a report setting out all outstanding external audit recommendations and proposed management actions is taken to the relevant Audit Committee/s at an early stage. This gives the new council/s the opportunity to review the relevance of those recommendations and provide a clear update on which management actions will continue to be adopted.

The internal audit function of the new unitary council/s should review the internal control framework to support this position as part of their first internal audit plan.

Harmonisation of financial controls should be achieved through the development of the new unitary council/s constitution and financial regulations.

### **Statement of responsibilities**

The Statement of Responsibilities within the accounts requires the Chief Financial Officer (CFO) to declare that they give a true and fair view of the financial position of the authority at the reporting date, and of its expenditure and income for the year. A CFO must use their own judgment when making this declaration, informed by their assurance on the reliability of the systems of internal control and from those officers with responsibility for financial management.

Introduction of the backstop framework has resulted in some councils publishing their accounts with less confidence than usual. However, the requirement for the CFO to declare that the accounts give a true and fair view has not changed.

The CIPFA Practice Oversight Panel published an advisory note on 13 February 2025 setting out that providing assurance that the annual accounts are true and fair remains a crucial part of the process.

The CFO of a new unitary council will need to declare that the predecessor council's accounts give a true and fair view. It is therefore crucial that as part of collaborative working leading up to vesting day there is transparency around any concerns or risks regarding the accuracy and robustness of the financial data and systems, and that these are discussed between the relevant councils so that the new unitary council/s understand the opening position clearly.

Ensuring that this is evidenced where possible, through internal audit reports and financial reports, will enable a greater likelihood of the new unitary council's CFO being able to state that the statement of accounts are presented on a true and fair basis.

The CFO of the new unitary council may require assurances on a multitude of financial systems and ledgers (unless these are completely harmonised on vesting day). This needs to be considered as part of

resource planning for preparing the first full statement of accounts and the additional workload should be built into LGR implementation plans.

### **Local Government Pension Fund: Statement of accounts**

Local government pension fund accounts are currently subject to the same statutory requirements as the overall council statement of accounts. These accounts must be prepared in accordance with the Local Government Pension Scheme Regulations, alongside the CIPFA Code of Practice on Local Authority Accounting. There is the same statutory obligation to obtain an independent external audit opinion for the pension fund accounts and this forms an integral part of the overall assurance framework.

The pension fund accounts are often reported as a separate section within the administering authority's overall annual accounts but can be presented to the Pension Committee separately. In response to the **Local audit reform: a strategy for overhauling the local audit system in England consultation (<https://www.gov.uk/government/consultations/local-audit-reform-a-strategy-for-overhauling-the-local-audit-system-in-england>)** MHCLG have started the legislative process to decouple pension fund accounts from those of the administering authority. If this proposal is enacted for the 2026/27 financial year this may impact on the overall opinion given for the new unitary council/s statements of accounts.

### **Annual governance statements**

The Annual Governance Statement (AGS) supports the accountability of a council to the public and other stakeholders for maintaining a sound system of governance.

When preparing the AGS councils should be adhere to statutory requirements and best practice frameworks such as the **CIPFA/SOLACE Delivering Good Governance in Local Government guidance ([https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&cad=rja&uact=8&ved=2ahUKEwi\\_7K756bWRAXU1QEEAHXC7PNQQFnoECCIQAQ&url=https%3A%2F%2Fwww.cipfa.or](https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&cad=rja&uact=8&ved=2ahUKEwi_7K756bWRAXU1QEEAHXC7PNQQFnoECCIQAQ&url=https%3A%2F%2Fwww.cipfa.or))**

[g%2F-%2Fmedia%2FFiles%2FPolicy-and-guidance%2FStandard s%2FDelivering-Good-Governance-in-Local-Government.pdf&usg= AOvVaw3q7QPD3MfacJD3dymfxCmd&opi=89978449](https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&cad=rja&uact=8&ved=2ahUKEwicr9zp4faPAxVTT EEAHX2sKIsQFnoECBcQAQ&url=https%3A%2F%2Fsolace.org.uk%2Fdelivering-good-governance-in-local-government-addendum%2F&usg=AOvVaw3q7QPD3MfacJD3dymfxCmd&opi=89978449)) and addendum (<https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&cad=rja&uact=8&ved=2ahUKEwicr9zp4faPAxVTT EEAHX2sKIsQFnoECBcQAQ&url=https%3A%2F%2Fsolace.org.uk%2Fdelivering-good-governance-in-local-government-addendum%2F&usg=AOvVaw0oUn3JJ-esDzhtaCCxgiy5&opi=89978449>).

From a LGR perspective predecessor councils AGS's will help inform where any pre-existing governance risks and issues lie and should set out any planned actions to address these. Ideally these will have been approved by the predecessor council's Audit Committee/s pre vesting day. Section 5 provides more detail on the role of Audit Committees.

For the new unitary council/s it is important that all outstanding actions within the predecessor councils AGS's are reported to the new unitary council/s Audit Committee/s and evidence provided as to when and how those actions have been completed. This then forms part of the audit trail and assurance evidence for the new unitary council/s first AGS.

The first AGS for the new unitary council/s will need to clearly explain the context of how the new governance arrangements have been developed and adopted, including training and development activities and where any risks and concerns exist. Inevitably there will be areas where improvements will be required; however, being candid about these should strengthen the position of the new council going forward.

## **Value for Money reporting**

The Code of Audit Practice requires external auditors to carry out an audit of the arrangements to secure Value for Money (VfM) across each council.

As part of the backstop framework, from 2024/25 onwards, auditors will be required to issue their annual report containing the VfM commentary by 30 November. This means that even if an audit opinion is disclaimed

it should still provide useful information to the Audit Committee and other stakeholders, including reporting any significant VfM weaknesses identified.

In respect of LGR this provides external assurance to stakeholders on whether effective governance and VfM has been maintained by predecessor councils up to vesting day, as it requires each council to evidence to external auditors how their own internal controls and governance framework are being complied with throughout that period.

Government have clearly stated that it is essential that councils continue to deliver their 'business as usual' services and adhere to all of their statutory duties until reorganisation is complete. This includes the Best Value Duty (Section 26 of the Local Government Act 1999).

The Secretary of State reinforced this in an **update letter (<https://www.gov.uk/government/publications/local-government-reorganisation-letter-to-areas-invited-to-submitted-final-proposals/local-government-reorganisation-letter-to-areas-invited-to-submitted-final-proposals>)** to Chief Executives, Leaders and key stakeholders on the LGR process, and associated note on **Financial decisions before local government reorganisation (<https://www.gov.uk/government/publications/local-government-reorganisation-letter-to-areas-invited-to-submitted-final-proposals/financial-decisions-before-local-government-reorganisation>)**. It was stated that it is essential that decisions affecting ongoing service delivery and the medium term financial strategy of existing councils should not compromise the future sustainability of new councils.

External audit will report on the effectiveness of VfM arrangements and make relevant recommendations that need to be complied with. Where these are not fully completed by vesting day recommendations will carry forward into the new unitary council/s who will need to report on these as part of the first VfM audit for the new council.

## **The role of the Audit Committee**

### **Predecessor council Audit Committee/s**

Strong financial governance is critical throughout the LGR process. It is important that all predecessor councils continue to adhere to their own internal control framework (as set out in their Local Code of Good Governance, where this has been published).

The role of internal audit and the Audit Committee is very important in ensuring the continuing adherence to strong financial governance is evidenced.

Leading up to vesting day regular reporting to Audit Committee on all elements of governance must be maintained. The new unitary council's Audit Committee will formally review (and approve if delegated responsibility) the AGS alongside the Statement of Accounts, but having evidence of consideration by the predecessor council/s Audit Committee/s should provide an element of assurance to rely on.

One of the Audit Committee's primary duties is often to oversee the council's approach to risk strategy and management. This will include reviewing the strategic risk register and ensuring that significant risks such as those relating to financial resilience, service continuity, or major transformation projects such as LGR, are being actively managed and reported. Therefore, the predecessor council/s audit committee/s should request regular updates from the LGR programme board in order to satisfy itself that these risks are being adequately mitigated.

### **New unitary council Audit Committees**

Establishing the new unitary council/s Audit Committee/s and ensuring that all committee members are sufficiently trained should be a priority for the new unitary council/s. The CIPFA Position statement on **Audit Committees** (<https://www.cipfa.org/services/support-for-audit-committees>) sets out the recommended principles to follow.

Audit Committee members should have a fundamental role in supporting strong financial management, accountability, and transparency within the new unitary council/s by identifying a clear

forward plan and adopting a Local Code of Good Governance and other associated policies (whistleblowing, anti-fraud, and so on).

One of the committee's first important roles will be to review (and if the delegation exists, approve) the predecessor council/s statements of accounts for the previous financial year.

As the new committee members may not have sat on the predecessor councils Audit Committee/s, they are likely to need to rely on previous reports to the predecessor councils' Audit Committee/s, Cabinet/s and/or Full Council/s, increased assurance from officers including internal audit, and previous external audit reports.

This is likely to take longer than normal and will require additional training/support to provide the Audit Committee members with sufficient assurances to approve the predecessor council/s accounts.

The new unitary council/s Audit Committee/s has a critical role in monitoring the effectiveness of the internal control environment, including policies, procedures, and risk management frameworks. As these may still be being developed in the first year of the unitary council the Audit Committee will need to be assured that the control environment is robust.

The new Audit Committee also has a key role in reviewing findings from internal and external audits, overseeing the implementation of audit recommendations, and monitoring action plans to address any identified weaknesses or risks.

It also has a critical role in the governance of internal audit. The provider of internal audit to the new council will need a new Charter which the committee should approve. **The CIPFA Code of Practice on the Governance of Internal Audit (<https://www.cipfa.org/policy-and-guidance/standards/governance-of-internal-audit-in-local-government>)** sets out these responsibilities and it will need to be incorporated into the committee's terms of reference.

In respect of risk management one of the new Audit Committee's primary duties is to oversee the council's approach to risk identification, evaluation, and mitigation. Establishing a robust risk management

framework and strategy will be required early in the audit committee cycle.

A well-functioning Audit Committee should be proactive, independent, and equipped with the right skills and knowledge. Its work underpins trust in public finances and helps ensure that local authorities deliver high-quality, sustainable services—especially during periods of significant change, such as LGR.

## Resource implications

There are key workforce challenges across the local government finance profession. In October 2024 the LGA (with support from CIPFA) published a report **Local government finance workforce action plan for England** (<https://www.local.gov.uk/publications/local-government-finance-workforce-action-plan-england>) and a progress update was provided in 2025.

High vacancy rates and a reliance on interim staff will likely be exacerbated by LGR. Councils will need to support their existing finance teams (including internal audit) throughout the LGR process to ensure all financial responsibilities can continue to be delivered through to vesting day.

Grant Thornton's report **Learning from the new unitary councils** ([http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2024/report---learning-from-the-new-unitary-councils\\_v08.pdf](http://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/publication/2024/report---learning-from-the-new-unitary-councils_v08.pdf)) refers to the risk experienced by councils that have already gone through LGR including that:

“New councils need their finance team in place at the start with sufficient capacity and capability. Too few have a fully resourced finance team in place.”

Councils should support existing staff through the transition to the new unitary council/s and build in additional capacity (specifically around systems and technical accounting requirements) where required to maintain a focus on publishing and auditing the statement of accounts within statutory deadlines. This should be factored into the implementation costs of delivering LGR.

The availability of additional resource is a risk as even if investment in capacity has been approved. For this reason, it is important that councils collaborate effectively. In some instances, mutual aid between councils may be required in order to maintain capacity across an LGR geography. The skills and knowledge of staff across all types of councils are required in new unitary councils and this should be clearly acknowledged and recognised in any implementation plans. A skills audit across the LGR geography may help determine the best allocation of resources.

### **Appointment of external auditors**

In respect of external audit costs these should be reviewed and included in any implementation costs assessment, factoring in the cost associated with the increased risks of new unitary council/s referred to above.

In respect of the appointment of external auditors the English Devolution and Community Empowerment Bill proposes the removal of the option for authorities to make local arrangements to appoint their auditor. Once enacted all authorities created after that date will have their auditor appointed by the new Local Audit Office (LAO).

### **Summary**

This guidance note sets out the key responsibilities and challenges in respect of fulfilling statutory accounts and audit requirements throughout the LGR process.

The key message is that existing councils must continue to adhere to their statutory deadlines and duties in order to enable the new unitary council/s to effectively deliver their own statutory reporting responsibilities following vesting day. This includes ensuring the

sufficiency of skills and capacity across finance teams and ensuring that any management actions required to comply with audit recommendations are prioritised and actioned.

The following practical actions should be considered to help ensure that statutory deadlines and requirements are effectively complied with:

- Maintaining a strong focus on financial governance, transparency, and timeliness in publishing and auditing statements of accounts.
- Investing in finance and internal audit teams to ensure there is adequate capacity and technical capability for managing the LGR transition and delivering ongoing operations.
- Supporting skills retention through encouraging active participation in the transition process, recognising the value of skills and knowledge of finance staff from all council types.
- Being clear about how financial systems will operate post vesting day in order that accounting requirements can be met and statutory reporting and audit deadlines achieved.
- Collaborating as early as possible and where necessary consider formal mutual aid agreements between councils to maintain necessary staffing levels and expertise.
- Supporting Audit Committees both within the predecessor councils and the new unitary councils to continue to focus on ensuring effective financial governance is maintained and all statutory accounting requirements are met.
- Working in partnership with external auditors to plan the timing and resource requirements needed to deliver the predecessor councils final accounts publication and audit along with their relevant AGS and VFM reports.



