



Ministry of Housing,  
Communities &  
Local Government

# Local Audit Reform

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# The strategy

The government's statement of intent and consultation for local audit are live on GOV.UK.

- On 18 December 2024, the government published the Local Audit Reform Strategy. This is available on GOV.UK: [Local audit reform: a strategy for overhauling the local audit system in England - GOV.UK.](#)
- The strategy delivers on the government's manifesto commitment to fix the broken local audit system through a series of reform measures.
- The government is also consulting on specific proposals as part of this strategy. This consultation closes on **29 January**.



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## Local audit reform

A strategy for overhauling the local audit system in England

Statement of intent and consultation  
December 2024  
Ministry of Housing, Communities and Local  
Government



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Open consultation

## Local audit reform: a strategy for overhauling the local audit system in England

From: [Ministry of Housing, Communities and Local Government](#)

Published 18 December 2024

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Applies to England

### Summary

The document includes a statement of intent and consultation on proposals to overhaul the current local audit system in England.



# The challenges

The strategy will fix the broken local audit system and address three systemic challenges.



## Capacity

There is a **severe lack of auditors**, with a **limited number of firms** operating in the sector.



## Coordination

Multiple organisations have an oversight or regulatory role across the sector. The responsibilities required to enact change are fragmented and there is **no clear ownership of the system**.



## Complexity

Financial reporting and audit requirements are **disproportionately complex**, beyond the system's capacity, and **inadvertently incentivises risk aversion**. Standards are largely modelled on corporate audit rather than the needs of local bodies.



## The current position

**It is recognised that without systemic reform the challenges faced are insurmountable.**

- The Local Audit and Accountability Act (2014) abolished the Audit Commission, assigning its responsibilities to several organisations and requiring bodies to either choose their own auditor from the private market or opt-in to a centralised procurement process.
- The local audit system is complex and dysfunctional. Last year, only one percent of local bodies' audited accounts were published on time and there were 918 outstanding audit opinions as of September 2023. This unprecedented audit backlog has in effect dismantled part of our early warning system over the state of local government finances.

**1** % audited accounts published on time 2022/23

**7** organisations with oversight responsibility

**2** firms serving over half of the local sector  
firms serving over half of the health sector

**9** firms supplying NHS audits

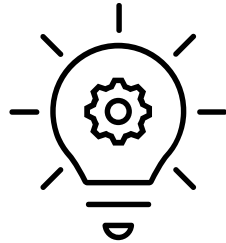
*NB: The diagram excludes smaller authorities, except for oversight organisations.*



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## Six key areas

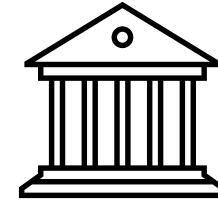
The strategy builds on previous reviews and stakeholders' views to propose a streamlined system of local audit, restoring robust financial oversight of local government.



### 1. The purpose of local audit



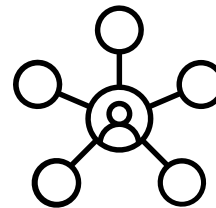
### 2. Local Audit Office remit



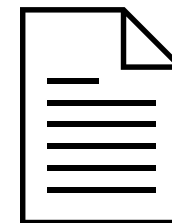
### 3. Financial reporting and accounts



### 4. Capacity and capability



### 5. Underpinning the system; relationships and audit regimes



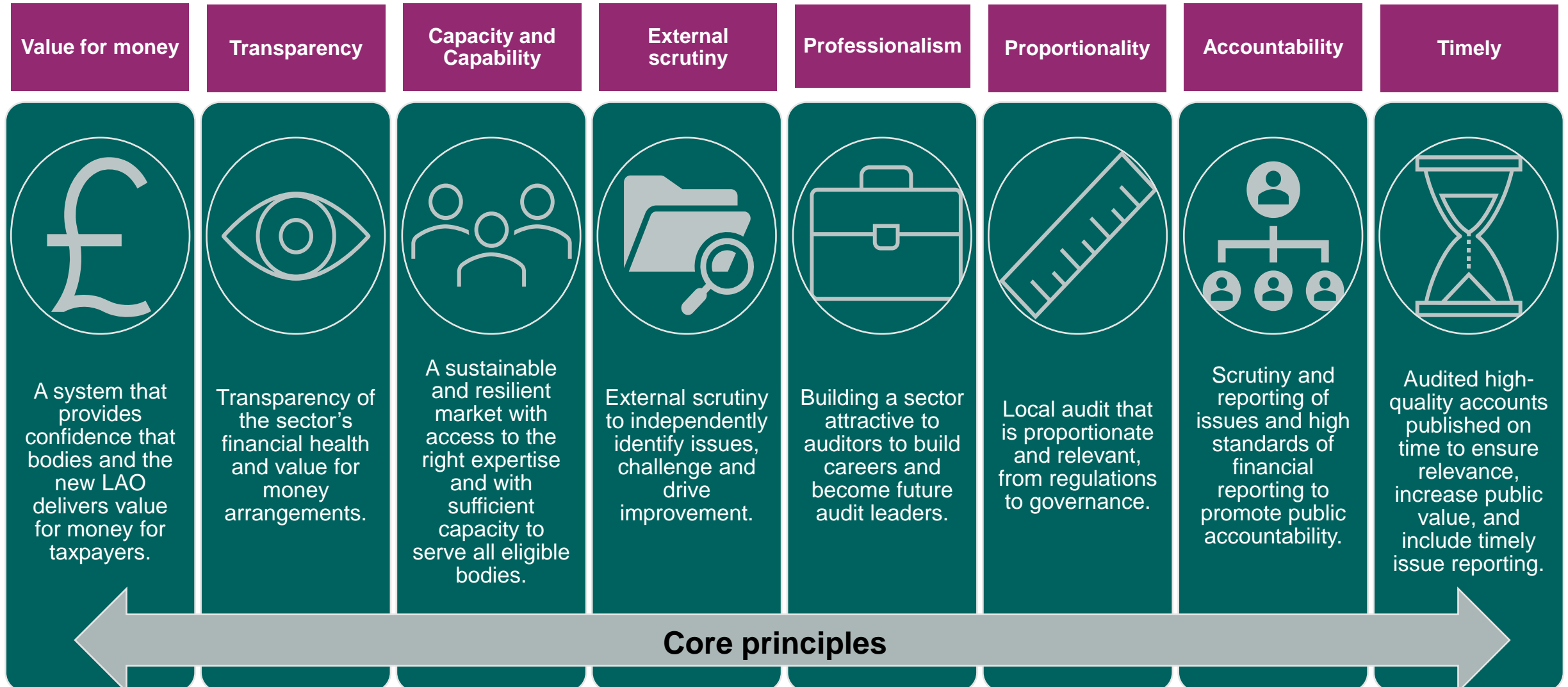
### 6. Local audit backlog



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# The purpose of local audit

Reforms must be guided by a vision statement, key principles and be driven by user needs.



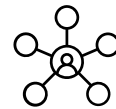


# A new Local Audit Office

*The government accepts the Redmond and Kingman Reviews' recommendations for a new oversight organisation to simplify the system and drive change.*



## LAO 5 strategic responsibilities:



**Coordinating the system:** Coordinate and lead the local audit system. Champion auditors' statutory reporting powers.



**Contract manage:** Set fees, procure, commission and appoint auditors to all eligible bodies (excluding the NHS at this stage).



**Code of Practice:** Set the Code of Audit Practice. Issue statutory guidance to auditors.



**Oversight:** A quality regulatory framework (inspection, enforcement and supervision). Professional bodies.



**Reporting, insights and guidance:** Collate reports made by auditors. Focus on national insights of local audit issues.



# Local Audit Office remit

**The dispersal of oversight of local audit is a fundamental failure of the current system. A statutory and independent Local Audit Office (LAO) is necessary to streamline and simplify the system.**

## The government has committed to:

- An independent statutory body to simplify the audit system, assume responsibility for appointing and contracting auditors, and take ownership of the Code of Audit Practice.
- Oversee local audit quality through inspection programmes, enforcement, and supervision, and publish national reports on audit health.
- Supervise professional bodies on qualifications, registrations, and conduct of local auditors, ensuring alignment with regulatory standards.

## The government is consulting on:

- Potential additional functions of the LAO including smaller body appointments, oversight of an enforcement scheme for accounts and audits, and a power to direct bodies to change accounts instead of needing recourse to the courts.
- The scope and effectiveness of Public Interest Reports and Advisory Notices including how statutory reporting and Public Interest Reports can be further strengthened.





# Financial reporting and accounts

**Reforms should consider the needs of the user and the impact of accounting requirements on the work of account preparers, auditors and the wider audit system.**

## The government has committed to:

- Consult stakeholders to streamline local authority accounts by ensuring necessary disclosures and aligning the content with the needs of users.
- Collaborate with devolved governments to ensure consistent practices across the UK.
- Explore legislative changes to separate pension fund accounts and consider introducing Standardised Statements in the long term.

## The government is consulting on:

- Whether there are governance or structural barriers to local authority accounts reform.
- Whether responsibility for the Local Authority Accounting Code should be transferred to the LAO.
- Whether the Accounting Code should be freely available.



# Capacity and capability

**Delays and complexity disincentivise the right skills from entering the market, leading to less timely, less effective audit.**

## The government has committed to:

- Review Key Audit Partner (KAP) eligibility criteria to remove barriers to entry.
- Work with the LGA on targeted support for local authority finance teams, audit committees and elected members to strengthen financial governance.
- Consider new burdens associated with this vision and related legislation.

## The government is consulting on:

- What additional support is needed for finance teams, audit committees, and elected members to enhance governance.
- Whether local audit should include public provision and if the LAO should oversee it, alongside determining an appropriate balance between public and private provision.
- How KAP eligibility could be expanded and whether certain audits should require sign-off by experienced Responsible Individuals.



# Underpinning the system; relationships and audit regimes

**Existing relationships between local bodies and their auditor need to be strengthened and their respective relationship with the LAO must be clear.**

## The government has committed to:

- Require regular meetings between Key Audit Partners (KAPs) and statutory officers, and mandate audit committees with at least one independent member, with consideration at full council.
- Avoid cliff edges by considering how to scale reporting and audit requirements based on body type, size, and risk.

## The government is consulting on:

- The benefits of having independent chairs for audit committees.
- The creation of local public accounts committees for strategic authorities in England to enhance oversight of public spending.
- Short term changes to audit thresholds for local and smaller authorities, including inflation adjustments and exemptions for certain bodies like Integrated Care Boards.



# Local audit backlog

**Significant and difficult work undertaken by finance teams and auditors to clear the backlog to date is a necessary step to reform.**

## The government has committed to:

- Work with system partners to produce additional guidance, advice and support.
- Amend secondary legislation to extend existing exemptions to include infrastructure asset values, to reduce the audit workload in the medium term.
- Consider any further, temporary exemptions to ensure workload and cost is proportionate.

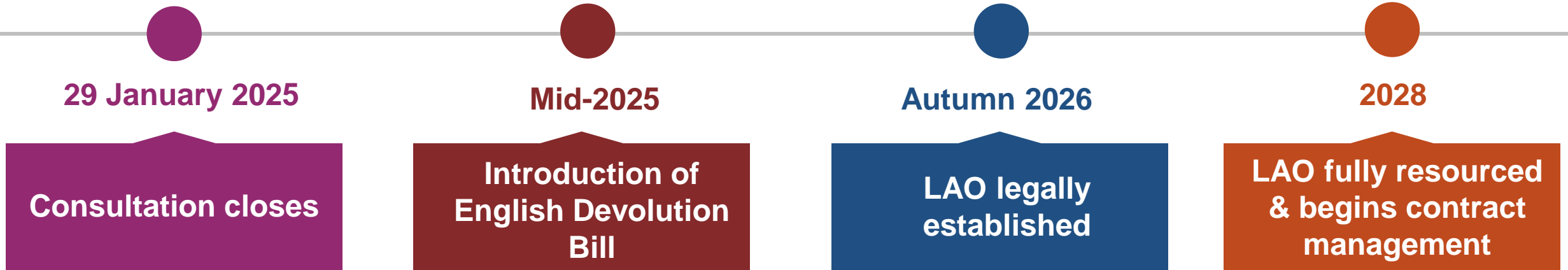
## The government is consulting on:

- Additional guidance and resources needed by local bodies and auditors to meet future deadlines for publishing audited accounts.
- Whether financial reporting or auditing requirements should be temporarily amended post-backlog to balance workload and costs.
- Measures to support the rebuilding of confidence in the audit system during the transition period.



# Implementation timeline

We acknowledge that transition will take time and will continue to engage partners as the strategy progresses.





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**Any questions?**

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