



Ministry of Housing,
Communities &
Local Government

Consultation outcome

Local audit reform: Government response to the consultation to overhaul local audit in England

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Ministerial foreword

This government inherited a broken local audit system. The previous government recklessly stripped away a crucial part of our early warning system over local government finances at the time we need it the most. As a result, only 1% of local government bodies published their audited accounts in time for the original 2022/23 deadline. Effective local audit is vital for local accountability and transparency – and key to ensuring that we all have trust and confidence in how councils are spending taxpayer money. This government is determined to deliver on our manifesto commitment to fix the foundations of local government and ensure that it is fit, legal and decent.

Reform has never been more urgent. In September 2023, the audit backlog in England peaked at 918 outstanding unaudited accounts, signalling a paralysis of the local audit system. More recently, the Whole of Government Accounts for financial year 2022/23 was disclaimed in autumn 2024 – primarily due to a lack of audit assurance on local government accounts. We will not allow this to go unchecked.

We took immediate and decisive action, and progress is positive, but there is a significant way yet to go. Over the past few months we have taken huge strides to clean up the state of local audit, with the backstop programme resulting in approximately 95% of all bodies publishing audited accounts for all financial years up to and including 2022/23 – but recovery and building back assurance will take time. These necessary but uncomfortable measures are however not sufficient on their own and the whole system needs fundamental reform.

The government, therefore, published its ambitious strategy to overhaul the broken local system in December 2024. This strategy set out a clear purpose for local audit and its users, proposals for simplified and proportionate financial reporting, improvements to the market's capacity and capability, and ways to build strong relationships between local bodies and auditors. The establishment of a new single body, the Local Audit Office (LAO), to oversee local audit will radically simplify and streamline the currently fragmented system. We will learn the lessons from the latter days of the bloated Audit Commission. The LAO will be proportionate and focussed on local audit matters, ensuring efficiency, transparency and value for money.

This document summarises feedback received on a set of specific measures that we consulted on as part of that strategy, along with the government's response. This includes new commitments in relation to the LAO developing structured escalation routes, reviewing barriers to auditors exercising their powers and in the longer term, taking on smaller body appointments. The document also commits to removing Key Audit Partner criteria requirements and building public provision to supplement private market capacity. Together, these changes will empower the LAO to grip

problems in the market, and boost the supply of auditors to rebuild confidence in local accounts.

We are delighted with the engagement we have had from the sector and I would like to extend my thanks to all for their constructive feedback. There is a clear consensus on the need for urgent action to fix the broken local audit system. The commitments outlined in the strategy and government response will enable us to get local audit back on track and give the sector the firm financial foundations to become fit, legal and decent.

Jim McMahon OBE MP
Minister of State for Local Government and English Devolution

1. Introduction

1. On 18 December 2024, the government published a statement of intent and consultation on proposals to overhaul the current local audit system in England. Each of the 239 responses have been given full consideration, including where these provided views and commentary beyond the questions themselves, alongside other representations made during the consultation period. This included a meeting between system and sector leaders and the Minister of State for Local Government and English Devolution, as well as additional engagement and workshops on specific areas. Engagement will continue as the strategy is implemented.

2. The table below provides a breakdown of consultation responses by the type of respondent.

Organisation type	Count	% of total responses	
Local authority	132	55	
Member of the public	42	18	
Sector or system body	25	10	
Audit firms and Accountancy bodies	15	6	
Police or Fire or Rescue Authority	12	5	
National or park authority or Drainage Board	4	2	
Devolved administration	156	4	2

Organisation type	Count	% of total responses
University or thinktank	3	1
NHS body	2	1
Total	239	100%

3. There is a general endorsement of reform and many organisations welcome the proposed strategy for overhauling local audit. Many agree that reform must progress at pace, especially to clear the audit backlog and restore confidence in the system. The establishment of the Local Audit Office (LAO) as a central body to streamline local audit functions is welcomed with many respondents stressing the importance of clear governance structures, a phased implementation, and ensuring its role is proportionate.

2. Local Audit Office remit

Question 1: Do you agree the LAO should become a new point of escalation for auditors with concerns?

- Respondents who agreed with the proposal: 201 (84%)
- Respondents who disagreed with the proposal: 5 (2%)
- Respondents who did not answer this question or did not have a view: 33 (14%)

4. There is widespread support for the LAO to become a new point of escalation for auditors with concerns, to centrally identify and report systemic issues. Stakeholders suggest the LAO could ensure fair and proportionate handling of public concerns and ensure consistent application of standards across the sector. Some comments recommend a structured and transparent escalation process to restore trust in the local audit system.

Question 2: Do you agree relevant issues identified should be shared with auditors, government departments and inspectorates?

- Respondents who agreed with the proposal: 189 (79%)
- Respondents who disagreed with the proposal: 10 (4%)

- Respondents who did not answer this question or did not have a view: 40 (17%)

5. Most respondents agree that relevant issues identified should be shared with auditors, government departments and inspectorates. Some respondents add that this co-ordinated approach would ensure local authorities can collectively address problems rather than operating in isolation. In addition, this approach would allow for the identification of sector-wide trends, which could support best practice guidance and foster a strategic understanding of common issues. Some responses suggest a structured system for sharing issues – such as those in the public interest – would allow for more strategic use of limited audit resources, ensuring focus on high-risk areas.

6. A small number of respondents disagree that relevant issues identified should be shared. Concerns include premature disclosure of issues leading to misinterpretation and reputational risk, administrative burden or duplication with Public Interest Reports, and an unintended consequence of discouraging openness between auditors and authorities. In addition, the consent and right to respond of the local body was raised.

Question 3: Should the Local Audit Office (LAO) also take on the appointment and contract management of auditors for smaller bodies in the longer term?

- Respondents who agreed with the proposal: 119 (50%)
- Respondents who disagreed with the proposal: 52 (22%)
- Respondents who did not answer this question or did not have a view: 68 (28%)

7. Half of stakeholders advise that the LAO should adopt appointment and contract management for smaller bodies. Almost a quarter disagree. Supporters highlight benefits including greater oversight and the attraction of new entrants from the smaller authorities' market to the principal market. Stakeholders recommend transferring these responsibilities after the LAO is established and the audit system stabilised.

8. Respondents not in favour of the proposal note that the current process overseen by the Smaller Authorities' Audit Appointments' (SAAA) functions well. A concern is that a more centralised approach might not be as responsive to issues and could reduce competition and flexibility. Some respondents set out concerns that the LAO might be too removed from smaller bodies like parish councils and could add unnecessary administration, making audits more expensive and lengthier.

Question 4: Should the LAO oversee a scheme for enforcement cases relating to local body accounts and audit?

- Respondents who agreed with the proposal: 177 (74%)
- Respondents who disagreed with the proposal: 12 (5%)
- Respondents who did not answer this question or did not have a view: 50 (21%)

9. Most respondents agree the LAO should oversee enforcement cases to ensure accountability, quality and consistency in accounts and audits. Responses suggest a single oversight body could address system weaknesses, and reinforce public trust. They believe enforcement should act as a deterrent, promoting compliance and improving performance, with the LAO serving as a quality controller to improve standards and consistency.

10. Others questioned the need for an enforcement scheme, and thought recent actions against auditors were disproportionate and contributed to the audit backlog. Concerns about independence were raised, stressing the scheme must be managed separately from the LAO's audit services to ensure impartiality. They believe enforcement should be a last resort, proportionate, and mindful of local authority accounts, avoiding bureaucracy.

Question 5: How could statutory reporting and Public Interest Reports (PIRs) be further strengthened to improve effectiveness?

11. Views are mixed. Some respondents suggest simplifying statutory reporting to make accounts more accessible to the public, using plain language and visual aids, and publishing reports on local authority websites and in local media.

12. A proportion of respondents propose creating a national register of PIRs, searchable by year and authority, to ensure timely and relevant publication. Standardising the format, length, style and layout of PIRs was also suggested for consistency. Some respondents believe PIRs should be considered at Full Council Meetings, not just Audit Committees, with mandatory public discussions and action plans. Shifting the audit focus towards financial sustainability and public interest was recommended. Clear audit guidance and training for auditors and local authorities were seen as essential, with the LAO monitoring the implementation of recommendations.

13. However, some respondents are concerned that changing statutory reporting and PIRs could add complexity and cost, making audits more expensive and lengthier, and increase bureaucracy. They question the need for further strengthening and suggest existing powers are sufficient. Concerns were raised about recent enforcement actions against auditors, legal and reputational risks, and the potential for increased audit backlogs. It was suggested that any future scheme would need to be managed independently from any public provision of audit services to ensure impartiality.

Question 6: Should the scope of Advisory Notices be expanded beyond unlawful expenditure, or actions likely to cause a loss or deficiency, as defined by the Local Audit and Accountability Act, to include other high-risk concerns?

- Respondents who agreed with the proposal: 111 (46%)
- Respondents who disagreed with the proposal: 59 (25%)
- Respondents who did not answer this question or did not have a view: 69 (29%)

14. Most respondents support broadening Advisory Notices beyond unlawful expenditure or actions risking loss. Some see this as an option to strengthen early warning, prevent escalation and protect public funds. Many support extending the scope to matters of public interest, including Best Value requirements and best practice. Suggested options include auditors flagging high-risk projects and financial practices to prevent councils depleting reserves. Others stress the need for clear definitions of high-risk concerns for consistency. Some highlight the importance of supporting auditors in using their expanded powers effectively.

15. Several respondents opposed the proposal, citing the ambiguity of “high-risk concerns” and the risk of subjective auditor judgments. Some feared interference in lawful strategic decisions, threatening local authority independence and risking overreach. Others argued existing powers, such as PIRs and statutory recommendations, are sufficient, and expansion would add complexity and cost. Some felt the current scope allows auditors to focus on core duties without affecting quality or timeliness. Concerns were also raised that added responsibilities could strain limited audit resources and delay local authority accounts.

Question 7: Should the LAO own the register of firms qualified to conduct local audits?

- Respondents who agreed with the proposal: 164 (69%)

- Respondents who disagreed with the proposal: 21 (9%)
- Respondents who did not answer this question or did not have a view: 54 (23%)

16. Most respondents support the LAO owning the register of firms qualified for local audits, aligning with its role in coordinating the audit system. They believe this would enhance transparency, accountability and consistency while reducing fragmentation. Some suggest the LAO could help medium-sized firms enter the market, expanding the auditor pool. Others felt centralising the register could cut costs and improve governance by streamlining accreditation.

17. Several respondents favour keeping the register with the ICAEW, citing the effectiveness of the current system in maintaining high standards. They warn that transferring it could cause duplication or fragmentation. Concerns were raised about the strain on LAO resources and potential inefficiency. Some noted a conflict between the LAO's regulatory role and managing the register, stressing the need for clear benefits before any transfer.

Question 8: Should the LAO hold the power to require local bodies to make changes to their accounts, so that auditors could apply to the LAO for a change to be directed instead of needing to apply to the courts?

- Respondents who agreed with the proposal: 115 (48%)
- Respondents who disagreed with the proposal: 61 (26%)
- Respondents who did not answer this question or did not have a view: 63 (26%)

18. Most respondents support granting the LAO power to direct changes to local bodies' accounts, allowing auditors to apply to the LAO instead of the courts to resolve disputes. This was seen as a faster, more cost-effective solution that would ease the burden on the courts and help resolve complex accounting issues. Many felt it would provide auditors with a streamlined way to address disputes. Some suggest the power be temporary and subject to review. It was also proposed that the LAO publish its decisions and lessons learned to benefit auditors and authorities.

19. Those not in favour prefer independent judicial oversight to ensure legal duties are upheld. Some believe legal judgments on accounts should remain with the courts, warning that bypassing them could undermine due process. It is thought that existing mechanisms, such as PIRs and qualified audit opinions, are sufficient. Concerns were raised about the LAO's independence if it held both regulatory and enforcement powers, with calls

for safeguards to prevent overreach. Others warn this could strain the LAO's resources and stress the need for a clear appeals process if the powers are granted.

Government response

20. The strategy committed to establish the Local Audit Office (LAO) as a statutory and independent body and to ensure it provides value for money (VFM), remaining proportionate and focussed in scope. The government will continue to work with local bodies and their representative organisations to ensure that the purpose and priorities of the LAO are firmly rooted in ensuring that local accountability through external audit operates in line with the principles set out in the Vision and Purpose of Local Audit set out in the strategy. Maintaining the confidence and commitment of local bodies and auditors in the system will be a crucial part of the LAO's role.

21. The LAO's overarching role will be set out in legislation through statutory objectives which will seek to ensure that the local audit system operates effectively and promotes high quality, proportionate local audit. It is one part of the work being undertaken to ensure the sector is fit, legal and decent, and that there is an effective and efficient early warning system.

22. The core principles underpinning local audit and the operation of the LAO will be:

- **Value for money.** A system that provides confidence that bodies and the new LAO have arrangements in place to deliver value for money for taxpayers.
- **Transparency** of the sector's financial health and value for money arrangements.
- **Capacity and capability.** A sustainable and resilient market with access to the right expertise and with sufficient capacity to serve all eligible bodies.
- **External scrutiny** to independently identify issues, challenge and drive improvement
- **Professionalism.** Building a sector attractive to auditors to build careers and become future audit leaders.
- **Proportionality.** Local audit that is proportionate and relevant, from regulations to governance.
- **Stronger accountability.** Scrutiny and reporting of issues and high standards of financial reporting to promote public accountability.

- **Timely.** High quality accounts audited and published on time to ensure relevance and increase value to the public, including timely reporting of issues.

23. The LAO will streamline and simplify the system. It will assume the functions of appointing and contracting auditors for local authorities, which will remove the option for authorities to appoint their own auditor. The LAO will adopt ownership of the Code of Audit Practice and associated guidance from the NAO and deliver relevant training. It will have powers to interpret and apply ISA requirements for the local audit context. The LAO will hold responsibility for quality oversight of local audit, including overseeing an inspection programme, enforcement and appropriate elements of supervision. It will publish national insight reports on local audit health, which could include emerging trends, quality, market sustainability, VFM arrangements and statutory recommendations and PIRs. It will also oversee professional bodies with regard to their remit for the registration, eligibility, and conduct of local auditors.

24. To strengthen early warning, auditors will be required to escalate significant issues, with the knowledge of the council, to both the LAO and relevant Secretary of State. The LAO will be required to share issues with audit firms, government departments and inspectorates. The LAO will produce and publish guidance for the management of issues, including escalation to the LAO and sharing with other organisations, to encourage consistency and transparency, and to mitigate risks raised by stakeholders.

25. The government recognises that challenges faced by the smaller bodies' system are not as extensive as those faced by principal authorities. The LAO will prioritise stabilising the audit system for principal authorities. In the longer term, the LAO's appointment and contract management function will expand to include smaller authorities' appointment and assurance framework to minimise fragmentation in the system and share good practice. This response does not set out a timeline for this change as the government accepts the priority must be to focus on the primary audit market, which will take some years to reform. The government commits to continuing to engage with the Smaller Authorities' Audit Appointments (SAAA) with a view to transition once the LAO has been securely established and demonstrated its strategic capacity to take on additional responsibilities. The LAO will conduct a review of SAAA and the operation of the Smaller Authorities' Proper Practices Panel (SAPPP), and their wider role in the smaller authorities' regime including standardised reporting and contracting, prior to any transfer.

26. A drive towards continuous improvement and the need to ensure highest professional standards and conduct at all stages of the local audit process will be hardwired across all of the LAO's activity. The government will ensure a clear separation between the LAO's regulatory role and its operational functions to maintain independence and avoid conflicts of interest.

27. The LAO will manage an oversight framework for the quality and timeliness of draft accounts and audits, which will include a continuing role for robust statutory deadlines to ensure that the backlog does not re-emerge. The LAO will set up channels for local bodies and auditors to raise concerns, investigate persistent quality and timeliness issues and work with the sector to resolve these where possible. Oversight of the backstop programme has demonstrated the need for collation and monitoring of account publication to aid transparency and timeliness. Some respondents suggest that statutory deadlines and oversight should remain part of the system. The LAO will have the power to require information from local bodies and local audit providers where it is reasonably required for the exercise of its functions. The Secretary of State will retain the power to require information of local bodies.

28. Once established, the LAO will take on oversight from the department of the remainder of the backstop programme. Statutory deadlines for audited accounts and publication of compliance lists will remain. Local bodies will be required to notify the LAO of the publication of audited accounts, including a link to the relevant part of the body's website. Bodies that miss deadlines will continue to be required to publish delay notices with notification to the LAO and Secretary of State. In relation to quality, the LAO will consider the quality of accounts preparation as part of its reporting and guidance responsibilities. There will be clear escalation processes for serious or persistent delays, or where serious or persistent quality issues have been raised by auditors. Escalation of issues relating to local authorities or other local bodies would be to the relevant Secretary of State.

29. The LAO will review the barriers to auditors exercising their statutory reporting powers. It will issue guidance to encourage the consistent application of statutory recommendations, PIRs and Advisory Notices, including criteria to define the scope of each and the scenarios in which they would be used.

30. Although supported by many, the government understands the concerns raised at the question in relation to expanding Advisory Notices, including ambiguity on what constitutes a high-risk concern. Noting there was also support in this consultation, the LAO will review the option of how Advisory Notices could be expanded, without increasing burden, the role of auditors or duplicating with other statutory powers. To ensure any expansion is evidence-based, the LAO will consider case studies of local authority failure may have been mitigated by broader powers.

31. The register of firms will be held by the LAO, which will have the power to delegate the assessment of firms' suitability. The government will ensure a clear separation between the LAO's regulatory role and its operational functions to maintain independence and avoid conflicts of interest.

32. The government has considered the benefits and costs of providing the LAO with the power to compel authorities to amend their accounts. The risk

of the LAO committing considerable resource to legal disputes is greater than the benefit, given the incidence of authorities denying requests from auditors remains negligible. The LAO may have a role to mediate, in its capacity as a point of escalation for auditors, oversight of quality accounts preparation and in supporting effective relationships between bodies and auditors, it will not have powers to compel changes to accounts.

33. The government will therefore enable the LAO to:

- implement a structured escalation process
- implement a structured and proportionate system for sharing issues
- manage auditor appointments for smaller bodies in the longer term
- review the barriers auditors experience exercising statutory powers (statutory recommendations, PIRs and Advisory Notices), issue guidance on their application and review the option of expanding Advisory Notices' scope
- maintain the register of firms qualified to conduct local audits with the option to delegate

3. Financial reporting and accounts

Question 9: What are the barriers to progressing accounts reform?

Question 10: Are there structural or governance barriers to accounts reform that need to be addressed?

- Respondents who agreed with the proposal: 144 (60%)
- Respondents who disagreed with the proposal: 30 (13%)
- Respondents who did not answer this question or did not have a view 65 (27%)

Question 11: Should any action to accounts reform be prioritised ahead of the establishment of the LAO?

- Respondents who agreed with the proposal: 131 (55%)
- Respondents who disagreed with the proposal: 53 (22%)
- Respondents who did not answer this question or did not have a view 55 (23%)

34. A high number of respondents to question 9 agree that there are structural or governance barriers to accounts reform. Responses highlight several examples including the inherent complexity of adhering to International Financial Reporting Standards (IFRS) and statutory adjustments. It is suggested that simplifying these requirements would make accounts more accessible and relevant to taxpayers and elected members, with a focus on financial sustainability and value for money over technical adjustments.

35. A smaller number of respondents are opposed to change on the basis that the current structure and governance is essential. Others supported the need for clarity on the purpose of local authority accounts and users to guide reform. Many highlight a shortage of qualified finance professionals and auditors, stressing the need for greater capacity and training. Some felt fragmented oversight among regulators worsens disputes and complicates reform.

36. Concerns were raised that waiting for the LAO's establishment could delay urgent issues, with some arguing reform should not take precedence over setting up the LAO. Many respondents felt key aspects of accounts reform should be prioritised before the LAO is established. Suggested priorities included reviewing the purpose and users of local accounts, simplifying financial reporting, and standardising information for clarity and comparability. Some propose separating pension fund accounts to reduce delays and improve audit efficiency. There was also support for continuing CIPFA's work on simplifying accounting for property, plant, equipment and pension liabilities. While many backed early reform, others felt it should wait until the LAO is in place to provide oversight. Concerns were raised that rushing changes could create implementation challenges and add burdens on preparers and auditors. Some suggest a phased approach to avoid unintended consequences.

Question 12: Are there particular areas of accounts which are disproportionately burdensome for the value added to the accounts?

- Respondents who agreed with the proposal: 163 (68%)
- Respondents who disagreed with the proposal: 25 (10%)
- Respondents who did not answer this question or did not have a view: 51 (21%)

Question 13: Do you agree that the current exemption to the usual accounting treatment of local authority infrastructure assets should be extended and if so, when should it expire?

- Respondents who agreed with the proposal: 155 (65%)
- Respondents who disagreed with the proposal: 22 (9%)

- Respondents who did not answer this question or did not have a view 62 (26%)

37. Most respondents identified burdensome areas in accounts, particularly the valuation of non-current assets like property, plant and equipment. Pension accounting and disclosures are seen as complex and costly, with calls for simplification. Statutory override adjustments are viewed as adding unnecessary complexity without improving clarity. Some precepting authorities feel reporting on the Collection Fund requires excessive effort for limited value. Group accounts' preparation and audit are considered onerous, especially for subsidiaries with minimal financial impact. IFRS 16 is seen by some respondents, as introducing significant complexity without clear benefits. The Expenditure and Funding Analysis (EFA) is regarded as a redundant mathematical exercise duplicating the Comprehensive Income and Expenditure Statement (CIES).

38. A minority of respondents saw no disproportionately burdensome areas in accounts. Some warn that simplification could undermine audit quality and credibility. Others stress the need to comply with IFRS and regulations for transparency and accountability despite their complexity. Some believe local authority accounts should align with private sector standards for consistency and reliability. It was suggested that the compliance burden could be eased through better training and increased expertise among auditors and preparers.

39. It was widely felt that valuing infrastructure assets offers limited benefit and is overly burdensome. Most respondents support extending the exemption from standard accounting treatment for local authority infrastructure assets. Many favour an extension until a long-term, practical solution is agreed, while some call for it to be made permanent. Some suggest extending it until the audit backlog is cleared and the system is fully operational.

40. Fewer respondents believe infrastructure assets should be included in accounts to ensure proper management. Some stress the need to align with IFRS and oppose an indefinite exemption. Others highlight the importance of transparency and accountability, arguing that the exemption should have a clear expiration date to drive the development of effective asset management and accounting systems.

Question 14(a): Should the LAO adopt responsibility for CIPFA's Code of Practice on Local Authority Accounting?

- Respondents who agreed with the proposal: 78 (33%)
- Respondents who disagreed with the proposal: 101 (42%)

- Respondents who did not answer this question or did not have a view: 60 (25%)

Question 14(b): Are there other options relating to responsibility of CIPFA's Code of Practice?

- Respondents who agreed with the proposal: 63 (26%)
- Respondents who disagreed with the proposal: 86 (36%)
- Respondents who did not answer this question or did not have a view: 90 (38%)

Question 15: Should the Accounting Code be freely available if it is not transferred to the LAO?

- Respondents who agreed with the proposal: 185 (77%)
- Respondents who disagreed with the proposal: 10 (4%)
- Respondents who did not answer this question or did not have a view: 44 (18%)

41. The majority, over half, of respondents did not agree with moving responsibility for CIPFA's Code of Practice on Local Authority Accounting to the LAO. However, a sizeable minority supported the idea. Supporters believe LAO oversight could simplify reforms, streamline standard-setting, and enhance accountability. Some believe the LAO could provide leadership to simplify financial accounting and auditing. Others suggest the LAO's expertise could help develop an audit framework aligned with the Code of Practice and statutory overrides.

42. Stakeholders who do not agree emphasise the need to separate auditing and standard-setting for accounts to avoid conflicts of interest. Many value CIPFA's expertise and believe it should retain responsibility, warning that a transfer could undermine its ability to manage other key Codes and guidance. Concerns were raised that as the Accounting Code applies UK-wide, shifting control to the England-only LAO could disrupt consistency across the UK public sector. Some feel the LAO should prioritise fixing audit system challenges rather than taking on additional duties, arguing CIPFA is better suited to manage the Code's technical aspects. Supporters of a change in ownership believe LAO oversight could simplify reforms, streamline standard-setting and enhance accountability. Some believe the LAO could provide leadership to simplify financial accounting and auditing. Others suggest the LAO's expertise could help develop an audit framework aligned with the Code of Practice and statutory overrides.

43. Opinions on question 14(b) are also divided. Nearly half of respondents believe there are alternative options for the responsibility of CIPFA's Code of Practice. Some suggest a joint approach between CIPFA and other sector bodies, including the LAO, for a more collaborative and effective Code. Others recommend CIPFA continue developing the Code, with the LAO providing oversight to ensure alignment and effectiveness. A few propose that the government, either HM Treasury or MHCLG take responsibility, similar to central government and NHS arrangements. Another idea was to form a joint oversight committee with representatives from CIPFA, the LAO and other stakeholders to ensure collaborative decision-making and maintain the Code's relevance. Some respondents recommend enhancing the consultation process for Code updates, involving more engagement with local authorities, auditors, and other stakeholders. Additionally, targeted training and support for local authorities in implementing the Code was suggested to ensure consistent application.

44. Some respondents to question 14(b) do not see other options for the responsibility of CIPFA's Code of Practice due to CIPFA's expertise in public sector accounting.

45. There is significant support for making the Accounting Code freely available if not transferred to the LAO. Many believe it would help local authorities use the latest Code, promoting standardisation and compliance. Free access was also seen as beneficial for internal auditors, councillors and the public, enhancing accountability and understanding of financial statements. While acknowledging the costs of producing and maintaining the Code, some suggest these should be covered by central government or a fixed levy on audited bodies, rather than charging for access.

46. A few respondents are not in favour of making the Accounting Code freely available if not transferred to the LAO. They are concerned about the impact on CIPFA's revenue and its ability to provide essential guidance. Some feel that making one publication free would have limited benefit and suggest either all mandated Codes be free or the status quo be maintained. Others believe the Code is already accessible through CIPFA FAN Membership and that the current system is sufficient. They emphasise that any changes should ensure CIPFA remains adequately funded.

Government response

47. The government commits to review, in consultation with relevant stakeholders, the content and format of local authority accounts. This will include ensuring that the accounting code does not require more disclosures than are necessary and consider the purposes and users of local authority accounts. We will work with devolved governments to determine the appropriate approach to ensure accounting practices are

consistent across the UK and will consider the introduction of Standardised Statements in the longer term.

48. CIPFA will maintain responsibility for its Code of Practice on Local Authority Accounting. However, given the urgent need for action and for more collaborative approaches to the issues, the government, and devolved governments, will work with CIPFA to identify priorities and a programme plan for reform. This will include a joint review of the content and format of local authority accounts, in consultation with relevant stakeholders, to ensure they are not unduly complex and meet user requirements for transparency, accountability and understandability. The government and CIPFA are committed to work together to set out options for accounts reform in readiness for the establishment of the LAO and identify solutions to reduce complexity and burden, and increase accessibility and efficiency, focussing on the examples offered by stakeholders. This will also include further consideration of the introduction of standardised statement first recommended in the Redmond Review, although this should not be a substitute for ensuring accounts meet user needs. The government will also agree with CIPFA any governance changes needed to ensure an appropriate and active role for the LAO and how the government can support CIPFA to drive reform.

49. The government has announced that it will extend the exemption of infrastructure assets from standard accounting treatment to 2028/29, while a long-term pragmatic solution is developed. This exemption may become permanent, subject to the government's review. The change to regulations will apply from 1 April 2025/26.

50. The government has reviewed IFRS 9 (financial instruments) statutory override and has committed to removing the override in 2028/29 to reduce complexity within the accounts but applying transitional arrangements to allow the sector time to prepare.

51. The government appreciates the strong support for the Code to be freely available to promote transparency and ensure that all stakeholders, including local authorities, auditors, and the public, have equal access, and will explore options to ensure free availability to the public.

52. The government will legislate to ensure there is no barrier to pension fund accounts being produced, audited and signed off separately from a main authority's main accounts.

53. The government commits to:

- work with devolved governments and CIPFA to review the content and format of local authority accounts and options for reform ahead of the LAO's establishment, including whether to introduce standardised statements

- amend primary legislation to separate pension fund accounts from administering authority main accounts
- extend the exemption on local authority infrastructure asset valuation
- consider options on making CIPFA's Code of Practice on Local Authority Accounting freely available to the public

4. Capacity and capability

Question 16: What additional support should be provided to finance teams, audit committees and elected members to develop and strengthen financial governance?

54. Respondents suggest various types of additional support for finance teams, audit committees, and elected members to strengthen financial governance. There is strong support for regular, mandatory training, with some proposing national programmes, online courses and peer support networks. Concerns were raised about under-resourced finance teams and the need for more funding to attract and retain skilled professionals. Many call for more government-backed financial support for training, additional staff and modern financial systems. It was suggested that the LAO or a similar body could develop best practice guidance, provide centralised training resources and oversee financial governance improvements.

55. To strengthen audit committees, some recommend mandating independent members, regular meetings between audit leads, Section 151 officers and committee chairs, and longer-term appointments to build expertise. Suggestions for improved financial reporting include focusing on in-year reporting and budget monitoring, clearer executive summaries in plain English, and greater transparency and accountability in decision-making.

56. Some respondents believe current training and resources from CIPFA, LGA and other organisations are adequate and that additional support is unnecessary if existing guidance is properly utilised. They feel mandatory training for elected members may be ineffective due to time constraints and lack of interest, and that making certain measures mandatory would create unnecessary administrative burdens. They argue that enforcing additional requirements would not address core issues and that cultural change and greater engagement are more important. Some believe the complexity of financial statements is the key issue and suggest simplifying them to reduce the need for extensive training. There were calls to remove overly complex accounting requirements, such as pension revaluations, to free up finance

team capacity. Some believe financial governance issues stem from funding shortages rather than a lack of support or training, and that investing in frontline services is a higher priority than governance reforms.

Question 17: How should Key Audit Partners (KAP) eligibility be extended further? Should some categorise of local audit be signed off by suitably experienced Responsible Individuals (and if so, which)?

57. Many respondents support extending Key Audit Partner (KAP) eligibility to experienced Responsible Individuals (RIs) to ease capacity constraints in local audits. Allowing RIs to sign off certain local audits could free KAPs to focus on more complex ones. Some call for regulatory adjustments and recommend revising Financial Reporting Council (FRC) requirements to increase the number of KAPs, making it easier for firms to enter the local audit market. Several suggest RIs handle lower-risk audits, such as smaller councils or local bodies, and decouple pension fund audits from main local authority audits, allowing pension-specialist RIs to sign off Local Government Pension Scheme (LGPS) accounts.

58. Proposals include revising KAP eligibility criteria to recognise relevant experience from other sectors and implementing a pathway for RIs to progress to KAP status. Some call for robust eligibility criteria, training programmes, and oversight mechanisms to maintain audit quality while increasing capacity. There was also support for mentorship programmes for RIs to gain experience under KAP supervision before signing off audits independently.

59. Some respondents are not in favour of extending eligibility to RIs, fearing it could weaken audit quality when local government audits need strengthening. They argue that local authority accounting is specialised and requires specific expertise that RIs may lack. Concerns were raised that assigning lower-risk audits to RIs could create inconsistencies in audit quality across local bodies. Even smaller local bodies can face significant financial and governance issues, making it inappropriate for RIs to sign off without KAP oversight. There was a view that all local audits, regardless of size, should be signed off by KAPs to ensure strong governance and public confidence.

60. Some felt that the focus should be on increasing the number of KAPs rather than diluting eligibility requirements. Respondents call for reforms to training and career pathways to attract more professionals into the local audit sector as KAP capacity is less of an issue than retaining newly qualified auditors. Concerns were raised that allowing RIs to handle simpler audits could discourage auditors from progressing to KAP status, further restricting capacity long-term. Proposals include strengthening public sector

audit services rather than loosening private sector eligibility criteria and revising statutory accounting and reporting requirements to simplify local government audits.

Question 18: Should the market include an element of public provision?

- Respondents who agreed with the proposal: 149 (62%)
- Respondents who disagreed with the proposal: 22 (9%)
- Respondents who did not answer this question or did not have a view: 68 (28%)

Question 19: If yes, should public provision be a function of the LAO?

Question 20: What should the initial aim be in relation to proportion of public and private provision?

Question 21: Should the Secretary of State, in consultation with the LAO and for defined periods, set an envelope within which the body could determine the appropriate portion of public provision for the market?

- Respondents who agreed with the proposal: 77 (32%)
- Respondents who disagreed with the proposal: 56 (23%)
- Respondents who did not answer this question or did not have a view: 106 (44%)

61. A significant majority agree that there should be an element of public provision to supplement capacity in the current local audit market and recognise the greater flexibility and resilience the service could have on the market. Responses note that public provision works well in other UK nations and central government (NAO), avoiding the delays seen in England. Stakeholders noted that public provision would also decrease the likelihood of authorities being unable to secure an auditor and that a mixed model could support the exchange of best practices between the public and private supply and bolster capacity by recruiting and upskilling new auditors. Responses also note that having direct experience of the audit market would enable the LAO to make better strategic decisions and flag system-wide issues early.

62. Many respondents agree that public provision should be a function of the LAO to further streamline a fragmented system. However, they highlight potential conflicts of interest and ethical implications if the LAO delivers and regulates the service. Some noted that this model worked well under the

Audit Commission and in central government and devolved nations, so it could be replicated with careful management. The need for robust safeguards and ethical walls to ensure transparency, objectivity and independence was highlighted.

63. Some concerns were raised about a mixed private/public model potentially destabilising the market and leading to competition between the public sector and audit firms. Other responses doubt the feasibility of delivering public provision quickly due to market capacity issues. They note it would be a long-term investment requiring ongoing support to ensure a strong pipeline of future auditors. The LAO would need to attract and retain new trainees. Some suggest the NAO could help secure a pipeline of skilled auditors.

64. Some respondents suggest reducing barriers to private provision as an alternative to public provision. They noted that audit fee cuts, technical knowledge requirements and increasing standards have made market entry less attractive.

65. Respondents had varied views on the initial proportion of public and private provision, ranging from 5% to 100%. The most common suggestion was 20-25% public provision initially with a phased approach to increase it over time. Responses note that starting with too high a proportion could destabilise the market and disincentivise private auditors. Some respondents suggest that the LAO could start by providing a very small amount of public provision to address gaps, whereas others note that this approach would not provide value for money.

66. There were mixed views on whether the Secretary of State, in consultation with the LAO, should set an envelope for public provision. Some believe the LAO should determine this independently. Others suggest any decision should be made in consultation with the LAO and noted that setting a target might be burdensome and could be addressed in guidance rather than statute.

67. Some respondents highlight the need to consider procurement contracts when introducing public provision, suggesting a 5-year review cycle to align with fee setting and auditor appointments. This could provide stability for the local audit market, encouraging private sector participation. Regular reviews would ensure the proportion of public provision remains relevant and responsive to market conditions, incorporating stakeholder feedback to maintain an effective and sustainable local audit system.

Government response

68. The government commits to review KAP eligibility criteria to remove barriers to entry and will continue to work with the LGA on targeted support for local authority finance teams, audit committees and elected members to further strengthen financial governance. The government provided £15m funding to local authorities for 2024/25 to honour the final year of the previous government's commitment to £45m funding in the current spending review and will consider new burdens associated with this vision and related legislation.

69. The government thanks respondents for their views on how and whether KAP eligibility should be extended and/or Responsible Individuals (RIs) should be permitted to sign off some local audits. The government considers that the specific criteria for signing off a local audit should no longer be required through primary legislation but should instead be determined by the LAO. The LAO will have the statutory responsibility to consider the appropriate eligibility requirements and produce guidance for auditors and the market. The government will work with stakeholders to determine what changes to current KAP eligibility requirements could usefully be made ahead of LAO establishment.

70. The government will establish public provision of audit services to support the private market. The government will explore options to mitigate the unintended consequence of an increased competitive market. It will introduce public provision through a phased approach to gradually scale up over time and explore various delivery models. The government will collaborate with the NAO, other public audit bodies and private firms to build capacity and recruit new auditors into the sector through the creation of an attractive new career pathway in public sector local audit. The LAO will implement safeguards to ensure independence and prevent conflicts of interest within its oversight role.

71. The government commits to:

- remove KAP eligibility criteria in primary legislation and empower the LAO to consider appropriate eligibility requirements.
- establish a level of public local audit provision.

5. Relationships and audit regimes

Question 22: Do you think that the Chair of an audit committee should be an independent member?

- Respondents who agreed with the proposal: 80 (33%)
- Respondents who disagreed with the proposal: 99 (41%)

175

- Respondents who did not answer this question or did not have a view: 60 (25%)

72. Responses to this question were mixed. Stakeholders raise the merits of an independent chair reinforcing the apolitical nature of audit committees and ensuring continued robust challenge and institutional knowledge during changes in political membership. It was observed by some respondents that independent members can be difficult to recruit and mandating their role as chair could be challenging, and that would need to be considered.

73. A number of respondents who disagree state that only local councillors have the electoral mandate and democratic accountability to chair audit committees. These respondents believe an elected member is in a better position to work within the organisation to improve financial reporting, governance and internal control. Many of those who disagree felt that having an independent member on audit committees was sufficient, without the need to mandate an independent chair too. It was also suggested that the LAO could issue guidance to local authorities on how to effectively chair an audit committee.

74. Irrespective of whether audit chairs are independent or not, there was a general consensus among respondents that the primary focus should be to ensure that the chair has the right skills and experience to provide robust scrutiny and challenge. This is especially pertinent given the complicated and technical nature of local government accounts. There needs to be a standardised level of support and training to enable chairs to carry out their role effectively. For example, some respondents suggest that there should be mandatory training as is currently the position for members of LGPS pension boards.

Question 23: Do you have views on the need for a local public accounts committees or similar model, to be introduced in strategic authority areas across England?

- Respondents who agreed with the proposal: 95 (40%)
- Respondents who disagreed with the proposal: 72 (30%)
- Respondents who did not answer this question or did not have a view: 72 (30%)

Question 24: Would such a model generate more oversight of spending public money locally?

- Respondents who agreed with the proposal: 72 (30%)
- Respondents who disagreed with the proposal: 72 (30%)

- Respondents who did not answer this question or did not have a view 95 (40%)

Question 25: How would the creation of such a model impact the local audit system and the work of local auditors?

75. A slight majority of respondents to question 23 support introducing local public accounts committees (LPACs) in strategic authority areas. Many feel LPACs could strengthen scrutiny, improve accountability and enhance value for money (VFM) across public bodies. They are seen as a way to strengthen audit arrangements, particularly VFM assessments, ensuring financial decisions deliver results. Some propose a local version of the parliamentary Public Accounts Committee (PAC) to standardise scrutiny. Others saw LPACs as a means to improve regional collaboration and oversight of funding and services, including councils and NHS bodies. A few suggest a single national public accounts committee for local government as a more effective alternative.

76. Respondents were split on whether LPACs would improve public spending oversight. Supporters argue LPACs could boost transparency, engage local people, and strengthen strategic planning if members are qualified. They saw potential for assessing regional spending impacts and fostering a culture of continuous improvement in VFM. A pilot was suggested to test their effectiveness. Some local auditors welcome LPACs as a way to raise the profile of local audit, ensure accountability, and add independence. Some believe LPACs could serve as an early-warning system for financial sustainability and provide extra scrutiny and support for auditors.

77. Respondents not in favour argue LPACs could add unnecessary governance layers without clear benefits, duplicating existing audit and scrutiny functions while increasing administrative burden. Some believe current mechanisms already provide sufficient oversight and questioned LPACs' remit. Others worried LPACs could blur regional and local scrutiny roles, increase costs for councils, and cause professional disagreements.

78. Instead of new structures, respondents suggest improving training and resources for elected members and existing audit committees. There was uncertainty over LPACs' interaction with auditors, their statutory authority and access to data. Concerns include a lack of expertise, independence and enforcement powers, risking inefficacy or politicisation. Some respondents saw a regional LPAC as impractical for areas like London, with 33 local authorities, and other large regions might struggle with cohesion. Alternatives include expanding the LAO's remit or strengthening scrutiny within existing bodies, such as combined authority audit committees or mayoral panels.

79. Some felt LPACs would add complexity to an already strained system, increasing auditors' workloads and worsening the backlog. Others feared they would not be local enough to address specific issues and could further stretch already overburdened audit firms.

Question 26: Do you agree that the Major Local Audits (MLA) threshold should be increased?

- Respondents who agreed with the proposal: 136 (57%)
- Respondents who disagreed with the proposal: 20 (8%)
- Respondents who did not answer this question or did not have a view: 83 (35%)

Question 27: Do you agree that some local bodies should be declared exempt from the regulatory focus of Major Local Audits (MLA)? For example, should Integrated Care Boards be exempt?

- Respondents who agreed with the proposal: 66 (28%)
- Respondents who disagreed with the proposal: 64 (27%)
- Respondents who did not answer this question or did not have a view: 109 (46%)

80. Most respondents support raising the Major Local Audits (MLA) threshold. Many highlight capacity issues in the audit sector, noting that the threshold has remained unchanged since 2014 despite rising costs. Regular reviews, potentially linked to inflation or public spending, were suggested to keep the threshold proportionate. A higher threshold was seen as easing the burden on smaller authorities, allowing auditors to focus on higher-risk entities and supporting timely audits by reducing regulatory oversight. Many favour a proportionate, risk-based approach considering multiple factors beyond financial thresholds.

81. Those not in favour argue the current threshold remains appropriate, citing concerns over minimal FRC quality reviews and the need for stronger audit monitoring, not less. Some fear raising the threshold would reduce scrutiny, weakening public confidence in local authority finances. Others warn it could leave smaller bodies struggling to secure auditors or create a monopoly due to the scale and specialisation of MLA audits. Some believe systemic issues should be addressed rather than shifting the threshold, which could stretch audit resources further. There were also concerns that high-risk bodies could end up under a weaker audit regime. Defining MLA status by authority type was suggested as a way to ensure consistency and avoid frequent updates.

82. Views were divided on whether some local bodies should be exempt from MLA regulatory focus. Those in support favour a risk-based approach, considering the nature and level of risk. Some suggest exemptions for bodies like Integrated Care Boards (ICBs) and Internal Drainage Boards, given their specific circumstances and existing regulations. Many believe regulatory focus should be tailored to local government risks rather than mirroring corporate sector standards. Exemptions based on clear criteria, such as low financial impact, were seen as a way to ease the audit backlog and aid recovery.

83. Amongst those not in favour, some argue all publicly funded bodies, including ICBs, should remain fully accountable to ensure transparency. Some warn that exemptions could create a false perception of lower risk, reducing scrutiny and increasing mismanagement risks. Others felt removing MLA status could weaken regulatory oversight, undermining audit quality and public trust. Since audit risks vary by entity, many believe exemptions might overlook key financial and control risks.

Question 28: Do you agree that smaller authorities' thresholds should be increased?

- Respondents who agreed with the proposal: 132 (55%)
- Respondents who disagreed with the proposal: 23 (10%)
- Respondents who did not answer this question or did not have a view: 84 (35%)

84. Most respondents agree that smaller authority thresholds should be increased. Many agree that the current thresholds have remained stagnant despite rising inflation and should be increased. This would ease the financial and administrative burden on smaller bodies exceeding the threshold and prevent them from joining a backlog of unaudited accounts. An uplift would also keep the largest smaller authorities out of a system too complex for their risk level.

85. Some concerns were noted with the current threshold system. If it continues, responses recommend that smaller bodies should only move between regimes after breaching the threshold for three consecutive years, which is currently the case. This prevents one-off spikes in expenditure, such as grants, from causing burdensome audit regime changes. Proper support is needed for those moving between thresholds, especially when subject to a full audit for the first time. For example, it was suggested that immediate individual guidance be provided for authorities breaching the upper threshold.

86. Some responses feel that increasing the upper threshold from £6.5 million to £10.2 million does not go far enough, and the government should

consider raising this further to £15 million. There were also, however, concerns about reduced oversight, public scrutiny and accountability if the threshold were set too high.

87. Some respondents suggest moving away from a threshold-based system and focusing on qualitative indicators for assurance. The definition for smaller bodies could be based on their type, functions and risk profile. Alternatively, it was suggested that the government could introduce exclusions to keep certain bodies within the smaller body category.. Conversely, some argued that particular parish councils and drainage boards might need higher audit oversight.

Question 29: Do you agree that the lower audit threshold of £25,000 should be increased broadly in line with inflation?

- Respondents who agreed with the proposal: 147 (62%)
- Respondents who disagreed with the proposal: 20 (8%)
- Respondents who did not answer this question or did not have a view: 72 (30%)

88. Most stakeholders agree that the lower audit threshold of £25,000 should be increased in line with inflation. Increasing the threshold in line with inflation was seen as a sensible policy which aligns with practices in other sectors, such as corporate and charity audit. This would help alleviate backlog pressures, especially for smaller authorities with few assets or those receiving grants.

89. A number of respondents note the need for regular threshold reviews to future-proof this change, suggesting this power be given to the LAO. Any changes should be made in consultation with SAAA to maintain confidence in current auditor contracts.

90. Some respondents believe thresholds should be part of wider reform, including amendments to the Transparency Code, overhauling internal audit roles, or exempting smaller authorities from audit without self-certification.

91. Those not in favour argue the threshold is already too high, allowing many smaller authorities to avoid public oversight. They suggest thresholds be based on risk assessment rather than a numerical figure.

Question 30: Are there other changes that would improve the accounting and limited assurance regime for smaller authorities?

- Respondents who agreed with the proposal: 46 (19%)
- Respondents who disagreed with the proposal: 59 (25%)

- Respondents who did not answer this question or did not have a view: 134 (56%)

92. A small majority of respondents did not think there are other changes that would improve the accounting and limited assurance regime for smaller authorities, though a number of respondents agreed that there were.

93. Many suggestions build on responses to the preceding questions in this section, including a review of:

- the threshold-based system in favour of one based on risk and type of authority (including automatic exemption for those who fall below the lower threshold)
- the level of detail contained within the Annual Governance and Accountability Return (AGAR), alongside enabling electronic submission
- the process for dealing with vexatious complaints which are currently disproportionately costly and time-consuming for smaller bodies
- the Transparency Code to ensure it is consistently applied across all small bodies
- the capacity and capability of internal auditors, including publication of their reports
- the role of parish meetings

Government response

94. The December strategy commits to require twice-yearly meetings between Key Audit Partners (KAPs) and authorities' statutory officers (Head of Paid Service, Monitoring Officer and Section 151 Officer). We will mandate audit committees with at least one independent member and consideration at full council, where this requirement does not yet apply in the sector. The government will consider further the merits of mandating audit committee chairs to be independent members. As outlined in the recent English Devolution White Paper, the government will also work with the sector to explore how to improve external scrutiny of value for money on local public spending. This will include exploring a Local Public Accounts Committee model alongside reforms to local audit where we will review how the audit system supports and provides external assurance.

95. To strengthen and support audit committees, and to encourage consistent application of good practice, the department will issue statutory guidance.

96. The government will introduce legislation to move away from audit regimes based solely on thresholds and give the LAO the power to decide the appropriate regime for bodies to ensure a risk based and proportionate approach which could include general exemptions for types of bodies. In the meantime, the government will introduce secondary legislation to amend the MLA threshold to support the timely completion of audits while maintaining oversight and accountability. The government will also introduce secondary legislation to raise the smaller authorities' upper audit threshold.

97. The government will ensure internal audit capacity and capability are strengthened in smaller authorities, including publication of reports. The government will review the Annual Governance and Accountability Return (AGAR) process.

98. The government will seek to address the cost and burden of vexatious complaints, ensuring they do not disproportionately impact smaller authorities.

99. The government commits to:

- raise the upper audit threshold to ease administrative burdens
- introduce a risk-based approach to enable the LAO to determine audit regimes that are proportionate and appropriate

6. Local audit backlog

Question 31: What additional support, guidance or advice do local bodies and/or auditors need for future statutory deadlines (including backstop dates) for the publication of audited accounts?

Question 32: Do you think that financial reporting and/or auditing requirements should be amended for a limited period after the backlog has been cleared and as assurance is being rebuilt, to ensure workload and cost are proportionate?

- Respondents who agreed with the proposal: 100 (42%)
- Respondents who disagreed with the proposal: 68 (28%)
- Respondents who did not answer this question or did not have a view: 71 (30%)

100. There were many responses to question 31 which raised a wide range of issues. Many local authorities asked for additional guidance to help them navigate the process of rebuilding assurance where audits have been disclaimed, and some raised concerns about auditors' skills, knowledge and understanding of local government. Audit firms and local authorities raised concerns about the capacity of local authority finance teams to produce high quality accounts and deliver the rebuild process. There were requests for practical support from government to provide technical support and to help recruit, retain and train suitably skilled staff.

101. Respondents highlighted the need for a proportionate and consistent approach by auditors to rebuilding assurance which did not involve extensive testing of historic transactions. Some, respondents, especially audit firms, favoured a centralised approach for overcoming disclaimed audits to aid efficiency and consistency. There was a lot of support for a simplified financial reporting regime, with asset valuation highlighted as an area that required disproportionate effort. Other suggestions included the use of standardised templates for accounts (as in the NHS) and working papers to reduce inconsistencies and errors.

102. Realistic deadlines, early communication with clear guidance, and standard communications explaining audit backlogs and disclaimed opinions were suggested. Audit fees should be proportionate, reasonable, and evidence-based, with sector-wide support to help local authorities understand their financial position and to help fund the cost of rebuilding assurance on opening balances where audits have been disclaimed due to the backstop dates.

103. Some respondents believe existing support and guidance are sufficient. They argue the issue is not the lack of guidance but the delivery and control over timely audit completion. Some suggested statutory deadlines remain following the backstop programme and be enforced. Others argued that audit quality expectations should not be lowered, and there should be no financial support for auditors.

104. Respondents to question 32 were divided on the proposal. Some agreed that amending financial reporting and auditing requirements temporarily could reduce the burden on local bodies and auditors, allowing them to rebuild assurance. A phased reintroduction of full requirements could help manage costs and adjustments. Prioritising high-risk areas and critical issues was seen as essential. Some suggest a pragmatic approach to auditing opening balances for authorities with disclaimers to avoid backlogs. Some favour focusing on major issues like financial sustainability and preferred long-term simplification of financial reporting requirements.

105. Some not in favour believe temporary simplifications may not address the structural issues causing backlogs and could create more work for accounts preparers as working practices would need to change and changes would need to be unwound later. There was much more support

for making permanent changes to the Accounting Code to simplify accounting and streamline reporting. A smaller number thought simplifying requirements could compromise account quality, de-skill accountants, and devalue the industry. They argue that anything eroding public confidence should be avoided, and the focus should be on long-term sustainable solutions.

Government response

106. The government commits to work with system partners to produce additional guidance, advice and support. The government has extended the exemption of infrastructure assets from standard accounting treatment to 2028/29 (paragraph 49) which will avoid adding further workload for preparers and auditors during the buildback period. We will consider any further, temporary exemptions to ensure workload and cost is proportionate. Our commitment to enable the separation of pension fund accounts from administering authority accounts (paragraph 52) and to increase audit thresholds for the smaller bodies regime and major local audits (paragraph 96) will help to mitigate workload pressures and delays.

107. Resetting the local audit system by clearing the local audit backlog has been a vital first step towards restoring the local audit system. The government welcomes the many views received regarding additional support, guidance or advice needed for local bodies and/or auditors for future statutory deadlines for the publication of audited accounts. The government acknowledges concerns regarding audit backlogs and disclaimed opinions and will ensure audit deadlines are realistic and achievable, with clear guidance provided. The government will explore pragmatic solutions for authorities with disclaimed audits, ensuring any temporary changes are carefully managed to maintain public confidence in financial reporting and accountability and are manageable for local bodies. To improve sector transparency, we commit to working with stakeholders to develop a phased approach to reintroducing full reporting requirements, balancing accountability with recovery efforts.

108. The process of rebuilding assurance where audit opinions have been disclaimed due to the backstop is going to be particularly challenging both for local bodies and audit firms. The government will support the process through 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.

109. On regulatory risk, auditors remain concerned about the risk of sanction through audit quality reviews and there is a risk that this will unduly influence their approaches to rebuilding assurance. The task of rebuilding

assurance is unprecedented in its nature, scale and complexity and auditors are grappling with difficult technical issues and judgements on risk. It is not appropriate for this work to be subject to the normal quality inspection processes, and 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. We envisage an iterative process, whereby the contractor provides feedback at key stages throughout the process enabling any necessary changes and knowledge sharing to happen on a timely basis.

110. The work will be a key input to the LAO's development of its quality approach and priorities. In the meantime, this quality and improvement approach will secure a robust and proportionate way to meet quality standards and provide appropriate, tailored assurance to the local audit system. It will be more timely than waiting for formal inspections to take place when audits have returned to unmodified opinions. We intend to specify and commission this work during the spring, in consultation with system partners and audit firms, with a view to letting a contract during the summer.

111. In light of these changes and the establishment of the LAO in parallel, the government thinks it is highly unlikely that any regulatory enforcement or sanction activity in relation to buildback activity would be in the public interest.

112. On auditing requirements, the government commits to:

- Work with system partners to produce additional guidance, advice and support for auditors on the process for rebuilding assurance. The government will work with the NAO to issue updates to existing guidance providing more clarity on requirements, particularly for auditing opening balances for statutory reserves, that will support a proportionate and more consistent approach by audit firms. The nature, timing and extent of work will need to vary depending on the risks of each entity, and auditors will still need to exercise their professional judgement on these risks but will have a clearer framework for doing so. We aim to have this in place by July 2025.
- Consider wider changes to the application of auditing standards in the local audit context to ensure that they are proportionate to risk and the value provided to users of the accounts, especially for valuations that are subject to major estimation uncertainty. The process will be led by the NAO as part of its current responsibility for the Code of Audit Practice, and the input of practitioners will be crucial.

Annex A: Commitments to local audit reform

Commitments made in December’s strategy are published on the left and new commitments arising from this government response are stated on the right. Some new commitments supersede those issued in December. Where this applies, the related new commitment is noted in square brackets.

Section	Strategy commitments	New commitments
Purpose of Local Audit	<div>1. A local audit vision with 8 core principles.</div> <div>2. Undertake a post-implementation review to assess whether changes to value for money requirements in the 2020 and 2024 Code of Practice have led to more effective consideration of financial resilience and VFM, and to conduct this review by the end of 2027. This review will consider whether auditors should assess VFM achievement.</div>	No new commitments.
Local Audit Office remit	<div>An LAO which will:</div> <div>3. Be statutory and independent, with a remit to streamline and simplify the system.</div> <div>4. Assume the functions of appointing and contracting auditors for local authorities. This would remove the power for authorities to appoint their own auditor.</div> <div>5. Adopt ownership of the Code of Audit Practice from the NAO and deliver relevant training. It would have powers to interpret ISAs</div>	<div>The government will enable the LAO to:</div> <div>9. Implement a structured escalation process.</div> <div>10. Implement a structured and proportionate system for sharing issues.</div> <div>11. Manage auditor appointments for smaller bodies in the longer term.</div> <div>12. Review the barriers auditors experience exercising statutory powers (statutory recommendations, PIRs</div>

Section	Strategy commitments	New commitments
Financial reporting and accounts	<p>requirements for the local audit context (though the FRC would continue to maintain ownership of ISAs for the UK as a whole).</p> <p>6. Hold responsibility for quality oversight of local audit, including overseeing an inspection programme, enforcement and some elements of supervision.</p> <p>7. Publish national insight reports on local audit health, which could include emerging trends, quality, market sustainability, VFM arrangements and statutory recommendations and PIRs.</p> <p>8. Oversee professional bodies with regard to their remit for the qualification, registration and conduct of local auditors.</p>	<p>and Advisory Notices), issue guidance on their application and review the option of expanding Advisory Notices' scope.</p> <p>13. Maintain the register of firms qualified to conduct local audits with the option to delegate.</p>
	<p>14. Review, in consultation with relevant stakeholders, the content and format of local authority accounts. This will include ensuring that the accounting code does not require more disclosures than are necessary and consider the purposes and users of local authority accounts. [now updated to 19]</p> <p>15. Work with devolved governments to determine the appropriate approach to ensure accounting practices are consistent across the UK including if the Accounting Code is transferred to the Local Audit Office. [19]</p> <p>16. Consider whether to develop primary legislation</p>	<p>19. Work with devolved governments and CIPFA to review the content and format of local authority accounts and options for reform ahead of the LAO's establishment, including whether to introduce standardised statements.</p> <p>20. Amend primary legislation to separate pension fund accounts from administering authority main accounts.</p> <p>21. Extend the exemption on local authority infrastructure asset valuation.</p> <p>22. Consider options on making CIPFA's Code of Practice on Local</p>

Section	Strategy commitments	New commitments
Capacity and capability	<p>to separate pension fund accounts from administering authority main accounts. [20]</p> <p>17. Ensure that if the Accounting Code is transferred to the Local Audit Office, it would be freely available to users of local body accounts. [19]</p> <p>18. Consider the introduction of Standardised Statements in the longer term. [19]</p>	<p>Authority Accounting freely available.</p>
	<p>23. Review KAP eligibility criteria to remove barriers to entry. [27]</p> <p>24. Work with the LGA on targeted support for local authority finance teams, audit committees and elected members to strengthen financial governance.</p> <p>25. Provide £15m funding to local authorities for 2024/25 to honour the final year of the previous government's commitment to £45m funding in the current spending review.</p> <p>26. Consider new burdens associated with this vision and related legislation.</p>	<p>The government commits to:</p> <p>27. Remove KAP eligibility criteria from primary legislation.</p> <p>28. Establish public local audit provision.</p>
Underpinning the system: Relationships and audit regimes	<p>29. Require twice-yearly meetings between Key Audit Partners (KAPs) and authorities' statutory officers (Head of Paid Service, Monitoring Officer and Section 151 Officer).</p> <p>30. Mandate audit committees with at least one independent member and consideration at full council, where this requirement does</p>	<p>The government commits to:</p> <p>34. Raise the upper audit threshold to ease administrative burdens.</p> <p>35. Introduce a risk-based approach to enable the LAO to determine audit regimes that are proportionate and appropriate.</p>

Section	Strategy commitments	New commitments
Local audit backlog	<p>not yet apply in the sector.</p> <p>31. Consider new local accounts committees for combined authority areas in England, which would interact with auditors and the new LAO.</p> <p>32. Consider moving from an exclusively threshold-based system towards one also linked to the type of body, with reporting and audit requirements scaled to the nature, size and risk of the bodies concerned. [36]</p> <p>33. Review the accessibility of AGAR's format and information.</p>	<p>36. Issue statutory guidance on audit committees.</p>
	<p>37. Work with system partners to produce additional guidance, advice and support.</p> <p>38. Amend secondary legislation to extend existing exemptions to include infrastructure asset values, to reduce the audit workload in the medium term.</p> <p>39. Consider any further, temporary exemptions to ensure workload and cost is proportionate.</p>	<p>40. Work with system partners to produce additional guidance, advice and support for auditors on the process for rebuilding assurance, particularly for auditing opening balances.</p> <p>41. Consider wider changes to auditing requirements to ensure that they are proportionate to risk and the value provided to users of the accounts, especially for valuations that are subject to major estimation uncertainty.</p>

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