

Public
Key Decision – No

HUNTINGDONSHIRE DISTRICT COUNCIL

Title/Subject Matter: Local Audit Strategy Update

Meeting/Date: Corporate Governance Committee
29 January 2025

Executive Portfolio: Executive Councillor for Governance &
Democratic Services
Cllr Jo Harvey

Report by: Corporate Director – Finance and Resources

Wards affected: All

Executive Summary:

The report sets out the Local Audit Strategy proposed by the Government to reform the overall system to ensure that the delays that have occurred over recent years are recovered and that the system is meaningful, sustainable and has the capacity and capability to deliver effective local audit for the future.

Recommendation:

The Committee is

RECOMMENDED to note the content of the report making any comments on the proposed approach.

1. PURPOSE OF THE REPORT

- 1.1 This report provides the Committee with an update on Local Audit Reform.

2. BACKGROUND

- 2.1 On 18 December 2024 the Minister for Local Government and English Devolution wrote to all council and local audit firms to launch a strategy to overhaul the broken local audit system in England and laid it in Parliament via a Written Ministerial Statement.

- 2.2 The letter stated that *“Three key systemic challenges faced as part of this flawed system - capacity (limited auditors), co-ordination (no clear ownership of the system), and complexity of financial reporting and audit requirements. The scale of this failure was demonstrated by the backlog of outstanding unaudited accounts in England which totalled nearly 1,000 in September 2023 and led to a paralysis of local audit – with just one per cent of councils and other local bodies publishing audited accounts on time last year. More recently, the Whole of Government Accounts for financial year 2022/23 was disclaimed primarily due to a lack of audit assurance on local government accounts – which serves to further illustrate the dire straits of the system and the contagion caused by the lack of real reform.”*

- 2.3 The English Devolution White Paper explained the Government’s intention to legislate to radically streamline and simplify the system, bringing as many audit functions as possible into one place and also offering insights drawn from audits. The strategy states that a new and proportionate Local Audit Office will bring together the following functions of the local audit system:

- i. Coordinating the system – including leading the local audit system and championing auditors’ statutory reporting powers;
- ii. Contract management, procurement, commissioning and appointment of auditors to all eligible bodies;
- iii. Setting the Code of Audit Practice;
- iv. Oversight of the quality regulatory framework (inspection, enforcement and supervision) and professional bodies; • Reporting, insights and guidance including the collation of reports made by auditors, national insights of local audit issues and guidance on the eligibility of auditors.

- 2.4 Following recommendations from the work of Sir Tony Redmond, Sir John Kingman, and others, the Government wants to ensure the core underpinnings of the system are fit for purpose. The strategy therefore includes a range of other measures including:

- i. setting out the vision and key principles for the local audit system;
- ii. committing to a review of the purpose and users of local accounts and audit and ensuring local accounts are fit for purpose, proportionate and relevant to account users;
- iii. enhancing capacity and capability in the sector;
- iv. strengthening relationships at all levels between local bodies and auditors to aid early warning system; and

- v. increased focus on the support auditors and local bodies need to rebuild assurance following the clearing of the local audit backlog.

2.5 A consultation on the strategy was opened from the date of the letter closing on 29 January 2025 which also includes consulting on the potential delivery of local audit through a mixed market, supplementing the private market with public delivery of local audit – in the first instance to meet the needs of those authorities who are without an auditor in the current system.

3. ANALYSIS

3.1 The following paragraphs are the strategy, vision and core principles that the documents set out for the reform of Local Audit.

3.2 The strategy sets six key areas for reform

- The purpose of local audit - Reforms must be guided by a vision statement, key principles and be driven by user needs.
- Local Audit Office Remit - The government accepts the Redmond and Kingman Reviews' recommendations for a new oversight organisation to simplify the system and drive change.
- Financial reporting and accounts - Reforms should consider the needs of the user and the impact of accounting requirements on the work of account preparers, auditors and the wider audit system.
- Capacity and capability -Delays and complexity disincentivise the right skills from entering the market, leading to less timely, less effective audit. The government will work to ensure that bodies have skilled and resourced account preparers. In order to strengthen the capacity of the sector, consideration will also be given to supplementing private sector audit with public provision.
- Underpinning the system; relationships and audit regimes - Existing relationships between local bodies and their auditor need to be strengthened and their respective relationship with the LAO must be clear. The collective scrutiny of audits as part of the democratic process, such as Audit Committees, will be strengthened, and the potential for local accounts committees for strategic authority areas in England will be considered. Audit regimes will be reviewed to ensure they are fit for purpose in the short and long term.
- Local audit backlog -Significant and difficult work undertaken by finance teams and auditors to clear the backlog to date is a necessary step to reform. The government recognises that there is further work required to support the recovery process including guidance, advice and support.

- 3.3 A vision statement for local audit is set out on the document as “A robust local audit framework which achieves public trust and accountability through transparency and promotes value for money.”
- 3.4 The Purpose of local audit is set out as being:
- To provide independent assurance that:
- (a) accounts provide a true and fair view of financial affairs
 - (b) accounts are prepared in accordance with requirements
 - (c) arrangements are in place to secure value for money
- 3.5 Core principles set out for local audit are
1. Value for money. A system that provides confidence that bodies and the new LAO have arrangements in place to deliver value for money for taxpayers.
 2. Transparency of the sector’s financial health and value for money arrangements.
 3. Capacity and capability. A sustainable and resilient market with access to the right expertise and with sufficient capacity to serve all eligible bodies.
 4. External scrutiny to independently identify issues, challenge and drive improvement
 5. Professionalism. Building a sector attractive to auditors to build careers and become future audit leaders.
 6. Proportionality. Local audit that is proportionate and relevant, from regulations to governance.
 7. Stronger accountability. Scrutiny and reporting of issues and high standards of financial reporting to promote public accountability.
 8. Timely. High quality accounts audited and published on time to ensure relevance and increase value to the public, including timely reporting of issues.
- 3.6 The strategy gives more detail on each of the eight aspects summaries in paragraph 3.2 above with a series of consultation question which the S151 Officer has responded to as requested in the consultation based on her professional experience. The full paper can be found here [Local audit reform: a strategy for overhauling the local audit system in England - GOV.UK](#).
- 3.7 The provisional timeline for the transition to the new local audit system. Is set out in the Annex to the paper. This may change, including due to the outcome of this consultation. In addition, MHCLG is aware that all contracts for 2023/24 – 2027/28 include an option for extension for up to 2

years, subject to audit firms' agreement. Public Sector Audit Appointments (PSAA) is considering whether to offer that option to the firms.

Milestone	Indicative timeframe
Engagement, technical workshops and consultation	January-February 2025
Engagement continuing on elements of secondary legislation	Spring 2025
Introduction of primary legislation, subject to Parliamentary timetable	Mid-2025
Laying of relevant secondary legislation, subject to Parliamentary timetable	Mid-2026
LAO legally established, public delivery built up (either within LAO or separately as consulted upon) with the ability to take on vacant contracts where appropriate	Autumn 2026
Procurement exercise for next appointing period (further clarity on the quality oversight framework, including enforcement, would be provided by this point)	From early 2027
LAO fully resourced and begins contract management with other elements of its oversight, as set out in the transition plan to give the market clarity and time to adjust.	By 2027/28

4. KEY IMPACTS

- 4.1 This Council has not experienced the extent of delays that others have in the publication and audit of its accounts. On this agenda there are the latest set of accounts presented with the auditor's opinion that means that we are up to date and ready for the end of the current financial year when the next statement of accounts will be prepared.
- 4.2 Once the outcome of the consultation is known and any amendments made to the requirements for the production of accounts, these will be taken into account in preparing the relevant set of financial statements and preparing for the external audit of them.

5. LINK TO THE CORPORATE PLAN, STRATEGIC PRIORITIES AND/OR CORPORATE OBJECTIVES

- 5.1 Ensuring we are a customer focused and service led Council – to become more business-like and efficient in the way we deliver services. The production of the Statement of Accounts is a statutory requirement as is the external audit of those statements.

6. RESOURCE IMPLICATIONS

- 6.1 It is anticipated that the proposed changes will reduce the resources required for the preparation of the accounts each year and the audit of them.

7. REASONS FOR THE RECOMMENDED DECISIONS

- 7.1 The report is for information purposes and allows Committee to gain an understanding of the proposed strategy for the future of Local Audit.

8. BACKGROUND PAPERS

[Local audit reform: a strategy for overhauling the local audit system in England - GOV.UK](#)

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