

## Local Audit Reforms

30 July 2025

### Report of Chief Finance Officer

<b>PURPOSE OF REPORT</b>
The purpose of this report is to inform the Audit Committee of the Government's response to the consultation on Local Audit Reforms.
<b>This report is public.</b>

#### RECOMMENDATIONS

1. **The The Audit Committee is asked to note the Government's response to the consultation on Local Audit Reforms**

#### 1.0 INTRODUCTION

- 1.1 This report provides an update on the Government's response to the consultation on Local Audit Reforms

#### 2.0 BACKGROUND

- 2.1 The Committee will be well aware of the significant issues and failings with the public sector audit regime since the abolition of the Audit Commission in 2015 and particularly the impact this Council has felt. These issues have arisen for a number of reasons such as staff shortages in Audit Firms, fewer Audit Firms in the market, increased regulatory requirements placed on the Audit Firms, as well as the growing complexity of Local Authority Statement of Accounts.
- 2.2 In December 2024, the Government issued a consultation, "Local Audit Reform: A strategy for overhauling the Local Audit system in England". The consultation covered a range of matters such as.
  - Local Audit Office remit,
  - Financial Reporting and Accounts,
  - Capacity and Capability, and,
  - Audit Committees etc.
- 2.3 Full details of the consultation can be found here [Local audit reform: a strategy for overhauling the local audit system in England - GOV.UK](#)
- 2.4 The following summarises the Government's response to the consultation feedback they received and what actions they propose to take.

## **LOCAL AUDIT OFFICE**

- 3.0 A key finding of previous reviews into the crisis within the sector, highlighted the absence of a system leader. To address this the consultation proposed the creation of a new public body called the Local Audit Office (LAO). The LAO's main objectives will be:

### Leading the Local Audit System

- 3.1 The LAO will be a statutory and independent arm's length body of the Ministry of Housing, Communities and Local Government (MHCLG) bringing a strategic oversight and technical expertise and leadership not seen since the abolition of the Audit Commission.

### Championing auditors' statutory reporting powers

- 3.2 The LAO will review Auditors' use of their statutory reporting powers, including their powers to issue Public Interest Reports (PIR's). It will also "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. They will be a stronger point of escalation for auditors with concerns and support the use of these powers for auditors who wish to raise concerns in the public interest.

### Appointing auditors to all relevant local bodies

- 3.3 The LAO will take over responsibility for auditor appointments and fee setting from Public Sector Audit Appointments (PSAA). Audit bodies will also lose the option to appoint their own auditors. The current audit appointments made by PSAA run from 2023 to 2028, with the option of extending them by two years. The consultation said that PSAA is considering whether to offer that option to the firms and will work with MHCLG to seek the best contractual position and to minimise disruption

### Recreating local audit capacity in the public sector

- 3.4 From 1983 until its abolition in 2015 the Audit Commission had a substantial in-house audit practice, typically carrying out 70% of local audits themselves, with the remaining 30% contracted out to private sector firms. The government stated that it would establish some public sector audit provision, which would "gradually scale up over time". The consultation stated that, if public sector provision were considered necessary, this would need to be "urgently considered" before the formation of the LAO. However, the government would seek to avoid a situation comparable to the Audit Commission arrangements:

### Inspection and oversight

- 3.5 The LAO will publish the Code of Practice on local audit and associated statutory guidance. This is currently the responsibility of the National Audit Office (NAO). It will be responsible for assessing how International Standards of Accounting (ISAs) applied to local bodies. It will take on the management of the backstop programme from MHCLG.
- 3.6 It will also manage inspection of local audits, monitoring of audit quality, enforcement and supervision, and the role of professional bodies. Audit inspections are currently carried out by the Financial Reporting Council (FRC) (for major local audits) and ICAEW (for other local audits), with their results published annually. It will have powers to delegate to other bodies such as the FRC if they see fit. It will retain powers to decide on enforcement action in the event that inspections uncover breaches of good practice.
- 3.7 The response also advises that "auditors will be required to escalate significant issues, with the knowledge of the Council, to both the LAO and relevant Secretary of State". It also states that 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".

### Collating data

- 3.8 The LAO will be responsible for collation of reports of local auditors, and publication of analyses of national issues. This will include “timely and independent reports on local audit health, including timeliness, emerging trends or issues, audit quality and market sustainability”. This is expected to include analyses of arrangements for value for money, or the issue of statutory recommendations, and Public Interest Reports.

### **Financial Reporting and Accounts**

- 4.0 The consultation questioned the timeliness and clarity of the local authority accounting system. For a number of reasons, the production of the Statement of Accounts is a lengthy and complex process which presents significant challenges for both those producing them and those that audit them. Overly complex Statement of Accounts and misfocused audits make it difficult for the public to understand the financial position of the Council and thereby hold decision-makers to account.
- 4.1 In response, the Government has committed to review the content and format of local authority accounts. It has also indicated that: -
- The removal of LGPS pension fund accounts from the statement of accounts will be facilitated.
  - It will extend the statutory override for infrastructure (highways, mainly) accounting to the 2028/29 financial year;
  - Take forward the reform of the Code of Practice on Local Authority Accounting in the UK with Chartered Institute of Public Finance and Accountancy (CIPFA).

### **5.0 Audit Committees**

- 5.1 The consultation focussed on strengthening the role of Audit Committees and has outlined various responsibilities
- Reviewing and scrutinising the Council's financial affairs
  - Reviewing and assessing the Council's risk management, internal control and governance arrangements
  - Reviewing and assessing the economy, efficiency and effectiveness with which resources have been used in discharging the Council's functions
  - Making reports and recommendations to the Council in relation to its reviews
- 5.2 It will also mandate that Audit Committees should have a least one independent member. It will consider further, the merits of mandating Audit Committees to have an independent chair.
- 5.3 The Council's current committee structure has established the following
- Overview & Scrutiny
  - Budget & Performance Panel
  - Audit Committee

The terms of reference for these committees is set out in the Council's Constitution and many need to be revised in light of the responsibilities of the Audit Committee.

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## **6.0 DETAILS OF CONSULTATION**

- 6.1 As this report provides an update on the Government's response to the consultation on Local Audit Reforms no formal consultation has taken place

## **7.0 OPTIONS AND OPTIONS ANALYSIS**

- 7.1 As the report is for noting no alternative options are put forward.

## **8.0 CONCLUSION**

- 8.1 Members should note details of the Government's response.

### **CONCLUSION OF IMPACT ASSESSMENT**

**(including Health & Safety, Equality & Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing):**

No implications directly arising.

### **LEGAL IMPLICATIONS**

There are no legal implications stemming from this report.

### **FINANCIAL IMPLICATIONS**

There are no financial implication flowing directly from this report.

### **OTHER RESOURCE IMPLICATIONS, such as Human Resources, Information Services, Property, Open Spaces**

No implications directly arising.

### **SECTION 151 OFFICER'S COMMENTS**

The s151 Officer has authored this report

### **DEPUTY MONITORING OFFICER'S COMMENTS**

Amendments to committees' terms of reference is the responsibility of Full Council. The Audit Committee may consider and propose to Council amendments (not covered by the Council Business Committee) to the Constitution as necessary.

### **BACKGROUND PAPERS**

Statement of Accounts 2024/25

<http://www.lancaster.gov.uk/the-council-and-democracy/budgets-and-spending/statement-of-accounts>

Statement of Accounts 2019/20 – 2023/24

<http://www.lancaster.gov.uk/the-council-and-democracy/budgets-and-spending/statement-of-accounts>

Statement of Accounts Updates

[Agenda for Audit Committee on Wednesday, 21st May 2025, 6.00 p.m. - Lancaster City Council](#)

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