

To: Audit and Governance Committee
Date: 23 July 2025
Report of: Nigel Kennedy, Group Finance Director
Title of Report: Local Audit Reform: Government Response to the Consultation

Summary and recommendations	
Decision being taken:	Note the Government Response to the Government Consultation on Local Audit Reform in England.
Key decision:	No
Cabinet Member:	Councillor Ed Turner, Cabinet Member for Finance and Asset Management
Corporate Priority:	A well-run Council
Policy Framework:	None

Recommendation(s): That Audit and Governance Committee resolves to:
1. Note the Government Response to the Government Consultation on Local Audit Reform in England.

Information Exempt from Publication
Not applicable

Appendix No.	Appendix Title	Exempt from Publication
1	Results of the consultation and the Government response	No

Introduction and background

1. A report was commissioned from Sir Tony Redmond June 2019 to undertake an independent review of the effectiveness of local audit and the transparency of local authority financial reporting (“the Redmond Review”). The report was published in September 2020. Since then, the position regarding completion and audit of local authority worsened with only 1% of local government bodies publishing their audited accounts in time for the original 2022/23 deadline. There are multiple reasons for this including capacity in local authorities, the capacity of auditors and some specific local issues (including the problems suffered by Oxford City Council).
2. This backlog then resulted in measures to finalise historic accounts up to and including 2022/23 by introducing a backstop date and the process for local auditors to issue disclaimed opinions. Local government is now in a process of rebuilding audit assurance so that, over a number of years, the sector can once again obtain clean audit opinions.
3. Against this backdrop, on 18 December 2024, the Government published a statement of intent and consultation on proposals to overhaul the current local audit system in England. Government has stated that it will continue to engage with the sector as their strategy for local audit is implemented.
4. This report summarises the results of the latest audit consultation which was published in April 2025, bullet pointing the key matters relating to each aspect of the consultation. A copy of the full text of the results of the consultation and the Government response is attached at Appendix 1. It should be noted that this is not in force and that the actual implementation is still being considered by Government and, in many instances, will need further changes to regulations, legislation or secondary legislation.

Local Audit Office (LAO)

5. The Government proposes to establish a new Local Audit Office (LAO) which is likely to have the following functions:

The LAO will

- Have responsibility for appointing and contracting auditors for local authorities; this will remove the option for authorities to appoint their own auditor
- adopt ownership of the Code of Audit Practice and associated guidance
- become the new point of escalation for auditors with concerns (note that I made the point that it should not be assumed that auditors are correct and there should be an arbitration or mediation process; this has been referenced in the Government response but whether this will happen in practice remains to be seen)
- share issues identified with auditors, government departments and inspectorates
- adopt appointment and contract management for smaller bodies over the medium term
- own the register of firms qualified for local audits, aligning with its role in coordinating the audit system

6. A proposal to give the LAO the power to direct changes to local bodies' accounts, allowing auditors to apply to the LAO instead of the courts to resolve disputes was rejected by the Government despite being supported by the consultation.

Format and content of local authority accounts

7. The format and content of local authority accounts was consulted on but although the Government has stated that they are committed to review the content and format of local authority accounts there were no details on any major reform:
 - CIPFA will maintain responsibility for its Code of Practice on Local Authority Accounting
 - the Government, and devolved governments, will work with CIPFA to identify priorities and a programme plan for reform
 - exemption of infrastructure assets from standard accounting treatment extended to 2028/29 and may become permanent
 - The IFRS 9 (financial instruments) statutory override (relating to reversing pooled funds surpluses and losses) is going to end in 2028/29 "to reduce complexity within the accounts" but the Government has said it will apply transitional arrangements to allow the sector time to prepare, although no detail was provided on what these transitional arrangements would be.
 - The Government will be looking at options to ensure free availability of the accounting code of practice to the public

Capacity and capability in the authority and in audit firms

8. Capacity and capability in the authority and in audit firms was consulted on with the response from the Government being:
 - Government will work with the LGA on targeted support for local authority finance teams, audit committees and elected members to further strengthen financial governance
 - Government commits to review Key Audit Partner (firms need one to undertake local audit) eligibility criteria to remove barriers to entry
 - specific criteria for signing off a local audit should no longer be required through primary legislation but should instead be determined by the LAO
 - Government will establish public provision of audit services to support the private market using a phased approach to gradually scale up over time

Changes to relationships and structures

9. The response indicated some future changes to the way that Audit Committees are structured and some further changes to relationships and additional oversight (proposals directly affecting Audit and Governance Committee are in bold) including:
 - requiring twice-yearly meetings between Key Audit Partners (KAPs) and authorities' statutory officers (Head of Paid Service, Monitoring Officer and Section 151 Officer)

- **mandating audit committees with at least one independent member and consideration of accounts at full council**
- **consider further the merits of mandating audit committee chairs to be independent members**
- exploring a Local Public Accounts Committee model on a regional basis
- issuing statutory guidance for audit committees.

10. The CIPFA Guidance on Audit Committees already recommends that audit committees contain at least one independent committee member. At previous meetings, Audit and Governance Committee has decided not to adopt the CIPFA recommendation to include an independent member.

Local audit backlog

11. Concerns were expressed by respondents about the level of work needed to get from disclaimed accounts to an unmodified opinion with auditors remaining concerned about the risk of sanction through audit quality reviews and the risk that this will unduly influence their approaches to rebuilding assurance. The Government responded as follows:

- Government says they will explore pragmatic solutions for authorities with disclaimed audits
- looking at temporary reductions in reporting with a phased approach to reintroducing full reporting requirements
- measures to make regulatory risk more proportionate for the audit firms, clarify the application of auditing standards in the local audit context and, where appropriate, reduce reporting requirements to ease the burden on local bodies and auditors
- the Government will commission a bespoke quality review approach that is focused on learning, improvement and sharing of good practice rather than inspecting and grading audits; this is intended to reduce the level of risk and therefore work at audit.
- The Government will work with the National Audit Office (NAO) to issue updates to existing guidance providing more clarity on requirements, particularly for auditing opening balances for statutory reserves

Conclusion

12. How well temporary solutions work remains to be seen and there is still a residual concern that if measures are put in place to speed up the year end process in the short term, when these measures end there will be a risk that a backlog position could re-emerge unless there are longer term fundamental changes put in place. Auditors will still need to undertake additional testing to give an opinion on brought forward balances and this will put pressure on both the local audit firms and local authority staff.

13. Even if reporting requirements are reduced in the short term, if this is only temporary and subsequently reintroduced, a lot of the information behind the reporting will still need to continue to be maintained and produced in the background. This therefore risks not reducing the time to produce accounts, only to audit them.

14. Independent members sitting on audit committees consistently comes up as a proposal and it is likely that at some point this will be mandated. This will pose a challenge in obtaining an appropriately knowledgeable person and is likely to come at an additional cost. It is possible, but not certain, that the costs may be covered by the Government through a grant.

15. As previously identified, the results of the consultation have not yet been put into practice and will need further measures for the results to be enacted. When more information becomes available on all of this, further reports will be brought to the Audit and Governance Committee.

Alternative Options Considered

16. None

Other implications

17. None

Financial implications

18. There are no financial implications directly resulting from this report but changes arising from the consultation implemented by the Government may have financial implications. These will be reported to the committee when these changes are implemented by the Government.

Legal issues

19. There are no legal implications directly arising from this report but, depending on the changes implemented by the Government there may be a need to amend the Council's Constitution in the future. Any legal issues arising from future Government proposals will be reported to the Committee when these changes are announced by the Government.

Level of risk

20. There are no risks directly associated with this report, however depending on what is finally implemented by the Government there may be risks arising at that stage and these will be dealt with in a future report as proposals become known.

Equalities impact

21. There are no equalities impacts arising directly from this report.

Report author	Bill Lewis
Job title	Financial Accounting Manager
Service area or department	Financial Services
Telephone	07483 010607
e-mail	blewis@oxford.gov.uk

Background Papers:

- 1 Full Government Response:
<https://www.gov.uk/government/consultations/local-audit-reform-a-strategy-for-overhauling-the-local-audit-system-in-england/outcome/local-audit-reform-government-response-to-the-consultation-to-overhaul-local-audit-in-england>