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22 September 2021

Local audit in England



Summary

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Summary

Revised procedures for ‘local audit’ in England took full effect in the 2018-19 financial year. They were introduced by the [Local Audit and Accountability Act 2014](#). ‘Local audit’ relates to the audit procedure which must be followed by local authorities, fire authorities, Police and Crime Commissioners, Clinical Commissioning Groups, and various related bodies in England.

From 1983 to 2015, the Audit Commission was responsible for the audit of these bodies. The Commission carried out some audits in-house, and contracted the majority out to private sector auditors. Its final round of contracts were let in 2012 and 2013, lasting for five years in each case. The last of these contracts concluded in the 2017-18 financial year.

This briefing paper explains the operation of local audit in England, including the appointment of auditors; the rights of local electors in the audit process; and the arrangements for accountability via independent auditor panels. It also sets out the role of Public Sector Audit Appointments (PSAA) and Smaller Authorities Audit Appointments (SAAA) in the process of local audit procurement. Additionally, it includes some historical detail on the role of the Audit Commission.

Separate arrangements exist in Scotland, Wales and Northern Ireland, where public audit (covering both local audit and the role of the National Audit Office in England) is managed by [Audit Scotland](#), the [Wales Audit Office](#), and the [Northern Ireland Audit Office](#) respectively.

1 Local audit structures

1.1 The requirements of local audit

From 1 April 2015, local public bodies in England have been required to appoint their own auditors to audit their accounts annually. This system was introduced by the [Local Audit and Accountability Act 2014](#), and came into effect fully in 2018-19 (see section 1.3).

Prior to this, responsibility for appointing auditors to local public bodies lay with the Audit Commission. The Audit Commission was abolished by the 2014 Act, having let its final rounds of five-year audit contracts in 2012 and 2013.

This system applies to local authorities, fire authorities, Police and Crime Commissioners, clinical commissioning groups and NHS Trusts in England. A full list of the bodies covered by the local audit provisions can be found in Schedule 2 of the 2014 Act. Government departments and associated public bodies are audited by the National Audit Office (NAO), on behalf of the Comptroller and Auditor General (C&AG).

A number of variations to the regime apply to local health bodies (see section 2.7 below). Additionally, different arrangements are in place for ‘smaller authorities’, those with an income and expenditure of under £6.5 million, the smallest of which (with income and expenditure below £25,000) are exempt from certain audit requirements (see section 2.6 below).

This system applies in England only. Separate arrangements exist in Scotland, Wales and Northern Ireland, where audit of local and devolved public bodies is managed by [Audit Scotland](#), the [Wales Audit Office](#), and the [Northern Ireland Audit Office](#) respectively.

1.2 Selection and removal of auditors

The 2014 Act provided that local public bodies in England must appoint an auditor by the 31 December preceding the financial year for which accounts are to be audited. In practice, this is normally done on a collective basis (see section 1.3). The maximum length of an audit contract is five years.¹ The same firm of auditors may be reappointed after the five-year period expires. The choice of auditor must be published.

¹ [Local Audit and Accountability Act 2014](#), s.7

In councils which operate an executive (mayor or leader and cabinet), the decision on the appointment of an auditor must be made by the full council. Public bodies may choose to let audit contracts jointly with one another.

The [Local Audit \(Auditor Resignation and Removal\) Regulations 2014](#) (SI 2014/1710) govern the procedure to be followed when an auditor wishes to resign their appointment, or the public body wishes to terminate it. The regulations provide that a public body must inform its members and its auditor panel if it decides to remove an auditor. The auditor panel must investigate an auditor's decision to resign and report on it to the public body within three months. It must also produce a report on any decision by the body to remove an auditor: it is free to disagree with the body's decision, but it cannot reverse it.

1.3

Collective local audit procurement

The 2014 Act allows the Government to nominate a 'person' to act as a joint procurement body for local audit.² This body must appoint auditors to those local authorities which 'opt in' to its joint procurement arrangement. On 25 July 2016, the Government appointed a body called [Public Sector Audit Appointments](#) (PSAA) to make these appointments.³

PSAA is a subsidiary company of the Local Government Association (LGA). It had previously been established to manage the final contracts let by the Audit Commission after the Commission's closure in 2015. The Audit Commission had contracted out all of its in-house work in April 2012, then re-tendered all remaining audit contracts from April 2013. Both sets of contracts covered audits up to and including the 2017-18 financial year.⁴ Thus the new arrangements for local audit began in full from the 2018-19 financial year.

Some 98% of relevant local bodies (all but 10) have opted in to the PSAA arrangements for the period from 2018 to 2023.⁵ Details of the auditors appointed to each local authority in England, and a contact point within the audit firm, [can be found on the PSAA website](#). PSAA also established a [Local Audit Quality Forum](#) in April 2018, intended as a means of sharing good practice between auditors and audited bodies, and to improve practice within local authority audit committees.

² Regulations governing the appointment and powers of this body are in the [Local Audit \(Appointing Person\) Regulations 2015](#) (SI 2015/192) and the [Local Audit \(Smaller Authorities\) Regulations 2015](#) (SI 2015/184).

³ Public Sector Executive, [LGA's PSAA appointed as national audit body on behalf of councils](#), 25 July 2016

⁴ See Audit Commission, "[Audit Commission continues drive to reduce audit costs](#)", 2 April 2013; and "[Audit Commission announces award of five-year contracts](#)", March 2012. The Audit Commission's in-house audit team bid for these contracts but won only one, and became a subsidiary of Mazars LLP.

⁵ For a list of opted-in bodies, and details of the system of appointing auditors, see <https://www.psa.co.uk/about-us/appointing-person/>

The 2014 Act also allows the Government to nominate a separate ‘person’ to carry out joint procurement for smaller authorities. The Government has appointed [Smaller Authorities’ Audit Appointments Ltd](#) (SAAA) to this position.⁶ This company was established by the National Association of Local Councils (NALC), the Society of Local Council Clerks (SLCC), and the Association of Drainage Authorities (ADA).

Parish and town councils and drainage authorities were required to opt out by 1 January 2017 if they did not wish to participate in SAAA’s collective procurement scheme. If they do opt out, they are required to provide details to SAAA of the separate audit arrangements that they have made. [All smaller authorities have opted in](#) for the first audit period, which runs from 2017 to 2022. A list of smaller authorities’ audit appointments and fee scales can be found [on the SAAA website](#).

1.4 Independent auditor panels

The 2014 Act provided that each public authority must appoint an ‘independent auditor panel’, with audit committees taking on the role for health bodies. The purpose of this was to ensure probity and good practice in authorities’ decisions on which auditors to appoint. However, authorities that have opted in to one of the collective systems set out in section 1.3 above are not required to appoint an ‘independent auditor panel’.⁷

The auditor panel must have at least three members,⁸ a majority of whom must be independent, and one of whom must chair the panel.⁹ The purpose of the auditor panel is to ensure that, when a public body appoints its own auditors, the independence of the auditor is maintained (see section 2.1 for more discussion of this point).

The auditor panel has a general responsibility to “advise the authority on the maintenance of an independent relationship with the local auditor appointed to audit its accounts”.¹⁰ It also has a small number of specific responsibilities at key points within the audit process. These are intended to counter concerns, expressed during the passage of the 2014 Bill through Parliament, that auditors chosen by local authorities themselves would be less independent than those appointed by a central body. The panel must:

- publish advice on the authority’s choice of auditors, though it has no right to overrule the choice;

⁶ See the [Local Audit \(Smaller Authorities\) Regulations 2015](#) (SI 2015/184), regulations 21-23.

⁷ CIPFA, [Guide to Auditor Panels](#), December 2015, p3. See the [Local Audit \(Appointing Person\) Regulations 2015](#), paragraph 4 of the Schedule.

⁸ See the [Local Audit \(Auditor Panel\) Regulations 2014](#) (SI 2014/3224), paragraph 2

⁹ Definitions of ‘independence’ can be found in schedule 4 of the 2014 Act; see also the [Local Audit \(Auditor Panel Independence\) Regulations 2014](#) (SI 2014/2845).

¹⁰ [Local Audit and Accountability Act 2014](#), s. 10(1).

- provide advice to the authority if the auditor is removed or resigns: but again, it has no power to overrule the authority's choice to remove an auditor;¹¹
- be notified if the auditor produces a public interest report on the authority;
- advise the authority on whether or not to develop a policy on the purchase of non-audit services from the auditor (see section 2.1).

Public bodies can share an auditor panel or designate an existing committee (e.g. a standards committee or audit committee) as an auditor panel, as long as it meets the independence requirements noted above.¹² These provisions are intended to counter concerns that councils would struggle to find enough suitably qualified individuals to fill posts on auditor panels.¹³ There are no legal requirements for members of auditor panels to be appropriately qualified.

Separate regulations exist regarding auditor panels for local health bodies.¹⁴ Local health bodies, unlike local authorities, are required by law to have an audit committee.¹⁵ The 2020 Redmond Review recommended that audit committees should have at least one independent member, and the Government's response committed to exploring this recommendation further.¹⁶

1.5 Public rights

Members of the public have various legal rights in the local audit process. In general, finance-related complaints about local authorities should be made to their auditor in the first instance. In May 2018 the NAO published [Local authority accounts – a guide to your rights](#) for members of the public wishing to make use of these rights.

Local electors may inspect local authorities' accounts and documents relating to accounting records, for a period of a maximum of 30 days during the audit process.¹⁷ They may also lodge an objection to any item within the

¹¹ See the [Local Audit \(Auditor Resignation and Removal\) Regulations 2014](#) (SI 2014/1710), paragraphs 4-6

¹² There is no statutory requirement for local authorities to have an audit committee, although many do. The possibility of obliging local authorities to establish an audit committee was discussed during the Bill's passage through Parliament.

¹³ DCLG, [Government response to the Communities and Local Government Select Committee Report Audit and Inspection of Local Authorities](#), Cm 8209, Oct 2011, p8

¹⁴ The [Local Audit \(Health Service Bodies Auditor Panel and Independence\) Regulations 2015](#) (SI 2015/18)

¹⁵ See section 14M&ff of the [National Health Service Act 2006](#), inserted by the [Health and Social Care Act 2012](#).

¹⁶ MHCLG, [Local authority financial reporting and external audit: government response to the independent review](#), 17 Dec 2020, paragraph 79

¹⁷ See the [Accounts and Audit Regulations 2015](#), regulation 14, which also contains requirements for when the 30-day period must begin.

accounts. The auditor must then investigate this objection, unless they consider it to be repetitive, frivolous, or of disproportionate cost.¹⁸ This right of access does not apply to health service bodies.¹⁹

As audit firms are not public bodies, documents held by them are not subject to Freedom of Information.²⁰ However, documentation held by a local authority relating to its own financial affairs may be available to the public. As with all FOI requests, decisions on the disclosure of such documents would be subject to the public interest test and to commercial confidentiality requirements: see the Library briefing [Freedom of information requests](#) for more information.

In its 2019 report, the Public Accounts Committee drew attention to the issue of effective publication of accounting data by local authorities. Where information is not easy to find on local government websites, this may hinder accountability to members of the public:

The extent to which local bodies put information received from local auditors in the public domain varies between sectors and between individual bodies. Even where information is available, it is not always easy to locate. Central departments stated that a wide range of performance information is in the public domain, but acknowledged it can be hard for citizens to find out about what is happening inside large public bodies.²¹

1.6 Accounts: publication and powers

Public bodies must publish their accounts by specific deadlines following the end of each financial year on 31 March. For local authorities, this date is normally 31 July (as of the 2016-17 financial year). For smaller authorities (see section 2.4 below) the deadline is 30 September. For most NHS bodies, the date is 30 June.

The Redmond Review, in 2020, noted that over 200 audits had failed to meet the June deadline in 2019-20. PSAA also noted that 265 audits failed to meet an extended deadline of 30 November 2020,²² and the NAO reported on this matter in March 2021.²³ The Government's response to the Redmond Review

¹⁸ [Local Audit and Accountability Act 2014](#) s. 27. Prior to the 2014 Act, auditors were unable to refuse to investigate objections.

¹⁹ *Ibid.*, s. 26

²⁰ This issue was raised in Parliament during debates on the Bill: see, for instance, HL Deb 15 Jul 2013 c576-584; HL Deb 24 Jun 2013 cGC202-3. Additionally, section 33 of the [Freedom of Information Act 2000](#) includes an exemption for audit-related documents held by public bodies carrying out audit of other bodies if its disclosure would "prejudice the exercise of any of the authority's functions".

²¹ Public Accounts Committee, [Auditing local government](#), HC-1738 2017-19, 2019, p5-6

²² PSAA, [News release: 2019-20 audited accounts](#), 4 December 2020. The deadline for 2019-20 was extended to 30 November due to the Covid-19 pandemic

²³ NAO, [Timeliness of local auditor reporting on local government in England](#), 2020, HC-1243 2019-21

stated that the deadline would be extended to 30 September for the 2020-21 and 2021-22 financial years (this was the deadline before 2016).²⁴

The accounts must be certified by the responsible financial officer and approved by the authority. The public body must publish, alongside the accounts, both a governance statement and a narrative commenting on its economy, efficiency and effectiveness.²⁵

Local auditors have a right to access all relevant documents and records necessary to allow them to conduct their audit. Where an auditor has concerns regarding a public body's accounts, they may:

- Make written recommendations to the authority;
- Produce a public interest report (see section 1.7 below);
- Issue an 'advisory notice' if it appears to the auditor that funds have been, or are about to be, spent unlawfully by the authority. Such a notice prevents the authority from making the decision to spend the money in question, if it has not yet done so.²⁶ This power is not available when auditing health bodies, where the auditor must draw its views to the attention of the Secretary of State;
- Apply for judicial review of an action, or failure to act, by an authority which might have an effect on its accounts.²⁷

At the conclusion of the audit, based upon the work carried out, the auditor will issue their opinion. In most cases, this will be an 'unqualified' opinion (i.e. the audited body's accounts constitute a 'true and fair' view of its finances). If the auditor has encountered material issues which either limit the scope of their work or where they disagree with material items in the accounts, they may issue a 'qualified' opinion, setting out their concerns in the audit report. Issuing a qualified opinion does not itself trigger any processes or effects to address the auditors' concerns (see section 2.2).

Whistleblowing

'Whistleblowers' in local public bodies may contact auditors or the National Audit Office to report their concerns about the administration of their organisation. Auditors and the NAO are 'prescribed persons' under the [Public Interest Disclosure \(Prescribed Persons\) Order 2014](#) (SI 2014/2148). These regulations provide for workers to be protected from detrimental treatment by their employer if they release information to one of the 'prescribed persons'.

²⁴ MHCLG, [Local authority financial reporting and external audit: government response to the independent review](#), 17 Dec 2020, paragraph 47

²⁵ See the [Accounts and Audit Regulations 2015](#) (SI 2015/234)

²⁶ *Ibid.*, s. 30 / Schedule 8. The power to surcharge councillors personally for expenditure found to be unlawful by an auditor was abolished in 2000.

²⁷ [Local Audit and Accountability Act 2014](#), s. 31

In the previous regime, whistleblowers could contact the Audit Commission with their concerns. The 2019 report [Local Government Ethical Standards](#), published by the Committee for Standards in Public Life, recommended that councillors too should become ‘prescribed persons’, on the grounds that it can be difficult to identify contact details for a local authority’s auditor from its website.²⁸

1.7 Public interest reports

A local auditor must consider whether they should make a “public interest report” (PIR) on any matter coming to their notice during the audit that they believe should be brought to the public’s attention. Local bodies are obliged to publicise PIRs relating to them.

The Redmond Review recorded that four PIRs had been issued since the 2015-16 financial year.²⁹ During the passage of the [Local Audit and Accountability Bill 2013-14](#), concerns were expressed by professional accountancy bodies that auditors appointed directly by local authorities may be more reluctant to issue PIRs under the new framework, as doing so would be likely to damage their commercial relationship with the public body.³⁰

A PIR may be produced during or after the audit, and the auditor can recover costs from the audited body. The auditor panel must be informed. The auditor must send a copy of the PIR to the audited body and to the relevant Secretary of State. A PIR on a Clinical Commissioning Group must be sent to NHS England.

Auditors may also make a ‘statutory recommendation’ (or ‘written recommendation’). This must be considered by the public body at a public meeting within a month of being issued, and the public body must take a decision on what action, if any, to take.³¹ As of 2019, seven statutory recommendations have been issued since the 2015-16 financial year.³²

²⁸ CSPL, [Local Government Ethical Standards](#), 2019, p84

²⁹ MHCLG, [Local authority financial reporting and external audit: independent review](#), September 2020, p36

³⁰ DCLG, [Future of local public audit consultation: summary of responses](#), 2012, p30

³¹ The relevant legislation is schedule 7 of the [Local Audit and Accountability Act 2014](#).

³² NAO, [Local auditor reporting in England](#), HC-1864 2017-19, 2019, p29

2 The auditors and the audited bodies

2.1 The auditors

A small number of firms currently dominate the local audit market in England. Most are mainstream audit and accountancy firms, regulated with regard to their private work by the [Companies Act 2006](#). The 2014 Act applies a modified version of the regulatory framework for private sector auditors to those firms when they are carrying out local audit work.³³ The critical differences are as follows:

- Local auditors must comply with the [Code of Audit Practice](#), most recently published in April 2020.³⁴ Prior to 2015, the Code was published by the Audit Commission. Responsibility for preparing and publishing the Code has passed to the Comptroller and Auditor General under the 2014 Act.³⁵
- Local auditors must also have regard to guidance to auditors published by the Comptroller and Auditor General. Several [Auditor Guidance Notes](#) can be found on the NAO's website.
- Local auditors must satisfy themselves as to whether audited bodies have made proper arrangements for securing value for money through their spending of public funds (see section 2.2).

The 2014 Act requires a new edition of the Code of Audit Practice to be published every five years. The NAO first published the Code in 2015.

Professional oversight of local auditors has been delegated to the Financial Reporting Council (FRC). In turn, the FRC [has specified five 'Recognised Supervisory Bodies'](#) to undertake specific regulatory activities. This includes inspection of a sample of local public audits each year to assess audit quality. The FRC itself also has the power to monitor the quality of major local audits in England. It published a first review of this kind in October 2020.³⁶

In the world of private audit, professional ethics limit the number of consecutive years for which individuals may lead the audit of a given

³³ See the [Local Audit \(Professional Qualifications and Major Local Audit\) Regulations 2014](#) (SI 2014/1627).

³⁴ See NAO, [Code of Audit Practice consultation](#), 2019, for links to the various documents.

³⁵ See schedule 6 of the 2014 Act. The NAO has produced a single code: the Audit Commission produced [separate codes for audit of local government and health bodies](#), most recently in 2010. A [consultation for a renewed Code](#), to apply from 2020-21, began in 2019

³⁶ Financial Reporting Council, [Major local audits: audit quality inspection](#), October 2020

company. This is to prevent an over-familiar relationship from developing between the audited body and the auditors, which could lead to poor audit practice or perceptions of a lack of auditor impartiality. This had been a key concern of Michael (now Lord) Heseltine when he established the Audit Commission in 1983:

I thought it wrong in principle, as the 1976 Layfield Report had said, that councils should be able to appoint their own auditors. Awkward auditors do not get reappointed. I wanted a Commission, independent of both central and local government, which would appoint auditors as it chose from either the District Audit or the private firms.³⁷

The Audit Commission addressed this issue by circulating appointments of auditors. Councils could expect the company auditing them to change on a regular basis: though the Commission would consult councils regarding its choice of auditor, it retained the final decision. The Commission also set requirements for the regular rotation of senior members of audit teams within firms of auditors.

One of the tasks of the independent auditor panel is to ensure that such matters continue to be taken into account in the future, by having regard to the ethical standards of the Auditing Practices Board (part of the FRC). For example, these require that audit firms establish policies and procedures to ensure that:

(a) no one shall act as audit engagement partner for more than five years; and

(b) anyone who has acted as the audit engagement partner for a particular audited entity for a period of five years, shall not subsequently participate in the audit engagement until a further period of five years has elapsed.³⁸

The ethical standards also make clear that provision of non-audit work, such as management consultancy or contracted services by an auditor firm to the audited body, is viewed as a potential conflict of interest – as the auditor would be examining the body’s decision to contract them for non-audit work. The FRC’s ethical standards state that the audit engagement partner must “consider whether it is probable that a reasonable and informed third party would regard the objectives of the proposed engagement as being inconsistent with the objectives of the audit of the financial statements”.³⁹

³⁷ Michael Heseltine, *Where There’s A Will*, 1987, p37. See also Duncan Campbell-Smith, *Follow the Money: the Audit Commission, Public Money, and the Management of Public Services*, 2009

³⁸ See FRC, [Ethical standards 3: long association with the audit engagement](#), 2009, p6-7

³⁹ FRC, [Ethical standards 5: Non-audit services provided to audited entities](#), 2011, p. 8

2.2

Accountability concerns

On 10 July 2019 the then Secretary of State for Housing, Communities and Local Government, James Brokenshire, announced a review into local audit. This was chaired by Sir Tony Redmond, a former Local Government Ombudsman. The terms of reference of the review were:

[to] examine the existing purpose, scope and quality of statutory audits of local authorities in England and the supporting regulatory framework to in order to determine:

- Whether the audit and related regulatory framework for local authorities in England is operating in line with the policy intent set out in the Act and the related impact assessment
- Whether the reforms have improved the effectiveness of the control and governance framework along with the transparency of financial information presented by councils;
- Whether the current statutory framework for local authority financial reporting supports the transparent disclosure of financial performance and enables users of the accounts to hold local authorities to account; and
- To make recommendations on how far the process, products and framework may need to improve and evolve to meet the needs of local residents and local taxpayers, and the wider public interest.⁴⁰

The review was originally due to report in spring 2020, but finally reported in September 2020.⁴¹ It proposed the creation of a new body, the Office of Local Audit and Regulation (OLAR). This would take over the local audit functions currently held by PSAA, ICAEW, the Financial Reporting Council, and the National Audit Office. The report said:

...none of the six entities with responsibility for the different elements of the framework has a statutory responsibility, either to act as a system leader or to make sure that the framework operates in a joined-up and coherent manner...As a result, the lack of co-ordination and the lack of a system leader is widely recognised as a weakness in the framework by most of the stakeholder groups.⁴²

⁴⁰ MHCLG, [Review of local authority financial reporting and external audit: terms of reference](#), 10 July 2019, p1

⁴¹ MHCLG, [Local authority financial reporting and external audit: independent review](#), September 2020

⁴² Ibid., p10. The 'six entities' are PSAA, ICAEW, the Financial Reporting Council, the NAO, CIPFA, and MHCLG.

Amongst other proposals, the review also suggested that local authorities should be required to prepare “a standardised statement of service information and costs”,⁴³ to increase the transparency of financial information. It also noted concerns with recent approaches to the value for money element of public audit:

74% of the local authority respondents to the Call for Views think the format of the VfM opinion does not provide useful information. Some of these respondents recognised that the opinion is limited to giving assurance only that processes are in place to secure value for money and therefore that the opinion needs to be expanded to provide useful information.⁴⁴

The Government published a response in December 2020. It rejected the central recommendation of a new body. Nevertheless, it also said:

...the department will commit to explore the full range of options as to how best to deliver Sir Tony’s finding that a ‘system leader’ is required. This will include close consideration of whether existing bodies could take on this function.

In particular, we want to understand in more detail how a system leader could grip and resolve the weaknesses in the local audit system which the Redmond Review describes, and that any consequences of its establishment, such as potential conflicts of interest within the organisation, are identified and can be mitigated.⁴⁵

The chief executive of CIPFA, Rob Whiteman, responded in the Local Government Chronicle to Government concerns about creating a ‘system leader’ organisation:

Cipfa remains clear in its view that there is a need for strong system leadership. We maintain that the creation of OLAR would join up an overly fragmented structure for local audit in England...I remain perplexed by the resistance to OLAR....I disagree with the idea that any attempt to create a single body with a diversity of complementary responsibilities will inevitably grow too big for its boots. ... Resistance to an independent public body runs the risk of the Ministry of Housing, Communities & Local Government feeling that it can and should step in to fill that gap.⁴⁶

The Government’s interim response also proposed to:

⁴³ Ibid., p6

⁴⁴ Ibid., p37

⁴⁵ MHCLG, [Local authority financial reporting and external audit: government response to the independent review](#), 17 Dec 2020, paragraphs 71-72

⁴⁶ Rob Whiteman, [“Opposition to national audit body risks more MHCLG regulation”](#), Local Government Chronicle, 10 February 2021

- Enable greater flexibility for auditors to adjust fee scales in-year in response to additional costs arising from audits. PSAA consulted on adjusting this system in November 2020,⁴⁷ and the Government consultation closed on 1 June 2021.⁴⁸ £15 million in additional funding was allocated to local authorities in 2021-22, in respect of anticipated rises in fees;⁴⁹
- Extend the audit deadline from 31 July to 30 September for audits of the 2020-21 and 2021-22 financial years.⁵⁰ 55% of audits failed to meet the 31 July deadline for the 2019-20 financial year, following 43% failing to meet the deadline for 2018-19, and only 13% in 2017-18;⁵¹
- Introduce a requirement for local authorities to publish a standardised statement of accounts. This responded to concerns that the presentation of accounts differs across authorities and that they are hard for members of the public to understand.

A full Government response to the Redmond Review was published in May 2021.⁵² The Government stated in this document that it supported making the new Audit, Governance and Reporting Authority (ARGA) the ‘system leader’ for local audit. The creation of ARGA, which is to replace the Financial Reporting Council, was proposed in a Government consultation which closed in March 2021.⁵³ ARGA’s creation will require primary legislation.

A further Government technical consultation, published on 28 July 2021, proposed that ARGA would take on responsibility for the Code of Audit Practice and auditor guidance notes, currently produced by the NAO.⁵⁴ ARGA is also to establish a dedicated local audit unit, running in shadow form from April 2022. ARGA will be required to include a separate section on local audit in its statutory annual report to Parliament.⁵⁵ The consultation asked for views on whether that should also include details of the results of audit, which was a statutory duty on PSAA up to 2017-18. It also sought views on the requirements and composition of local authority audit committees (there is currently no requirement on local authorities to have an audit committee).

The Public Accounts Committee published a report on 14 July 2021, suggesting that the local audit system was “close to breaking point”.⁵⁶ It noted that 70%

⁴⁷ PSAA, [Proposed new system for fee variations](#), November 2020

⁴⁸ MHCLG, Amendments to the [Local Audit \(Appointing Person\) Regulations 2015](#), 1 June 2021

⁴⁹ The Government published a consultation on 20 April 2021, and [a response to consultation on 29 July 2021](#).

⁵⁰ This decision was implemented by the [Accounts and Audit \(Amendment\) Regulations 2021](#) (SI 2021/263)

⁵¹ PSAA, [2019-20 audited accounts](#), 4 December 2020; Public Accounts Committee, [Local auditor reporting on local government in England](#), HC-171 2021-22, 14 Jul 2021, p10

⁵² MHCLG, [Local authority financial reporting and external audit: Spring update](#), 19 May 2021

⁵³ BEIS, [Restoring trust in audit and corporate governance: proposals on reforms](#), 18 March 2021

⁵⁴ MHCLG, [Local audit framework: technical consultation](#), 28 July 2021, paragraph 31

⁵⁵ *Ibid.*, paragraph 60

⁵⁶ Public Accounts Committee, [Local auditor reporting on local government in England](#), HC-171 2021-22, 14 Jul 2021

of local authority audits are currently carried out by two firms; many firms had left the market, and the need to invest in specialist teams was a barrier to market entry for new firms. Witnesses told the Committee that audit firms were struggling to recruit enough auditors to local audit work, and that many key audit partners (one of whom must lead the audit of each local authority) were aged over 50.

2.3 Value for money

In the world of local audit, ‘value for money’ (VFM) is defined as a public body’s “economy, efficiency and effectiveness in the use of its resources”.⁵⁷ VFM has formed an element of local audit practice for several decades. Chapter 3 of the 2015 Code of Audit Practice sets out the requirements of auditors in respect of this aspect of their work. The Code is supported by guidance to auditors on their work on value for money arrangements.

The National Audit Office reported in February 2019 that 40 out of 495 (8.1%) of local authorities had received qualified value for money opinions for 2017-18, with 20 yet to be published. The majority of the qualified opinions were for upper-tier and unitary authorities. The NAO stated that:

Most qualifications in local government bodies are due to weaknesses in governance arrangements or the findings of service inspectorates. The reasons for significant weaknesses in governance arrangements include bodies relying on interim staff to fill senior management posts for too long, poor management of major contracts, or lack of adequate member scrutiny of the executive’s decisions.⁵⁸

Additionally, where an inspectorate has recorded an adverse finding on the provision of a service, an auditor may continue to qualify their opinion in subsequent years even if the service improves, until a further inspection takes place and records the improvement.

The Public Accounts Committee also suggested in 2019 that “concerns over partnership working arrangements have increasingly been a reason for local auditors qualifying their value for money conclusions”.⁵⁹ This is because local authorities’ long-term partnerships with other public bodies make it difficult for auditors to track the use of funds by any one authority. In other words, qualifications on this basis may be precautionary rather than an indication that a local authority’s value for money arrangements are weak.

In another example, the signing-off of a number of authorities’ accounts were held up in mid-2018 by debates over how properly to account for LOBO loans

⁵⁷ [Local Audit and Accountability Act 2014](#), s.20 (1) (c)

⁵⁸ NAO, [Local auditor reporting in England](#), HC-1864 2017-19, 2019, p20

⁵⁹ Public Accounts Committee, [Auditing local government](#), HC-1738 2017-19, 2019, p6

in their accounts.⁶⁰ This type of issue was raised by respondents to the NAO's consultation on the Code of Audit Practice. The NAO's summary of responses also noted the increasing issue of auditing partnerships that include audited bodies:

Respondents were ... clear...that an individual auditor's role should be in relation to the authority's engagement with the partnership, and not to go wider. Others agreed that this issue goes wider than local audit, and government more widely needs to consider how best to obtain assurance in this area, given that auditors are appointed to individual entities.⁶¹

The 2020 edition of the Code of Audit Practice requires auditors to document the work they have undertaken to establish the arrangements in place in an authority to ensure value for money. This replaces the requirement in the previous edition of the Code from 2015 simply to state whether such arrangements exist.⁶²

2.4 The broader role of audit

Broader concerns emerged in the late 2010s that local audit does not currently take sufficient account of VFM concerns and the broader context of democratic accountability. In its evidence to the NAO's consultation on the Code of Audit Practice in 2019, the accountancy firm Grant Thornton said:

The information currently reported publicly by auditors does not help local taxpayers understand the key issues. In particular, the annual letter, as currently constituted, ... serves little purpose... a disproportionate amount of time on the audit is focused on the financial statements...⁶³

Tony Crawley, chief executive of PSAA, stated in 2019 that:

.....some commentators think that the audit focus is not right for local government, as the standards focus on areas that do not match the sector's real risks, producing audits that are 'technically' driven but of less value to the bodies. The result is a tension between perceptions of audit quality and of audit scope.⁶⁴

Paul Dossett, head of local government at the accountancy firm Grant Thornton, said in early 2019:

⁶⁰ Colin Marrs, "[Auditors settle LOBO accounting delay](#)", Room 151, 30 Aug 2018. For more information on LOBO loans see the Library briefing paper [Local government: commercial property investments](#)

⁶¹ Ibid.

⁶² See NAO, [Code of Audit Practice](#), 2020, paragraphs 3.10-11

⁶³ See Dan Peters, "Code key to 'securing future of local audit'", *Municipal Journal*, 15 August 2019

⁶⁴ Tony Crawley, "[PSAA begins as Appointing Person for public sector audits](#)", Room 151, 23 January 2019

It seems to me we are now at a real crossroads as to what we want public audit to be. Do we want it to be a box ticking compliance exercise or do we want it to be a vibrant intervention, both protecting the public purse but at the same time offering comparative data, examples of good practice and actually looking at value for money in public spending?⁶⁵

The use of comparative data, which Paul Dossett raises, is related to but distinct from VFM. Following the closure of the Audit Commission, no public body is responsible for collating data from across local authorities and providing any form of comparative analysis. Government departments take different approaches to the data produced by auditors.⁶⁶

A report produced by Professor Laurence Ferry of Durham Business School for the Housing, Communities and Local Government Committee, published in 2019, suggested that:

Public audit should, and should be seen to, serve the public interest. Public audit is not just another professional service. The current audit and inspection system is not broken in terms of what it does, but the question is whether it does the right thing. Currently, for local government, it is known what local authorities have spent (financial stewardship), but not what local government got for it (Value for Money (VfM – economy, efficiency and effectiveness), nor whether it has contributed towards fairness in society (equity).⁶⁷

The National Audit Office alluded to some similar issues in a summary of responses to its consultation with stakeholders on the 2020 edition of the Code of Audit Practice (see section 2.1 above). That consultation had sought a broad range of views on the role of audit, including:

- the developments and issues likely to impact most on the work of auditors over the coming years;
- how local auditors' work on the annual accounts should be carried out and reported to both comply with relevant standards and meet reasonable expectations for providing assurance over the financial statements;
- how local auditors' work on local public bodies' arrangements to ensure economic, efficient and effective use of their resources should be focused to provide meaningful, independent assurance to stakeholders, including local taxpayers;

⁶⁵ Paul Dossett, "[At the crossroads: what is public audit for?](#)", Room 151, 23 January 2019

⁶⁶ NAO, [Local auditor reporting in England](#), HC-1864 2017-19, 2019, p34-35

⁶⁷ Laurence Ferry, [Audit and Inspection of Local Authorities in England: Five years after the Local Audit and Accountability Act 2014](#), HCLG Committee, 3 July 2019

- how the Code can best promote local auditor reporting that has the appropriate impact, at the right time and in the right circumstances, to strengthen accountability and support improvement where needed; and
- whether local auditors will need to develop and make use of different skills or work in new ways.⁶⁸

The summary of responses mentioned proportionality of additional investigations; use of an appropriate degree of professional scepticism; public accountability and the public interest:

The 2015 Code refers to the “wider scope” of public audit. Several respondents suggested that this concept would be strengthened if it were focused more on the importance of the local auditor’s role in ensuring public accountability for the management of public money, and in ensuring that auditors had regard to consideration of the public interest when carrying out their work.⁶⁹

The NAO also said that it will “consider whether to give auditors more flexibility to consider emerging risks, which may not constitute a significant risk in the year of audit, but which may have a significant impact on the audited body over the medium term”.⁷⁰ This is in response to stakeholder concern about risks arising from such developments as local authority commercial activities and changes to models of service delivery, which may not be evident in the year under audit but might increase in significance in future years.

The Redmond Review noted that auditors are not required to make direct comment on the financial resilience of local authorities, and it suggested that:

...the scope of audit should include a substantive test of a local authority’s financial resilience and sustainability. Care and attention will need to be taken to define how the auditor should address historical, current and future financial sustainability issues, so that the engagement does not become overly burdensome or provide false comfort to stakeholders. ...The expansion of the opinion to encompass financial resilience and sustainability would, potentially, provide comfort to the authority and to council taxpayers that the finances are in good order.⁷¹

⁶⁸ NAO, [Local audit in England: Code of Audit Practice - Issues paper: Consultation response](#), July 2019, p5

⁶⁹ Ibid., p8

⁷⁰ Ibid., p15

⁷¹ MHCLG, [Local authority financial reporting and external audit: independent review](#), September 2020, p53

In a column on the local government finance website Room 151, in September 2021, Stephen Sheen linked the limits on the auditor role to reductions in the number of audit firms in the market through the 2010s:

Think how much more interesting the job would be if auditors were also concerned with confirming the adequacy of an authority's financial systems to support its operations (rather than just their sufficiency to support the financial statements), confirming financial standing, reviewing arrangements for preventing fraud and corruption and ensuring the legality of transactions, agreeing the effectiveness of governance arrangements and investigating matters brought to their attention by the public? Then think that this is probably what the public would want auditors to be doing (if it hadn't already presumed that this is what they do).⁷²

2.5 Audit fees

Under the previous local audit system, the Audit Commission was the 'single buyer' of most local public audit services throughout England, and it was funded largely by audit fees from audited bodies.⁷³ The Commission typically contracted out some 70% of audit work to private audit companies, retaining some 30% for its in-house team of auditors.

Some 25-30% of the Commission's own audit fees constituted a 'top-slice' to pay for its programme of value-for-money studies. These were discontinued in mid-2010, ahead of the decision to close the Commission. The Comprehensive Area Assessment (CAA) process was also discontinued at this time. These decisions contributed to the Commission being able to reduce the audit fees payable for the contracts let in 2012 and 2013 by some 40%.⁷⁴ The Commission's power as a single buyer in the marketplace may also have been a factor in this reduction.

In February 2019 the Municipal Journal reported a finding of a survey of section 151 officers (local authority heads of finance) indicating that they believed that reductions in audit fees during the 2010s had led to less thorough auditing. PSAA, and the Local Government Association, rejected these views.⁷⁵ The NAO's 2019 report stated that:

⁷² Stephen Sheen, "[Crisis in local audit unlikely to be solved by coming reforms](#)", Room 151, 1 Sep 2021

⁷³ The Audit Commission was not responsible for the audit of academies or NHS Foundation Trusts. These bodies appointed their own bodies from their inception.

⁷⁴ Audit Commission press release, [Audit Commission announces details of £50 million annual savings for public bodies](#), 11 April 2012

⁷⁵ Dan Peters, "LGA backs freeze on external audit fees", *Municipal Journal*, 7 February 2019. See also Mike Allen, "[Below par: public sector audit in crisis](#)", *Room 151*, 6 February 2019

In 2017-18, £64 million was spent on fees to external auditors by local government (which includes local authorities, police and fire bodies) and local NHS bodies in England.⁷⁶

Tony Crawley, the chief executive of PSAA, stated that audit fees in 2018-19 were, on average, at some 35% of their levels in 2012.⁷⁷ The Redmond Review, in September 2020, stated that they had fallen by 42.25% since 2015.⁷⁸ It concluded that “a fundamental review of the fee structure is necessary. Evidence suggests that audit fees are at least 25% lower than is required to fulfil current local audit requirements effectively”.⁷⁹ The Redmond Review discussed this issue at some length (see section 2.2 above). Nevertheless, PSAA froze the audit fees for most authorities for the 2021-22 financial year.⁸⁰

2.6 Smaller bodies: exemption from routine audit

Alternative procedures are prescribed in regulations for ‘smaller public bodies’.⁸¹ These are mostly parish and town councils, together with other lesser-known categories of public body such as Internal Drainage Boards (IDBs) and charter trustees. Public bodies with an income and expenditure under £6.5 million are required to undergo a ‘limited assurance review’ of their accounts, with a report by the auditor on the authority’s annual return, rather than a full-scale audit.

Authorities with income and expenditure under £25,000 are exempt from any requirement for routine external audit or for a limited assurance review. They must prepare a statement of accounts (though they are free to choose to have a full audit if they so wish), and they must appoint an auditor (in order to deal with any public concerns).⁸² The purpose of this is to avoid an undue reporting burden on very small public bodies. These bodies are also required to comply with the [Transparency code for smaller authorities](#).⁸³

A smaller authority’s right to exemption from a limited assurance review is disappplied if the auditor has made a public interest report on the authority,

⁷⁶ NAO, [Local auditor reporting in England](#), HC-1864 2017-19, 2019, p10

⁷⁷ Tony Crawley, “[PSAA begins as Appointing Person for public sector audits](#)”, *Room 151*, 23 January 2019

⁷⁸ MHCLG, [Local authority financial reporting and external audit: independent review](#), September 2020, p33

⁷⁹ *Ibid.*, p72

⁸⁰ PSAA, [2021/22 auditor appointments and audit fee scale](#), 2021. See also Jonathan Knott, “[Most local audit fees frozen amid regulatory uncertainty](#)”, *Local Government Chronicle*, 31 Mar 2021

⁸¹ See the [Local Audit \(Smaller Authorities\) Regulations 2015](#) (SI 2015/184), paragraph 9

⁸² See DCLG, [Changes to the smaller authorities’ local audit and accountability framework: a guide](#), 2015, p. 7. These bodies will not be required to appoint an auditor, but if they take part in the sector-led body, this body will be able to appoint an auditor if electors have expressed objections to the accounts.

⁸³ See the [Smaller Authorities \(Transparency Requirements\) \(England\) Regulations 2015](#) (SI 2015/494); the [Local Government \(Transparency Requirements\) \(England\) Regulations 2015](#) (SI 2015/480).

made a recommendation to the authority, or declared an item of account unlawful.⁸⁴

2.7 Audit of health bodies

The Audit Commission was previously responsible for appointing auditors to most local health bodies: Clinical Commissioning Groups, NHS trusts, and special hospital trusts. The Commission produced a separate Code of Audit Practice for local health bodies: [the most recent version was published in 2010](#). The [Code of Audit Practice](#), published by the NAO in 2015, applies to all local public bodies, including local health bodies.

The 2014 Act sets the same broad audit framework for local health bodies as for other local public bodies, but certain aspects apply differently to local health bodies:

- Though auditors of health bodies must produce a public interest report if they consider it necessary (see section 1.7), there is no requirement for a public interest report on a health body to be published: it must simply be sent to the NHS Commissioning Board (NHS England);
- An auditor cannot issue a direction to prevent unlawful expenditure in a local health body, but must instead refer the matter to the Secretary of State;
- The rights of local electors to view accounts and question the auditor on items within them, and to object to items in the accounts, do not apply to local health bodies.

NHS Foundation Trusts (FTs), a separate class of bodies, have been able to appoint their own auditors from inception.⁸⁵ A number of bodies, including mental health trusts, ambulance trusts, and hospitals, have foundation trust status. FTs are self-governing bodies that have greater financial and operational freedom from Government than NHS trusts. They are directly accountable to Parliament and Monitor, the independent regulator of FTs. FTs also have a board of governors and members. Their greater financial freedoms include the ability to borrow commercially and generate surpluses to reinvest in services. Monitor produced a [code of audit practice for foundation trusts](#) in 2014, but this was superseded by the NAO's 2015 Code (and subsequently the 2020 Code).

⁸⁴ See the [Local Audit \(Smaller Authorities\) Regulations 2015](#) (SI 2015/184), paragraph 9

⁸⁵ The legislative framework for the audit of NHS Foundation Trusts can be found in schedule 10 of the [National Health Service Act 2006](#).

3 The Audit Commission

3.1 Establishment of the Audit Commission

The Audit Commission was established by Part III of the [Local Government Finance Act 1982](#). Its role was to appoint auditors to local authorities, police authorities and fire authorities in England and Wales, either from the pre-existing, public sector District Audit practice or from private firms. It was also required to draw up codes of audit practice, and had the power to carry out or order an extraordinary audit.⁸⁶ Legislation was consolidated in the [Audit Commission Act 1998](#), though a number of further responsibilities were subsequently given to the Commission:

- The [National Health Service and Community Care Act 1990](#) gave the Commission responsibility for external audit of NHS authorities, trusts and other bodies;
- The [Local Government Act 1999](#) gave the Commission power to inspect best value authorities;
- The [Local Government Act 2003](#) added to the Commission's responsibilities the inspection of registered social landlords and the categorisation of English local authorities by reference to performance (Comprehensive Performance Assessment, later Comprehensive Area Assessment);
- The [Serious Crime Act 2007](#) gave the Commission power to conduct data matching exercises as part of the National Fraud Initiative;
- The [Local Government and Public Involvement in Health Act 2007](#) provided for the transfer of the Benefit Fraud Inspectorate to the Audit Commission, as well as new powers to provide advice and assistance to other public bodies, and to report on performance in connection with the new Comprehensive Area Assessment system.

The Commission also had a general power to conduct 'value for money studies' and research, looking at issues or best practice across multiple public bodies, in order to encourage sharing of experience. The National Audit Office (NAO) carries out similar functions for UK Government departments and national public bodies. The NAO was set up under the [National Audit Act 1983](#) as an independent public body.

⁸⁶ This power was removed by the [Local Audit and Accountability Act 2014](#).

The Commission's remit never extended to Scotland or Northern Ireland, but it did extend to Wales until the passage of the [Public Audit \(Wales\) Act 2004](#), which established the Auditor General for Wales.

At the time of the announcement of its abolition, the Commission employed approximately 1,400 people across England. According to its website, it was responsible for the audit of £200 billion spent by 11,000 local public bodies. It was funded mainly by fees paid by its audited bodies. Data on the cost of the Commission was given on 14 May 2012 in response to a Parliamentary Question.⁸⁷ Further financial information can be found in the Commission's annual report and accounts and strategic plans.⁸⁸

3.2 Closure of the Audit Commission

The decision to close the Audit Commission was announced in a DCLG press notice on 13 August 2010.⁸⁹ This was followed by a Written Ministerial Statement on 6 September 2010.⁹⁰ In June 2010 the Government had already discontinued the Commission's programme of value for money studies, and abandoned the previous Labour Government's Comprehensive Area Assessment (CAA) regime.⁹¹ However, the decision to close the Commission outright was unanticipated. Reaction to the decision, whilst acknowledging that the Commission's role had grown very substantially during the preceding decade, tended to favour the retention (in some form) of most of the functions that the Commission had undertaken.⁹²

An initial Government consultation was published in July 2011. A [Draft Local Audit Bill](#) followed in 2012, which was subjected to pre-legislative scrutiny by an ad hoc Commons committee. The [Local Audit and Accountability Bill](#) was introduced in the 2013-14 session.⁹³ A 'statement of policy intent', which addressed the Government's intentions in terms of subsequent regulations and non-legislative changes, was also published. The Bill introduced, and subsequently passed, became the [Local Audit and Accountability Act 2014](#). A number of detailed regulations followed in the 2014-15 Parliamentary session.

The Government increased its funding to the National Audit Office to allow it to produce up to six additional value-for-money studies per year, looking at thematic local issues. The NAO has specific powers in the 2014 Act to

⁸⁷ See [HC Deb 14 May 2012](#) c1W

⁸⁸ See [Audit Commission past publications: corporate papers](#)

⁸⁹ DCLG, "[Eric Pickles to disband Audit Commission in new era of town hall transparency](#)", 13 August 2010

⁹⁰ [HC Deb 6 September 2010](#) c2-3WS

⁹¹ See DCLG, "[Pickles strips away pointless town hall red tape targets](#)", 25 June 2010

⁹² See, for instance, "Audit Commission lands in a pickle", *Financial Times*, 17 August 2010, p.10; Simon Parker, "Who will tackle failure now that the Audit Commission is being axed?", *Guardian*, 17 August 2010.

⁹³ The 'accountability' element of the Act comprised a small number of miscellaneous changes to transparency-related issues in local government, added after the pre-legislative scrutiny.

undertake such studies, but it is not permitted to investigate individual local authorities.⁹⁴ This reflects concerns from the local government sector that the NAO would seek to extend detailed Parliamentary accountability to individual local authorities.

⁹⁴ [Local Audit and Accountability Act 2014](#), s. 35

4 Further reading

Documents and Parliamentary debates relating to the Local Audit and Accountability Bill are available on the [Bill's pages on the Parliamentary website](#), including the Library's briefing papers on the Bill. Other documents related to the Bill / Act include:

- The [Draft Local Audit Bill](#) (Cm 8393), including a policy discussion and impact assessment, 6 July 2012.
- [Report of the Draft Local Audit Bill Committee](#), 17 January 2013, plus [Government response](#), 25 April 2013.
- DCLG [Local Audit and Accountability Bill: Delegated Powers – A Statement of Intent](#), 17 June 2013 (DEP 2013/1006).
- DCLG, [Local Audit and Accountability Bill: Local audit impact assessment](#), May 2013.
- Consultations on secondary legislation in [November 2013](#) (bespoke website) and [June 2014](#); Government's response to the latter in [December 2014](#).
- DCLG, [Local Audit and Accountability Act 2014 Impact Assessment](#), September 2014.

Other reports include:

- Audit Commission, [The Future of Local Audit: issues for consideration](#), September 2010.
- DCLG, [Future of Local Public Audit Consultation Paper](#), March 2011, plus a [summary of responses](#) and a [Government response](#), January 2012.
- Communities and Local Government Select Committee, [Audit and Inspection of Local Authorities](#), July 2011, plus [Government response](#), October 2011.
- Transparency International, [Corruption in Local Government: the mounting risks](#), October 2013.
- Competition Commission, [Statutory audit services market investigation](#), 15 October 2013.
- Nicholas Timmins and Tom Gash, [Dying to Improve: The demise of the Audit Commission and other improvement agencies](#), Institute for Government, 2014.

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