

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

A public consultation issued by the Ministry of Housing, Communities and Local Government
Comments from ACCA

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We are ACCA (the Association of Chartered Certified Accountants), a globally recognised professional accountancy body providing qualifications and advancing standards in accountancy worldwide.

Founded in 1904 to widen access to the accountancy profession, we've long championed inclusion and today proudly support a diverse community of over 252,500 members and 526,000 future members in 180 countries.

Our forward-looking qualifications, continuous learning and insights are respected and valued by employers in every sector. They equip individuals with the business and finance expertise and ethical judgment to create, protect, and report the sustainable value delivered by organisations and economies.

Guided by our purpose and values, our vision is to develop the accountancy profession the world needs. Partnering with policymakers, standard setters, the donor community, educators and other accountancy bodies, we're strengthening and building a profession that drives a sustainable future for all.

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GENERAL COMMENTS

ACCA welcomes the opportunity to respond to the Ministry of Housing, Communities and Local Government's public consultation on reforming local audit in England. From the reviews of Sir Tony Redmond, Sir John Kingman, to the Whole of Government Accounts 2020-21 inquiry, ACCA has continued to reiterate the importance of timely and high quality audit of local authority accounts and activities.¹ As highlighted in our March 2024 submission *Addressing the local audit backlog in England*, late publication of audited local authority accounts undermines transparency, trust and the ability of local taxpayers to hold local entities accountable.²

We broadly agree with the strategy's intent and proposal to set up the Local Audit Office (LAO) as the single body with responsibility in this area. Once established, the LAO will take on functions currently fragmented across the local audit framework, including contract management, setting a code of practice, and regulatory oversight. The new regime marks the return of a more centralised approach. Whilst the consultation document rightly seeks to emphasise how the LAO differs from the former Audit Commission, there is little detail on what sets the two apart in practice, especially in the approaches to long-signalled challenges. ACCA considers that further detail and analysis (including consideration of the likely costs of the new arrangements) is vital to securing the framework's long-term future.

ACCA opens its response by offering the following three observations. These are followed by comments on selected consultation questions where ACCA has substantive views to share.

1. Long-term resourcing

The consultation is largely silent on how the proposed new system under the LAO will be resourced. ACCA recommends the development and presentation of resourcing plans, alongside an impact assessment, as soon as practicable. Without this, it is difficult to provide rounded feedback on the Government's proposals. On people, capacity issues (on both the accounts preparation and audit side) are longstanding and deep-seated. A recent report from the Local Government Association emphasises the limited candidate pool.³ As of October 2024, 26 per cent of local government accountancy roles remained vacant, along with 21 per cent of internal audit roles, and 20 per cent of business partner positions. Whilst the consultation document provides a useful starting point to discuss these matters, further work

¹ Refer ACCA response to the 'UK Government's Public Accounts Committee' (October 2023), available [here](#).

² ACCA response to 'Addressing the local audit backlog in England' (March 2024), available [here](#).

³ Local Government Association, 'Local government finance workforce action plan for England' (2024), available [here](#).

is needed. Indeed, priority should be given to developing a plan for a sustainable local government finance profession—one supporting both accounts preparation and audit.

2. Possible public provision of audit services

A key proposal noted in the consultation document is the introduction of an element of public provision of audit. In theory, this could provide a broader and more sustainable base for local audit provision. Yet proposals are silent on exactly how this goal will be achieved. In the short term, setting up and supporting public provision would likely have to “cannibalise” from those audit firms already in the market. As a result, the overall benefit would be uncertain at best. Ultimately, it would do little to help grow the supply of skilled auditors overall.

Broader consideration is needed to design optimal future arrangements. Central to those are the factors driving the current challenged state of the local audit market (including fee levels). In turn, ACCA would not support short term moves that look to build public provision. With audit provision seeking to clear the backlog of opinions and disclaimed audit opinions, it could prove an unnecessary distraction for resourcing already severely strained.

3. Finding the right balance

In responding to the Redmond Review, ACCA stressed that prioritising reductions in cost—at the expense of audit quality—is not acceptable. Neither is it sustainable over the long term. ACCA made a similar point in its submission on *Addressing the local audit backlog in England*.⁴ We are fully aware that local government as a sector is highly resource constrained. Similarly, ACCA recognises that the argument for spending on audit fees is not an easy one to make given the pressures on local authority budgets. Nevertheless, audit cost and fees are two important components of the solution. If the Government is committed to supporting the development of a sustainable local audit market, these must be struck at a realistic level.

⁴ ACCA response to ‘Addressing the local audit backlog in England’ (March 2024), available [here](#).

Q1: Do you agree the LAO should become a new point of escalation for auditors with concerns?

ACCA supports an LAO with a remit to streamline and simplify. However, we would like to see more on how the new framework captures best practice and incorporates lessons learned. When the Audit Commission was abolished, its ‘over-burdensome’ inspection regime was cited ‘as one of the principal reasons why the Commission lost the support of its local government stakeholders.’⁵ This underscores the importance of the LAO having a clearly defined remit. The same can be said of its purpose: What is it there to do? While these are high-level questions, setting parameters will ensure the organisation does not face similar criticism.

On the LAO becoming a new point of escalation, ACCA agrees that this function was lost with the abolition of the Audit Commission. The fragmented arrangements that followed did not adequately replace it. With that in mind, vesting this function in the LAO makes sense.

Thought will need to be given to how the LAO would respond to or use such information provided by auditors. Likewise, further work will be required to map out the necessary resourcing and skills for the LAO to effectively discharge its role.

Q2: Do you agree relevant issues identified should be shared with auditors, government departments and inspectorates?

Yes, we agree. Subject to any statutory limitations on the sharing of information, ACCA supports any proposed improvements to enable coordinated and consistent sharing of information, in support of well-informed responses from government departments and inspectorates.

Q3: Should the LAO also take on the appointment and contract management of auditors for smaller bodies in the longer term? If so, when should responsibilities transfer from SAAA?

Given that the emerging strategy is still at the preliminary stages, the focus must be on establishing the right foundations. ACCA suggests that the option of transferring such responsibilities is considered once the LAO is fully operational.

⁵ See House of Commons Communities and Local Government Committee, ‘Audit and inspection of local authorities,’ Fourth Report of Session 2010–12 (Volume I), available [here](#).

Q4: Should the LAO oversee a scheme for enforcement cases relating to local body accounts and audit?

On the face of it, an aligned enforcement system between the LAO (for local audits) and FRC (for PIE audits) sounds straightforward. However, a great deal of work is needed to make this happen. Those include addressing time, cost, resourcing and capability issues. The LAO's envisaged remit (even without overseeing enforcement cases) is also ambitious in scope. At this stage, a pragmatic solution is for the FRC to continue its role carrying out enforcement activity for local audit (if necessary, on behalf of the LAO). If this is the route chosen, attention must turn to the question of how such enforcement cases would be funded.

Q5: How could statutory reporting and Public Interest Reports be further strengthened to improve effectiveness?

The framework of statutory reporting and Public Interest Reports is an important element of the public audit framework—whereby local public bodies are held accountable for their use of public resources. In taking responsibility for the Code of Audit Practice and the provision of supporting guidance to auditors, the LAO should build on the NAO's work. This includes the provision of support and guidance to auditors engaged in this type of reporting. Like other functions, its effectiveness will hinge on the LAO's resourcing and capabilities.

Q6: 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?

Whilst there may be attractions in expanding the scope of Advisory Notices beyond unlawful expenditure, with the objective of enhancing accountability and oversight, in practice we believe that this issue will need very careful consideration. Precise definitions will be required to allow both local authorities and auditors to understand the scope, and for auditors to feel comfortable in exercising these powers from a risk perspective. Any firm proposals in this area should be the subject of further consultation.

Q7: Should the LAO own the register of firms qualified to conduct local audits?

As the body with responsibility for contracting for the provision of audit services, it makes sense for the LAO to own the register. Nevertheless, thought is needed on how to best transition to this arrangement, including resourcing on the LAO's part.

Q8: 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

Vesting the power to require changes to a local body's accounts in the LAO could potentially lead to a speedier and less costly process with the responsibility removed from the Courts. However, it would vest in the LAO a quasi-legal function that would require careful thought in its development. Safeguards would be needed, such as the right of appeal to a higher body (which would likely place a matter back in the realm of the courts). The LAO would also need to be subject to regular external review on the proportionate and appropriate use of this power to prevent abuse.

In reflecting on the sector's earlier experience with the Audit Commission, the perception was that over time the Commission stepped beyond its remit. As a result, the Government may reflect that vesting additional powers in the LAO such as this one is not a sensible route to take.

Q9: What are the barriers to progressing accounts reform?

Q10: Are there structural or governance barriers to accounts reform that need to be addressed?

Local authority accounts are complex, and past efforts to simplify have had little success. The process, if anything, has become more challenging, particularly as local authority accounts have adjusted to meet evolving reporting standards. Prior inability to succeed (despite the best efforts of those involved) is a sign that this is not an issue to be addressed quickly and easily.

That said, we do believe that now is a good time for a new and concerted effort to make progress. We do not believe that there are fundamental structural or governance barriers that stand in the way of progress. ACCA would be happy to contribute to focused work in this area.

Q11: Should any action to accounts reform be prioritised ahead of the establishment of the LAO?

Q12: Are there particular areas of accounts which are disproportionately burdensome for the value added to the accounts?

We do not believe that the establishment of the LAO should delay prioritising progress on accounts reform. Both priorities can, and should be taken forward, in parallel.

Q13: 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?

ACCA agrees (in the short-term) with extending the exemption around accounting for infrastructure assets. However, that support is subject to a deliverable timetable for a longer-term solution. It is disappointing that progress has been limited over the last three years.

ACCA believes financial reporting on an accruals basis supports good decision-making. Another benefit is enabling a consistent, public-sector wide approach to valuing infrastructure assets. With parts of the public sector succeeding in valuing such assets, a starting point exists to chart a path forward. International Public Sector Accounting Standard (IPSASB) 45 – Property, Plant, and Equipment is a starting point worth considering.⁶ The standard is often updated and covers public sector infrastructure assets.

Q14a: Should the LAO adopt responsibility for CIPFA’s Code of Practice on Local Authority Accounting?

Shifting oversight for standards from CIPFA/LASAAC to the LAO is an area worth exploring.⁷ ACCA does not consider having responsibility for the oversight of audit and accounting within the same organisation should of itself be a barrier (in practice this is what the FRC does for company accounts and audits). However, the same issue noted elsewhere does arise, namely that of the required skills and resourcing.

Q15: Should the Accounting Code be freely available if it is not transferred to the LAO?

Yes, ACCA agrees with this recommendation. It is important that the Accounting Code is freely available—not only to those involved in the preparation and audit of accounts, but also to users of accounts.

Q18: Should the market include an element of public provision?

Q19: If yes, should public provision be a function of the LAO?

Q20: What should the initial aim be in relation to proportion of public and private provision?

While in theory this could help provide a broader and more sustainable base for local audit provision going forward, the proposals are silent on exactly how this goal will be achieved. In the short term, setting up and supporting public provision would likely have to “cannibalise” from those audit firms already in the market. The result is that overall benefit would be

⁶ Refer ‘IPSAS 45, Property, Plant, and Equipment’ (May 2023), available [here](#).

⁷ As an analogy, the FRC has responsibility both for accounting standard-setting and for audit standards

uncertain at best. Additionally, it would do nothing (in the short term) to grow the supply of skilled auditors overall.

What is needed is a broader consideration of the factors driving the current challenged state of the local audit market (including audit fee levels) to help design optimal future arrangements. ACCA would not, therefore, support of moves to build public provision in the short term. At a time when audit provision is already severely stretched and focused on clearing the backlog, it could prove an unnecessary distraction.

Q22: Do you think that the Chair of an audit committee should be an independent member?

ACCA supports mandating Audit Committees with independent membership. We also agree with the chair sitting as a non-council member, thereby securing the role's independence. A good chair has (among other core qualities), the right skill set and ability to deliver objective judgement. Local audit is an important check on the spending of taxpayers' money. Therefore, an independent chair holding those qualities can strengthen the committee's oversight functions.

Q23: 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?

The introduction of 'Local Public Accounts Committees (LPAC) has been raised several times previously. While the Committees have never progressed past the ideation stage, ACCA believes it is worthy of closer inspection. Committees could improve scrutiny and the achievement of value for money. There are practical questions that will need to be considered as this option is developed. For example, if the model is to be based on the current PAC for Westminster, this PAC relies for a large proportion of its source material on the National Audit Office. What would the equivalent source material be for LPAC? Consideration needs to be given to where the LPAC would fit with other existing mechanisms, such as the Scrutiny Committee and the Audit Committee.

Finally, it is important to think about how other relevant local public bodies could be brought into these arrangements. This would allow a focus on place, and not just on the local authority itself. A pilot at selected local authorities (with the LGA's support) could help shed light on such practicalities.

Q25: How would the creation of such a model impact the local audit system and the work of local auditors?

See response to Question 23, namely it is important to contemplate the source material to be drawn upon by the LPAC. The work of the local auditors is highly likely to be relevant, but reflection should also be made on consequential impact on audit fees, including on the overall cost of the system. Again, a pilot approach could shed light on these areas.

Q26: Do you agree that the MLA threshold should be increased?

Q27: Do you agree that some local bodies should be declared exempt from the regulatory focus of an MLA? For example, should Integrated Care Boards be exempt?

Q28: Do you agree that smaller authorities' thresholds should be increased?

Q29: Do you agree that the lower audit threshold of £25,000 should be increased broadly in line with inflation?

ACCA agrees with the overall approach to review thresholds across the system, including for smaller authorities. Where financial thresholds are included in primary or secondary legislation, it is good practice for them to be reviewed and updated periodically to ensure that the correct balance of scrutiny, accountability and proportionality is struck.

ACCA recognises the challenges smaller bodies face in securing audit services. Based off research into other frameworks,⁸ fees are often disproportionately higher. While the market for auditors is tight, practitioners can find it difficult applying detailed standards to smaller authorities. As a result, work in this space is often non-viable.

While recognising such challenges, ACCA is concerned with the notion (put forward in paragraph 114) that increasing thresholds is a way to reduce the audit backlog. This directly contradicts the consultation's document's eight core principles—one of which is bringing about 'stronger accountability.' It also simplifies a multi-faceted issue, while promoting misconceptions about the value of audit.

Indeed, we caution against increases (and exemptions) without a separate consultation that a) mobilises all stakeholders and b) is underpinned by analysis of potential impacts. The experience of overseas jurisdictions, where lack of oversight produced has produced adverse consequences, serve as cautionary tales. ACCA would like to see more work in this area—led by an impact assessment clear on the potential costs and benefits.

⁸ See ACCA's consultation response, 'Review of Charity Regulation in Scotland' (July 2024), available [here](#).

Q31: 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?

As the consultation paper notes, the NAO (as the current owner of the Code of Audit Practice) has prepared extensive guidance for auditors, particularly its Local Audit Reset and Recovery Implementation Guidance (LARRIG). The guidance is to support them as they navigate a way forward from the extensive number of disclaimed audit opinions—issued owing to implementation of the Government’s plan to clear the backlog of outstanding audit opinions. We are not aware of any analogous suite of guidance that can help the accounts preparers themselves as they work with the auditors to address the issues at the source of disclaimed audit opinions.

Our suggestion, therefore, is considering what could be made available and whether any or all the advice currently made available to the auditors could be drawn upon as a source of advice and guidance to accounts preparers themselves.

Q32: 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

ACCA acknowledges that the goal of providing an achievable roadmap (for preparers and auditors alike) to deal with the backlog is a good one. However, we would be nervous at the suggestion of any substantive amendment—even if only for a limited period, of requirements of either the financial reports or of the auditors. This would be inconsistent with the core principles set out within the consultation document.

In practical terms, dilution of audit requirements would limit the ability of the auditor to deliver a full audit opinion, taking local government audit into uncharted territory.