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# What is happening to Local Public audit in England?

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## Summary

Audit provides an essential part of public assurance and accountability arrangements as it assures financial propriety. In 2010, the incoming Coalition Government announced the abolition of the Audit Commission, which had been responsible *inter alia* for overseeing and coordinating Local Public Audit (LPA) and appointing external auditors to all local authorities in England and Wales since the commission was established in 1983. In 2014, the Local Audit and Accountability Act radically transformed the form and delivery of LPA and transferred the delivery of LPA to a small number of the international accountancy firms. The implementation of the Act was almost immediately followed by growing concerns about the adequacy of the new arrangements across the local public audit community, including auditors, local authorities, professional and assurance bodies and academics.

In response to these mounting concerns, the government commissioned an independent review (the Redmond Review), which in 2020 found LPA arrangements in England had fragmented deteriorated in terms of assurance and accountability and were no longer 'fit for purpose'. The review made 22 recommendations for significant changes to the form, nature and content of local audits and to its national leadership, governance and system management arrangements. Between 2019 and July 2024, three successive Conservative governments responded formally and consulted on various changes to the arrangements but took no substantial action, other than attempts to tackle the increasing number of audit delays.

In December 2024 the new government published a public consultation and then responded to the outcome of consultation stating in April 2025. In July 2025 it published a series of proposed changes to Local Audit arrangements, in Part 4 of the English Devolution and Community Empowerment Bill. This paper will summarise the inadequacies of the current arrangements and critically reviews the current government's latest proposals in chapter 4 of the Bill which *inter alia* seeks to simplify and streamline the current system and create a Local Audit Office to oversee LPA.

## **Introduction:**

Audit provides an essential part of public assurance and accountability arrangements as it assures financial propriety (Murphy *et al* 2023) and is crucial to the avoidance or reduction of the mismanagement of public funds (Clark and Pal 2014). Rossi *et al* (2021 p.604) in their comparison of European systems provide a classification of audits based on “who carries out audits, their frequency, the types of audits, and the auditing standards adopted”. This helpfully differentiates between public audit systems, private audit systems and mixed audit systems. This paper will briefly examine how the Local Public Audit system in England was established in the nineteenth century as a public audit system, transformed into a mixed audit system after the Audit Commission was established in 1983, was reformed into a primarily private audit systems after the Local Audit and Accountability Act 2014, and is currently proposed to be reformed into a mixed audit system (albeit in a different form to the post-1983 model) by the current UK government. Local Public Audit in its contemporary context is inherently complex, and the paper will evaluate the various parts of the proposed new arrangements in the English context. In England, local authorities have an obligation to be responsible for the use of public money; to achieve economy, efficiency and effectiveness (the duty to seek ‘Best Value’), and to operate transparently to allow taxpayers to understand how their money is spent (DLUHC, 2015).

## **Brief History of Local Public Audit in England 1844-2024.**

In the UK, local public audit was established by the Poor Law (Amendment) Act 1844 when ‘district auditors’ were entitled to inspect the accounts of public bodies and act on any misappropriation (Coombs and Edwards 1990, Standford 2025). The Poor Law Amendment Act 1868 then provided for district auditors to become civil servants, in what was clearly from 1844 to 1983 a public audit system. In Scotland, the Accounts Commission was introduced in 1975 as an independent watchdog, and a catalyst for improvement in the way public money is spent in Scotland. Its equivalent in England and Wales, the former Audit Commission was established in 1983. It absorbed District Audit in England and Wales and introduced the 70/30 split in the delivery of local audits, with 70% of local public audits being delivered by District Audit which had become in-house audit practice within the Commission and 30% by the major private sector accounting firms. The Commission was established to improve the quality of local audit and to promote and develop value for money studies (Campbell-Smith 2008). Its role expanded over time to include audit of other organisations, such as local health bodies, national park authorities, police and fire authorities (as well as expanding its scope to include, assessment, inspection, research and assurance which are not the subject of this paper). In 2010, the annex to a memorandum produced by the Department for Communities and Local Government lists 27 types of authorities and public bodies to which the Audit Commission appointed external auditors before its demise (MHCLG 2010) see appendix A. In Rossi *et al.*’s (2021) terms, between 1983 and 2015 the local public audit system in the UK became a mixed audit system.

Following the general election of 2010, the incoming Coalition Government announced the abolition of the Audit Commission because of its alleged costs and the bureaucratic burden it was imposing on local government and other public services (Timmins and Gash 2014, Tonkiss and Skelcher 2015). This meant the cessation of its responsibilities *inter alia*. for overseeing and delivering audits of councils and other local bodies. Its audit functions were to be moved to the

private sector and councils would be free to appoint their own independent external auditors from the open market created in the private sector. The new system was enshrined in legislation through the Local Audit and Accountability Act 2014, and came into effect fully in 2018/19, although the legacy functions of the Audit Commission ended in 2015. The system applied in England only as devolution of local authority activities had by then been devolved to Scotland and Wales. In Scotland, Wales, and in Northern Ireland, the devolved administrations preferred to continue the development of their public audit systems and consolidated audit in single bodies i.e. Audit Scotland, Audit Wales, and the Northern Ireland Audit Office.

The new market-based approach resulted in lower audit fees, less comprehensive assessments, and less public oversight of financial management (Ferry, 2019; Watson, 2019). It also resulted in significant backlogs in terms of the publication of statutory reports (see Figure 1). There was also a growing consensus that the new audit arrangements were inadequate and no longer fit for purpose in significant areas (Kingman, 2018; RAND Europe/MHCLG 2018, Ferry, 2019; Watson 2019, ICAEW, 2019, Murphy & Lakoma, 2020).

The government's response was to commission an independent review of the oversight of local audit arrangements and the transparency of local authority financial reporting from Sir Tony Redmond, a former local government Ombudsman and former CIPFA president. The review brought forth 156 responses and he conducted over 100 interviews (Redmond 2020) with an unusually high level of unanimity across the response. Redmond (2019, 2020) found that the local public audit market was fundamentally flawed, and the national leadership fragmented and ineffective. The audit process and its reporting were no longer fit for purpose, taking too long with unprecedented backlogs of incomplete audits building up. One of the audits key reported outputs, the 'going concern' judgement was shown to be effectively meaningless in the local government context, and there was no real assessment of an organisation's financial sustainability, financial or organisational resilience, or its vulnerability. Redmond Review presented a serious challenge in terms of transparency and accountability for both taxpayers and service users and demonstrated increased uncertainty and greater risk of severe financial problems, primarily within principal local authorities. Clearer simpler reporting was required (for which Redmond provided a model) and this model could be applied to all types of local public service providers such as local authorities, NHS trusts, the police and fire and rescue services. Ferry et al. (2022) later found that the range of dispersed public organizations with differing accountability mechanisms and no coherent accountability framework meant that policymakers and citizens had only limited oversight of their operations and the extent to which they deliver value for money (Ferry & Eckersley, 2022). In 2023, *Public Money and Management* devoted its issue number 43(3), entitled "Local public audit and accountability: An international and public value perspective" to the response to Redmond and the need for change.

The response from the Johnson administration (MHCLG 2020) was to agree to the 17 recommendations relating to the content and conduct of the local audit (and the audit of smaller authorities) but not at that stage to the six system leadership and management proposals. In March 2021, it proposed in a white paper that an Audit, Reporting and Governance Authority, be established to oversee both public and private auditing (DBIS 2021), and in May 2021 provided an update to its leadership and management proposals. These were followed in July by a technical consultation about elements of the Local Audit framework (MHCLG 2021), most notably the application of the framework to non-local government sectors such as the police, health and fire. Later that year, it announced plans and some additional resources to tackle the audit backlog (DLUHC 2022) and the National Audit Office (NAO) and Chartered Institute of Public Finance and

Accountancy (CIPFA) both published guidance to auditors about how they should approach their work in this period (see Sandford 2025). The backlog of audits was so severe the NAO disclaimed the Whole of Government Accounts (WGA) in 2022/23 and 2023/24 for the first time in their history ICAEW (2025). By the general election of July 2024 successive conservative administrations had acknowledged that nearly all of the Redmond recommendations for change were necessary but had failed to bring forward the necessary legislation in the intervening four and a half years.

Financial Year	Unaudited accounts:  Deadline	Percentage of Authorities  Meeting the deadline
2014/15	30 Sept 2015	97%
2015/16	30 Sept 2016	97%
2016/17	30 Sept 2017	95%
2017/18	31 July 2018	87%
2018/19	31 July 2019	57%
2019/20	30 Sept 2020	45%
2020/21	30 Sept 2021	9%
2021/22	30 Sept 2022	12%
2022/23	30 Sept 2023	1%

Table 1: Audit Delays

Source: Sandford (2025).

### **The current government's proposals**

The current government published a 'statement of intent and consultation' on local audit reform in December 2024 (MHCLG 2024). It identified three systemic challenges that the government wanted to address:

- **Capacity:** A severe lack of auditors and a limited number of audit firms operating in the sector
- **Co-ordination:** Multiple organisations having multiple statutory roles and no clear ownership of the system.
- **Complexity:** Financial reporting and audit requirements are disproportionately complex beyond the system's capacity and incentivises risk aversion. Standards are largely modelled on corporate audit rather than the needs of local bodies.

It proposed to develop a strategy built on the previous governments reviews and stakeholders' views in order to construct a streamlined system of local audit. It identified 6 key areas that required reform. The purpose of local audit; a remit for a new Local Audit Office (accepting Redmond's recommendations for a single new oversight organisation) and financial reporting and

accounts where needs of the user and the impact of accounting requirements on the work of account preparers, auditors and the wider audit system. It also sought to address capacity and capability shortages in the sector and in the training of individual auditors, and whether public provision should supplement private provision. Continuing work would continue to reduce the audit backlog and the relationships between local bodies and their auditor would be strengthened with clear relationships built with the new LAO. Collective scrutiny of audits would be more robust, and audit regimes reviewed to ensure they are fit for purpose in both the short and long term.

The consultation resulted in 239 responses and the government's response to the consultation was published in April 2025. There was general support for urgent reform "at pace", especially "to clear the audit backlog and restore confidence in the system" (MHCLG 2025 p.2). The proposed Local Audit Office (LAO) was welcomed and would assume the responsibility for appointing and contracting auditors for local authorities, co-ordinate and manage an oversight framework and clear the audit backlog. There will be a clear separation between the LAOs regulatory role and its operational functions, and the LAO will maintain the register of firms qualified to conduct local audits. The government committed to amend primary legislation; review options for the content and format of accounts ahead of the LAOs establishment; empower LAO to reconsider eligibility and reestablish public local audit provision and create "an attractive new career pathway" in public sector local audit (MHCLG 2025 p 23). In the long term, it would work with devolved administrations to ensure future accounting practices are consistent across the UK and consider the introduction of standardised statements of account. CIPFA will maintain responsibility for the Code of Practice.

Plans for an English Devolution Bill were outlined in the King's Speech at the State Opening of Parliament in July 2024. The English Devolution and Community Empowerment Bill was introduced to the House of Commons for its first reading on the 10<sup>th</sup> of July with the latest version updated on 25<sup>th</sup> July. Chapter 4 of the Bill relates entirely to Local Audit and the Bill is due to have its second reading on 2<sup>nd</sup> September 2025.

Chapter 4 of the Bill provides for the establishment of the LAO, the main objective of which is the effective operation of the system of audit with a view to meeting the needs of the users of audited accounts. Audits have to be carried out to a high standard and the LAO has to ensure there is a suitable range of people willing and able to carry out the audits. The LAO will be subject to oversight and direction by the Secretary of State, although no direction can relate to its functions in relation to an individual audit. The LAO can maintain the register of audits or delegate the task to an appropriate organisation, and it may form a firm with a view to the firm becoming a registered local audit provider. If it does form a firm, it must put in place "arrangements under which its audit practice will be monitored, inspected and reported on by persons" acting independently of the Office. The LAO will determine audit fees, while audit firms must nominate a lead partner for all audits. All existing local authorities and future authorities anticipated under the English Devolution and Community Empowerment Bill must have an audit committee and all audit committee's must have at least one member that is an independent person as defined by the regulations. Finally, there is provision to separate out Local Government Pension Scheme Accounts and for the local auditor to provide a separate opinion on those accounts.

## Discussion

It is clear from the proposals already published that the current government's intention is to return LPA in England to a mixed audit system within a strong central regulatory system, although many of the details remain to be fleshed out in both legislation and guidance. It will not however be a straightforward return to District Audit as it existed under the Audit Commission. The following discussion focusses on some of the key issues rather than the details of every proposed change but the government response has very helpfully summarised the commitments they have made about LPA in the December 2024 strategy document (described as a 'statement of intent and consultation') and the new commitments arising from their later formal response to responses received. These are reproduced as Appendix B to this document.

The redefinition of the purpose of audit and the creation of a new public audit firm, together with centralised audit registration and responsibility for fees; supplemented by changes to the internal audit function within local authorities, is designed to address an audit market in England that has become fundamentally flawed. The long-term commitment to work with the NAO and the devolved administrations in Scotland, Wales and Northern Ireland, who operate within public or mixed audit systems, is intended to ensure future accounting practices are consistent across the UK, will add to the robustness of the LPA system. It is notable that recruitment crises within the public sector firms is not as acute as in the private sector firms. Although the initial objective of the government is to grow public audit provision to approximately 20-25% of the market, which is well below the 70/30 split under the Audit Commission regime, there is a clear indication that it could potentially grow further (See European Commission 2021 and Ferry *et al* 2023 for international comparisons). There is also a welcome commitment to working collaboratively with the sector to develop and improve LPA and continue to make it fit for purpose and fit for future purpose although we would like to see more acknowledgement of forward-looking prospective audit and accountability to complement the dominant backward-looking retrospective audit and accountability (Murphy *et al* 2019).

The government acknowledges that local audit has a responsibility to assess arrangements to secure value for money (VFM), and the NAO introduced a requirement for auditors to comment on VFM arrangements in their annual report, in their 2020 Code of Practice. It says this commentary must now address *as a minimum*: financial sustainability, governance and improving VFM. We believe a much more explicit commitment based on a higher benchmark is required in relation to the financial sustainability, financial resilience and the risks and vulnerabilities of the audited entity in the short medium and long term.

Finally we welcome the renewed commitment to apply the new local audit approach and regime to the wider group of locally delivered services and their sectors such as the police, fire and rescue services, national parks etc, we acknowledge that directly applying these arrangements to public bodies within the NHS is extremely difficult and complicated because of health legislation and NHS governance arrangements but believe that in inherently collaborative areas such as public health, community health, preventative health and many others a commitment to make the systems as compatible as possible (as was the case under the Audit Commission's Auditors' Local Evaluation for Health bodies and the Use of Resources evaluation for local authorities) would be beneficial to future collaborations.

## Conclusions

A partial and fragmented public audit means that policymakers and citizens have only had limited oversight of their operations and the extent to which they deliver and optimise value to the public, at least since the implementation of the Local Audit and Accountability Act 2014 (Redmond 2019, 2020. Murphy *et al* 2023). Uncertainty over audit and assurance arrangements has also increased the risk of future financial issues within local authorities going undetected or underappreciated. As early as 2019, the NAO recognised that “qualified conclusions on arrangements to secure value for money locally are both unacceptably high and increasing. The proportion of local public bodies whose plans for keeping spending within budget are not fit-for-purpose, or who have significant weaknesses in their governance, is too high” (NAO 2019, pp.2) yet this situation has essentially persisted to today.

Proposals for radical changes are however emerging in the audit market, and in the scope, functioning and transparency of local audit. The audit ‘expectations gap’ that has opened since 2014 is likely to be diminished and what the system provides should be closer to what the public assumes it provides, and what the system claims it provides. Local authorities and other locally delivered public services should be auditable for a full range of purposes (social, environmental as well as financial imperatives) and the process should be more accountable and transparent, offering the government, key stakeholders and the public greater assurance. The proposed new arrangements should be able to cover new commercial and hybridised forms of local authority activity and should relate to the emerging concepts of financial resilience, sustainability and vulnerability although we believe their articulation should be more explicit than in the current government’s proposals.

In theoretical terms, since 2010 successive government’s public service reforms have been based on a return to a New Public Management approach, but the funding cuts and privatisation of LPA have also revealed significant flaws in adopting such an approach and ironically contributed to greater awareness of the importance of public values and the public interest (Murphy *et al.* 2023). The current government’s proposals recognise that rigorous public oversight of public money is necessary to protect the public interest. Redmond’s findings and recommendations and their subsequent development (and testing) have been scrutinised in the numerous consultation exercises since 2020, and they have exposed not only significant practical inadequacies but also the theoretical inadequacies of adopting a New Public Management approach, to what is essentially a public regulatory service. LPA is a service that is ultimately supposed to operate in the public interest not in the interest of large private accounting firms.



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## **Appendix A.** List of bodies to which the Audit Commission appoints auditors

(Source: MHCLG 2010)

A local authority  
A joint authority  
The Greater London Authority  
A functional body  
The London Pensions Fund Authority  
The London Waste and Recycling Board  
A parish meeting of a parish not having a separate parish council  
A committee of a local authority, including a joint committee of two or more such authorities  
The Council of the Isles of Scilly  
Any Charter Trustees constituted under section 246 of the Local Government Act 1972  
A Health Service Body prepared under paragraph 3(1) of Schedule 15 to the NHS Act 2006.  
A port health authority  
The Broads Authority  
A national park authority  
A conservation board established by order under section 86 of the Countryside and Rights of Way Act 2000  
A police authority established under section 3 of the Police Act 1996  
A fire and rescue authority constituted by a scheme under Section 2 of the Fire and Rescue Services Act 2004 or a scheme to which section 4 of that Act applies  
An authority established for an area in England by an order under section 207 of Local Government and Public Involvement in Health Act 2007 (joint waste authorities)  
A licensing planning committee  
An internal drainage board  
A local probation board established by section 4 of the Criminal Justice and Court Services Act  
A probation trust (other than a Welsh probation trust as defined in paragraph 13(6) of Schedule 1 to the Offender Management Act 2007  
An economic prosperity board established under section 88 of the Local Democracy, Economic Development and Construction Act 2009  
A combined authority established under section 103 of that Act  
The accounts of the collection fund of the Common Council and the accounts of the City fund.  
The accounts relating to the superannuation fund maintained and administered by the Common Council under the Local Government Pension Scheme Regulations 1995  
Passenger Transport Executive

## Appendix B: 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
<b>Purpose of Local Audit</b>	<p>1. A local audit vision with 8 core principles.</p> <p>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.</p>	No new commitments.
<b>Local Audit Office remit</b>	<p>An LAO which will:</p> <p>3. Be statutory and independent, with a remit to streamline and simplify the system.</p> <p>4. Assume the functions of appointing and contracting auditors for local authorities. This would remove the power for authorities to appoint their own auditor.</p> <p>5. Adopt ownership of the Code of Audit 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>The government will enable the LAO to:</p> <p>9. Implement a structured escalation process.</p> <p>10. Implement a structured and proportionate system for sharing issues.</p> <p>11. Manage auditor appointments for smaller bodies in the longer term.</p> <p>12. 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.</p> <p>13. Maintain the register of firms qualified to conduct local audits with the option to delegate.</p>

<b>Financial reporting and accounts</b>	<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 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>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 Authority Accounting freely available.</p>
<b>Capacity and capability</b>	<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>
<b>Underpinning the system: Relationships and audit regimes</b>	<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 not yet apply in</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>

	<p>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>
<b>Local audit backlog</b>	<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>

