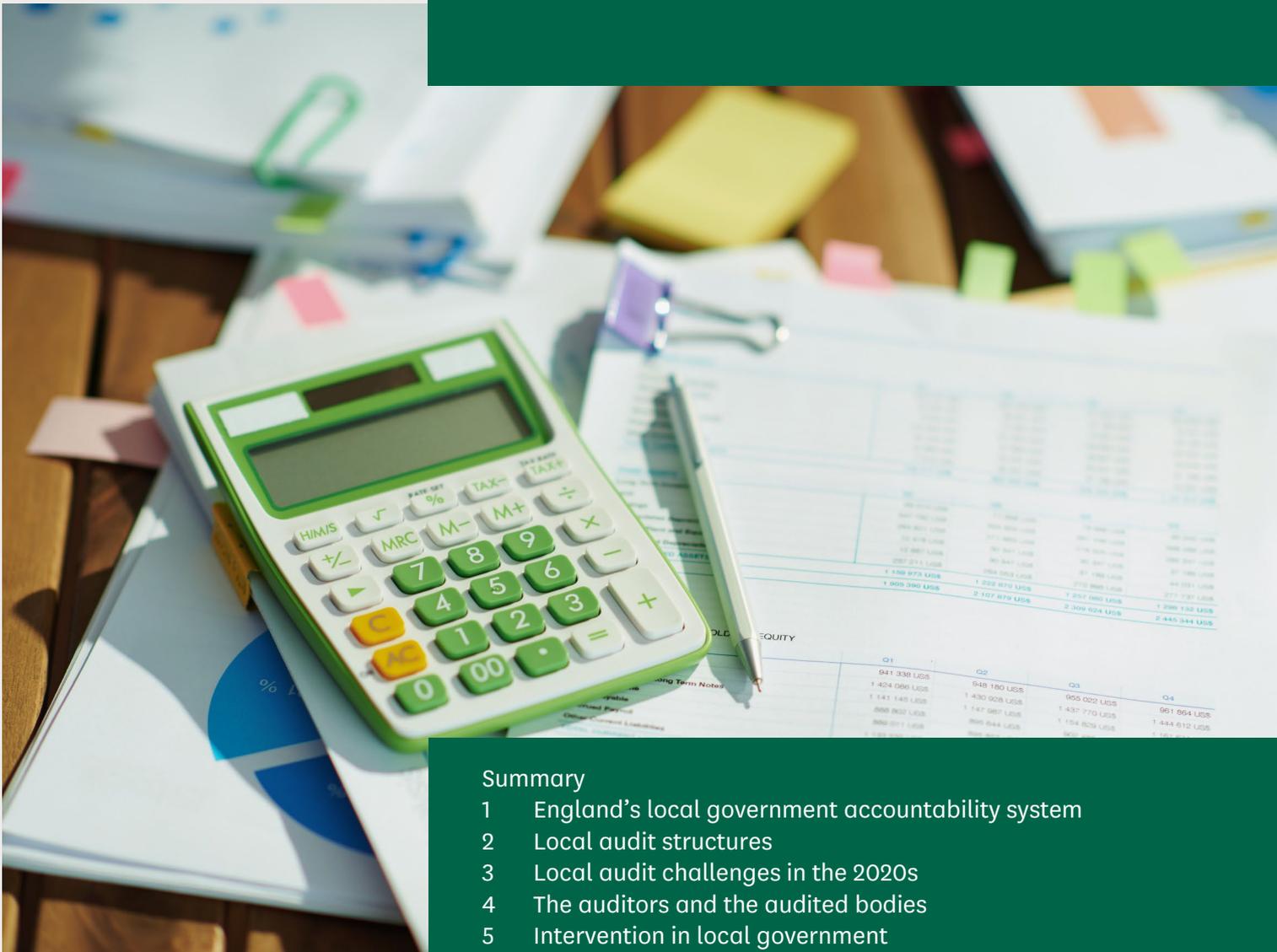


Research Briefing

20 February 2024

By Mark Sandford

# Local audit and accountability in England



## Summary

- 1 England's local government accountability system
- 2 Local audit structures
- 3 Local audit challenges in the 2020s
- 4 The auditors and the audited bodies
- 5 Intervention in local government

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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.

This briefing paper explains the local government accountability framework that operates in England. It provides details of the Office for Local Government (OFLOG) established in 2023, the operation of local audit in England, and detail of the role of ‘value for money’ in local public audit. It provides details of significant backlogs in local authority auditing in the early 2020s, plus the Government’s measures to address this issue.

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.

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# 1 England's local government accountability system

## 1.1 The Local Government Accountability Framework

The Department of Levelling Up, Housing and Communities (DLUHC) publishes a Local Government Accountability Framework, which applies to principal local authorities in England.<sup>1</sup> This is published as part of DLUHC's Accounting Officer System Statement. All Government departments publish an Accounting Officer System Statement: these statements explain how the department's Permanent Secretary discharges their duty of personal accountability to Parliament for their department's public spending.

Accounting Officer System Statements also explain how departments hold other bodies accountable when they departments transfer money to other bodies. This is particularly significant when funds are passed to local elected bodies, which hold separate democratic mandates. DLUHC passes large amounts of Government funding to local authorities, as it manages the annual Local Government Finance Settlement: however, other departments also pass funding direct to local authorities.

### Local accountability

The Local Government Accountability Framework describes the Government's conception of local government 'accountability' as consisting both of local democratic structures and procedures, and requirements to account to central government departments for public spending. It states that assurance for local spending is strengthened by democratic accountability of local elected officials; the Best Value duty on local authorities; local authority overview and scrutiny; and freedom of information.<sup>2</sup>

More information on the Best Value duty can be found at section 1.2 below. The Library has also published separate briefing papers on [overview and scrutiny](#) and [freedom of information](#).

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<sup>1</sup> DLUHC, [Accounting officer system statement 2023](#), 12 Jun 2023. The term 'principal local authorities' covers county, district and unitary authorities, combined authorities, fire and rescue authorities, the Greater London Authority, the City of London and the Isles of Scilly.

<sup>2</sup> DLUHC, [Accounting officer system statement 2023](#), 12 Jun 2023

The Framework states that the following dimensions make up the core of the Government's local government accountability framework:

- clarity about who is responsible for resources:
- a set of statutory codes and rules which require councils to act prudently in their spending;
- a framework of internal and external checks and balances including audit and whistleblowing;
- transparency and publication of data; and
- requirements to have strategies and action plans on fraud.<sup>3</sup>

The Framework also sets out the mechanisms DLUHC uses to obtain assurance about local government spending. DLUHC collects financial data from local authorities and the Office for National Statistics, information on service provision, and 'soft intelligence'. It also uses information from the Local Government Association, other government departments, and the media.<sup>4</sup>

DLUHC officials also provide advice to the department's Principal Accounting Officer (the Permanent Secretary) twice a year on the operation of the accountability framework. This could include research outputs and any recommendations for change. A Local Authority Governance and Accountability Framework Review Panel, consisting of a range of stakeholders, has been convened since 2019.<sup>5</sup>

The Local Government Accountability Framework states that other departments are "responsible for establishing [their] own arrangements to ensure that services remain sustainable and that statutory responsibilities are being met".<sup>6</sup>

Further information about statutory codes relating to financial management can be found in section 1.2 of the Library briefing paper [Local authority financial resilience](#). Further information about requirements for publication of data can be found in the Library briefing paper [Local government transparency in England](#).

## Associated frameworks

DLUHC publishes additional documents applying its accountability framework in greater detail to specific bodies. Examples include the [National Local Growth Assurance Framework](#), published in 2019 to apply to Local Enterprise

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<sup>3</sup> As above, paragraph 2.2

<sup>4</sup> See section 4 of Appendix A in DLUHC, [Accounting officer system statement 2023](#), 12 Jun 2023.

<sup>5</sup> As above, Appendix A, paragraph 4.11

<sup>6</sup> As above, paragraph 1.18

Partnerships and combined authorities. This is to be superseded by the [English Devolution Accountability Framework](#) (EDAF), first published in 2023, which will apply to combined authorities, the Greater London Authority, and other councils in respect of powers transferred to those bodies via devolution deals.

## 1.2

## Best Value

The ‘best value’ regime was introduced by the [Local Government Act 1999](#). It is founded on the requirement in section 3 (1) of the Act that “a best value authority must make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness”. This requirement applies in England only. It applies to principal local authorities, but not to police and crime commissioners or to parish and town councils.

The best value requirement was the foundation of the Comprehensive Performance Assessment (CPA), an extensive programme of inspection and evaluation of local authorities that was managed by the Audit Commission between 2002 and 2007. The CPA evolved into the Comprehensive Area Assessment (CAA) between 2009. The Coalition government that took office in 2010 abolished the CAA.

Since 2010, the concept of best value has had a residuary existence. There are no regular assessments or performance metrics used to determine whether or not an authority is meeting its duty of best value. However, the Government’s power to direct, or intervene in the running of, local authorities (see section 5 below) is based, in statute, on the Secretary of State assessing that an authority is failing to comply with its best value duty.<sup>7</sup> The Government can (but does not have to) commission a best value report into an individual authority before it determines whether an intervention is necessary.<sup>8</sup>

The Government published draft guidance in July 2023 on Best Value standards and criteria for intervention. The guidance set out seven best value themes: continuous improvement, leadership, governance, culture, use of resources, service delivery, and partnerships and community engagement. The draft guidance said:

...these seven themes represent the key areas where authorities should be able to demonstrate they are making effective arrangements to secure continuous improvement in the way in which its functions are exercised. ... Local authorities are not expected to perform perfectly, given the complex set of legal responsibilities and inherent levels of risk authorities must manage, but should strive for excellence and be able to demonstrate they are making

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<sup>7</sup> See section 15 (1) of the [Local Government Act 1999](#)

<sup>8</sup> [Local Government Act 1999](#), section 13. See also DLUHC, [Best value standards and intervention draft guidance](#), 2023, p27

effective arrangements to secure continuous improvement in each of these areas.<sup>9</sup>

The guidance also notes that DLUHC will seek to engage informally with a local authority that is at risk of not fulfilling its best value duty, in advance of (and in preference to) a formal intervention. The Government can issue a statutory notice to require an authority to engage with DLUHC regarding its best value duty.<sup>10</sup>

The Government issued a best value notice to South Cambridgeshire District Council in November 2023. South Cambridgeshire trialled a four-day working week for its employees during 2023, and refused to end it following letters from the Minister, Lee Rowley, to the leader of the council. The best value notice is to remain in place for six months and requires the council to supply a range of data to the Secretary of State.<sup>11</sup>

The Government issued further best value notices to Runnymede and Eastleigh borough councils in December 2023.<sup>12</sup> It has also issued non-statutory notices to Middlesbrough Council and Cambridgeshire & Peterborough Combined Authority.<sup>13</sup>

## 1.3

## OFLOG

In the February 2022 Levelling Up White Paper, the Government committed to establishing an independent data body, to publish data and evidence enabling the public, local authorities and the Government to compare performance and share best practice.<sup>14</sup> This body has subsequently become known as the Office for Local Government (OFLOG). Its first chair is Sir Amyas Morse, the former Comptroller and Auditor General.<sup>15</sup>

At the Local Government Association annual conference in June 2022, Michael Gove, the Secretary of State, said:

We're creating a new body – the Office for Local Government – to shine a light on how local authorities are performing and delivering. It will initially bring together, analyse and publish existing data – because we want this to be useful to authorities rather than an administrative burden. .... As a result, taxpayers will be able to see which councils are going the furthest on the

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<sup>9</sup> DLUHC, [Best value standards and intervention draft guidance](#), 2023, p13

<sup>10</sup> This makes use of a power in section 230 of the [Local Government Act 1972](#), which states that “Every local authority... shall send the Secretary of State such reports and returns... as he may require”. This power has yet to be used (see DLUHC, [Best value standards and intervention draft guidance](#), 2023, p25)

<sup>11</sup> See DLUHC, [South Cambridgeshire District Council: Best Value Notice](#), 3 Nov 2023

<sup>12</sup> Jason Holland, [DLUHC issues Best Value Notices at Runnymede and Eastleigh](#), Room 151, 19 Dec 2023

<sup>13</sup> DLUHC, [Best value standards and intervention draft guidance](#), 2023, p24

<sup>14</sup> DLUHC, [Levelling Up the United Kingdom](#), 2022, p138

<sup>15</sup> [HCWS 519 2022-23](#), 25 Jan 2023

environment, which are pioneering transformative children’s services, and which are providing best value for money in an annual report on local government performance overall.<sup>16</sup>

OFLOG was formally launched on 4 July 2023. [A position statement was published](#) on the DLUHC website, alongside a new Local Authority Data Explorer. This provided access to some of the initial data sets that OFLOG will collate. The position statement set out OFLOG’s short, medium and long-term aims. In the short term it will:

- Present selected performance data through the Data Explorer, expanding & improving over time
- Increasingly provide contextual / explanatory information
- Start work to baseline devolution deals
- Develop indicators that will show areas at risk of failure and convene early warning dialogues between such areas and experts in the sector.<sup>17</sup>

In the future OFLOG plans to “support the interpretation of data for LG performance”, and in the longer term to publish its own analysis of local government performance.

OFLOG will cover England only, and will “engage with the devolved administrations and work with similar organisations” in Scotland, Wales and Northern Ireland.<sup>18</sup> No decision has yet been taken about whether it will become an arm’s length body, or will be relocated outside of London. Michael Gove, the Secretary of State, said in July 2023 that he “would like to see a setup with a greater degree of independence”.<sup>19</sup> The Municipal Journal reported in October 2023 that OFLOG would have a “particular focus” on DLUHC’s Wolverhampton office.<sup>20</sup>

OFLOG published a further consultation paper in October 2023.<sup>21</sup> This paper said that OFLOG planned to focus on two issues raised frequently by local government leaders: spotting early warning signs of organisational failure in good time, and sharing best practice on ways of improving performance. The paper sought opinions on a draft list of new metrics that OFLOG planned to add to the Data Explorer. OFLOG are seeking to publish metrics that already exist (i.e., not to create new ones), and have specified the following criteria:

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<sup>16</sup> DLUHC, [Local Government Association annual conference 2022: Secretary of State's speech](#), 28 Jun 2022

<sup>17</sup> DLUHC, [Office for Local Government: Understanding and supporting local government performance](#), July 2023, chapter 3

<sup>18</sup> DLUHC, [Office for Local Government: Understanding and supporting local government performance](#), July 2023, chapter 2

<sup>19</sup> Kirsty Weakley and Megan Kenyon, OFLOG [Exclusive: Gove - 'I want Oflog to have greater degree of independence'](#), Local Government Chronicle, 4 Jul 2023

<sup>20</sup> Dan Peters, [EXCLUSIVE: Oflog base 'focus' on Wolverhampton](#), Municipal Journal, 25 Oct 2023

<sup>21</sup> DLUHC, [Office for Local Government: next steps and new draft metrics](#), 26 Oct 2023

Metrics should capture key elements of local authority responsibilities where councils have significant powers to influence outcomes, be measurable at a local authority level, and not significantly duplicate other metrics proposed for the Data Explorer. The metrics themselves should be measurable over time and show meaningful differences between authorities.<sup>22</sup>

The paper also proposed a further series of metrics that OFLOG plan to add to the Data Explorer. It said:

...the Data Explorer will include a mixture of outputs (clearly attributable to council performance – e.g. speed of planning decisions); outcomes (less wholly attributable – e.g. housing supply); and relevant context (e.g. spending power).<sup>23</sup>

In a letter to the Levelling Up, Housing and Communities Committee published on 17 January 2024, DLUHC elaborated on how it anticipated OFLOG functioning as an entity independent of government:

Over time, the Department’s aim is for Ministers to set the objectives for Oflog through an annual remit letter and then for Oflog to deliver those objectives however they see fit. The intention is that Oflog will be free to decide independently how data is presented and interpreted, and any views reached about local areas.<sup>24</sup>

This letter also said that OFLOG intended to select future metrics for the Data Explorer that focus on outcomes; and that it is developing an ‘early warning system’ to identify authorities at financial risk. This system will include ‘early warning conversations’ with authorities identified as potentially being at risk of financial or governance failure. However, OFLOG will not have any role in Government decisions to intervene in local authorities. Ministers will also sign off OFLOG’s decisions regarding what data sets to include in the Data Explorer.<sup>25</sup>

OFLOG’s first remit letter, covering 2024 to 2027, was published on 15 February 2024.<sup>26</sup> The letter said:

Oflog will support local authorities to improve. Over time, it should become a centre of excellence in ‘what works’ in local government. It will identify, celebrate and encourage good practice, and become a centre of expertise in the use of data in managing local government.

Oflog must work in close partnership with the local government sector and bodies that represent, support or oversee it. It should complement, not duplicate, the work of others.

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<sup>22</sup> As above, p4

<sup>23</sup> As above, p2

<sup>24</sup> Levelling Up, Housing and Communities Committee, [Letter from the Minister for Local Government to Chair concerning the Office for Local Government](#), 17 Jan 2024

<sup>25</sup> As above, p3

<sup>26</sup> See DLUHC, [Office for Local Government \(Oflog\): strategic remit for 2024 to 2027 and priorities for 2024 to 2025](#), 15 Feb 2024

Oflog should not lobby central government, Parliament, or political parties for regulatory or policy change.

The letter also sets priorities for the 2024 to 2025 financial year, organised under three strategic objectives: ‘inform’, ‘warn’ and ‘support’. It also reiterates that OFLOG will have a role in assessing the performance of devolved bodies in England:

Oflog will play an important role in supporting devolution by enabling transparency and fostering informed accountability. By carefully selecting and publishing metrics that are most relevant to areas with devolution deals on the Local Authority Data Explorer, it will help Government, the public and civil society to assess the performance of combined authorities.<sup>27</sup>

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<sup>27</sup> As above

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## 2 Local audit structures

### 2.1 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.

Between 1983 and 2015, 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.<sup>28</sup> The new arrangements for local audit began in full from the 2018-19 financial year. More information about the abolition of the Audit Commission can be found in the Library research briefing on the [Local Audit and Accountability Bill 2013-14](#).<sup>29</sup>

The local audit 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).

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 2.8 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.

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

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<sup>28</sup> 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.

<sup>29</sup> More information on the closure of the Audit Commission can be found in [the Library briefing paper on the Local Audit and Accountability Bill 2013-14](#). See also Nicholas Timmins and Tom Gash, [Dying to Improve: The demise of the Audit Commission and other improvement agencies](#), Institute for Government, 2014.

are to be audited. In practice, this is normally done on a collective basis (see section 2.2). The maximum length of an audit contract is five years, though the same firm of auditors may be reappointed after the five-year period expires.<sup>30</sup>

## 2.2 Collective local audit procurement

The 2014 Act allows the Government to nominate a ‘person’ to act as a joint procurement body for local audit.<sup>31</sup> This body must appoint auditors to those local authorities which opt in to its joint procurement arrangement. Since July 2016, this has been the responsibility of [Public Sector Audit Appointments](#) (PSAA).<sup>32</sup> PSAA is a subsidiary company of the Local Government Association (LGA).

All but 10 relevant bodies opted in to the PSAA arrangements for the period from 2018 to 2023, and all but five opted in for the period from 2023 to 2028.<sup>33</sup> Details of the auditors appointed to each local authority in England, and a named contact for each authority 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. The forum holds regular online events, free to opted-in authorities, with charges payable by non-opted in authorities.

PSAA does not have any broader role to report on value for money or to produce research ‘studies’, in the manner of the Audit Commission.<sup>34</sup> However, up to 2017/18 it collected data in an annual report on ‘the results of auditors’ work’. These reports set out information about authorities where qualified audit conclusions were reached, and details of any advisory notices issued.<sup>35</sup> From 2019, PSAA has undertaken an annual survey of audited bodies and published an audit quality monitoring report based on the findings.<sup>36</sup>

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<sup>30</sup> [Local Audit and Accountability Act 2014](#), s.7

<sup>31</sup> 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).

<sup>32</sup> Public Sector Executive, [LGA’s PSAA appointed as national audit body on behalf of councils](#), 25 July 2016

<sup>33</sup> See [Progress update: Timeliness of local auditor reporting on local government in England \(nao.org.uk\)](#), paragraph 3.8. For a list of opted-in bodies, and details of the system of appointing auditors, see <https://www.psaa.co.uk/about-us/appointing-person/>

<sup>34</sup> The NAO has a power to produce a small number of general reports (‘examinations’) on local government: see section 35 of the [Local Audit and Accountability Act 2014](#).

<sup>35</sup> PSAA, [Report on the results of auditors’ work 2017-18](#), November 2018

<sup>36</sup> PSAA, [Contract monitoring 2021/22](#)

## Smaller authorities

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.<sup>37</sup> 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).<sup>38</sup>

Smaller authorities are included within SAAA’s collective procurement scheme by default, but can choose to opt out (i.e., the opposite situation to PSAA). If they do opt out, they are required to provide details to SAAA of the separate audit arrangements that they have made. No smaller authorities opted out for the first two rounds of appointments, covering 2017-22 and 2022-27. A list of smaller authorities’ audit appointments and fee scales can be found [on the SAAA website](#).

## 2.3

## Local government audit committees

There is no statutory requirement for local authorities to appoint an audit committee, although many do. Following a recommendation in the 2020 Redmond Review,<sup>39</sup> the Government stated in 2022 that it would legislate to require local authorities to appoint an audit committee, which would be required to have at least one independent member.<sup>40</sup> As of January 2024, this legislation has yet to appear.

CIPFA publishes [a position statement on audit committees](#) in local authorities and police bodies, outlining best practice for membership, governance and core functions.

The 2014 Act provided that each public authority must appoint an ‘independent auditor panel’, to ensure probity and good practice in authorities’ decisions on which auditors to appoint. Authorities that have opted in to one of the collective systems set out above are not required to appoint an ‘independent auditor panel’.<sup>41</sup> Further information about independent auditor panels can be found in the Library briefing on the [Local Audit and Accountability Bill 2013/14](#).

<sup>37</sup> See the [Local Audit \(Smaller Authorities\) Regulations 2015](#) (SI 2015/184), regulations 21-23.

<sup>38</sup> These are the national representative bodies for parish and town councils; parish and town council clerks (i.e., chief executives); and [Internal Drainage Boards](#), respectively.

<sup>39</sup> MHCLG, [Local authority financial reporting and external audit: government response to the independent review](#), 17 Dec 2020, paragraph 79

<sup>40</sup> DLUHC, [Government response to local audit framework: technical consultation](#), 31 May 2022. Legislation on this point had not appeared by the end of August 2023.

<sup>41</sup> CIPFA, [Guide to Auditor Panels](#), December 2015, p3. See the [Local Audit \(Appointing Person\) Regulations 2015](#), paragraph 4 of the Schedule.

## 2.4

## Public rights

Members of the public have various legal rights in the local audit process. In August 2021 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, and journalists, may inspect local authorities' accounts and documents relating to accounting records, for a period of a maximum of 30 days during the audit process.<sup>42</sup> They may also lodge an objection to any item within the accounts. The auditor must then investigate this objection, unless they consider it to be repetitive, frivolous, or of disproportionate cost.<sup>43</sup> This right of access does not apply to health service bodies.<sup>44</sup>

In 2019, the Bureau of Investigative Journalism co-ordinated a number of attempts to exercise the right to inspect accounts. Some councils that were approached failed to respond, whilst others supplied redacted information or refused to supply information from their wholly-owned companies. Other councils provided fuller information about certain transactions. The BIJ noted that:

Some of the issues might be explained by how few people are making use of the law. In 2015-16, the 11,000 eligible public bodies received 65 inspection requests. Several of the Bureau's volunteers were told they were the first people to ask to inspect their authority's accounts for decades.<sup>45</sup>

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.<sup>46</sup>

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<sup>42</sup> See the [Accounts and Audit Regulations 2015](#), regulation 14, which also contains requirements for when the 30-day period must begin. This right was extended to journalists by the [Local Audit \(Public Access to Documents\) Act 2017](#); see also [the Library briefing paper on the relevant Bill](#) when it was presented to the House of Commons.

<sup>43</sup> [Local Audit and Accountability Act 2014](#), s27. Prior to the 2014 Act, auditors were unable to refuse to investigate objections.

<sup>44</sup> As above, s26

<sup>45</sup> Bureau of Investigative Journalism, [Councils ignoring public right to audit accounts](#), 11 September 2019

<sup>46</sup> Public Accounts Committee, [Auditing local government](#), HC-1738 2017-19, 2019, p5-6

## 2.5 Accounts: publication and powers

Local authorities must publish unaudited accounts by 31 May following the end of the financial year. Large numbers of authorities have missed the latter deadline in the early 2020s, leading to a considerable backlog of audits (see section 3 below).

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.<sup>47</sup>

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 2.7 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;<sup>48</sup>
- Apply for judicial review of an action, or failure to act, by an authority which might have an effect on its accounts.<sup>49</sup>

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 to address the auditors' concerns.

## 2.6 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".<sup>50</sup> VFM has formed an element of local audit practice for several decades. Chapter 3 of the Code of Audit Practice sets out the requirements of auditors

<sup>47</sup> See the [Accounts and Audit Regulations 2015](#) (SI 2015/234)

<sup>48</sup> [Local Audit and Accountability Act 2014](#), s.30 / Schedule 8. The power to surcharge councillors personally for expenditure found to be unlawful by an auditor was abolished in 2000.

<sup>49</sup> [Local Audit and Accountability Act 2014](#), s. 31

<sup>50</sup> [Local Audit and Accountability Act 2014](#), s.20 (1) (c)

in respect of this aspect of their work.<sup>51</sup> The Code is supported by guidance to auditors on their work on value for money arrangements.

In a report in 2019, 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.<sup>52</sup>

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 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.<sup>53</sup> However, neither the auditor nor the authority itself is required to assess whether value for money has been achieved. In its November 2023 report, the Levelling Up, Housing and Communities Committee recommended that authorities should be required to assess whether value for money has been achieved, perhaps focusing on a selection of projects or programmes.<sup>54</sup>

## Value for money and the broader role of audit

Some commentary in the late 2010s and early 2020s has suggested that value for money has formed a less significant element of local audit during this period. This has allegedly been driven in part by reducing fee levels, but also by divergence in views on the role of audit in the wider accountability system.<sup>55</sup> Paul Dossett, head of local government at the accountancy firm Grant Thornton, said in early 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?<sup>56</sup>

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<sup>51</sup> NAO, [Code of Audit Practice](#), 2020

<sup>52</sup> NAO, [Local auditor reporting in England](#), HC-1864 2017-19, 2019, p20

<sup>53</sup> See NAO, [Code of Audit Practice](#), 2020, paragraphs 3.10-11

<sup>54</sup> Levelling Up, Housing and Communities Committee, [Financial Reporting and Audit in Local Authorities](#), HC-59 2023-24, 20 Nov 2023, p32

<sup>55</sup> See additionally Stephen Sheen, [“Crisis in local audit unlikely to be solved by coming reforms”](#), Room 151, 1 Sep 2021; Alison Ring, [The spotlight on local audit is also shining on the accounts](#), Room 151, 4 Jul 2023

<sup>56</sup> Paul Dossett, [“At the crossroads: what is public audit for?”](#), Room 151, 23 January 2019

The use of comparative data 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.<sup>57</sup> The establishment of OFLOG in 2023 (see section 1.3) took place largely in response to the perceived weakness of locally- and regionally-disaggregated data.

Academics have also noted a conceptual distinction between different forms of ‘accountability’, set out in an article by Bradley et al in 2018:

Local authorities face multiple forms of adjudication, including their accountability to local electorates. The processes of local audit monitor conformity with the law and accounting standards. The broader canvas, which includes judgements about VFM, raises contested issues regarding the application of metrics and whose judgement should count most—that of elected councillors, their electorates, central government or auditors?<sup>58</sup>

The same authors suggested that the Financial Reporting Council should have taken greater account of the unique circumstances of local audit in its regulatory practices:

Auditors may feel pressurized to meet the regulator’s standards rather than the specific needs of local public audit stakeholders. Those needs are not met effectively by the current audit framework because there is no longer a body to act for local stakeholders when it comes to interpreting complex financial statements, identifying areas of risk and seeking resolution.<sup>59</sup>

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).<sup>60</sup>

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 4.1 above). The summary of responses mentioned proportionality of additional investigations; use of an appropriate

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<sup>57</sup> NAO, [Local auditor reporting in England](#), HC-1864 2017-19, 2019, p34-35

<sup>58</sup> Lynn Bradley, David Heald & Ron Hodges, “[Causes, consequences and possible resolution of the local authority audit crisis in England](#)”, *Public Money & Management* 43:3, 2023, p260

<sup>59</sup> As above, p261

<sup>60</sup> 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

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.<sup>61</sup>

## 2.7 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.

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.

The Redmond Review, published in late 2020, recorded that four PIRs had been issued since the 2015-16 financial year.<sup>62</sup> The public sector accountancy firm Grant Thornton published a report in 2022 that identified four further PIRs published in 2021 and 2022.<sup>63</sup>

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.<sup>64</sup> Seven statutory recommendations were issued between 2015 and 2019, and Grant Thornton identified a further six in 2021 and 2022.<sup>65</sup>

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<sup>61</sup> As above, p8

<sup>62</sup> MHCLG, [Local authority financial reporting and external audit: independent review](#), September 2020, p36

<sup>63</sup> Grant Thornton, [Lessons from recent Public Interest Reports](#), Sep 2022, p19. PIRs were issued in respect of Nottingham City Council (August 2020), the London Borough of Croydon (October 2020) and Northampton Borough Council (January 2021). The two statutory recommendations were issued to Copeland District Council and South Ribble District Council.

<sup>64</sup> The relevant legislation is schedule 7 of the [Local Audit and Accountability Act 2014](#).

<sup>65</sup> NAO, [Local auditor reporting in England](#), HC-1864 2017-19, 2019, p29; Grant Thornton, [Lessons from recent Public Interest Reports](#), Sep 2022, p19

## 2.8

## Smaller bodies: exemption from routine audit

Alternative procedures are prescribed in regulations for ‘smaller public bodies’.<sup>66</sup> 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).<sup>67</sup> 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](#).<sup>68</sup>

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, made a recommendation to the authority, or declared an item of account unlawful.<sup>69</sup>

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<sup>66</sup> See the [Local Audit \(Smaller Authorities\) Regulations 2015](#) (SI 2015/184), paragraph 9

<sup>67</sup> 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.

<sup>68</sup> See the [Smaller Authorities \(Transparency Requirements\) \(England\) Regulations 2015](#) (SI 2015/494); the [Local Government \(Transparency Requirements\) \(England\) Regulations 2015](#) (SI 2015/480).

<sup>69</sup> See the [Local Audit \(Smaller Authorities\) Regulations 2015](#) (SI 2015/184), paragraph 9. SAAA lists [public interest reports on its website](#).

## 3 Local audit challenges in the 2020s

### 3.1 Audit delays

During the late 2010s and early 2020s, a large backlog developed of local authority audits that were delayed. That is, local authorities had failed to meet the statutory deadline for the publication of their unaudited accounts.

Since 2017/18, the standard statutory deadline has been the 31 July following the financial year in question.<sup>70</sup> The deadline has been adjusted on several occasions since then (see Table 1 below), initially due to the effects of the Covid-19 pandemic, and latterly due to the developing audit backlog.<sup>71</sup> At the time of writing, the deadline is 30 September, up to and including the 2027/28 financial year.<sup>72</sup>

Financial year	Audited accounts: deadline	Percentage of authorities meeting deadline
2014-15	30 Sep 2015	97%
2015-16	30 Sep 2016	97%
2016-17	30 Sep 2017	95%
2017-18	31 Jul 2018	87%
2018-19	31 Jul 2019	57%
2019-20	30 Sep 2020	45%
2020-21	30 Sep 2021	9%
2021-22	30 Nov 2022	12%
2022-23	30 Sep 2023	1%

As of October 2023, a total backlog existed of 918 delayed audit opinions.<sup>73</sup> These delays have effects on financial reporting within Government departments, and upon the Whole of Government Accounts:

The annual report and accounts of some major departments, for example the Ministry of Justice, have been delayed by the late delivery of local assurance,

<sup>70</sup> See the [Accounts and Audit Regulations 2015](#), paragraph 10 (1)

<sup>71</sup> Sources for Table 1: National Audit Office, [Timeliness of local auditor reporting on local government in England, 2020](#), HC-1243 2019-21, 16 Mar 2021; DLUHC, [Measures to improve local audit delays](#), 16 Dec 2021; Aysha Gilmore, [Only 1% of local government bodies have received audit opinions on 22/23 accounts](#), Room 151, 12 Oct 2023

<sup>72</sup> See the [Accounts and Audit \(Amendment\) Regulations 2022](#)

<sup>73</sup> Aysha Gilmore, [Only 1% of local government bodies have received audit opinions on 22/23 accounts](#), Room 151, 12 Oct 2023

including on local government pensions. The 2019-20 Whole of Government Accounts will be delayed (as were the previous year's Whole of Government Accounts). Other assurance processes within departments have also been affected by the late delivery of audit opinions...<sup>74</sup>

PSAA's Audit Quality Monitoring Report in 2021 stated:

Delayed audit opinions have a public-facing impact, undermining the ability of local bodies to account effectively for their stewardship of public money to taxpayers. Too many of them are having to make decisions, managing multiple financial challenges and laying plans for the future with limited assurance about their underlying financial positions.<sup>75</sup>

## 3.2 Action to tackle the audit backlog

The National Audit Office has reported on the issue of audit delays. In the report [Timeliness of local auditor reporting on local government in England, 2020](#), they said:

Local authorities need accurate and reliable financial information to plan and manage their services and finances effectively. The audit process provides a key element of assurance for financial planning and budgeting. Delays to the audit opinion, and the issue of recommendations to audited bodies, can mean that actions to improve financial efficiency and resilience are also delayed, and risks those actions being less effective.<sup>76</sup>

The NAO report stated that the main drivers for the increasing delays included: auditor workload, driven in part by regulatory requirements stemming from high-profile corporate failures such as Carillion; lack of experienced audit staff; shortcomings in the planning of audit and finance work by both auditors and local authorities; and the effects of the Covid-19 pandemic.<sup>77</sup>

The Public Accounts Committee published a report in July 2021 based on the NAO report, entitled [Local auditor reporting on local government in England \[PDF\]](#).<sup>78</sup> Plans were provided in a broader letter published by the PAC on 25 October 2021.<sup>79</sup>

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<sup>74</sup> As above. See also National Audit Office, [Progress update: Timeliness of local auditor reporting on local government in England](#), HC-1026 2022-23, 26 Jan 2023, p8

<sup>75</sup> PSAA, [Audit Quality Monitoring Report 2020/21](#)

<sup>76</sup> National Audit Office, [Timeliness of local auditor reporting on local government in England, 2020](#), HC-1243 2019-21, 16 Mar 2021, p7

<sup>77</sup> National Audit Office, [Timeliness of local auditor reporting on local government in England, 2020](#), HC-1243 2019-21, 16 Mar 2021, p26-27

<sup>78</sup> Public Accounts Committee, [Local auditor reporting on local government in England](#), HC-171 2021-22, 14 Jul 2021

<sup>79</sup> [Correspondence from Jeremy Pocklington on enquiry into timeliness of local auditor reporting on local government in England](#), 6 Oct 2021

A report from the local government audit firm Grant Thornton, published in March 2023, stated that some effective action was under way at that point to tackle the audit backlog. However, questions in other areas had not been resolved. These included the overall purpose of local audit: Grant Thornton stated that “the balance between financial statement audit and value for money audit has moved in the last 10 years towards financial statement audit”. Other concerns included the complexity of local authority accounts; the treatment of assets; the quality of local authority finance teams; and the (in)ability of local auditors to issue qualified accounts where extensive issues are found.<sup>80</sup>

## Letters to House of Commons committees

The [Treasury wrote to the Liaison Committee in May 2022](#) setting out the measures that the Government was taking in response to the challenges in local audit. This included reviewing practice on the valuation of infrastructure assets; consulting on key audit partner guidance; additional funding for local audit; the technical advisory service for local audit; the new local audit diploma; and adjustments to local audit deadlines.

The minister for local government, Lee Rowley, [wrote to the Levelling Up, Housing and Communities Committee on 14 July 2023](#) outlining DLUHC’s activities to clear the backlog of local audits. DLUHC plans to set statutory deadlines for the publication of **audited** accounts. Unlike unaudited accounts, these are not subject to statutory deadlines. A consultation is expected in early 2024 on a possible deadline for the publication of audited accounts. The Local Government Chronicle stated that Gareth Davies, the Comptroller and Auditor General, said that this deadline was likely to be 30 September 2024.<sup>81</sup>

The July 2023 letter said that DLUHC would also loosen the requirements on auditors to provide assurance. The letter stated that this was regarded as preferable to waiting several years for audited accounts to be produced, by which time the audited accounts would be of little value:

Auditors would then be required to provide as much assurance as possible for these outstanding years, reporting as normal any significant concerns they have on an organisation’s financial controls, financial reporting as well as financial resilience, governance and risk. Where necessary, it is intended that auditors would need to limit their opinion and make clear to the users of the accounts those aspects or sections of a set of accounts which are not supported by sufficient, appropriate evidence, and which the auditor is unable to provide assurance over.

The NAO will also consider changes in the Code of Audit Practice to address the issue of audit delays being caused by certain types of valuation. This is also the subject of a wider thematic review by the Treasury.

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<sup>80</sup> Grant Thornton, [About time? Exploring the reasons for late publication of local authority accounts](#), March 2023

<sup>81</sup> Caitlin Webb, [Proposed deadline for outstanding audits revealed](#), Local Government Chronicle, 10 Jan 2024

A further [letter from Sarah Healey](#), permanent secretary of DLUHC, on 4 August 2023, to the PAC reiterated plans to set statutory deadlines for the completion of historical audits. This was supported by the Levelling Up, Housing and Communities Committee’s November 2023 report.<sup>82</sup>

## 3.3 Challenges faced by local auditors

### Staff shortages

There is a limited number of staff, and senior partners, in audit firms with sufficient expertise to carry out local audits.<sup>83</sup> In part this is because of high staff turnover, with auditors preferring opportunities in other fields of audit, due to a perceived lack of career prospects in local audit.<sup>84</sup>

To address this issue, the Financial Reporting Council published updated requirements for individuals to be designated as ‘key audit partners’ in May 2022, permitting individuals with less local audit experience (two years rather than three) but who have completed specified training courses to become key audit partners.<sup>85</sup> DLUHC also plans to launch a technical advisory service for complex local audit issues, and a new qualification for local auditors.<sup>86</sup>

### Valuation difficulties

From the late 2010s, auditors reported increasing difficulty in valuing non-investment properties and pension funds.<sup>87</sup> Assigning valuations to this type of asset could hold up the completion of an audit – even though this type of valuation is not likely to have implications for an authority’s financial health. The PAC expressed concern that “the complexity of valuation arrangements around property investments in particular generated levels of audit work that are disproportionate to the risks faced by authorities”.<sup>88</sup>

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<sup>82</sup> Levelling Up, Housing and Communities Committee, [Financial Reporting and Audit in Local Authorities](#), HC-59 2023-24, 20 Nov 2023, p18

<sup>83</sup> See, for instance, National Audit Office, [Timeliness of local auditor reporting on local government in England, 2020](#), HC-1243 2019-21, 16 Mar 2021, p7, pp23-24

<sup>84</sup> National Audit Office, [Timeliness of local auditor reporting on local government in England, 2020](#), HC-1243 2019-21, 16 Mar 2021, p7

<sup>85</sup> National Audit Office, [Progress update: Timeliness of local auditor reporting on local government in England](#), HC-1026 2022-23, p10. What were the changes from the previous requirements. [Revised guidance for recognising Key Audit Partners for local audit \(frc.org.uk\)](#)

<sup>86</sup> National Audit Office, [Progress update: Timeliness of local auditor reporting on local government in England](#), HC-1026 2022-23, p10

<sup>87</sup> National Audit Office, [Timeliness of local auditor reporting on local government in England, 2020](#), HC-1243 2019-21, 16 Mar 2021, p7

<sup>88</sup> National Audit Office, [Progress update: Timeliness of local auditor reporting on local government in England](#), HC-1026 2022-23, p36

The Government introduced regulations in late 2022 to remove requirements on auditors to make a “prior period adjustment” where asset values were unclear.<sup>89</sup>

## Decline in firms in the local audit market

The number of audit firms bidding for local audit contracts has declined since the abolition of the Audit Commission. The PAC noted in July 2021 that:

Audit firms that have left the market no longer have the necessary specialist teams in place. New audit firms face considerable barriers in the time and costs involved in gaining entry to the market, such as developing a sufficient sized team of staff with the specialist skills, led by key audit partners, as part of gaining accreditation.<sup>90</sup>

PSAA struggled to let all of its local audit contracts for 2023-28, and had to run a second round of procurement.<sup>91</sup> After the second round, 59% of contracts were held by two firms. PSAA noted in 2021 that:

Two of the UK’s largest audit firms decided to exit the market and, whilst the procurement was ultimately able to obtain just enough supply, there will be a significant increase in the audit fees payable by bodies. The results of the procurement provide clear evidence that local audit remains highly fragile and vulnerable.<sup>92</sup>

## Audit fees and audit quality

Audit fees are charged according to a scale that PSAA sets each year. Fees fell substantially after the abolition of the Audit Commission in 2015. Tony Crawley, the chief executive of PSAA, stated in 2019 that audit fees in 2018-19 were, on average, at some 35% of their levels in 2012.<sup>93</sup> The Redmond Review, in September 2020, stated that they had fallen by 42.25% since 2015.<sup>94</sup> 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.<sup>95</sup>

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<sup>89</sup> [The Local Authorities \(Capital Finance and Accounting\) \(England\) \(Amendment\) Regulations 2022 \(legislation.gov.uk\)](https://legislation.gov.uk)

<sup>90</sup> National Audit Office, [Timeliness of local auditor reporting on local government in England, 2020](#), HC-1243 2019-21, 16 Mar 2021, p6

<sup>91</sup> National Audit Office, [Progress update: Timeliness of local auditor reporting on local government in England](#), HC-1026 2022-23, 26 Jan 2023, p29-30

<sup>92</sup> PSAA, [Audit Quality Monitoring Report 2020/21](#)

<sup>93</sup> Tony Crawley, “PSAA begins as Appointing Person for public sector audits”, Room 151, 23 January 2019

<sup>94</sup> MHCLG, [Local authority financial reporting and external audit: independent review](#), September 2020, p33

<sup>95</sup> As above, p72

PSAA froze audit fees for most authorities for the 2021/22 financial year, but in 2023/24 they rose by approximately 150%.<sup>96</sup> This reflected concerns that the quantity of work involved in a local audit was not reflected in fee scales, and that this had dissuaded some firms from tendering for the 2018-23 round of contracts.<sup>97</sup>

The Government provided £15 million to local authorities in 2021/22 to take account of additional pressure on audit fees due to implementing recommendations from the Redmond Review,<sup>98</sup> and has committed to a further £45m during the 2022-25 Spending Review.<sup>99</sup>

Separately, the Government's interim response to the Redmond Review also proposed to 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,<sup>100</sup> and the Government consultation closed on 1 June 2021.<sup>101</sup>

Concerns have been expressed that the quality of audit reports have declined since the late 2010s. 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.<sup>102</sup>

The NAO conducted focus groups of chief financial officers for a report in 2019, which found that:

...local authority chief executives and heads of paid service, section 151 officers and internal auditors raised concerns that the contribution of external audit to local governance had reduced. Frequently, they linked this to the reduction in the audit fee paid by authorities.<sup>103</sup>

## Complexity of accounts

The Redmond Review suggested that local authorities should be required to prepare “a standardised statement of service information and costs”,<sup>104</sup> to

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<sup>96</sup> PSAA, [2021/22 auditor appointments and audit fee scale](#), 2021; PSAA, [Consultation on the 2023/24 audit fee scale](#), 7 Sep 2023

<sup>97</sup> National Audit Office, [Timeliness of local auditor reporting on local government in England, 2020](#), HC-1243 2019-21, 16 Mar 2021, p18

<sup>98</sup> [Measures to improve local audit delays - GOV.UK \(www.gov.uk\)](#); [Consultation on allocation of £15 million to local bodies for audit - GOV.UK \(www.gov.uk\)](#)

<sup>99</sup> The Government published a consultation on 20 April 2021, and [a response to consultation on 29 July 2021](#).

<sup>100</sup> PSAA, [Proposed new system for fee variations](#), November 2020

<sup>101</sup> MHCLG, Amendments to the [Local Audit \(Appointing Person\) Regulations 2015](#), 1 June 2021

<sup>102</sup> 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

<sup>103</sup> See, for instance, National Audit Office, [Timeliness of local auditor reporting on local government in England, 2020](#), HC-1243 2019-21, 16 Mar 2021, p15

<sup>104</sup> MHCLG, [Local authority financial reporting and external audit: independent review](#), September 2020, p6

increase the transparency of financial information. The PAC's July 2021 report, and the Levelling Up, Housing and Communities Committee's November 2023 report, also drew attention to the complexity of local authority accounts.<sup>105</sup> 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...<sup>106</sup>

The Levelling Up, Housing and Communities Committee's 2023 report stated that 'statutory overrides' were a significant source of the complexity of local authority accounts.<sup>107</sup> These are UK statutory provisions that override the provisions of international financial reporting standards (IFRS). These normally have the effect of making the accounts longer, and requiring certain transactions and sums to be presented in different ways. Additionally, legislation requires local authority pension fund accounts to be published alongside local authority accounts. This can increase the risk of delays and adds information to accounts that is of limited relevance to most users.

In its response to the Redmond Review, the Government stated that it would introduce a requirement for local authorities to publish a standardised statement of accounts. DLUHC has paused implementation of this until the audit backlog has been cleared.<sup>108</sup> The Levelling Up, Housing and Communities Committee suggested that it would be possible to implement a standardised statement in respect of the 2024-25 financial year. This might also permit the accounts themselves to be simplified.<sup>109</sup>

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<sup>105</sup> National Audit Office, [Timeliness of local auditor reporting on local government in England, 2020](#), HC-1243 2019-21, 16 Mar 2021, p8; Levelling Up, Housing and Communities Committee, [Financial Reporting and Audit in Local Authorities](#), HC-59 2023-24, 20 Nov 2023, pp25-30

<sup>106</sup> See Dan Peters, "Code key to 'securing future of local audit'", *Municipal Journal*, 15 August 2019

<sup>107</sup> Levelling Up, Housing and Communities Committee, [Financial Reporting and Audit in Local Authorities](#), HC-59 2023-24, 20 Nov 2023, p25-26

<sup>108</sup> Levelling Up, Housing and Communities Committee, [Financial Reporting and Audit in Local Authorities](#), HC-59 2023-24, 20 Nov 2023, p29

<sup>109</sup> As above

## 4 The auditors and the audited bodies

### 4.1 Audit firms

Most local audit is carried out by 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.<sup>110</sup> The critical differences are as follows:

- Local auditors must comply with the [Code of Audit Practice](#), most recently published in April 2020.<sup>111</sup> 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.<sup>112</sup>
- 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 2.6).

Professional oversight of local auditors has been delegated to the Financial Reporting Council (FRC). In turn, the FRC [has specified four '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.<sup>113</sup> Of 15 audits from the 2019/20 financial year, seven required improvements, and two required significant improvements.<sup>114</sup> The FRC described these results as

<sup>110</sup> See the [Local Audit \(Professional Qualifications and Major Local Audit\) Regulations 2014](#) (SI 2014/1627).

<sup>111</sup> See NAO, [Code of Audit Practice consultation](#), 2019, for links to the various documents.

<sup>112</sup> 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

<sup>113</sup> Financial Reporting Council, [Major local audits: audit quality inspection](#), October 2020

<sup>114</sup> As above, p4. The report states that "Improvements required" indicate that more substantive improvements were needed in relation to one or more key findings. 'Significant improvements

‘concerning’, saying that “urgent action is required from some of the firms to take appropriate action to respond to our findings to ensure improvements are made in audit quality, given the deterioration in quality in the year”.<sup>115</sup>

The FRC’s second review, published in October 2022, found a fall in the percentage of audits from 2020/21 and 2021/22 requiring improvement. Three audits from 2021/22 required significant improvement, with key problems including:

...inadequate financial statements review procedures, ineffective evaluation of identified misstatements and insufficient justification for issuing a qualified audit opinion. The firms must review their individual quality action plans to ensure this deterioration is addressed and that consistently high-quality audits are delivered.<sup>116</sup>

The findings of these reports are summarised on page 18 of the NAO’s January 2023 report [Progress update: Timeliness of local auditor reporting on local government in England](#).

## Circulation of auditors

In the world of private audit, professional ethics limit the number of consecutive years for which individuals may lead the audit of a given 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.<sup>117</sup>

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.

The ethical standards of the FRC’s Auditing Practices Board state 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

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required’ indicates we had significant concerns, typically in relation to the sufficiency or quality of audit evidence or the appropriateness of key audit judgements.”

<sup>115</sup> As above, p4

<sup>116</sup> FRC, [Audit Quality Review](#), October 2022

<sup>117</sup> 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

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”.<sup>118</sup>

## 4.2 Government reforms to public audit systems: 2020 onwards

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.<sup>119</sup>

The review reported in September 2020.<sup>120</sup> 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 aim was to establish a “system leader” for local audit.<sup>121</sup>

The Government published a response in December 2020. It rejected the central recommendation of a new body, but stated that it would consider the need for a “system leader” further.<sup>122</sup>

In its response to the Redmond Review, the Government stated that it supported making the new Audit, Governance and Reporting Authority (ARGA) the ‘system leader’ for local audit.<sup>123</sup> The creation of ARGA, which is to replace the Financial Reporting Council, was proposed in a Government consultation which closed in March 2021.<sup>124</sup> ARGA’s creation will require primary legislation, and this is not expected before 2024.<sup>125</sup>

<sup>118</sup> FRC, [Ethical standards 5: Non-audit services provided to audited entities](#), 2011, p. 8

<sup>119</sup> MHCLG, [Review of local authority financial reporting and external audit: terms of reference](#), 10 July 2019, p1

<sup>120</sup> MHCLG, [Local authority financial reporting and external audit: independent review](#), September 2020

<sup>121</sup> As above, p10. The ‘six entities’ are PSAA, ICAEW, the Financial Reporting Council, the NAO, CIPFA, and MHCLG.

<sup>122</sup> MHCLG, [Local authority financial reporting and external audit: government response to the independent review](#), 17 Dec 2020, paragraphs 71-72

<sup>123</sup> MHCLG, [Local authority financial reporting and external audit: Spring update](#), 19 May 2021

<sup>124</sup> BEIS, [Restoring trust in audit and corporate governance: proposals on reforms](#), 18 March 2021

<sup>125</sup> For additional detail on ARGA, see the Library briefing paper [Company audits: issues and proposed reforms](#). ARGA will be sponsored by the Department for Business and Trade (DBT), formerly BEIS. However, DLUHC will continue to hold accounting officer responsibility for ARGA’s local government role: see National Audit Office, [Timeliness of local auditor reporting on local government in England, 2020](#), HC-1243 2019-21, 16 Mar 2021, p5

The Government published a further technical consultation on 28 July 2021, and a response was published on 31 May 2022.<sup>126</sup> The response to consultation stated that ARGA would become the system leader for local audit. It will take on responsibility for the Code of Audit Practice and auditor guidance notes, currently produced by the NAO.<sup>127</sup> It will also be required to monitor local audit performance, and report on the state of local audit.<sup>128</sup> The NAO said:

DLUHC proposed it would ensure ARGA had “appropriate regard” to government’s aims and priorities for local audit through a remit letter that its Secretary of State would issue once per Parliament, to which ARGA would need to respond. ARGA would also be required to lay in Parliament annual reports setting out how it was delivering against its objectives, with a standing section on local audit. DLUHC told PAC it was working on a ministerial memorandum of understanding, which it intended would ensure clear accountability between itself and the new system leader, and shadow arrangements aimed at enabling a smoother transition to the new local audit framework.<sup>129</sup>

3.16 DLUHC and FRC expect to agree a memorandum of understanding in January 2023 for a shadow system leadership role the FRC will adopt while ARGA comes into being. DLUHC informed PAC in December 2022 that it expects these roles to include:

- leading a coherent and coordinated policy response to challenges arising across the local audit system;
- reporting on the state of the local audit system, identifying risks and trends that are emerging;
- leading work to improve competition, capability and market supply, including development of a workforce strategy alongside audit firms;
- facilitating stronger governance across the local audit framework; and
- overseeing the entire quality framework for local audit except for the Code of Audit Practice, which will remain held by the NAO until transferred under primary legislation.<sup>130</sup>

Until these responsibilities are transferred to ARGA, DLUHC has convened a [Local Audit Liaison Committee](#), to share views across a number of bodies regarding “challenges and emerging priorities across local audit”.<sup>131</sup> As of November 2023 this committee had met nine times.

The Levelling Up, Housing and Communities Committee recommended that:

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<sup>126</sup> DLUHC, [Government response to local audit framework: technical consultation](#), 31 May 2022

<sup>127</sup> MHCLG, [Local audit framework: technical consultation](#), 28 July 2021, paragraph 31

<sup>128</sup> National Audit Office, [Progress update: Timeliness of local auditor reporting on local government in England](#), HC-1026 2022-23, p33

<sup>129</sup> National Audit Office, [Progress update: Timeliness of local auditor reporting on local government in England](#), HC-1026 2022-23, p34

<sup>130</sup> National Audit Office, [Progress update: Timeliness of local auditor reporting on local government in England](#), HC-1026 2022-23, p35

<sup>131</sup> DLUHC, [Local Audit Liaison Committee Terms of Reference](#), July 2021

... the local audit system leader must be responsible for collecting and considering audit findings across the sector to identify and coordinate responses to systemic or widespread issues that the auditors have found. Furthermore, the Department must clearly set out which body has these responsibilities until the audit system leader is established in legislation.<sup>132</sup>

In anticipation of ARGA's system leadership role, the FRC has established a dedicated local audit unit. Neil Harris was appointed as the first head of this unit in October 2022. ARGAs will be required to include a separate section on local audit in its statutory annual report to Parliament.<sup>133</sup>

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<sup>132</sup> Levelling Up, Housing and Communities Committee, [Financial Reporting and Audit in Local Authorities](#), HC-59 2023-24, 20 Nov 2023, p24

<sup>133</sup> MHCLG, [Local audit framework: technical consultation](#), 28 July 2021, paragraph 60

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## 5 Intervention in local government

### 5.1 Powers of intervention

In England, the Government has broad legal powers to intervene in the running of a local authority, which permit the takeover of any local functions by the Secretary of State or appointees. Intervention takes place under section 15(6) of the [Local Government Act 1999](#).

Formal Government interventions in the running of local authorities are rare. Each intervention begins with a formal direction notice. Typically powers are returned to the local authority after a period of years, although they may not all be returned at once.

### 5.2 Interventions

As of October 2023, sixteen interventions have taken place under the 1999 Act (see Table 2 below). In each case, the Secretary of State (the Welsh Ministers in Wales) appointed ‘commissioners’ to take over certain functions of the councils in question. The breadth of commissioner responsibilities has varied between the interventions.<sup>134</sup>

‘Non-statutory’ interventions have also taken place in Birmingham City Council (the [Birmingham Independent Improvement Panel](#), 2015-19), the Royal Borough of Kensington and Chelsea (the [Independent Grenfell Recovery Taskforce](#), 2017-20), and [Nottingham City Council](#) (2020). Alternative approaches include the Government commissioning an external assurance review or a sector-led intervention.<sup>135</sup>

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<sup>134</sup> See Clive Grace, Steve Martin, Tim Allen and Mike Bennett, evidence to Communities and Local Government Committee, June 2016

<sup>135</sup> DLUHC, [Best value standards and intervention draft guidance](#), 2023, p29

**Table 2: local authority interventions**

Local authority	Years
London Borough of Hackney	2001-2007
Hull City Council	2003-2006
Stoke-on-Trent City Council	2008-2010
Anglesey Council (Welsh Government)	2009-2013
Doncaster Metropolitan Borough Council	2010-2014
London Borough of Tower Hamlets	2014-2017
Rotherham Metropolitan Borough Council	2015-2019
Northamptonshire County Council	2018-2021
<a href="#">Liverpool City Council</a>	2021-2024
<a href="#">Slough Borough Council</a>	2021-2024
<a href="#">Sandwell Borough Council</a>	2022-2024
<a href="#">Nottingham City Council</a>	2022-2025
<a href="#">Thurrock Council</a>	2022-2025
<a href="#">London Borough of Croydon</a>	2023-
<a href="#">Woking Borough Council</a>	2023-
<a href="#">Birmingham City Council</a>	2023-

## 5.3

### When do interventions take place?

The Government published draft statutory Best Value guidance in July 2023, which said:

Statutory intervention will only be used when there are significant and extensive indications of failure and authorities are not delivering to the high standards which their local communities have a right to expect. As far as possible, Government will look to existing local checks and balances in the system to mitigate risks of failure.<sup>136</sup>

This guidance sets out seven themes of good practice of local authority governance: continuous improvement, leadership, governance, culture, use of resources, service delivery, partnerships and community engagement. It includes a number of tables providing greater detail of these themes, and indicators of good practice and potential failures within each of them.<sup>137</sup>

The guidance also states that the Government plans to engage at an early stage with authorities “showing signs of not complying with the Best Value Duty”.<sup>138</sup> It notes that the Secretary of State can order a best value inspection into a local authority (see sections 10-13 of the [Local Government Act 1999](#)), although this is not a legal requirement for an intervention to take place.

The previous Government guidance, published in 2020, set out the circumstances under which a Best Value inspection would be commissioned. An inspector will be appointed via a letter of appointment, and details provided via a Written Statement in both Houses of Parliament. The local authority must pay all reasonable costs of an inspection. The note also provided details of the role of commissioners once an intervention is under way, and of the process of ending an intervention.<sup>139</sup>

The Communities and Local Government Committee examined two interventions in its 2016 report [Government interventions: the use of Commissioners in Rotherham and Tower Hamlets](#). In June 2020, the Government published a short note outlining lessons learned from recent interventions.<sup>140</sup> This covered matters such as corporate and political leadership, cultures of poor behaviour within a local authority, and scrutiny and transparency. In July 2020 the Government published a further ‘lessons learned’ document written by the commissioners appointed to Northamptonshire County Council in 2018.<sup>141</sup>

## 5.4

## Directions

Section 15(5) of the [Local Government Act 1999](#) also includes a power for the Secretary of State to direct a local authority “to take any action which he considers necessary or expedient to secure its compliance” with its best value

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<sup>136</sup> DLUHC, [Best Value standards and intervention](#), July 2023, paragraph 17.

<sup>137</sup> As above, pp13-21

<sup>138</sup> As above, paragraph 21

<sup>139</sup> MHCLG, [Statutory intervention and inspection: a guide for local authorities](#), May 2020

<sup>140</sup> MHCLG, [Addressing cultural and governance failings in local authorities: lessons from recent interventions](#), June 2020

<sup>141</sup> MHCLG, [Northamptonshire County Council: lessons learned from the first year of intervention](#), July 2020

duty. The power of direction can be exercised either with or without a formal intervention being in place.

During the 2020s, directions under this section have been made to Slough, Sandwell, Thurrock, Croydon, Woking, Nottingham, and Liverpool. The 2023 draft guidance said that:

The decision to direct an authority to take certain actions is based on evidence from an inspection or another comparable source confirming that best value failure has occurred and there is limited confidence in the authority's ability to improve independently. ...Directions to a local authority may be appropriate where there is evidence of significant but not widespread best value failure in the authority, and that authority has some capacity but limited commitment to improve on its own.<sup>142</sup>

The [Levelling Up and Regeneration Act 2023](#) introduced a new power for the Government to issue a 'risk mitigation direction' to local authorities. This is proposed in response to concerns over financial management in certain local authorities in the early 2020s. This type of direction would, amongst other things, permit the Government to set limits to a local authority's borrowing, or to direct a local authority to dispose of a specific asset within a specific time. More details can be found in section 3.2 of the [Library briefing paper on the Levelling-Up and Regeneration Bill](#).

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<sup>142</sup> DLUHC, [Best Value standards and intervention](#), July 2023, p31

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