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Date: Friday, 21 March 2025

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Dear Member

## **AUDIT COMMITTEE - WEDNESDAY, 26 MARCH 2025**

I am now able to enclose, for consideration at the Wednesday, 26 March 2025 meeting of the Audit Committee, the following reports that were unavailable when the agenda was printed.

<b>Agenda No</b>	<b>Item</b>	<b>Page</b>
7.	<b>Torbay Council Audit Progress Report and Sector Update</b>	(Pages 3 - 30)
10.	<b>Treasury Management Mid-Year Review 2024/25 Revisions</b>	(Pages 31 - 38)
11.	<b>Audit Committee Self Assessment (CIPFA Guidance) 2024-25: Agree Committee Responses</b>	(Pages 39 - 46)
13.	<b>Consultation Response: Local audit reform - a strategy for overhauling the local audit system in England</b>	(Pages 47 - 104)

Yours sincerely

Lisa Antrobus  
Clerk

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# Torbay Council

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Audit progress report and sector update

March 2025



# Agenda

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# Audit Progress Report

# Introduction



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This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes a series of sector updates in respect of emerging issues which the Committee may wish to consider.

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications:

[Local government | Grant Thornton](#)

If you would like further information on any items in this briefing or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

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# Progress at March 2025

## Financial Statements Audit

### 2023-24

Our final audit findings for the 2023-24 financial statements were reported to Audit Committee on 24 February 2025. We completed our audit finalisation procedures and final review of the financial statements after that date and our final audit opinion was signed and issued on 28 February 2025, in line with the statutory backstop deadline.

As highlighted by our Audit Findings Report and discussed during the February committee, we identified the quality of the draft financial statements as a significant matter in our work. Fundamentally, this was due to:

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- a lack of capacity with the finance team to prepare high quality financial statements;
  - the absence of a robust year end reconciliation between its general ledger accounting system, the final trial balance and the draft financial statements;
  - the need to better control the year end closedown process and posting of accounting entries during the accounts production process; and
  - the need for an improved quality control review process with its draft financial statements.

Our report highlighted the impact of these difficulties on the timely progression of work and the extent of additional audit resources required to support the completion of audit. Following the conclusion of the 2023-24 financial statements audit, we have now had opportunity to review the detailed time records for the team to assess the final level of inputs required to this year's audit. This has resulted in a significant fee variation proposed to the Council, as set out further on page 7 of this report. This proposal has been shared with the Council's Section 151 officer and proposed to PSAA for further consideration and review.

### 2024-25

In March 2025, we commenced our detailed audit risk assessment work for 2024/25. We will issue a draft audit plan, setting out our proposed approach to the audit of the 2024/25 financial statements to management before the end of April, and this will be presented to the Audit Committee in May 2025.

A key consideration for the Council for the 2024-25 financial statements, will be the implementation of IFRS 16 – Accounting for Leases. We have prepared a briefing for Audit Committee members, set out from page 11 of this report.

Furthermore, we will also seek to follow up our audit recommendations arising from the 2023-24 audit to seek assurance that improvements will be implemented in readiness for the 2024-25 accounts preparation and audit.

We plan to commence our audit fieldwork in September 2025, subject to draft financial statements being published.

## Value for Money

We aim to complete all 2024/25 value for money audit reviews by 31 December 2025.

From current trends around cost pressures and service demand, we anticipate that risks around financial sustainability and reserves will require consideration across most value for money reviews for 2024/25. Arrangements for governance and improving economy, efficiency and effectiveness will also be reviewed.

Where there are lesson to be learnt from the findings for our 2023/24 value for money reviews, we will seek to share them on a timely basis, to inform future practice.

# Progress at March 2025 (cont.)

## Other areas

### Certification of claims and returns

Our dedicated grants team concluded their work on the Council's 2021-22 Housing Benefits return and issued the final Reporting Accountants report to DWP on 21 January 2025. Fieldwork on the 2022-23 return has concluded and subject to final Director review is estimated to be submitted to DWP in April 2025.

Preliminary modules of work for the 2023-24 Housing Benefit return are expected to commence in March 2025.

### Meetings

We continue to meet regularly with the Council's Chief Executive and Director of Finance throughout the year with our most recent meeting held on 15 January 2025.

## Events

We provide a range of workshops and network events. Events taking place include:

- Your finance officers were invited to our annual covering 2024/25 financial reporting matters on Thursday 6th March and Wednesday 12th March 2025 10.00am to 3.00pm; and
- A webinar providing updates on devolution and local government re-organisation, and lessons from our 2023/24 value for money audits, on Wednesday 4th June from 4.00pm to 5.30pm.

## Audit Fees – 2024-25

PSAA have published their scale fees for 2024/25 [2024/25 audit fee scale – PSAA](#)

For Torbay Council, these fees are £340,484. These fees are derived from the procurement exercise carried out by PSAA in 2022. They reflect both the increased work auditors must now undertake as well as the scarcity of audit firms willing to do this work.



# Proposed 2023-24 audit fees

We confirm below our proposed fees for the 2023-24 audit. All proposed fee variations will be subject to PSAA review and approval.

As highlighted on page 5, the level of additional work required to conduct the 2023-24 audit has been extensive, due to the significant issues identified in discrepancies between the initial draft financial statements and the Council's accounting records. The impact of these difficulties and quality deficiencies has meant that a significant amount of additional audit resources have been sought and utilised to support the completion of audit, to enable us to complete as much audit work as possible to regain assurance ahead of the 28 February 2025 backstop date. These additional audit inputs have resulted in over 75% of additional audit resource being required compared to expected resource levels on which the audit scale fee has been based.

We will continue to work with the Council to support it as it addresses the recommendations arising from our audit action plan. Successful implementation of these actions will help to mitigate the need for further variations in future audits.

Audit fees	Proposed fee per audit plan	Final estimated fee
Scale fee	£308,933	£308,933
ISA 315 and ISA240	£12,550	£15,690
Other additional work in relation to prior period restatements		£34,039
Other additional work in relation to the reconciliation of the financial statements to the accounting records and review of subsequent revisions of draft accounts		£44,012
Additional Group considerations around group restructure		£8,919
Additional pension work and considerations in relation to the impact of IFRIC 14		£11,970
Extensive work required to pursue outstanding sampling evidence, follow up responses to queries and evaluating audit errors and adjustments on current and prior year financial statements		£120,547
<b>Total proposed audit fees (excluding VAT)</b>		<b>£544,110</b>

# Audit Deliverables

Below are some of the audit deliverables planned for 2024/25

2024/25 Deliverables	Planned Date*	Status
<p><b>Audit Plan</b></p> <p>We are required to issue a detailed audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2024/25 financial statements.</p>	<p>April 2025 to management May 2025 to Audit Committee</p>	<p>Not yet due</p>
<p><b>Audit Findings Report</b></p> <p>The Audit Findings Report will be reported to the Audit Committee.</p>	<p>December 2025</p>	<p>Not yet due</p>
<p><b>Auditors Report</b></p> <p>This includes the opinion on your financial statements.</p>	<p>December 2025</p>	<p>Not yet due</p>
<p><b>Auditor's Annual Report</b></p> <p>This report communicates the key outputs of the audit, including our commentary on the Council's value for money arrangements.</p>	<p>December 2025</p>	<p>Not yet due</p>

# Accounting Update – IFRS 16

**A briefing for audit committees on the implementation of IFRS16**

# IFRS 16 - Leases

## Lessee accounting up to 31 March 2024

Until April 2024, when a public sector body gained the use of an asset under a lease agreement, it had to determine whether it was a finance lease or an operating lease. The distinction was based on which entity had substantially all the risks and rewards of ownership. It was important because finance leased assets were deemed capital and accounted for on the authority's balance sheet, whereas operating lease costs were charged to expenditure over the life of the lease.

## Lessee accounting from 1 April 2024

From the adoption of IFRS 16 leases on 1 April 2024, the distinction between operating and finance leases for lessees has been removed. Now all leases, apart from those that are deemed low value or short term, are accounted for on balance sheet by lessees.

## Asset and liability recognised

Under IFRS 16, lessees recognise their right to use an asset and also a liability for the present value of the total amount they expect to pay over the period of the agreement. Initially, the right of use asset and the liability are usually recognised at the same value, unless there have been any relevant payments before the start of the lease.

After initial recognition, the right of use asset is valued the same way as owned assets of a similar type and the liability is increased for interest due or changes in expected payments due to the application of a rate or index such as RPI, and decreased for amounts paid.

## Public sector adaptation

In the public sector, the definition of a lease has been extended to include the use of assets for which little or no consideration is paid, often called "peppercorn" rentals. This is one instance where the right of use asset and associated liability are not initially recognised at the same value. For peppercorn rentals, the right of use assets are initially recognised at market value and any difference between that and the present value of expected payments is accounted for as income, similar to the treatment of donated assets.

# IFRS 16 - Leases

## Judgements required

Most of the information needed to determine the appropriate figures for the accounts will come from the lease agreement. However, sometimes judgements may need to be made by management. Such judgements may include:

- determining what is deemed to be a low value lease. This is based on the value of the underlying asset when new and is likely to be the same as the authority's threshold for capitalising owned assets.
- determining whether an option to terminate or extend the lease will be exercised. This is important as it affects the lease term and subsequently the calculation of the lease liability based on the expected payments over the lease term

the valuation of the right of use asset after recognition. An expert valuer may be required to support management in this.

## Lessor accounting

IFRS 16 has preserved the distinction between finance and operating lease accounting for lessors. The key things that lessors need to be aware of are:

- assets leased out for a peppercorn rental should be treated as finance leases if they have, in substance, been donated to the operator
- if the asset is sub-let, the consideration of whether the sub-lease is a finance lease or an operating lease takes account of the value and duration of the head lease rather than the value and life of the underlying asset

# IFRS 16 - Leases

## Questions to consider

Questions for local authorities to ask themselves include:

- How have you gained assurance on completeness, that you have identified all your leases including those for a peppercorn rent?
- Have you set your threshold for low value leases?
- How have you identified all options to terminate or extend existing leases and assessed the lease term on the basis of the likelihood you will exercise them?
- Have you reconciled your operating lease commitments as disclosed in your 31 March 2023 accounts under IAS 17 to your lease liability under IFRS 16 on 1 April 2024?
- How have you gained assurance that right of use assets are carried at the appropriate value at the balance sheet date?
- If you are an intermediate lessor, have you reassessed whether the leases out are finance or operating leases with reference to the terms of the head lease?
- Have you updated your systems to ensure that the budgetary and accounting impact of all leases is identified in a timely and effective manner.

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# Sector Updates

# Devolution and reorganisation

5th February 2025 saw two significant steps taken by the government in its devolution process: Successful bids for the Devolution Priority Programme were announced; and legislation came into force establishing new combined authorities.

The six successful areas joining the Devolution Priority Programme are picked from across the country: Cumbria; Cheshire and Warrington; Greater Essex; Hampshire and Solent; Norfolk and Suffolk; and Sussex and Brighton. Eight Councils in these areas had local elections due in May 2025 which have had to be cancelled. However, with all six of the areas now on a fast track to mayoral elections in May 2026, many will see this as an overall win for local accountability.

At the same time, the three new combined county authorities and one new combined authority established on 5th February are also all from different parts of England: Devon and Torbay; Lancashire; Greater Lincolnshire; and Hull and East Yorkshire.

The shift towards greater local decision-making and governance looks likely to continue:

- The government has committed to support devolution business planning for the thirty-three other areas that applied to be in the Priority Programme but were not successful;
- In one area (Surrey), elections have been cancelled not to support devolution this year, but to enable the reorganisation needed for devolution in future; and
- All councils in two-tier areas and small neighbouring unitary authorities have been invited to make proposals for their own reorganisation – with initial proposals invited by 21st March 2025.

Last year, our Learning from New Unitary Councils report set out key messages for local authorities facing reorganisation. Points to bear in mind now, for areas that want to submit initial proposals successfully are:

- Ensure **sufficient staff and other resources are allocated** to the planning process;
- Review business as usual activities to **create capacity**, and **develop key organisational enablers**;
- Be prepared to invest in significant **programme management capacity and capability**;
- Focus on **culture and communication and hearts and minds** alongside the technical analysis;
- **Tackle finances early**, for example seek clarity on social care allocation or balance sheet split;
- **Engage** with the community to identify meaningful aspirations; and
- **Collaborate** to avoid competing proposals.

## Helpful resources:

[Learning from the new unitary councils, September 2024](#)

[English Devolution White Paper, 16th December 2024](#)

[Written statement on English devolution and local government, 5th February 2025](#)

[Invitation to local authorities in two-tier areas, 6th February 2025](#)

[MHCLG explainer – what happens next](#)



# Local audit reform

For government in England to really access the potential benefits that devolution may bring, there needs to be certainty that accountability and transparency can be maintained at local level. This looks likely to mean a complete overhaul of the current local audit system.

In December 2024, the Ministry of Housing, Communities and Local Government (MHCLG) published a green paper around local audit reform. In the consultation, the government recognised that just 1% of accounts for 2022/23 were published on time, and that whilst there have been calls since 2018 for a separate, dedicated, specialist local audit body to be established, there has been no such body in place since the Audit Commission was disbanded in 2015.

The consultation has now closed, and primary legislation is likely to be introduced in May 2025. The ambition is to establish a new Local Audit Office in the Autumn of 2026 and for the Local Audit Office to begin contract management and other elements of a new oversight role by 2028.

## MHCLG statement on the backlog:

**1** % audited accounts published on time 2022/23

Source: MHCLG green paper, December 2024

The government has committed that when it arrives, the new Local Audit Office (“LAO”) will:

- Be statutory and independent, with a remit to streamline and simplify the system;
- Assume the functions of appointing and contracting auditors for local authorities (meaning that authorities would no longer have the power to appoint their own auditor);
- Adopt ownership of the Code of Audit Practice from the NAO and deliver relevant training;
- Hold responsibility for quality oversight of local audit, including overseeing an inspection programme, enforcement and some elements of supervision;
- Publish national insight reports on local audit health, which could include emerging trends, quality, market sustainability, VFM arrangements and statutory recommendations and public interest reports; and
- Oversee professional bodies with regard to their remit for the qualification, registration and conduct of local auditors.

MHCLG describes the current system as “complex and dysfunctional” and “broken” but states that it is “determined to get the house in order”. To a large degree, the future of local audit will depend on the extent to which the new body is given appropriate scope, powers and responsibilities. We are contributing actively to stakeholder groups and will work constructively with the new body as it comes into existence.

For a full copy of MHCLG’s intentions, see [Statement of intent and consultation](#).

# The future of financial reporting

The government's consultation on local audit reform also included consultation on the future of local government financial reporting and accounts. The government's December 2024 statement of intent and consultation committed to:

- Review the content and format of accounts;
- Determine an appropriate approach to consistency across the UK;
- Consider primary legislation to separate pension fund accounts from administering authority accounts;
- Guarantee a freely available Accounting Code; and
- Consider the introduction of standardised statements in the longer term.

Work is intended to include ensuring that the accounting code does not require more disclosures than are necessary and to consider the purposes and users of local authority accounts. The statement of intent highlighted that timeliness, comprehension (understandability) and professional capability (capacity) have all been issues in the past, culminating in just 1% of audited accounts being published on time for 2022/23.

Grant Thornton's track record is strong (84% of unqualified opinions for 2022/23 signed by the 13<sup>th</sup> December 2024 backstop date), but we welcome the government's new commitments. Better timeliness and more comprehensible reporting across the sector will strengthen accountability and transparency and lead to a firmer platform for decision-making and devolved delivery.

## 13th December 2024 backstop performance – Grant Thornton compared to sector pre-backstop performance

<b>Sector:</b> % audited accounts published on time (pre-backstop dates being set)	1
<b>Grant Thornton:</b> % 2022/23 opinions signed by the 13th December 2024 backstop date	84
<b>Grant Thornton:</b> % 2022/23 VFM Auditor Annual Reports published by the 13th December 2024 backstop date	99

In the meantime, with the 28th February 2025 backstop date now passed for 2023/24 statements of accounts, many will now be turning their attention to getting ready for 2024/25 financial reporting. Unaudited accounts for 2024/25 need to be published by 30th June this year. The backstop publication date for the audited 2024/25 accounts is 27th February 2026. Early consideration of resourcing and timetabling will help.

For a full copy of the statement of intent and consultation, see [Statement of intent and consultation](#)

For the Accounts and Audit Regulations 2024, see [The Accounts and Audit \(Amendment\) Regulations 2024](#)

# Standards and conduct

The Ministry of Housing, Communities and Local Government (MHCLG) recently ran an open consultation on [Strengthening the standards and conduct framework for local authorities in England](#).

Specific proposals consulted on for legislative change included:

- The introduction of a mandatory minimum code of conduct for local authorities in England;
- A requirement that all principal authorities convene formal standards committees to make decisions on code of conduct breaches, and publish the outcomes of all formal investigations;
- The introduction of the power for all local authorities (including combined authorities) to suspend councillors or mayors found in serious breach of their code of conduct and, as appropriate, interim suspension for the most serious and complex cases that may involve police investigations;
- A new category of disqualification for gross misconduct and those subject to a sanction of suspension more than once in a 5-year period; and
- A role for a national body to deal with appeals.

In addition, the consultation asked for views on how to empower victims affected by councillor misconduct to come forward; and what additional support would be appropriate to consider for those victims.

With 2025 marking the thirtieth year since the [Nolan Principles](#) were first introduced, this seems a good time for local government to re-appraise the framework it relies on to underpin those Principles.

Since Standards for England was abolished in 2012, local authorities have been required to promote and maintain high standards through their own internal code of conduct arrangements, without any oversight at national level. There has been little in the way of sanction options for poor standards, other than for non-disclosure of pecuniary interests (which has criminal sanctions).

Whilst most councillors do embody the selflessness, integrity, objectivity, accountability, openness, honesty and leadership expected of them, beyond hoping for removal through the ballot box at the next election, there has been little mandatory power since 2012 for managing the minority that do not.

For government in England to really access the potential benefits that devolution may bring, there needs to be certainty that high standards can be maintained at local level. Revisiting and strengthening the framework so that it is fit for purpose and something to be proud of feels a logical step to be taking in this thirtieth anniversary year.

# Finance settlement 2025/26

The final Local Government Finance Settlement was announced on 3rd February 2025, granting councils access to some £69 billion of funds. Although the government estimates that this was a 6.8% cash terms increase compared to 2024/2025, the settlement was not without severe criticism from across the sector – spanning both “town” and “country”.

London Councils, representing London boroughs, said at least seven councils in the capital will still require exceptional financial support from the government to balance their budgets in 2025/26 because of homelessness and temporary accommodation costs in the capital.

Meanwhile, the County Council’s Network highlighted that only 3% of the £600 million Recovery Grant will be targeted outside urban areas, whilst the removal of the Rural Services Delivery Grant is another blow for rural authorities.

For sufficiency of cost compensation, the Local Government Association (LGA) pointed out that the £515 million allocated to the sector for managing the increase in employer’s national insurance contributions (NIC) falls very far short of the compensation needed. The LGA estimated that directly employed staff costs alone will rise by £637 million. It estimated that the overall cost of increased NIC will be £1.1 billion once costs through commissioned providers are factored in.

For sufficiency of income, whilst six councils were given permission to set Council Tax increases above current referendum thresholds, everyone else was required to remain within the referendum limits that have been in place since 2012. The LGA noted that many Councils will need to go to this limit and still cut services.

We note that a recent consultation on [Local authority funding reform](#) started to pave the way for new funding allocations. There will probably be “losers” as well as “winners” in any re-allocations. However, the consultation also started to pave the way for increased local flexibility, and changes to fees and charges. These are expected to be helpful across the sector and perhaps will reduce some of the dependency on settlements that underpins the criticism we see now.

For a sample of press and other comment on the settlement for 2025/26, see

**Local Government Association:** [Debate on the Local Government Finance Settlement 2025/26, House of Commons, 5 February 2025 | Local Government Association](#)

**Public Finance:** [Councils still under strain as local government finance settlement published | Public Finance](#)

**CCN News:** [County Councils Network responds to final Local Government Finance Settlement - County Councils Network](#)

**Local Government Lawyer:** [Unitary mulling legal action over "vindictive" decision to end rural services delivery grant](#)

# New financial resilience index published by CIPFA

CIPFA published the Financial Resilience Index 2024 in January 2025. For Councils wanting to check how they compare with others and where their weak spots are, the Index can be found here: [Insights from the Financial Resilience Index](#).

Helpful for this year is that the Index includes an indicator on growth above baseline. This can be used to highlight the risk each council is likely to face when the business rates retention scheme changes.

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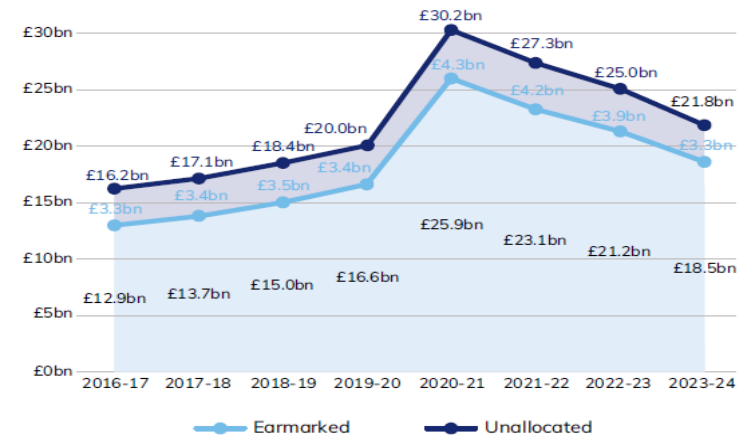
Looking at the data for all councils together, the Index highlights that some ongoing national issues are getting rapidly worse rather than better, and that decline is speeding up. The data, when compared to Financial Resilience Index 2023, suggests that:

- Reserves are declining at an accelerated rate. This is the case for unallocated and earmarked reserves and, for the unallocated reserves, suggests that Councils are using reserves more rather than less than in the past to cover budget gaps.
- Other than for London boroughs, average spend for all councils increased sharply as a percentage of net revenue expenditure in 2024 compared to 2023. London boroughs had seen an equivalent sharp increase in 2023, so this seems to be a case of the rest of the country catching up with London’s trend; and
- Average homelessness expenditure rose sharply as a proportion of net revenue expenditure for London boroughs and non-metropolitan districts.

Continued demand-led cost pressure, coupled with falling reserves to absorb the pressure is not a new trend – but the rate of increase across the country will be very worrying for many.

On a more positive note, the Index does show that external debt levels have stabilised for the sector, which suggests better understanding of the risks associated with debt. Many must be reading the index and hoping that reserves decline can arrest and stabilise as well now.

## Total unallocated and earmarked reserves



# Exceptional Financial Support

With so many commenting that the Finance Settlement for 2025/26 was inadequate for their council, it was perhaps no surprise to many that the government went on to approve exceptional financial support for thirty councils on 20th February 2025. This covered nearly ten percent of all English local authorities, rising from 19 approvals for 2024/25 and just eight approvals for 2023/24.

Fifteen of the thirty councils were the same councils that had support approved for 2024/25. For four of the thirty councils it was their third year running of “exceptional” support – they having also had approvals not only for 2024/25 but for 2023/24 as well (Croydon, Cumberland, Thurrock and Slough).

Support agreed in principle for 2025/26 ranges in size from £2 million each for Eastbourne Borough Council and Worthing Borough Council; to £180 million for Birmingham City Council. The total value is well over £1 billion.

The National Audit Office has commented that this short-term action is insufficient to address the systemic weaknesses in local government financial sustainability. The fact that this is the third year running of exceptional financial support seems to confirm that argument. However, there are two important differences to exceptional financial support this year:

- for the first time since exceptional financial support was introduced in 2020, additional expectations have been set out to protect “treasured community assets, culture and identity.” Councils using capitalisation are instructed not to dispose of community and heritage assets; and
- the Government has removed the condition that made borrowing more expensive through a 1% premium.

The heritage asset and premium rate charging changes do seem to herald a new direction and a higher emphasis on the government helping the sector. When the recently consulted on local authority funding reform materialises, then it will be clearer just how far in a new direction the government is going to go.

## Councils approved support in principle

February 2025	30
February 2024	19
February 2023	8

For details of the support granted for 2025/26, see

[Exceptional Financial Support for local authorities for 2025-26 - GOV.UK](#)

For the February 2025 National Audit Office report on local government financial sustainability

See [Local government financial sustainability](#)





# House of Commons Committee inquiry

Looking more widely at whether the local government finance system in England is fit for purpose overall, the House of Commons Committee on Housing, Communities and Local Government took oral evidence as part of an inquiry into the system on 11th February 2025; and published 48 written evidence submissions as part of its inquiry on 19th February 2025.

Oral evidence was taken from a selection of academics, as well as representatives from the Local Government Information Unit; the Institute for Government; the Institute for Fiscal Studies; and the Reform think tank.

The written evidence submissions came from a wide range of organisations, including government and public bodies, councils, charities, and academic experts. Organisations submitting evidence to the Committee's inquiry included charities such as Mencap, Arrence Higgins Trust, and the National AIDS Trust; groups such as Libraries Connected and the Chartered Institute of Library and Information Professionals; the trade union UNISON; the Chartered Institute of Housing and the Royal Town Planning Institute; and the Local Government and Social Care Ombudsman.

Government and public bodies including the Ministry for Housing, Communities and Local Government, Food Standards Agency, and Historic England also submitted evidence; as did a number of councils and local authority groups.

Under the inquiry, cross-party MPs are asking questions about council tax, business rates, and the funding available from central government; cost and income pressures on the local government sector; and the likely effectiveness of the planned move to multi-year funding settlements.

The wide range of written evidence submissions gives excellent insight into what stakeholders from across the spectrum have to say about the sector today.

Details of oral evidence received by the inquiry can be found here: [11th February 2025 - The Funding and Sustainability of Local Government Finance - Oral evidence - Committees - UK Parliament](#)

A full copy of all 48 submissions can be found here: [The Funding and Sustainability of Local Government Finance - Written evidence - Committees - UK Parliament](#)



# Adult Social Care

Government announcements on 3rd January 2025 paved the way for significant changes around adult social care provision – with immediate support and the start of deep reform both announced on the same day.

For immediate support, the government announced:

- An £86 million immediate uplift to the Disabled Facilities Grant (DFG) for 2024/25;

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An equivalent additional amount of £86 million to be added to the DFG allocation for 2025/26 (since confirmed in the final settlement);

- a shared digital platform to allow up-to-date medical information to be shared between the NHS and care staff, including when someone last took their medication; and
- Commitment to support care workers taking on further duties to deliver health interventions, such as blood pressure checks, at home.

This last two points are intended to reduce pressure on the NHS whilst upskilling the care sector. This would compare well with current arrangements. In February, the [National Audit Office 24](#) highlighted that local authorities aren't at present even given effective support to commission the health checks they have a statutory duty to provide.

For the start of deep reform, the government announced:

- Baroness Louise Casey of Blackstock to lead an independent commission, expected to start in April 2025 and to be run in two phases;
- Phase 1 to report in 2026, identifying the critical issues facing adult social care and setting out recommendations for improvement in the medium term; and
- Phase 2 to report in 2028, identifying a fair and affordable model of care for the ageing population and setting out longer-term transformation recommendations.

Shortly afterwards, on 6th February 2025, better accountability for current users of the system was introduced when the Local Government and Social Care Ombudsman launched a new guide for complaints about adult social care services. The guide sets out how local authorities in England should handle complaints about adult social care and includes a new model for complaints handling which allows councils to try to resolve complaints early, before moving on to having a closer look at issues raised where this is not possible.

Helpful resources:

[Government announcements](#)

[Adult Social Care Complaints, Reviews and Appeals: A good practice guide for local authorities - Local Government and Social Care Ombudsman](#)



# Special educational needs (SEN)

The government confirmed in December 2024 that it will not enter any more safety valve agreements to support local authorities with dedicated schools grant (high needs block) deficits. The government states that it will instead provide additional capital investment for making classrooms more accessible for SEN children.

The Public Accounts Committee (PAC) reported on 15th January 2025 that the “system to support children and young people with special educational needs (SEN) in England is reaching, or, arguably, has already reached, crisis point”.

PAC highlighted that:

The current system is inconsistent and not delivering in line with expectations;

The Government does not fully understand why demand has risen over the last decade and cannot fully articulate what inclusive education is;

- There is no potential solution to the “critical and immediate” financial challenges facing local authorities; and
- Based on the Department’s current forecasts for the need for SEN support, the annual gap between funding and forecast costs across local authorities will grow to between £2.9 billion and £3.9 billion in 2027/28.

Citing a 140% increase over the last decade in the number of children with education, health and care plans; and 1.9 million children and young people aged 0 to 25 years having special educational needs (in January 2024), PAC’s “crisis” reporting will be surprising to few people. A deeper overhaul of the system seems likely to be needed in the next few years, rather than simply spending more on capital for classrooms. This PAC report is unlikely to be the last we hear on SEN.

For a full copy of the report, see [Support for children and young people with special educational needs](#).



# Homelessness

The Public Accounts Committee (PAC) expressed their concern in January 2025 that homelessness levels are at their highest since records began. The Committee concluded that:

- Local authorities are insufficiently resourced to focus on preventing households from becoming homeless;

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It is unacceptable that bed and breakfast accommodation is being used routinely to house people rather than as a last resort;

- Too many people’s lives are disrupted by being placed in temporary accommodation outside of their local area;
- Local Housing Allowance rates may have been set without due consideration of their impact on homelessness;
- The absence of a joined up, cross-government approach makes it hard to tackle homelessness in England;

- The homelessness problem is exacerbated by a severe shortage in housing supply, and especially affordable housing; and
- There are weaknesses in oversight of the supported housing sector.

PAC recognised that multiple funding streams have been a challenge for local authorities; that the Home Office has competed against local authorities for access to much-needed accommodation in the past; that the national standards for support envisaged in the Supported Housing (Regulatory Oversight) Act 2023, have not been implemented by MHCLG; and that, faced with crisis levels of demand, local authorities are less and less able to spend money on prevention.

PAC notes that MHCLG states the Government is committed to producing a strategy and associated metrics in 2025; and that an inter-ministerial group on homelessness, chaired by MHCLG, has been created. However, PAC also questions “how this arrangement will achieve results that the existing cross-government boards with a remit relevant to homelessness have failed to achieve”. Citing a cost increase for temporary accommodation from £1.6 billion in 2022/23 to around £2.1 billion in 2023/24, PAC does not make the outlook for any future prevention seem positive.

For a full copy of the report, see [Tackling homelessness](#).

# Sector Developments- have your say

With the important consultations around Local Audit Reform (including financial reporting), Funding Reform, and Standards and Conduct now closed, it is worth remembering that there are other important debates shaping the sector that your council can still have a say on:

- GOV UK: Funding arrangements for homelessness prevention grant – closes 11.45 pm on 11th March 2025

[Funding arrangements for the Homelessness Prevention Grant from 2026/27 onwards](#)  
[GOV.UK](#)

- GOV UK: Land use in England – closes 11.59pm on 25th April 2025

[Land use in England - GOV.UK](#)

- GOV UK: Improving the way Ofsted inspects education – closes 11.59pm on 28 April 2025

[Improving the way Ofsted inspects education - GOV.UK](#)

- CIPFA: Updated guidance on the annual review and preparation of an annual governance statement – closes 25th April 2025

[Consultation on updated guidance on the annual review](#)

CIPFA



# Value for money webinar for Audit Committee members

We plan to hold the second in a series of Value for Money (VFM) webinars for members of Audit Committees on 4th June 2025 from 4:00pm until 5.30pm. Invitations will be available on the Grant Thornton website shortly. Alternatively, please speak to your audit Engagement Lead or Engagement Manager. Delivered by Grant Thornton specialists and drawing on experience from across the sector, the webinar will cover:

## How to prepare for devolution and reorganisation:

- Shared experience from other reorganisations, with a focus on:
  - Setting up new strategic authorities;
  - Preparing successful final November 2025 proposals;
  - Programme management;
  - Organisational enablement;
- Robust evidence for costs and benefits analysis;
- Setting out your vision; and
- Successful engagement with people and culture.

## Lessons learnt from 2023/24 and how to get ready for 2024/25:

- Review of findings from more than 100 Auditor Annual Reports to identify common findings and what those tell us about areas where more scrutiny is needed;
- Year on year trends across the sector; and
- How to prepare for VFM audit 2024/25.

We look forward to welcoming you.



# Audit Committee resources

## The Audit Committee and organisational effectiveness in local authorities (CIPFA):

<https://www.cipfa.org/services/support-for-audit-committees/local-authority-audit-committees>

## LGA Regional Audit Forums for Audit Committee Chairs

These are convened at least three times a year and are supported by the LGA. The forums provide an opportunity to share good practice, discuss common issues and offer training on key topics. Forums are organised by a lead authority in each region. Please email [ami.beeton@local.gov.uk](mailto:ami.beeton@local.gov.uk) LGA Senior Adviser, for more information.

## Public Sector Internal Audit Standards

<https://www.gov.uk/government/publications/public-sector-internal-audit-standards>

## Code of Audit Practice for local auditors (NAO):

<https://www.nao.org.uk/code-audit-practice/>

## Governance risk and resilience framework: material for those with a leadership responsibility on good governance (CfGS):

<https://www.cfgs.org.uk/material-for-those-with-a-leadership-responsibility-on-good-governance/>

## The Three Lines of Defence Model (IAA)

<https://www.theiia.org/globalassets/documents/resources/the-iias-three-lines-model-an-update-of-the-three-lines-of-defense-july-2020/three-lines-model-updated-english.pdf>

## Risk Management Guidance / The Orange Book (UK Government):

<https://www.gov.uk/government/publications/orange-book>

## CIPFA Guidance and Codes

The following all have a charge, so do make enquiries to determine if copies are available within your organisation.

### Audit Committees: Practical Guidance For Local Authorities And Police

<https://www.cipfa.org/policy-and-guidance/publications/a/audit-committees-practical-guidance-for-local-authorities-and-police-2022-edition>

### Delivering Good Governance in Local Government

<https://www.cipfa.org/policy-and-guidance/publications/d/delivering-good-governance-in-local-government-framework-2016-edition>

### Financial Management Code

<https://www.cipfa.org/fmcode>

### Prudential Code

<https://www.cipfa.org/policy-and-guidance/publications/t/the-prudential-code-for-capital-finance-in-local-authorities-2021-edition>

### Treasury Management Code

<https://www.cipfa.org/policy-and-guidance/publications/t/treasury-management-in-the-public-services-code-of-practice-and-crosssectoral-guidance-notes-2021-edition>



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**Meeting:** Audit Committee      **Date:** 26 March 2024

**Wards affected:** All wards in Torbay

**Report Title:** Treasury Management Mid-Year Review 2024/25 - Revisions

**When does the decision need to be implemented?** Immediate

**Cabinet Member Contact Details:** Councillor Alan Tyerman, [alan.tyerman@torbay.gov.uk](mailto:alan.tyerman@torbay.gov.uk)

**Director/Divisional Director Contact Details:** Malcolm Coe, Director of Finance, [malcolm.coe@torbay.gov.uk](mailto:malcolm.coe@torbay.gov.uk) and Paul Matravers, Head of Corporate Finance, [paul.matravers@torbay.gov.uk](mailto:paul.matravers@torbay.gov.uk)

## 1. Purpose of Report

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- 1.1 The 2024/25 Treasury Management Mid-Year Review was presented to Audit Committee at the November 2024 meeting. Unfortunately, a number of small errors were identified in the report, this update identifies the errors and provides the committee with the correct figures.
- 1.2 The majority of the figures in the mid-year report are providing information as at a point in time, the errors related to the investment balance figures as at the reporting period end (30<sup>th</sup> September 2024).
- 1.3 The Finance team have reviewed practices and procedures to ensure that the likelihood of this happening is eliminated for future reports to the committee.

## 2. Reason for Proposal and its benefits

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- 2.1 To update the committee on errors identified in the 2024/25 Mid-Year Treasury Management report and report the correct figures to the committee.

## 3. Recommendation(s) / Proposed Decision

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- 3.1 That audit committee note the errors and the updated figures in respect of the 2024/25 Treasury Management Mid-Year Report.

### Appendices

Appendix 1: Updated Borrowing and Investment Portfolio at 30th September 2024

### Background Documents

[Treasury Management Strategy 2425.pdf \(torbay.gov.uk\)](#)

# Supporting Information

## 1. Introduction

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1.1 The 2024/25 Treasury Management Mid-Year Review was presented to Audit Committee at the November 2024 meeting. Unfortunately, a number of small errors were identified in the report, this update identifies the errors and provides the committee with the correct figures.

## 2. Report Errors and Corrections

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2.1 There were two tables in the main report that contained incorrect figures and Appendix 3 - Borrowing and Investment Portfolio at 30th September 2024. The tables with incorrect figures were:

- Table 2: Treasury Management Summary
- Table 4: Treasury Investment Position

2.2 Table 2 included a figure of £80m as total investments as at 30.9.24, this figure should have been £79m with the long-term investment figure reducing by £1m. The table included in report is detailed below.

*Table 2: Treasury Management Summary*

	31.3.24 Balance £m	Movement £m	30.9.24 Balance £m	30.9.24 Rate %
Long-term borrowing	359	(3)	356	2.91
Short-term borrowing	0	0	0	0
<b>Total borrowing</b>	<b>359</b>	<b>(3)</b>	<b>356</b>	<b>2.91</b>
Long-term investments	(15)	(6)	(21)	4.72
Short-term investments	(35)	(24)	(59)	5.00
Cash and cash equivalents	(0)	(0)	(0) ✓	
<b>Total investments</b>	<b>(50)</b>	<b>(30)</b>	<b>(80)</b>	<b>4.93</b>

The long-term investment figure is £20m which reduces the investment balance as at 30.9.24, see updated table below.



**UPDATED** - Table 2: Treasury Management Summary

	31.3.24 Balance £m	Movement £m	30.9.24 Balance £m	30.9.24 Rate %
Long-term borrowing	359	(3)	356	2.91
Short-term borrowing	0	0	0	0
<b>Total borrowing</b>	<b>359</b>	<b>(3)</b>	<b>356</b>	<b>2.91</b>
Long-term investments	(15)	(5)	(20)	4.72
Short-term investments	(35)	(24)	(59)	5.00
Cash and cash equivalents	(0)	(0)	(0)	
<b>Total investments</b>	<b>(50)</b>	<b>(29)</b>	<b>(79)</b>	<b>4.93</b>

This figure feeds through to table 4, see below for the revised balances.

- 2.3 Table 4 which is the Treasury Investment Position included a number of errors. The '30.9.24 Balance £m' had an addition error of £2m and the total of £86.6m was incorrect and should have totalled £79m. The table 4 included in the November report is below:

*Table 4: Treasury Investment Position*

	31.3.24 Balance £m	Net Movement £m	30.9.24 Balance £m	30.9.24 Income Return %	30.9.24 Weighted Average Maturity days
Banks & Building Societies	0.3	0.0	0.3	3.20	1
Government Bonds	3.3	14.3	17.6	4.50	5,601
Local Authorities	35.0	12.0	47.0	4.78	198
Corporate Bonds	2.0	0.0	2.0	4.28	1,599
Money Market Funds	4.6	10.7	15.3	4.94	1
Other Pooled Funds:					
- Property fund	4.4	0.0	4.4	4.86	-
<b>Total Investments</b>	<b>49.6</b>	<b>37.0</b>	<b>86.6</b>	<b>4.73</b>	<b>1,189</b>

The correct table and figure are shown below and the amended figures are highlighted:

**UPDATED** - Table 4: Treasury Investment Position

	31.3.24 Balance £m	Net Movement £m	30.9.24 Balance £m	30.9.24 Income Return %	30.9.24 Weighted Average Maturity days
Banks & Building Societies	0.3	0.0	0.3	3.20	1
Government Bonds	3.3	14.3	17.6	4.50	5,601
Local Authorities	35.0	12.0	47.0	4.78	198
Corporate Bonds	2.0	0.0	2.0	4.28	1,599
Money Market Funds	4.6	10.7	7.8	4.94	1
Other Pooled Funds:					
- Property fund	4.4	0.0	4.4	4.86	-
<b>Total Investments</b>	<b>49.6</b>	<b>37.0</b>	<b>79.0</b>	<b>4.73</b>	<b>1,189</b>

- 2.4 Appendix 3 of the November report detailed the borrowing and investment portfolio as at 30<sup>th</sup> September 2024. The appendix included an error in respect of the short term investments and the total value of the investments.
- 2.5 The total value included in the report was £9.55m, the correct balance as at 30<sup>th</sup> September for short term investment was £58.75m. The updated appendix is attached to this report.

## Borrowing and Investment Portfolio at 30th September 2024

### Long Term Borrowing

Name	Principal £	Interest Rate	Start Date	Maturity Date
Barclays Bank PLC (NRFB)	5,000,000	4.700%	25/09/2006	25/09/2076
Dexia Credit Local	5,000,000	4.395%	05/11/2007	07/11/2078
Public Works Loan Board	3,000,000	4.150%	13/12/2005	14/02/2046
Public Works Loan Board	2,000,000	4.050%	23/12/2005	14/02/2051
Public Works Loan Board	2,000,000	4.450%	14/07/2006	14/08/2036
Public Works Loan Board	4,000,000	4.350%	19/07/2006	15/11/2036
Public Works Loan Board	2,000,000	4.400%	19/07/2006	15/11/2034
Public Works Loan Board	2,337,000	4.400%	02/08/2006	15/05/2037
Public Works Loan Board	2,000,000	4.400%	11/08/2006	15/12/2037
Public Works Loan Board	2,000,000	4.100%	28/09/2006	15/12/2041
Public Works Loan Board	3,000,000	4.150%	03/11/2006	15/06/2038
Public Works Loan Board	2,000,000	4.100%	03/11/2006	15/12/2041
Public Works Loan Board	4,000,000	4.100%	07/12/2006	15/01/2052
Public Works Loan Board	4,000,000	4.350%	25/01/2007	15/10/2042
Public Works Loan Board	3,000,000	4.450%	31/01/2007	15/03/2048
Public Works Loan Board	4,000,000	4.350%	02/03/2007	15/07/2043
Public Works Loan Board	4,000,000	4.300%	08/03/2007	15/07/2049
Public Works Loan Board	2,000,000	4.300%	08/03/2007	15/07/2050
Public Works Loan Board	2,000,000	4.500%	20/08/2007	15/09/2052
Public Works Loan Board	2,000,000	4.500%	27/11/2007	15/01/2035
Public Works Loan Board	2,000,000	4.420%	07/01/2008	15/03/2041
Public Works Loan Board	2,000,000	4.420%	24/01/2008	15/03/2040
Public Works Loan Board	3,000,000	4.380%	10/09/2008	15/04/2058
Public Works Loan Board	3,000,000	4.390%	10/08/2009	15/04/2027
Public Works Loan Board	3,000,000	4.480%	10/08/2009	15/04/2044
Public Works Loan Board	5,000,000	4.250%	24/08/2009	24/08/2032
Public Works Loan Board	5,000,000	4.010%	13/10/2009	15/06/2029
Public Works Loan Board	5,000,000	4.380%	10/05/2010	15/07/2025
Public Works Loan Board	61,587	4.500%	21/04/1999	21/03/2059
Public Works Loan Board	252,508	4.750%	21/04/1999	21/03/2059
Public Works Loan Board	615,872	4.750%	28/07/1999	28/03/2059
Public Works Loan Board	636,401	4.750%	28/07/1999	28/03/2059
Public Works Loan Board	1,437,035	4.750%	28/07/1999	28/03/2059
Public Works Loan Board	944,337	4.500%	09/08/1999	09/03/2058
Public Works Loan Board	392,105	4.750%	10/08/1999	10/03/2054
Public Works Loan Board	410,581	4.500%	12/08/1999	12/03/2057
Public Works Loan Board	266,591	4.875%	02/12/2002	30/09/2027
Public Works Loan Board	207,974	4.750%	11/03/2004	11/09/2033
Public Works Loan Board	410,581	4.750%	01/04/2004	01/03/2034
Public Works Loan Board	410,581	4.950%	08/07/2004	08/03/2034
Public Works Loan Board	410,581	4.250%	21/11/2005	21/09/2032
Public Works Loan Board	410,581	4.150%	13/12/2005	13/09/2055
Public Works Loan Board	410,581	4.100%	19/12/2005	19/03/2051
Name	Principal £	Interest Rate	Start Date	Maturity Date
Public Works Loan Board	410,581	3.900%	11/01/2006	11/03/2055
Public Works Loan Board	410,581	4.300%	13/04/2006	13/09/2041
Public Works Loan Board	410,581	4.400%	28/04/2006	30/09/2051

Public Works Loan Board	410,581	4.200%	23/05/2006	30/09/2047
Public Works Loan Board	1,231,744	4.400%	29/06/2006	29/09/2053
Public Works Loan Board	205,291	4.250%	19/07/2006	19/09/2055
Public Works Loan Board	615,872	4.250%	25/08/2006	25/09/2055
Public Works Loan Board	410,581	4.200%	31/08/2006	30/09/2051
Public Works Loan Board	615,872	4.200%	19/09/2006	19/09/2051
Public Works Loan Board	410,581	4.050%	29/09/2006	29/09/2051
Public Works Loan Board	1,231,744	4.250%	16/01/2007	16/03/2052
Public Works Loan Board	410,581	4.500%	11/04/2007	11/09/2054
Public Works Loan Board	410,582	4.430%	21/01/2008	21/09/2037
Public Works Loan Board	1,560,207	4.875%	08/08/2002	08/03/2027
Public Works Loan Board	5,000,000	2.540%	22/02/2017	15/05/2061
Public Works Loan Board	5,000,000	2.480%	28/02/2017	15/05/2062
Public Works Loan Board	5,000,000	2.350%	12/04/2017	15/05/2063
Public Works Loan Board	5,000,000	2.270%	19/04/2017	15/06/2064
Public Works Loan Board	5,000,000	2.280%	26/06/2017	15/08/2065
Public Works Loan Board	5,000,000	2.360%	21/07/2017	30/09/2030
Public Works Loan Board	5,000,000	2.400%	26/07/2017	30/09/2031
Public Works Loan Board	5,000,000	2.440%	26/07/2017	30/09/2066
Public Works Loan Board	5,000,000	2.370%	15/08/2017	31/03/2061
Public Works Loan Board	5,000,000	2.580%	25/09/2017	15/11/2059
Public Works Loan Board	2,000,000	2.540%	26/09/2017	15/11/2062
Public Works Loan Board	3,000,000	2.520%	27/09/2017	15/11/2064
Public Works Loan Board	2,000,000	2.520%	27/09/2017	15/11/2065
Public Works Loan Board	5,000,000	2.260%	06/10/2017	15/09/2028
Public Works Loan Board	5,000,000	2.500%	06/10/2017	15/09/2067
Public Works Loan Board	5,000,000	2.500%	19/10/2017	15/12/2059
Public Works Loan Board	5,000,000	2.500%	19/10/2017	15/12/2060
Public Works Loan Board	8,000,000	2.570%	16/11/2017	31/03/2057
Public Works Loan Board	6,000,000	2.490%	16/11/2017	31/03/2065
Public Works Loan Board	6,000,000	2.510%	16/11/2017	31/03/2062
Public Works Loan Board	4,000,000	2.550%	16/11/2017	31/03/2058
Public Works Loan Board	6,000,000	2.490%	16/11/2017	30/09/2066
Public Works Loan Board	4,000,000	2.160%	24/11/2017	31/03/2028
Public Works Loan Board	6,000,000	2.610%	24/11/2017	31/03/2049
Public Works Loan Board	5,000,000	2.530%	24/11/2017	31/03/2053
Public Works Loan Board	5,000,000	2.510%	24/11/2017	30/09/2033
Public Works Loan Board	5,000,000	2.520%	05/06/2018	15/01/2048
Public Works Loan Board	5,000,000	2.540%	10/07/2018	31/03/2047
Public Works Loan Board	3,000,000	2.370%	21/02/2019	31/03/2066
Public Works Loan Board	2,000,000	2.360%	26/02/2019	31/03/2063
Public Works Loan Board	3,000,000	2.380%	12/03/2019	31/03/2036
Public Works Loan Board	2,000,000	2.320%	25/03/2019	31/03/2036
Public Works Loan Board	2,000,000	2.410%	25/03/2019	31/03/2040
Public Works Loan Board	2,000,000	2.420%	25/03/2019	31/03/2041
Public Works Loan Board	2,000,000	2.350%	27/03/2019	31/03/2045
<b>Name</b>	<b>Principal £</b>	<b>Interest Rate</b>	<b>Start Date</b>	<b>Maturity Date</b>
Public Works Loan Board	2,000,000	2.350%	27/03/2019	31/03/2046
Public Works Loan Board	4,000,000	2.250%	28/05/2019	31/03/2068
Public Works Loan Board	3,000,000	2.280%	30/05/2019	31/03/2039
Public Works Loan Board	5,000,000	2.150%	06/06/2019	31/03/2068
Public Works Loan Board	5,000,000	2.140%	08/07/2019	31/03/2044

Public Works Loan Board	5,000,000	1.900%	13/08/2019	31/03/2064
Public Works Loan Board	5,000,000	1.730%	19/08/2019	31/03/2069
Public Works Loan Board	5,000,000	1.720%	05/09/2019	31/03/2050
Public Works Loan Board	5,000,000	1.850%	16/09/2019	31/03/2058
Public Works Loan Board	5,000,000	1.530%	17/09/2019	31/03/2030
Public Works Loan Board	5,000,000	1.950%	17/09/2019	31/03/2054
Public Works Loan Board	5,000,000	1.860%	23/09/2019	31/03/2040
Public Works Loan Board	5,000,000	1.810%	23/09/2019	31/03/2056
Public Works Loan Board	5,000,000	1.520%	23/09/2019	31/03/2031
Public Works Loan Board	5,000,000	1.740%	23/09/2019	31/03/2069
Public Works Loan Board	6,000,000	2.900%	06/12/2019	31/03/2059
Public Works Loan Board	5,000,000	2.430%	03/02/2020	30/09/2031
Public Works Loan Board	5,000,000	2.760%	03/02/2020	31/03/2055
Public Works Loan Board	5,000,000	2.240%	11/03/2020	31/03/2043
Public Works Loan Board	5,000,000	2.210%	11/03/2020	31/03/2051
Public Works Loan Board	1,666,667	1.420%	22/02/2017	15/05/2027
Public Works Loan Board	2,901,962	2.290%	26/07/2017	30/09/2042
	<b>355,928,910</b>			

### Long Term Investments

Name	Principal £	Yield	Start Date	Maturity Date
European Investment Bank	3,000,000	4.439%	20/03/2024	15/04/2039
BNG Bank INV	2,000,000	4.284%	20/03/2024	15/02/2029
European Investment Bank	5,000,000	4.802%	03/06/2024	07/03/2044
International Bank for Reconstruction & Development	3,000,000	4.118%	18/07/2024	07/06/2032
European Investment Bank	2,000,000	4.551%	18/07/2024	07/03/2044
CCLA Property Fund	5,000,000	5.020%	n/a	n/a
	<b>20,000,000</b>			

### Short Term Investments

Name	Principal £	Interest Rate	Start Date	Maturity Date
Highland Council	5,000,000	4.200%	10/03/2023	10/03/2025
Medway Council	5,000,000	4.200%	24/02/2023	04/04/2025
Aberdeen City Council	2,000,000	5.150%	07/06/2024	06/06/2025
Cheshire East Council	5,000,000	5.250%	28/05/2024	27/11/2024
Borough of Kingston Upon Hull	5,000,000	5.150%	06/08/2024	06/11/2024
Newport City Council	5,000,000	4.800%	09/09/2024	08/09/2025
Blackpool Council	5,000,000	4.850%	30/08/2024	30/06/2025
London Borough of Waltham Forest	5,000,000	4.850%	20/08/2024	20/05/2025
Chorley Borough Council	5,000,000	4.750%	30/09/2024	29/09/2025
DMADF	4,000,000	4.860%	04/09/2024	04/12/2024
Bournemouth Christchurch & Poole Council	5,000,000	4.820%	17/09/2024	15/01/2025
Goldman Sachs Money Market Fund	5,500,000	5.131%	n/a	n/a
CCLA Public Sector Deposit Fund	50,000	5.218%	n/a	n/a
Aviva Investors Money Market Fund	1,300,000	5.268%	n/a	n/a
Legal & General Money Market fund	900,000	5.220%	n/a	n/a
	<b>58,750,000</b>			

### Cash & Cash Equivalents

Name	Principal £	Interest Rate	Start Date	Maturity Date
National Westminster Bank	271,359	3.000%	n/a	n/a
	<b>271,359</b>			

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# Audit Committee Self - Assessment (CIPFA Guidance) 2024-25

**Torbay Council**

**October 2024**



## Introduction

Audit Committees are a key component of an authority’s governance framework. The committee’s role in ensuring that there is sufficient assurance over governance risk and control gives greater confidence to all those charged with governance that those arrangements are effective. In CIPFA’s 2022 Position Statement, it states ‘CIPFA expects that all local government bodies should make their best efforts to adopt the principles, aiming for effective audit committee arrangements. This will enable those bodies to meet their statutory responsibilities for governance and internal control arrangements, financial management, financial reporting and internal audit.’

## Executive Summary

The self-assessment identified much alignment with the principles of CIPFA’s 2022 Position Statement. It is pleasing to note that Members felt that for the majority of principles only minor work was required, but they did highlight a few areas for the Audit Committee to address. These relate to changes to the Terms of Reference, production of an annual report, development of a training programme, undertaking regular training needs assessments, development of performance and feedback measures, and establishing an improvement plan.

The Internal Audit opinions expressed in this audit report are based upon a consultative facilitation role and it should be noted that we have not undertaken any verification activity to confirm the position set out during the self-assessment.

Areas Covered - key actions	IA Rating
<b>Audit Committee Purpose and Governance</b>	Reasonable
- Terms of reference compliance with the 2022 CIPFA Position - Annual Report by the Committee	
<b>Functions of the Committee</b>	Substantial
<b>Membership and Support</b>	Limited
- Establishment of formal training plan - Evaluation of training needs	
<b>Effectiveness of the Committee</b>	Reasonable
- Action plan for improvement	
- Formal evaluation of the Audit Committee on a periodic basis	
- Performance measures - Feedback on performance or added value	

## Issues for the Annual Governance Statement

We recommend that the good practices and area for enhancement in relation to the Audit Committee’s position against CIPFA’s 2022 Position Statement is reflected in the Statement.

## Acknowledgements

We would like to express our thanks and appreciation to the Audit Committee for their engagement in the self-assessment process.

Detailed Audit Observations and Action Plan

**1. Area: Audit Committee Purpose and Governance:**

**Rating**

**Reasonable**

**Opinion Statement:**

The 2022 CIPFA Position states *‘The audit committee should be established so that it is independent of executive decision making and able to provide objective oversight. It is an advisory committee that has sufficient importance in the authority so that its recommendations and opinions carry weight and have influence with the leadership team and those charged with governance.’* In order to meet this requirement, the Audit Committee should have a structure of governance that supports its independence and enables oversight that is accepted and respected within the Council.

The CIPFA self-assessment for this section covers areas such as independence of the committee, reporting and escalation lines, authority, terms of reference, performance of the audit committee and annual reporting by the audit committee. The majority of areas within this section of the CIPFA self-assessment scored well.

No.	Observation and Implications	Impact / Priority	Recommendation	Committee Response
1.1	The Terms of Reference does not currently set out and describe the purpose of the Committee in accordance with CIPFA’s 2022 Position Statement.	Low	The terms of reference should be updated to clearly set out the purpose of the committee in accordance with CIPFA’s 2022 Position Statement.	The committee terms of reference will be reviewed and updated accordingly
1.2	The Audit Committee doesn’t currently produce and publish an annual report in accordance with the guidance i.e. to include: <ul style="list-style-type: none"> <li>○ Its compliance with the CIPFA Position Statement 2022</li> <li>○ Any results of the annual evaluation, development work undertaken and planned improvements</li> <li>○ How it has fulfilled its terms of reference and the key issues escalated in the year.</li> </ul>	Medium	The Audit Committee should publish an annual report in accordance with CIPFA’s 2022 guidance.	Agreed, a draft annual report is included on the agenda for the March 2025 meeting. This is seeking committee approval in respect of the format and content of the report.  Once agreed an annual report will be scheduled on the workplan annually

**2. Area: Functions of the Committee:**

**Rating**

**Substantial**

**Opinion Statement:**

The 2022 CIPFA Position states *‘The core functions of the audit committee are to provide oversight of a range of core governance and accountability arrangements, responses to the recommendations of assurance providers and helping to ensure robust arrangements are maintained.’* Within the CIPFA Position, these are titled as ‘Maintenance of governance, risk and control arrangements’, ‘Financial and governance reporting’, and ‘Establishing appropriate and effective arrangements for



audit and assurance'. The CIPFA self-assessment for this section covers areas such as the terms of reference covering the core functions, consideration of the core functions by the audit committee, and access to internal and external audit. All areas within this section of the CIPFA self-assessment were scored and there are no related recommendations.

### 3. Area: Membership and Support:

Rating

Limited

#### Opinion Statement:

The 2022 CIPFA Position states *'To provide the level of expertise and understanding required of the committee, and to have an appropriate level of influence within the authority, the members of the committee will need to be of high calibre.'*

CIPFA states that the characteristics of audit committee membership are a trained membership, a membership that promotes good governance principles, a strong, independently minded chair, displaying a depth of knowledge, skills, and interest, willingness to operate in an apolitical manner, unbiased attitudes, the ability to challenge the executive and senior managers, and knowledge, expertise and interest in the work of the committee.

The CIPFA self-assessment for this section covers areas such as separation / independence, knowledge and skills of members and evaluation of these, the existence of a training programme that incorporates the 2022 CIPFA Guidance, and working relationships with the chief finance officer, internal and external audit.

Approximately half of this section of the CIPFA guidance scored well with the areas for enhancement being linked to formalised, regular training incorporating the 2022 CIPFA guidance and evaluation of training requirements.

No.	Observation and Implications	Impact / Priority	Recommendation	Committee Response
3.1 241	<p>Committee members commented that the membership has been appointed/selected to ensure the committee knowledgeable and skilled, but that this should be supported with formalised and regular training.</p> <p>It was noted that current training did not specifically cover the 2022 CIPFA Position and related guidance for Audit Committee members, and that not all members were aware of the guidance.</p>	Medium	Establish a formal training programme for Members that incorporates the 2022 CIPFA Guidance.	Agreed, a formal training plan will be agreed and rolled out in the 2025/26 year.
3.2	<p>Members noted that whilst training had been received, there was no evaluation of knowledge, skills and the training needs of the Chair and Committee members which is expected to be undertaken every 2 years in line with the CIPFA guidance.</p>	Medium	Every two years, evaluate the knowledge, skills and training requirements of Members.	Agreed, this will be incorporated into the formal training plan with a skills and knowledge review scheduled every 2 years.

#### 4. Area: Effectiveness of the Committee:

Rating

Reasonable

##### Opinion Statement:

The 2022 CIPFA Position states *'The audit committee should be established and supported to enable it to address the full range of responsibilities within its terms of reference and to generate planned outputs', and 'As a non-executive body, the influence of the audit committee depends not only on the effective performance of its role, but also on its engagement with the leadership team and those charged with governance. The committee should evaluate its impact and identify areas for improvement.'*

The CIPFA self-assessment for this section covers areas such as feedback to the Audit Committee, meeting chairing, discussion and engagement, breadth of the committee's engagement across the organisation, and the evaluation of its impact on the organisation. The majority of areas within this section of the CIPFA guidance scored well. Areas for improvement were found to be in relation to feedback to the Audit Committee, evaluation of the added value the Audit Committee delivers and the need for an action plan to address areas of weakness.

No.	Observation and Implications	Impact / Priority	Recommendation	Management Response
4.1	The Audit Committee does not have an action plan to ensure its development. Areas have been identified through this self-assessment which could form the basis of an initial action plan. Moving forward the plan could be monitored and revised by the Audit Committee as part of the ongoing meeting schedule.	Medium	Create an action plan for development of the Audit Committee and monitor progress against the agreed actions.	Agreed, an action plan will be created and approved by committee. This will be updated to track progress and actions and it will be reported to committee on annual basis.  However, as this is a new plan a progress update will initially be provided half yearly.
4.2	Members advised that they had not formally evaluated how the Audit Committee adds value to the organisation.	Medium	Determine how performance of the committee can be measured and regularly review and report on performance against those measures. These measures should include the delivery of added value.	Agreed, a set of performance measures and details of the outcomes against the measures will be included in the annual report.
4.3	The Audit Committee advised that it does not receive much feedback on its performance. It was noted by Members that they had not received any negative feedback.	Medium	Consider how to obtain feedback on the performance of the Audit Committee e.g. from other Committees, Overview and Scrutiny, Full Council, Officers and External Organisations interacting with the Committee.	Agreed, feedback will be sought from the various committees, officers and external organisations on committee performance.

			Once established, determine how the feedback outcomes will be collated and reported to the Audit Committee.	In addition, comments will be sought on if there is anything the committees, officers and external organisations require from audit committee that is not currently being provided.
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## Appendix B

### Scope and Objectives

The Internal Audit plan for 2024-25 was presented and approved by the Audit Committee in March 2024. It included an Audit Committee Self-Assessment to be based on the 2022 CIPFA document 'Audit Committees Practical Guidance for Local Authorities and Police'.

CIPFA describe the aim of the guidance as '*to support you in your time as an audit committee member*' and the aim of the Devon Assurance Partnership in our work was to guide Members in a self-assessment exercise covering the following question areas set out the guidance:

- Audit Committee Purpose and Governance
- Functions of the Committee
- Membership and Support
- Effectiveness of the Committee

We worked through the self-assessment questions in a facilitation role. We have reported the outcomes and where applicable made recommendations to support the Audit Committee in its further development.

### Inherent Limitations

**Important Note** - The opinions and recommendations contained within this report are based on our facilitation of the self-assessment and recording of the discussions. We have not verified the comments made, however our relationship with the Audit Committee means we have an awareness of their activities and regularly see the Audit Committee in action at committee meetings.

## Confidentiality under the National Protective Marking Scheme

This report is protectively marked in accordance with the National Protective Marking Scheme. It is accepted that issues raised may well need to be discussed with other officers within the Council, the report itself should only be copied/circulated/disclosed to anyone outside of the organisation in line with the organisation's disclosure policies. This report is prepared for the organisation's use. We can take no responsibility to any third party for any reliance they might place upon it.

### Marking

Official

### Definitions

The majority of information that is created or processed by the public sector. This includes routine business operations and services, some of which could have damaging consequences if lost, stolen or published in the media, but are not subject to a heightened threat profile.

Official: Sensitive A limited subset of OFFICIAL information could have more damaging consequences if it were lost, stolen or published in the media. This subset of information should still be managed within the 'OFFICIAL' classification tier but may attract additional measures to reinforce the 'need to know'. In such cases where there is a clear and justifiable requirement to reinforce the 'need to know', assets should be conspicuously marked: 'OFFICIAL-SENSITIVE'. All documents marked OFFICIAL: SENSITIVE must be handled appropriately and with extra care, to ensure the information is not accessed by unauthorised people.

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**Tony Rose, Head of Partnership**

**Jo McCormick, Deputy Head of Partnership**

## Definitions of Audit Assurance Opinion Levels

## Definition of Recommendation Priority

Assurance	Definition		
Substantial Assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.		High
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.		Medium
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.		Low
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.		Opportunity

## Devon Assurance Partnership

The Devon Assurance Partnership has been formed under a joint committee arrangement comprising of Plymouth, Torbay, Devon, Mid Devon, South Hams & West Devon, Torridge, North Devon councils and Devon & Somerset Fire and Rescue Service. We aim to be recognised as a high-quality internal audit service in the public sector. We collaborate with our partners by providing a professional internal audit service that will assist them in meeting their challenges, managing their risks and achieving their goals. In conducting our work, we are required to comply with the Public Sector Internal Audit Standards along with other best practice and professional standards. The Partnership is committed to providing high quality, professional customer services to all; if you have any comments or suggestions on our service, processes or standards, the Head of Partnership would be pleased to receive them at [tony.d.rose@devon.gov.uk](mailto:tony.d.rose@devon.gov.uk)

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**Meeting:** Audit Committee

**Date:** 26<sup>th</sup> March 2025

**Wards affected:** All Wards in Torbay

**Report Title:** Local audit reform - a strategy for overhauling the local audit system in England

**Cabinet Member Contact Details:**

Councillor Alan Tyerman, [Alan.Tyerman@torbay.gov.uk](mailto:Alan.Tyerman@torbay.gov.uk)

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Malcolm Coe, Director of Finance [Malcolm.coe@torbay.gov.uk](mailto:Malcolm.coe@torbay.gov.uk) and Paul Matravers, Head of Corporate Finance [Paul.matravers@torbay.gov.uk](mailto:Paul.matravers@torbay.gov.uk)

## 1. Purpose of Report

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- 1.1 To provide an update on the recent Ministry of Housing, Communities and Local Government (MHCLG) consultation which closed at the end of January 2025. The consultation sought views on the six key areas of reform as included in the strategy for overhauling the local audit system in England.
- 1.2 The council responded to the consultation (appendix 2) and the consultation document published by MHCLG is included in appendix 1 for information.

## 2. Reason for Proposal and its benefits

---

- 2.1 This an update report which informs the committee of the proposals in respect of local audit reform and the strategy for overhauling the local audit system in England.
- 2.2 The Grant Thornton Audit progress report and sector update agenda item also provides an update and further information.
- 2.2 A further update to the committee will be provided as the implementation of the strategy progresses.

## 3. Recommendation(s) / Proposed Decision

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- 3.1 That Audit Committee note the consultation response as set out at Appendix 2 to the submitted report.

### Appendices

Appendix 1: Local audit reform - a strategy for overhauling the local audit system in England

Appendix 2: Torbay Council response to consultation

# Supporting Information

## 1. Introduction

---

- 1.1 On 18 December 2024, the Government opened a wide ranging consultation on Local Authority Accounts and Local Audit Reform.
- 1.2 The Local Audit Reform – A strategy for overhauling the Local Audit system in England, commits to a series of measures to fix the broken local audit system, including:
- A local audit vision with 8 core principles;
  - The establishment of a statutory and independent Local Audit Office (LAO) with 5 strategic responsibilities;
- 1.3 The Government consulted on a number of specific proposals as part of the strategy, including:
- Potential additional functions of the new LAO;
  - Simplifying financial reporting requirements to ensure that they are proportionate;
  - Improvements to enhance capacity and capability in the local audit sector, such as the introduction of public provision;
  - Strengthening the relationship between local bodies and their auditor;
  - Reforming the audit regime.
- 1.4 The Minister of State for Housing, Communities and Local Government published a written ministerial statement on 30 July 2024 regarding the backlog in the publication of audited accounts of local bodies in England.
- 1.5 In the statement, it was acknowledged the Local Audit system in England as broken and it advised on the intention to update on the Government’s longer term plan to fix local audit.
- 1.6 The current system highlights three systemic challenges:
- **Capacity** - There is a severe lack of external auditors, with a limited number of firms operating in the sector
  - **Co-ordination** - Multiple organisations have a statutory role to oversee and regulate audit, across various sectors, countries (within the UK) and with responsibilities for different frameworks. There is no clear ownership of the system. This limits the ability to align incentives and establish a single vision;
  - **Complexity** - Financial reporting and audit requirements are disproportionately complex, beyond the system’s capacity and inadvertently incentivises risk aversion. Standards are largely modelled on corporate audit rather than the needs of local bodies.



- 1.7 The Local Audit Reform – A strategy for overhauling the Local Audit system in England, commits to a series of measures to fix the broken Local Audit system, including a local audit vision with 8 core principles;
- Value for Money
  - Transparency
  - Capacity and capability
  - External Scrutiny
  - Professionalism
  - Proportionality
  - Stronger Accountability
  - Timely
- 1.8 The establishment of a statutory and independent Local Audit Office (LAO) with 5 strategic responsibilities;
- Co-ordinating the system
  - Contract management
  - Code of practice
  - Oversight
  - Reporting, insights and guidance
- 1.9 In the ministerial foreword to the consultation, the Minister of State for Housing, Communities and Local Government stated that Local Audit should be the bedrock of local accountability and transparency, of trust and confidence in councils to spend taxpayers money wisely but a key part of our early warning system over local government finances has been lost at the time when we need it most.
- 1.10 It adds that the challenges faced are insurmountable without fundamental reform to drive transparency and open the books and that the fragmented system will be streamlined into one body, The Local Audit Office, which will have a focused and clear remit to lead the reform and ensure that local audit provides value for money for the taxpayers now and in the future.

## 2. Local Audit Reform Consultation

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- 2.1 The real-world consequences of the system failure – of not having an audit, or not having a timely audit, or the delivery of accounts which are disproportionately complex - cannot be underestimated. There is a broad consensus over recent years that a new local audit body would be integral to system reform.

- 2.2 The proposed strategy for overhauling the Local Audit systems in England commits to establishing the Local Audit Office (LAO), to radically simplify the system, and bring as many audit functions as possible under a single organisation with a focus and expertise in local audit, as the Kingman and Redmond Reviews recommended. The proposed strategy also consulted on potential additional functions for the LAO to further unify the system.
- 2.3 A LAO will form one of several steps towards resolving the sector's most pressing challenges. Alongside the Government's programme to clear the backlog and return to timely audit, relationships must be strengthened and capacity and capability enhanced. The proposed strategy also responds to Redmond's recommendations and provides direction in both regards.
- 2.4 The 6 key areas of required reform included in the consultation are summarised below:

**The purpose of local audit** - Reforms must be guided by a vision statement with 8 core principles and be driven by user needs. The proposal includes an emphasis on the examination of an authority's financial resilience and the provision of early warnings of major governance and financial risks (including material fraud). The most radical proposal requires auditors to give an opinion on whether an authority has actually achieved value for money (VFM), rather than purely assessing whether adequate arrangements to secure VFM are in place.

Any implementation of this proposal needs to consider that responsibility for VFM in local authorities sits with elected members. The need to maintain auditors' independence and whether there is a risk of being drawn into challenging political decisions also need to be taken into consideration. The capacity and capability of the system to respond to an extension of auditors' responsibilities is a further consideration requirement in this proposal.

**Local Audit Office remit** - The Government accepts the Redmond Review recommendation for a statutory and independent oversight body (the LAO), which would largely take on the roles currently performed by the FRC, PSAA and the NAO, simplifying the system and driving change.

The LAO will have 5 strategic responsibilities. A point of focus within the proposal is to improve the consistency and effectiveness of the auditors' use of special powers e.g., highlighting issues of concerns where remedial action cannot wait for the publication of the Accounts, or the concerns exceeds the scope of the audit via Advisory Notices or Public Interest Reports.

The LAO would have overall responsibility for audit inspection (although it may delegate the work to others), and consideration is being given to whether there should be a scheme for enforcement related to the financial statements that would require authorities to make changes to the accounts.

**Financial reporting and accounts** - Reforms should consider the needs of the user and the impact of accounting requirements on the work of the account preparers, auditors and the wider audit system.

The Government acknowledges the range of views on the purposes and users of accounts. Local accounts must be fit for purpose, proportionate and relevant to account users. There is a clear need to ensure that accounts contain the correct level of information and disclosures to benefit the users and achieve the purpose of the accounts.

The Government is committed to working with sector partners to review the content and format of local authority accounts to ensure that the requirements of the Accounting Code and those practices set out in legislation are appropriate and do not create any excessive or unnecessary burden. The review will consider the definition of the purpose and user of local accounts, any impact definitions may have on accounts and audit, as well as any unintended consequences.

The consultation also highlights the Government's consideration of the now MHCLG Committee's November 2023 recommendation that decoupling the Pension Fund Accounts from the main accounts, publishing them separately and subjecting them to a separate audit certificate would have numerous benefits to local government, however there is no dedicated/ specific question around this topic for response within the consultation.

The consultation document states that infrastructure asset accounting will remain unchanged in the medium term via secondary legislation to extend the current exemption.

Views are also requested for how the reform of the Code of Practice on Local Authority Accounting in the UK (the Code) could be facilitated (e.g., by making the Code an LAO responsibility). It is also proposed that the Code should be freely available.

**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.

The Government is committed to ensuring that authorities have skilled and resourced account preparers and will work with the LGA and CIPFA on a programme of improvement support. The FRC's Local Audit Workforce Strategy (yet to be published) will be built upon to enable greater alignment between corporate and local audit and provide a more flexible career progression for individuals.

The eligibility criteria for Key Audit Partners will be reviewed as part of the proposal to ensure that there are no unintended barriers for partners wanting to join the profession and that the sector has the widest possible pool of qualified auditors.

**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.

A key role of the LAO will be to maintain strong links between central government (in its stewardship capacity), the NAO, inspectorates of relevant bodies, and local auditors, allowing a transparent and supportive government approach when concerns are raised about particular bodies.

The strategy proposes that Audit Committees will be mandated for local authorities, with at least one independent member, and audit reports require consideration by full council. Views are also sought on whether the committee chair should be an independent member.

**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.

The Government aspiration is that disclaimed audit opinions driven by backstop dates should be limited in unexceptional cases to the next two years (i.e., up to and including 2024/25 – backstop date of 27 February 2026).

The Government recognises that further cross system work is required to support the recovery process, and the consultation informs that the Government will work with system partners to ensure that additional guidance, advice and practical support is available.

### 3. Timeline for implementation of the strategy reforms

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3.1 The table below sets out a provisional timeline for the transition to the new local audit system which is included in the Local Audit Reform Strategy.

<b>Milestone</b>	<b>Indicative timeframe</b>
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 2028

### 4. Options under consideration

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4.1 Not applicable

### 5. Financial Opportunities and Implications

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5.1 There are no direct financial implications arising for the council as a result of this report.

## 6. Legal Implications

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6.1 The addressing the local audit backlog in England: consultation proposals seek to amend the Accounts and Audit (England) Regulations 2015, via a series of dates (the “backstop date”) by which point local bodies would publish audited accounts for all outstanding years

## 7. Engagement and Consultation

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7.1 Not applicable

## 8. Purchasing or Hiring of Goods and/or Services

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8.1 Not applicable

## 9. Tackling Climate Change

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9.1 Not applicable

## 10. Associated Risks

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10.1 Not applicable

## 11. Identify the potential positive and negative impacts on specific groups

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11.1

	Positive Impact	Negative Impact & Mitigating Actions	Neutral Impact
Older or younger people			X
People with caring Responsibilities			X
People with a disability			X
Women or men			X
People who are black or from a minority ethnic background (BME) (Please note Gypsies / Roma are within this community)			X
Religion or belief (including lack of belief)			X

People who are lesbian, gay or bisexual			X
People who are transgendered			X
People who are in a marriage or civil partnership			X
Women who are pregnant / on maternity leave			X
Socio-economic impacts (Including impact on child poverty issues and deprivation)			X
Public Health impacts (How will your proposal impact on the general health of the population of Torbay)			X

## 11. Cumulative Council Impact

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11.1 Not applicable

## 12. Cumulative Community Impacts

---

12.1 Not applicable

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Ministry of Housing,  
Communities &  
Local Government

## Local audit reform

A strategy for overhauling the local audit system in  
England

Statement of intent and consultation  
December 2024  
Ministry of Housing, Communities and Local  
Government



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December 2024

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## Ministerial foreword

Local government is the foundation of our state. It is critical to driving growth, delivering and reforming the local public services people rely on, and to our democratic system. Our councils, fire, police and rescue authorities have demonstrated remarkable resilience, and an ability to bring communities together, through economic instability, the pandemic and their response to this summer's far-right disorder.

But they have not been empowered to live up to their potential and residents have suffered as a result. Councils across England face extreme financial pressures after cuts, rising costs and ever-higher demand for statutory services. Not only did central government fail to give councils the tools they need to deliver for their residents, but it turned a blind eye when things started to go wrong. After a decade of financial mismanagement, communities and service users have been left paying the price.

Local audit should be the bedrock of local accountability and transparency, of trust and confidence in councils to spend taxpayer money wisely. But the system is broken – we have lost a key part of our early warning system over local government finances at the time we need it the most. The scale of this failure was epitomised by the backlog of outstanding unaudited accounts which 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 and a backlog of nearly 1,000 outstanding audits dating back to 2015/16. More recently the Whole of Government Accounts for financial year 2022/23 - disclaimed primarily due to a lack of audit assurance on local government accounts – serves to further illustrate the dire straits of the system and the contagion caused by the lack of real reform.

This government is committed to devolving significant new powers to Strategic Authorities, and stabilising and supporting local government with fairer funding and an end to damaging micromanagement. But to do that, taxpayers need to be confident that their pounds are being spent in a sound and efficient way. This is why this government has a manifesto commitment to overhauling our broken audit system.

We are determined to get the house in order. Within weeks of entering government, we took the decisive and difficult action, supported by organisations in the local audit system, to clear the unacceptable backlog of outstanding unaudited accounts of local authorities and ensure full assurance can be rebuilt.

The government is grateful for the collective effort of auditors, local authority finance teams and system partners, and pays tribute to the Financial Reporting Council in its system leadership role.

The challenges faced by all are insurmountable without fundamental reform to drive transparency and open the books. That is why we will streamline our fragmented system into one body, the Local Audit Office. The Office will have a focussed and clear remit to lead the required reform and to ensure that local audit, not just for local authorities but the wider system including the NHS, will provide value for money for the taxpayers now and in the future.

This document sets out our ambitious, system-wide proposals to improve local scrutiny and ensure that every pound of taxpayers' money is treated with the care it deserves.

Our approach has been informed by the excellent independent work carried out by Sir Tony Redmond and Sir John Kingman, the previously constituted Housing, Communities and Local Government Committee and the Public Accounts Committee. The government pays tribute to their work.

**Jim McMahon OBE MP**  
**Minister of State for Local Government and English Devolution**

## Introduction

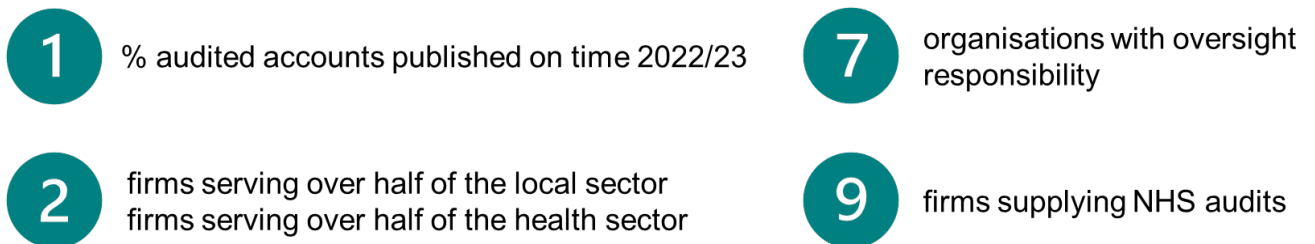
1. Over 600 local bodies, mainly local authorities and NHS trusts, publish audited accounts to ensure transparency, accountability and secure public confidence. Audited accounts are a vital and independent source of evidence of the sector's financial health and value for money for residents, local bodies and elected members. In addition, almost 10,000 smaller bodies operate under a more limited accounting and audit regime.
2. The local audit system for local authorities includes the procurement, contract management and delivery of audit services, codes of practice, regulation and accountability for performance. However, it is complex and dysfunctional. Last year, only one percent of local bodies' audited accounts were published on time and there were 918 outstanding audit opinions as of September 2023. This unprecedented audit backlog has in effect dismantled part of our early warning system over the state of local government finances. The problems with local audit are, however, much wider than simply a lack of timeliness.
3. Although the National Health Service (NHS) local audit system is less complex, and does not have the same backlog of audits as local authorities, timeliness and auditor capacity have been challenging over recent years.
4. The Local Audit and Accountability Act (2014) abolished the Audit Commission, assigning its responsibilities to several organisations and requiring bodies to either choose their own auditor from the private market or opt-in to a centralised procurement process.
5. The Audit Commission became too expansive and did not enjoy the trust of the sector that it oversaw. For at least the past five years, the system that replaced it has failed to respond effectively or quickly enough to issues or provide value for money. There are three systemic challenges:
  - **Capacity.** There is a severe lack of auditors, with a limited number of firms operating in the sector.
  - **Co-ordination.** Multiple organisations have a statutory role to oversee and regulate audit, across various sectors, countries and with responsibilities for different frameworks. There is no clear ownership of the system. This limits the ability to align incentives and establish a single vision.
  - **Complexity.** Financial reporting and audit requirements are disproportionately complex, beyond the system's capacity and inadvertently incentivises risk aversion. Standards are largely modelled on corporate audit rather than the needs of local bodies.
6. Within the constraints of the existing system and since the election, the government has worked with system partners to clear the backlog and provide a pathway to timely audits, as a first step to restoring robust financial oversight of

local government. Government is indebted to partners' collective ongoing work across the system. In particular, the FRC has demonstrated great dedication to its role as system leader and the government recognises that without systemic reform the challenges it faced are insurmountable. This strategy builds on previous reviews and stakeholders' views to propose a streamlined system of local audit with:

- A remit for a new Local Audit Office (LAO)
- The purpose of local audit and its users
- Simplified and proportionate financial reporting
- Improvements to enhance capacity and capability
- Stronger relationships, in particular between local bodies and their auditors, and a reformed audit regime

### Figure 1: the current position

Note: excludes smaller authorities, except for oversight organisations



## Framework stakeholders

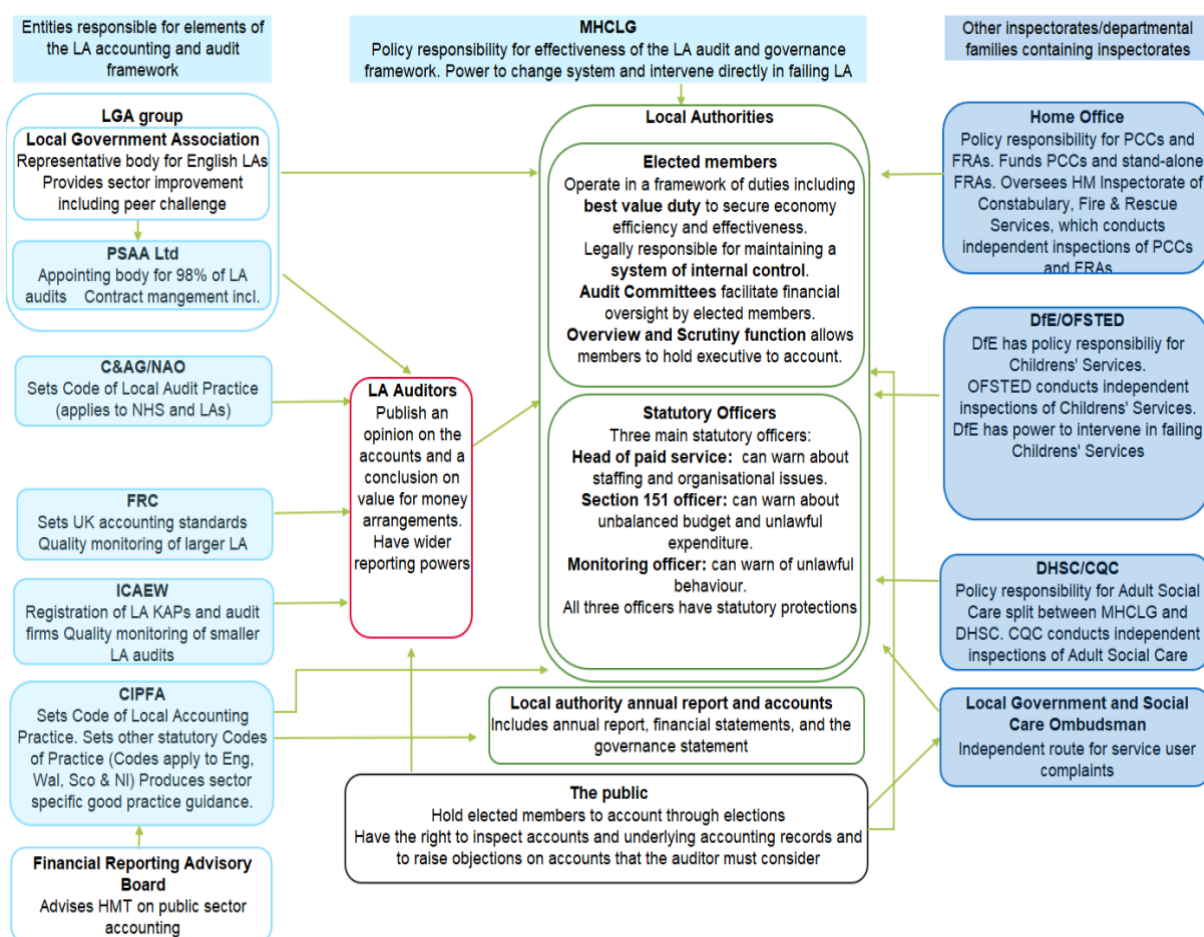
7. The following local bodies are within the framework and must publish audits:
  - a. **Local authorities**, including Police and Crime Commissioners (PCCs), Fire and Rescue Authorities (FRAs), National Park Authorities and transport authorities.
  - b. **Smaller authorities**, including town, parish, community and neighbourhood councils, parish meetings, internal drainage boards, Charter Trustees, Port Authorities and Conservators. These bodies publish Annual Governance and Accountability Returns under a simplified framework. Many aspects of the local audit and accounting system do not apply to these smaller bodies or apply in a modified form.
  - c. **National Health Service (NHS) bodies**. Parts of the framework apply, including audit firms' services and oversight by the NAO, FRC and ICAEW. Parts of the framework do not apply, such as an appointing body.
8. There are seven oversight organisations within the current framework. These stakeholders play significant roles and are impacted by the proposals within this vision:
  - a. **Chartered Institute of Public Finance and Accountancy (CIPFA)** sets the Code of Practice on Local Authority Accounting in the UK.
  - b. **Financial Reporting Council (FRC)** has been the incoming shadow system leader since 2023, to provide a leading voice and co-ordinating role to support the effective functioning of the system. It oversees the audit quality framework, including inspection of Major Local Audits, enforcement, supervision, and professional bodies oversight.
  - c. **Institute of Chartered Accountants in England and Wales (ICAEW)** is an accountancy membership organisation and Recognised Supervisory Body, responsible for the licensing and registration of local auditors, and inspection of non-Major Local Audits.
  - d. **Ministry of Housing, Communities and Local Government (MHCLG)** is the steward of the local government financial framework, with accountability to Parliament.
  - e. **National Audit Office (NAO)** is the public spending watchdog responsible for the Code of Audit Practice.
  - f. **Public Sector Audit Appointments Ltd (PSAA)**, an independent company owned by the Improvement and Development Agency within the Local Government Association (LGA), appoints auditors for local government bodies which opt into its services.
  - g. **Smaller Authorities Audit Appointments Ltd (SAAA)** is the appointing organisation for smaller bodies.



9. The government recognises that local bodies, audit firms and other oversight organisations have all strived to deliver and collaborate within the existing framework and places on record its thanks to all organisations for their professionalism, integrity and dedication. This includes teams at the FRC in its capacity as system leader, CIPFA, ICAEW, NAO, PSAA and SAAA. Our reforms acknowledge that, despite the best efforts of many, the system will continue to fail without structural change.
10. This strategy is intended to build on stakeholders' views and reviews conducted by Sir John Kingman<sup>1</sup>, Sir Tony Redmond<sup>2</sup>, the PAC<sup>3</sup> and the HCLG Committee<sup>4</sup>. These reviews have provided valuable recommendations to address the considerable challenges.

**Figure 2: the current landscape**

Source: Redmond Review, 2020. Excludes smaller authorities.



<sup>1</sup> [Independent Review of the Financial Reporting Council](#), Sir John Kingman, December 2018

<sup>2</sup> [Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting](#), Sir Tony Redmond, September 2020

<sup>3</sup> [Timeliness of Local Auditor Reporting](#), PAC, March 2023

<sup>4</sup> [Financial Reporting and Audit in Local Authorities](#), April 2023

## Executive summary

11. Communities need a clear line of sight to the decisions made by their local councils and other local bodies, and transparency on the proper use of finances. They need to be clear where arrangements have delivered value for money for the taxpayer and where they have not. The government has inherited a broken local audit system in England and the challenges experienced by the system are inherent. While external audit is by its nature backwards looking, it provides the only independent check on whether a local bodies' financial statements are true and fair. This is vital not only for good decision-making but for transparency and to enable local communities to hold their councils and other local bodies to account. In addition, there currently exists no consistently applied public facing early warning system to signal when a local body may be at risk.
12. The real-world consequences of this system failure – of not having an audit, or not having a timely audit, or the delivery of accounts which are disproportionately complex - cannot be underestimated. In local government, many local residents, their local bodies and elected members, as well as local media, have been denied local audit as a rich source of information and assurance on the performance of local bodies, and a vital independent check on accounts and value for money arrangements. In addition, although most local authorities have established audit committees to consider auditors' findings this is not currently mandatory. Despite these challenges, auditors have been able to “sound the alarm” in relation to the affairs of some councils, but this has not been universal. Some councils with problems have not had timely audits and there are unfortunate examples of audits which have not identified vital issues, as well as a small number of instances where an auditor has not been appointed.
13. Whilst the picture for local audit in the NHS functions better and does not suffer audit backlog issues, there are challenges in respect of capacity and increased regulatory pressures. This has led to some NHS audits missing deadlines contributing to delays in the annual report and accounts of the Department of Health and Social Care (DHSC), NHS England (NHSE) and the Consolidated Provider Account (NHS providers such as acute hospitals, mental health trusts, community health trusts and ambulance trusts). The FRC has reported interim findings for its [NHS audit market study](#) which is due to publish its final report in Spring 2025. Timely financial reporting is essential for the health sector and as such, DHSC and NHSE are committed to working with MHCLG and key stakeholders to reform local audit.
14. It is a manifesto commitment of the government to overhaul the local audit system to ensure good value for money for local taxpayers and to underpin the stability and transparency of local finances.

15. In 2018, the independent [Kingman Review](#) recommended that regulation and oversight of local audit should be undertaken by a dedicated, separate body with “a deeper expertise in the local audit world”. Two years later, the [Redmond Review](#) agreed that the system would not be successful with the current structure. He recommended a new body to:

*“manage, oversee and regulate local audit with the following key responsibilities: procurement of local audit contracts; producing annual reports summarising the state of local audit; management of local audit contracts; monitoring and review of local audit performance; determining the code of local audit practice; and regulating the local audit sector”.*

16. Parliamentary inquiries have since recommended a new organisation or fundamental reforms. There is a broad consensus over the past six years that a new local audit body would be integral to system reform. The government commits to implementing the recommendations of these reviews and inquiries, which were the result of extensive and independent evidence-based stakeholder engagement.

17. This strategy therefore commits to establish the Local Audit Office (LAO), to radically simplify the system and bring as many audit functions as possible under a single organisation with a focus and expertise in local audit, as the Kingman and Redmond Reviews recommended. This strategy also consults on potential additional functions for the LAO to further unify the system.

18. A new organisation will form one of several steps towards resolving the sector’s most pressing challenges. Alongside the government’s programme to clear the backlog and return to timely audit, relationships must be strengthened and capacity and capability enhanced. This strategy responds to Redmond’s recommendations – which are even more pressing – and provides direction in both regards. This strategy also goes further in a number of respects, including consulting on the appropriate audit regime for different sizes of local body and on building an element of public provision.

19. There are six key areas of required reform:

### **1: The purpose of local audit**

Reforms must be guided by a vision statement, key principles and be driven by user needs.

### **2: 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.

### **3: 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.

### **4: 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.

### **5: 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.

### **6: 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.

## The purpose of local audit

This section applies to **smaller bodies** where relevant within the scope of the limited assurance regime.

### 1: The purpose of local audit

Reforms must be guided by a vision statement, key principles and be driven by user needs.

20. The government's objective for a sustainable local audit sector is for a clear purpose for local audit and eight core principles:

**Figure 3: the purpose of local audit**

#### Vision statement

A robust local audit framework which achieves public trust and accountability through transparency and promotes value for money.

#### Purpose of local audit

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

#### Core principles

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.

21. Local audit is a critical element of the accountability system that supports good decision-making in all local bodies, strong value for money, and local democracy. At their best, auditors can be a trusted source of insight and assurance. They will earn that trust by consistently demonstrating independence, objectivity, rigorous impartiality, sound judgement and professional expertise in the public interest.
22. The government has defined the primary purpose of local audit, building on recommendations from the HCLG Committee (November 2023), sector publications and stakeholder engagement. Fulfilling these priorities will mean that local audit can effectively:
- a. Confirm that financial statements are true and fair;
  - b. Examine and comment on the body's arrangements for securing value for money and report on any significant deficiencies in those arrangements;
  - c. Examine and comment on the financial resilience of the body;
  - d. Provide early warning of major governance and financial risks, including the risk of material fraud and financial failure, and make appropriate recommendations for managing such risks;
  - e. Report on major failures in governance and value for money through a separate public interest report and make recommendations for improvement where appropriate;
  - f. Assist those charged with governance to fulfil their responsibilities for stewardship of public funds;
  - g. Support transparency by communicating effectively with the main users of the accounts.
23. Local bodies, auditors and the LAO will cooperate to achieve these purposes and collaboratively build confidence that public money is well managed.
24. Effective action against fraud and corruption is a cross-government priority and is an important aspect of making the sector fit, legal and decent. The primary responsibility for preventing and detecting fraud lies with management. Both internal and external auditors have a valuable role in assessing a council's controls and fraud risks and rebuilding local audit will support action against fraud and corruption. International Standards on Auditing (ISAs) have been strengthened recently with additional requirements on auditors, designed to improve the prospects of detecting material misstatements of accounts arising from fraud. However, officers, who oversee day-to-day operations, are in the first instance best placed to detect fraud and corruption.
25. As in the corporate world, audit must independently verify the accuracy of financial reporting to assure stakeholders who are ultimately the public, for both authorities and the NHS.

26. Local audit also has a responsibility to assess arrangements to secure value for money (VFM), which is greatly valued by local bodies and stakeholders. The NAO introduced a requirement for auditors to comment on VFM arrangements in their annual report, rather than provide only a binary opinion, in their 2020 Code of Practice. This commentary must address as a minimum: financial sustainability, governance and improving VFM (economy, efficiency and effectiveness).
27. From 2024/25 onwards, auditors of local bodies will be required to issue their annual report with a VFM commentary each year by 30 November. For the NHS, the requirement is to issue no longer than one month after the audit deadline. Auditors are required to confirm that arrangements are in place, and do not need to assess whether VFM was achieved.
28. The government agrees with the Redmond Review's recommendation for a post-implementation review to assess whether changes to the 2020 and 2024 Code of Practice, concerning the requirement to consider VFM arrangements, have improved this core function. For local bodies, the government commits to MHCLG or the LAO holding this review by the end of 2027, to give time for the backlog to clear and for authorities to receive at least three VFM commentaries.
29. This review will also consider if auditors should assess whether local bodies achieve VFM, rather than purely assessing their arrangements to secure it. This review would need to be cognisant that responsibility for VFM in local authorities sits with elected members. The review would also need to consider the need to maintain auditors' independence and whether there is a risk of being drawn into challenging political decisions. There would also need to be consideration of the capacity and capability of the system to respond to an extension of auditors' responsibilities.

## Commitments

The government commits to:

- a local audit vision with eight core principles.
- undertake a post-implementation review to assess whether changes to value for money requirements in the 2020 and 2024 Code of Practice have led to more effective consideration of financial resilience and VFM, and to conduct this review by the end of 2027. This review will consider whether auditors should assess VFM achievement.



## Local Audit Office remit

### 2: 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.

#### Remit

30. The dispersal of oversight of local audit is a fundamental failure of the current system, particularly for local authorities. A statutory and independent Local Audit Office (LAO) is necessary to streamline and simplify the system. It will take on functions currently fragmented across the framework and bring together strategic oversight and technical expertise to identify and address challenges swiftly.
31. This is not a return to a bloated Audit Commission. Lessons will be learnt, and the LAO will be proportionate and operate within its strategic objectives and the principles of this strategy.
32. The LAO will have five strategic responsibilities:
  1. **Coordinating the system**
    - i. Coordinate and lead the local audit system
    - ii. Champion auditors' statutory reporting powers
  2. **Contract manage**, set fees, procure, commission and appoint auditors to all eligible bodies (excluding the NHS at this stage).
  3. **Code of Practice**
    - i. set the [Code of Audit Practice](#)
    - ii. issue statutory guidance to auditors
  4. **Oversight**
    - i. a quality regulatory framework (inspection, enforcement and supervision)
    - ii. professional bodies
  5. **Reporting, insights and guidance**
    - i. collation of reports made by auditors
    - ii. national insights of local audit issues
33. The LAO's remit will impact system partners. The FRC's current responsibility in relation to audit quality and inspection, enforcement, and some elements of supervision for the audit of English local bodies as well as system leadership will end. The LAO will take on responsibility for the NAO's Code of Audit Practice, and the FRC will continue to oversee International Standards on Auditing (ISAs).



34. Once established, the LAO would adopt PSAA's full responsibilities to procure, appoint and contract manage, further streamlining the local audit system, excluding NHS bodies. For the NHS, further consideration needs to be given pending the final results of the FRC's market study.
35. In the short term, the government will work with all stakeholders to develop a transition plan which will clearly set out roles and responsibilities. In the longer term, clear governance and escalation routes will ensure that concerns raised about any aspect of the local audit process will be considered by a single authority. Suitable ethical walls will be established to mitigate conflicts of interest.

## 1. Coordinating the system

36. The LAO will coordinate and lead the sector, harnessing the opportunity of having related functions within a single organisation. It will work closely with local bodies, system partners, the market and government, and maintain focus on the purpose of local accounts and local audits to serve the users.
37. In the current system, concerns can be raised with PSAA, the FRC or ICAEW, depending on their nature. Bringing quality oversight, standards and procurement functions together in the new office will streamline accountability and increase transparency.

### Champion auditors' statutory reporting powers

Parts of this section apply to **NHS bodies** and to **smaller bodies**

38. Auditors have statutory powers to publicly highlight issues of concern where either remedial action cannot wait for the publication of accounts, or the concern exceeds the scope of an audit. This early warning system can take the form of statutory recommendations, Advisory Notices or Public Interest Reports, which can identify issues such as emerging threats to financial sustainability. These reports are valuable to the public and have been integral to local decision making and informing government intervention.
39. There is an opportunity to enhance this early warning system. The consistency or effectiveness of the use of these statutory powers is not currently monitored. The LAO will:
- a. review the remit and use of powers with a view to strengthening early warning across the sector to ensure stakeholders including the public, authorities and government, are informed and able to take remedial action – and reflect any changes in the Code of Audit Practice.
  - b. become a new, stronger point of escalation for auditors with concerns.
  - c. ensure concerns are shared with inspectorates and government departments where relevant.
  - d. monitor the use of these powers to assess effectiveness and provide clear guidance for auditors' responsibilities.

- e. champion the use of these powers, supporting and empowering auditors who wish to raise concerns in the public interest.

40. Decisions to intervene under the Local Government Act 1999 (Best Value framework) would remain with MHCLG.

## **2. Contract manage**

- 41. Centralising procurement in an overarching body for local audit, with appropriate and strong contract management levers, would ensure a robust process for independent appointment, and give certainty and sustainability to the market. Therefore PSAA's responsibilities for contracting and appointing auditors and setting fees for local authorities would be transferred to the LAO.
- 42. At present, local authorities opt-in to PSAA's services. 99% of eligible bodies have opted into 2023/24-2027/28 procurement, demonstrating the benefit of a centralised service and the lack of benefit that the opt-in power grants authorities. The option to opt-in will end as it adds unnecessary complexity.
- 43. Independence is key to the success of appointing auditors. Audit firms need to be confident that they are free to report without fear or favour. Contract continuity is also integral to sector stability. MHCLG will work with the PSAA and audit firms to minimise disruption during transition.
- 44. MHCLG is aware that all of PSAA's contracts for 2023/24 – 2027/28 include an option for extension for up to 2 years, subject to audit firms' agreement. PSAA is considering whether to offer that option to the firms and will work with MHCLG to seek the best contractual position and to minimise disruption.
- 45. There are two options to go further. NHS bodies in England appoint their own auditors and face difficulties in securing appointments. The LAO's remit could be expanded to include NHS bodies. This would be a major reform and increase in the scale of centralised procurement. Further consideration is needed, including through the FRC's NHS Audit Market Study in Spring 2025, and any proposals for change would be subject to consultation to explore implementation in the longer term.
- 46. In addition, smaller authorities like town and parish councils could become in scope. The focus of the LAO in the first instance will be on the sustainability of audit for principal authorities, as challenges faced by smaller bodies are not as extensive. The vast majority of limited assurance reviews are completed on time and no smaller bodies have opted out of SAAA's procurement system. The government is interested in views on whether SAAA's responsibilities for appointments should transfer to the LAO and if so, the timescale for this transition.

### 3. Code of Audit Practice

#### Set the Code of Audit Practice

This section applies to **NHS bodies** and **smaller bodies**.

47. Unlike shareholders, taxpayers cannot divest from their local bodies. As is set out in the Code of Audit Practice the *“audit of a public sector organisation is wider in scope than that of a private sector body. Special accountabilities attach to the use of public money and the conduct of public business. It is not part of the auditor’s responsibilities to question the merits of policy, but the auditor does have wider duties (depending upon the relevant legislation) to scrutinise and report not only upon the truth and fairness of the financial statements but also on aspects of stewardship of public funds. The auditor carries out this work on behalf of the public and in the public interest”*.
48. The Code sets out how auditors should take forward their statutory responsibilities in considering the audited body’s arrangements to secure VFM through the economic, efficient and effective use of its resources. It also sets out how auditors should consider whether, they should report on any issues in the public interest, or make written recommendations to the audited body which need to be considered by the body and responded to publicly.
49. Responsibility for setting the Code of Audit Practice will transfer from the Comptroller and Auditor General (C&AG) to the LAO, as will the power to issue statutory guidance. The LAO will also take on the C&AG’s statutory responsibility to promote best professional practice in local audit.
50. The C&AG has previously determined that the ISAs should form the regulatory underpinning for local audit, creating regulatory alignment with corporate audit. The LAO will have powers to examine both the Code and ISAs and review their interpretation and/or application to the local sector.

## 4. Oversight

Parts of this section do not apply to **smaller bodies**.

### A quality regulatory framework

51. The LAO will have responsibility for implementing a robust quality regulatory framework for the local audit market and for ensuring the continuous improvement of those operating within it. The LAO will have specific expertise in delivering these functions which will be harnessed across all aspects of the local audit process. This will ensure a holistic approach which focusses on provider-led improvement, with direct quality oversight to be used proportionately and where other levers have failed.
52. The LAO will ensure that quality oversight will be guided by a clear and transparent set of principles. The new framework will recognise that timeliness is a key element of audit quality, and there should be appropriate incentives and consequences to ensure that draft accounts and audits are completed by the published deadline. Any such requirements should be applied fairly across both accounts preparation and audit.
53. The LAO would have responsibility to design and oversee an audit inspection regime. It will have the power to continue the existing practice of delegating responsibility for conducting inspections (currently FRC for Major Local Audits (MLAs) and ICAEW for non-MLAs) if it determines that this would be the optimum way to ensure a robust and independent process. Final regulatory judgements will be made by the LAO.
54. Inspections would assess compliance with relevant standards (as set out in the Code of Audit Practice). The LAO would report on these inspections at regular intervals, when considered to be in the public interest.
55. Local audit-specific elements of supervision would be conducted by the LAO, such as acting as a point of contact for firms in the local audit system, promoting good practice and supporting firms to address any quality concerns.
56. The responsibility to determine the importance of any breaches found by inspections and any subsequent supervisory or enforcement action will rest solely with the LAO. Enforcement action would continue to be a last resort, mitigating any adverse impact on incentives or timeliness.
57. To provide clarity that there is a single regulator with responsibility for local audit, the government will consider whether the LAO could oversee a scheme for enforcement cases related to local body accounts and audits. The LAO and FRC will need to work closely together to ensure that schemes are administered consistently across local audit, statutory audit, and accountancy enforcement and that sanctions are applied fairly to each.
58. The government notes the Kingman review's argument that the existing mechanism for auditors to apply to the courts for a declaration that an item in

an audited body's accounts is unlawful and an order to change the accounts is cumbersome and out of step with regulatory powers in other countries. It will be a priority for the government that the LAO supports auditors to raise concerns where appropriate, and that processes in the system are simplified including whether there is a case for the LAO to hold the power to require local bodies to make changes to their accounts.

59. The government's plans for the creation of the LAO and implementation of new quality processes will build in appropriate time for the market to adjust to changes.

60. The government is not currently proposing to change quality monitoring for smaller bodies.

### Professional bodies

61. The LAO would take responsibility for oversight of professional bodies (ICAEW, CIPFA) with regard to their remit on the eligibility, registration and conduct of local auditors.

62. This duty would include the power to recognise additional Recognised Supervisory Bodies for local audit and to issue statutory guidance to set the required level of competence and experience for key audit partners.

63. As set out further below, ahead of establishing the LAO, MHCLG will review eligibility criteria for Key Audit Partners (KAP) before this responsibility is transferred, to ensure that there are no unintended barriers for partners wanting to join the profession, and that the sector has access to the widest possible pool of suitably qualified auditors.

64. Currently ICAEW, as the only existing Recognised Supervisory Body, has delegated responsibility from the FRC for the register of firms able to conduct local audits. The government welcomes views on whether the LAO should take on this register or whether it should remain with the RSB(s). The FRC would continue to register Public Interest Entities' auditors, including where these are local bodies.

## 5. Reporting

65. Audited accounts provide a wealth of verified financial insight, and their value will increase as timeliness issues are overcome. The LAO will have powers to gather and publish accounts and audit reports. It will publish timely and independent reports on local audit health, including timeliness, emerging trends or issues, audit quality and market sustainability. The LAO would also place a duty on auditors to provide the necessary data to allow it to fulfil this role.
66. National reporting could include auditors' commentaries on VFM arrangements to further increase transparency and insight. As a key point of contact for local authorities' auditors to escalate concerns, the LAO could also report on statutory recommendations, Advisory Notices and Public Interest Reports at a national level.
67. Models of reporting could include a single comprehensive annual report or a reporting cycle of single-issue bulletins at relevant junctures through the annual audit cycle.

## Commitments

The government commits to a LAO which would:

- be statutory and independent, with a remit to streamline and simplify the system.
- assume the functions of appointing and contracting auditors for local authorities. This would remove the power for authorities to appoint their own auditor.
- adopt ownership of the Code of Audit Practice from the NAO and deliver relevant training. It would have powers to interpret ISA requirements for the local audit context (though the FRC would continue to maintain ownership of ISAs for the UK as a whole).
- hold responsibility for quality oversight of local audit, including overseeing an inspection programme, enforcement and some elements of supervision
- publish national insight reports on local audit health, which could include emerging trends, quality, market sustainability, VFM arrangements and statutory recommendations and PIRs.
- oversee professional bodies with regard to their remit for the qualification, registration and conduct of local auditors.

## Consultation

**Q1:** Do you agree the LAO should become a new point of escalation for auditors with concerns?

**Q2:** Do you agree relevant issues identified should be shared with auditors, government departments and inspectorates?

**Q3:** Should the LAO also take on the appointment and contract management of auditors for smaller bodies in the longer term? If so, when should responsibilities transfer from SAAA?

**Q4:** Should the LAO oversee a scheme for enforcement cases relating to local body accounts and audit?

**Q5:** How could statutory reporting and Public Interest Reports be further strengthened to improve effectiveness?

**Q6:** Should the scope of Advisory Notices be expanded beyond unlawful expenditure, or actions likely to cause a loss or deficiency, as defined by the Local Audit and Accountability Act, to include other high-risk concerns?

**Q7:** Should the LAO own the register of firms qualified to conduct local audits?

**Q8:** Should the LAO hold the power to require local bodies to make changes to their accounts, so that auditors could apply to the LAO for a change to be directed instead of needing to apply to the courts?

## Financial reporting and accounts

### 3: 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.

This section does not apply to **NHS bodies** and applies in part to **smaller bodies**

68. Local accounts are statutory documents that must be published annually, as set out in the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015.
69. High quality financial reporting enhances decision-making, increases accountability to the public and builds trust in services. It is right to expect a high standard for our local services.
70. Accounts serve multiple purposes. Local authority accounts are a set of financial statements, a budget execution report, a grant return, a consolidation return and a means of assurance on VFM. Local accounts should empower users to hold authorities to account and should accurately:
  - a. indicate revenue, expenditure and financial position
  - b. indicate ability to manage funds
  - c. adhere to recognised accounting requirements
  - d. assure multiple and wide-ranging stakeholders, including local decision making and democracy.
71. The purposes of local accounts are therefore broadly the same as corporate accounts. However, local accounts differ from the corporate world in five main ways:
  - a. Local authorities provide extensive services across multiple sectors
  - b. Income sources are diverse, including taxes and grants, and subject to statutory or other restrictions
  - c. The separate accounting of revenue and capital
  - d. Specific requirements such as reserves, or disclosures not part of normal IFRS accounting
  - e. Two different frameworks to recognise revenue, under the Code of Practice (predicated on IFRS) and for revenue accounts, which must meet the statutory obligation to balance a budget annually. Statutory adjustments are required to reconcile these two requirements, which in turn require disclosures.



72. These factors result in longer and more complex accounts, which can have an adverse and wide-ranging impact on the:
- f. Timeliness of accounts, which also impacts the Whole of Government Accounts (WGA)
  - g. Comprehension of accounts, limiting the ability of the public and councillors to hold authorities to account
  - h. Capability required of the local finance and audit professions
73. There is a clear need to ensure that accounts contain the correct level of information and disclosures to benefit the users and to achieve the purpose of accounts. The government will work closely with the NAO in relation to trying to ensure accounts are appropriate both for the local sector and requirements such as the WGA.
74. The audit framework needs to recognise the different risks and audiences of corporate and local accounts. The purpose of local accounts and audit should serve users, and a well-defined users base is essential to allow local bodies, auditors and the LAO to ensure the effective delivery of audits. The users of accounts are wide-ranging and can be divided into primary and secondary groups.
75. Auditors must have a clear articulation of the purpose of the accounts they are auditing in determining materiality. A well-defined user base is essential in establishing appropriate thresholds and capturing what would be deemed material to meet the needs of users. Setting overall audit materiality affects the scope of testing and directly impacts the volume of work required. Further work to provide this clarity in relation to users will be undertaken ahead of the establishment of the LAO.

#### Review of the purposes and users of local accounts

76. The government acknowledges the range of views on the purposes and users of accounts and is grateful for LUHC Committee's recommendations concerning local authority financial reporting. Local accounts must be fit for purpose, proportionate and relevant to account users. The government is committed to working with sector partners to review the content and format of local authority accounts to ensure that the requirements of the Accounting Code and those practices set out in legislation are appropriate and do not create any excessive or unnecessary burden. This review will consider the definition of the purpose and user of local accounts, any impacts definitions may have on accounts and audit, as well as any unintended consequences.

#### Pension fund accounts

77. The government will consider the LUHC Committee's November 2023 recommendation that decoupling the pension fund accounts from the main accounts and publishing them separately and subject to a separate audit certificate would have numerous benefits for both local government and the NHS. It would reduce the risk of local audit delays impacting the timely production of pension fund annual reports. It would ensure local authority

accounts are shorter, less technical, and more focussed. It would allow for more specialised auditors to assess the pension fund accounts, although the government expects that in most cases the preparation and audit of these accounts would be carried out as part of contracts covering the main authority accounts and audit, as now. It would also mirror the approach successfully adopted by the Local Government Pension Scheme in Scotland and Wales.

### Infrastructure Assets

78. Until 2022, the accounting of local authority infrastructure assets had not been an issue of significance. Increased scrutiny of the audits of these bodies in recent years, particularly in relation to the accounting for property, plant and equipment, resulted in increased requirements for local authorities to provide auditors with evidence in respect of infrastructure assets. Many authorities were unable to provide sufficient evidence of the cost and current value of these assets and this situation contributed to delays in the completion of local audits. Many question the proportionality in costly valuations and related work of local authority finance teams in assessing assets and responding to auditor queries on these assets when they will never be sold. In 2022 a short-term exemption to normal accounting treatment for these assets was created, with the expectation that a longer-term solution would be established before the legislation expires on 31 March 2025.

79. A longer-term solution has not been developed and if the current legislation were to elapse it would require infrastructure assets to be measured in accordance with normal accounting treatment within the 2025/26 accounts. To avoid any disruption of the planned audit backstop programme and reduce burden on preparers, the government intends to extend – via secondary legislation - the current exemption, reducing the audit workload in the medium term. The government is committed to identifying a longer-term solution as part of the review of local accounts.

### Code of Practice on Local Authority Accounting in the UK

80. There is also an opportunity to consider how best to ensure reform to the Code of Practice on Local Authority Accounting in the UK. All system partners agreed in 2023 that proportionate financial reporting, audit and regulatory requirements must be applied and that Accounting Code changes were therefore needed in the medium and long term, while ensuring that high quality financial reporting and the utility of financial statements to account users is maintained. The government is therefore keen to seek views on what could be done to ensure progress is made prior to the establishment of the LAO. The government is interested to understand whether there are governance or structural barriers to reform.

81. The process for approving amendments across multiple organisations increases rigour but delays reactive and prompt changes to the Code. It may therefore be worth considering whether accounting and audit functions should

be brought together with responsibility for the [Code of Practice on Local Authority Accounting in the UK](#) moving from CIPFA and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) to the LAO. Any such move would consider the potential conflict of interest in a body with responsibility for both accounting and audit.

82. The Code of Practice applies to all local authorities in the United Kingdom. MHCLG commits to working with the devolved governments to determine the appropriate governance structures and responsibilities as part of ensuring that that accounting practices are consistent across the UK.
83. The government recognises that to improve the transparency of financial reporting and ease of auditing, all related bodies must be using the same reference material. The Accounting Code provides the most comprehensive and relevant information for local authorities and auditors to ensure correct practice has been applied. Using the latest version of the Accounting Code to develop accounts will allow for greater standardisation and compliance. The government is therefore considering open access to all those who need to understand the latest version of the Accounting Code.
84. The Redmond Review called for 'Standardised Statements of Service Information and Cost'. The government understands standardised statements could bring benefits to reporting production and comparability. There are however challenges with standardising accounts due to the variation in local bodies, unique financial line items, and local circumstances. These issues will be considered as part of the wider reforms to accounts. Such considerations will also extend to the possibility of introducing standard statements for larger bodies within the limited assurance regime.

## Commitments

The government commits to:

- review, in consultation with relevant stakeholders, the content and format of local authority accounts. This will include ensuring that the accounting code does not require more disclosures than are necessary and consider the purposes and users of local authority accounts.
- work with devolved governments to determine the appropriate approach to ensure accounting practices are consistent across the UK including if the Accounting Code is transferred to the LAO.
- consider whether to develop primary legislation to separate pension fund accounts from administering authority main accounts.
- ensure that if the Accounting Code is transferred to the LAO, it would be freely available to users of local body accounts.
- consider the introduction of Standardised Statements in the longer term.

## Consultation

**Q9:** What are the barriers to progressing accounts reform?

**Q10:** Are there structural or governance barriers to accounts reform that need to be addressed?

**Q11:** Should any action to accounts reform be prioritised ahead of the establishment of the LAO?

**Q12:** Are there particular areas of accounts which are disproportionately burdensome for the value added to the accounts?

**Q13:** Do you agree that the current exemption to the usual accounting treatment of local authority infrastructure assets should be extended and if so, when should it expire?

**Q14a:** Should the LAO adopt responsibility for CIPFA's Code of Practice on Local Authority Accounting?

**Q14b:** Are there other options relating to responsibility of CIPFA's Code of Practice?

**Q15:** Should the Accounting Code be freely available if it is not transferred to the LAO?

## Capacity and capability

### 4: 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.

This section does not apply to **smaller bodies**.

85. The government's swift action to clear the local audit backlog enables auditors to resume work on up-to-date accounts and VFM reporting, where assurance is most valuable. This will remove the disincentive for professionals entering a system paralysed by delays. The local audit market should also benefit from measures the FRC is taking to improve overall audit supply by developing mutual recognition agreements with other jurisdictions, for example.
86. At present, there is barely sufficient capacity in the market. Ahead of the creation of the LAO, MHCLG will consider what further measures can be taken to increase supply. This will build on the work undertaken by the FRC for the local audit workforce strategy based on greater alignment between corporate and local audit, to enable more flexible career progression for individuals.
87. The government agrees that in some areas greater alignment would be beneficial – for example between professional accountancy qualifications. The distinctive public service element of local audit remains a key attraction for many professionals and this will be directly supported by the LAO, which will adopt the training on the local auditor's additional 'quasi legal' duties currently provided by the NAO.
88. The LAO will work alongside the FRC to support the wider audit profession and it will be equipped with a range of levers – including market oversight, contract management and auditor training – to promote a healthy local audit market.

### Key Audit Partners

89. The eligibility requirements for signing audit opinions are statutory and unique to the sector. Key Audit Partners (KAPs) must sign off opinions and a firm must have two registered KAPs to compete in the market. This requirement and the low numbers of KAPs, only around 100, to support current contracts, is a barrier to both market entry and capacity. A new pathway towards the registration of KAPs was opened in 2023 through the knowledge-based Diploma in Local Audit developed by CIPFA. This was endorsed by the FRC as 'pre-approved specialist training' in November 2024.

90. This pathway accelerates senior auditors or Responsible Individuals (RIs) moving into the local audit profession and enables them to train new auditors.
91. Ahead of establishing the LAO, MHCLG will review eligibility criteria for Key Audit Partners (KAP) to ensure that there are no unintended barriers for partners wanting to join the profession, and that the sector has access to the widest possible pool of qualified auditors. There is also a case for considering whether some categories of local audit could be signed off by suitably experienced RIs and this will also be considered.

### **Account preparers**

92. The role of finance teams' account preparers in ensuring high quality financial reporting is key. MHCLG funds the Local Government Association (LGA) to deliver a programme of improvement support which, through working with partners such as the Chartered Institute of Public Finance and Accountancy (CIPFA), offers support to finance teams, audit committees and elected representatives. This programme develops and bolsters local authorities' financial reporting and governance. MHCLG will work with these partners to explore how any future programmes can build on this work to support delivery of reforms to the local audit system.
93. As part of its response to the Redmond Review, the previous government committed to provide £15m per year to local authorities to cover additional audit costs, to a total of £60m. The previous government's commitment to fund the final £15m (for FY 2024/25) will be honoured. MHCLG will consider new burdens associated with this vision and related legislation.
94. In the NHS, DHSC and NHS England support finance teams with timely guidance and training resources to support them to undertake their roles.

### **Growing capacity through public provision**

95. Capacity is barely sufficient to respond to the needs of the local audit system and a small number of local authorities do not have an auditor. It is therefore important to consider whether there are ways to build some public provision to supplement capacity and strengthen the sector. The government is seeking views on whether and how to grow public provision. This would be achieved by working with firms and other system partners to ensure that additional provision achieves overall growth in public sector auditors without reducing private sector capacity.
96. Given that capacity is so constrained that a small number of bodies currently do not have an auditor, work to build public provision would need to be urgently considered ahead of the establishment of the LAO. Consideration would also be given as to whether the LAO should have the power to provide some level of public provision or if the provision should sit separately. If the LAO delivers this function, appropriate ethical walls would need to be in place. In addition, it is proposed that the Secretary of State would, in consultation with the LAO and for defined periods, set an envelope within which the body could determine the appropriate proportion of public provision for the market.

## Commitments

The government commits to:

- review KAP eligibility criteria to remove barriers to entry.
- work with the LGA on targeted support for local authority finance teams, audit committees and elected members to strengthen financial governance.
- provide £15m funding to local authorities for 2024/25 to honour the final year of the previous government's commitment to £45m funding in the current spending review.
- consider new burdens associated with this vision and related legislation.

## Consultation

**Q16:** What additional support should be provided to finance teams, audit committees and elected members to develop and strengthen financial governance?

**Q17:** How should KAP eligibility be extended further, should some categories of local audit be signed off by suitably experienced RIs (and if so, which)?

**Q18:** Should the market include an element of public provision?

**Q19:** If yes, should public provision be a function of the LAO?

**Q20:** What should the initial aim be in relation to proportion of public and private provision?

**Q21:** Should the Secretary of State, in consultation with the LAO and for defined periods, set an envelope within which the body could determine the appropriate proportion of public provision for the market?

## Underpinning the system: relationships and audit regimes

### 5: 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.

The section on relationships and committees does not apply to **NHS bodies** or to **smaller bodies**

97. In its oversight of the local audit market the LAO will have clear expertise in understanding the issues auditors are raising, and their relevance to sustainability issues in the sector. As such it will also have a liaising role to ensure that there are strong links between central government in its stewardship capacity, the NAO, inspectorates of relevant bodies, and local auditors so that issues in the sector are understood and actioned effectively.
98. The government expects that this activity could a) enable auditors to understand how the government is assessing financial sustainability and risk and reflect this in their approach to their work, b) ensure that information is shared where appropriate to enable Departments to spot potential issues early and establish appropriate support before they escalate, and c) involve regular briefings for Departments which summarise auditors' overall understandings of trends and concerns relating to the bodies they work with.
99. This will aid a transparent and supportive approach from government when it responds to concerns that have been raised about particular bodies, including clearly setting out its intended response (e.g. extra monitoring, check in meetings with the body involved).
100. The Redmond Review recommended that key concerns relating to service and financial viability be shared between local auditors and inspectorates including the Office for Standards in Education, Children's Services and Skills (Ofsted), the Care Quality Commission (CQC), and His Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS), prior to completion of the external auditors' annual report to increase the overall pool of auditors. The government expects the proposed new body to engage with these and similar organisations at a strategic level to discuss financial and service viability issues.
101. Another of the key recommendations of the Redmond review was formalising the facility for key personnel such as the Head of Paid Service or Chief Executive (CEO), Monitoring Officer (MO) and the Chief Financial



Officer (CFO) to meet with the Key Audit Partner at least annually. A strong relationship between these key individuals, as well as with the Audit Committee chair is vital for a well-functioning audit system which enables auditors to identify problems across the year and bring these to the local bodies attention, and scrutinise – therefore aiding fuller accountability. It would act as a route for early warning signals to be identified and dealt with, including for new body to consider. Importantly it is a route for auditors to hold the CEO and CFO to account and vice versa. The LAO also provides a potential route for escalation and resolution of issues between parties.

102. New powers are not needed for this, and there is already good practice that is happening in a number of places. Our intention is to formalise and reinforce the expectations for this relationship and the need for it to be strengthened and maintained regularly. Our expectation is that the relevant Codes including the Code of Audit Practice, and requirements set by industry bodies such as CIPFA and Solace for CFOs and CEOs respectively should all make clear the importance of meetings between these key officers and their audit partners, and the need for these to take place on a twice-yearly basis at least. Regular engagement and firming up of this relationship would also build links in support of Sir Tony's recommendation that internal audit is recognised to be a key support in the delivery of external audit, where consistent with the Code of Audit Practice.
103. Many have reported to recent inquires that the previous system in which District Auditors operated engendered a culture in which a pragmatic relationship was developed between local bodies and their auditor, where the body and auditor worked together to jointly solve issues and problems, sometimes robustly, and from the viewpoint of respective professional responsibilities. Some reported that the time and space for auditors to engage in this depth of relationship does not exist in the current system.
104. District Auditors were part of a wider, extensive and geographically diverse public provision which no longer exists. It is therefore not considered feasible to recreate this role at this point. This document sets the government's intentions on the role of the auditor in the current system. The LAO will further strengthen this arrangement, with a responsibility and a role through its contract and market management to ensure constructive, productive relationships between body and auditor. This will include working with the body and auditor where relationships are challenging, but also encouraging and facilitating deeper relationships to be fostered, including to enable bodies to talk informally to auditors ahead of novel or potentially risky decisions that might be later examined by auditors. This would also play a part in improving the early warning of financial concerns and therefore preventing problems from occurring or worsening.

## **Audit committees and full council**

105. The Redmond Review recommended that audit committees should be mandatory for all local bodies, with at least one independent member, and audits should be considered by full council (for local authorities).
106. The department acknowledges the progress made in this area. Most local bodies now have an audit committee. However, the government is minded to standardise scrutiny to increase public confidence and consistency with other bodies such as strategic authorities.
107. The government proposes to mandate audit committees, including the provision for one independent member, and for local authorities, audit reports to be considered by full council. The government would also like to understand views on whether the chair of the audit committee should be an independent member in order to rebuild confidence and value for money oversight.

## **Local Public Accounts Committees (PACs)**

This section does not apply to **NHS bodies** or to **smaller bodies**

108. We want to ensure residents can be confident that their Strategic Authority is well-governed and making best use of every pound. We want to explore with the sector how to improve external scrutiny of value for money on local public spending, including exploring a Local Public Accounts Committee model alongside reforms to local audit where we will review how the audit system supports and provides external assurance.
109. These forums could be set up to improve external scrutiny of value for money on local public spending, drawing on audit findings and interacting with the new body.

## Audit regimes for different types and sizes of local body

### Major Local Audits

This section does not apply to **smaller bodies**

110. Major Local Audits (MLA) are defined as local public bodies with total income or expenditure of at least £500m, or local government pension funds with gross assets of over £1 billion or more than 20,000 members. The current MLA thresholds, set in the Local Audit (Professional Qualifications and Major Local Audit) Regulations 2014, have not been updated since their inception. There are currently 25 local authorities and circa 150 NHS bodies in scope of becoming MLAs in FY 2024/25.
111. Whilst MLA status does not require additional financial reporting or audit procedures, MLAs are subject to regulatory oversight (audit quality reviews and, potentially, enforcement action) from the FRC to reflect their complexity and higher risk. ICAEW's Quality Assurance Department (QAD) is responsible for reviewing local audits conducted under the Local Audit and Accountability Act that are not major local audits. Recent experience has suggested that audit firms consider the FRC regime to be more demanding and to carry a higher reputational risk, and have typically undertaken additional audit testing and quality control procedures to mitigate this risk, resulting in higher fees. The perceived additional regulatory risk of MLAs has been considered as a barrier to entry, deterring new entrants to the market and causing others to refuse to take on MLAs when they do enter the market. This has made it more difficult for PSAA to allocate audits for local authorities efficiently. It is worth noting that NHS bodies, pension funds and police and crime commissioners are particularly susceptible to the current MLA threshold, due to the scale of their expenditure or assets, although they do not all necessarily present high audit risks.
112. As the system is reformed, there is an immediate need to provide support for both local bodies which may shortly become MLAs and for auditors who are constrained in their capacity.

### Smaller authorities

This section does not apply to **NHS bodies**

113. A smaller authority is defined in the 2014 Local Audit and Accountability Act as an authority in which both gross annual income and gross expenditure is below a statutory threshold of £6.5m over a three-year period. Smaller authorities prepare a short Annual Governance and Accountability Return (AGAR) instead of accounts, and the AGAR is subject to a limited assurance review rather than a full audit. Authorities below the lower threshold with a gross income or expenditure below £25,000 per

annum, can declare exemption from a limited assurance review. Neither threshold has been reviewed since its inception in 2015.

114. Smaller bodies are unlikely to have the equivalent range of service delivery, asset base or liabilities of even the smallest of District Councils and yet are at risk of becoming subject to full financial audits at far greater cost – and therefore drawing on the limited capacity in the audit market for principal authorities. For example, internal drainage boards may receive grant funding that takes them over the upper threshold for a period of time, before returning to normal levels below the threshold. The largest of the smaller authorities pay £3,780 in audit fees in comparison to the ‘smallest’ body subject to category 1 audit which pays an audit fee of £40,000 (a 958% increase). In some cases, authorities and bodies which have exceeded the £6.5m threshold have failed to secure auditors and have therefore contributed to the audit backlog. In addition, nearly 600 previously exempt smaller bodies have become subject to limited assurance between 2018-19 and 2022-23, meaning that the exemption rate has fallen from 56% to 50% of smaller authorities.

### **Definitions and criteria for types of audit**

115. The government is clear that the correct level of assurance for a local body – whether an MLA, non-MLA or smaller authority - must be based on the relative risk for the type of body as well as the level of income and expenditure within the body – and that there must be proportionality of accountability and oversight.
116. The government is committed to removing, where possible, potential cliff edges in the local audit system – for MLAs, non-MLAs and smaller authorities. This includes considering whether to move away from a solely threshold-based system towards one linked to the type of body, with reporting and audit requirements scaled to the nature, size and risk of the bodies concerned.
117. For MLAs, the government will consider amending primary legislation to ensure definitions are proportionate to risk. This would enable some local bodies or authorities to be declared exempt from the regulatory focus of an MLA and will specifically consider whether Integrated Care Boards (ICBs) should be exempt.
118. The government will consider the definition set in primary legislation of smaller authorities, including whether certain types of authority, including parish councils and internal drainage boards, should be classified as smaller authorities regardless of income or expenditure. The government will also consider how any additional risk could be mitigated by a more graduated application of thresholds providing for an increase in reporting and/or audit requirements as thresholds are exceeded, whilst preserving smaller authority status. This could include a requirement for standardised accounts for the largest of smaller bodies, providing more information than is currently included in the AGAR.

119. For MLAs, non-MLAs and smaller authorities this work will consider the potential for bespoke audit regimes for different types of body. Any changes would serve to improve upon the accountability and oversight gleaned by audits and by the limited assurance regime whilst also serving to protect smaller authorities from the risk of becoming a principal authority and the disproportionate cost and administrative burden which that entails.
120. Aligned with this work, and as recommended by the Redmond Review, there will be a review of the information provided in the AGAR, considering whether sufficient and useful information is presented to members and taxpayers in an accessible and efficient way.
121. There will also be a review of other aspects of the audit regime for smaller bodies, both to streamline them where possible and to strengthen them where appropriate to maintain an adequate level of assurance for taxpayers. This will include consideration of whether to simplify the exemptions regime for parish meetings, to require electronic submission of AGARs. It will also consider whether to require internal audit reports to be considered by the full council or board of a smaller body. There will also be consideration of the effective operation of the legal right of local electors to inspect and object to accounts and the coverage of the Transparency Code.

#### **Urgent action to amend thresholds and exemptions**

122. In the immediate term, the government is considering the need for secondary legislation to amend thresholds for both MLAs and smaller authorities.
123. For Major Local Audits, the government proposes to increase the threshold and make ICBs exempt altogether. This would provide temporary relief for bodies who are approaching or have recently breached the £500m threshold and potentially make it easier to clear the audit backlog.
124. For smaller authorities, the government is considering uplifting the smaller authority upper threshold, so that temporary financial relief can be offered to smaller authorities which are likely to exceed the current threshold and add to the audit backlog.
125. In parallel with such legislation the lower audit threshold of £25,000 could be uplifted broadly in line with inflation, allowing the smallest of authorities to remain exempt from external audit. The government commits to periodically reviewing audit thresholds that remain in the system to ensure that the regime remains proportionate to risk.

## Commitments

The government commits to:

- require twice-yearly meetings between Key Audit Partners (KAPs) and authorities' statutory officers (Head of Paid Service, Monitoring Officer and Section 151 Officer).
- mandate audit committees with at least one independent member and consideration at full council, where this requirement does not yet apply in the sector.
- consider new local accounts committees for strategic authority areas in England, which would interact with auditors and the new LAO.
- consider moving from an exclusively threshold-based system towards one also linked to the type of body, with reporting and audit requirements scaled to the nature, size and risk of the bodies concerned.
- review the accessibility of AGAR's format and information.

## Consultation Questions

**Q22:** Do you think that the Chair of an audit committee should be an independent member?

**Q23:** Do you have views on the need for a local public accounts committees or similar model, to be introduced in strategic authority areas across England?

**Q24:** Would such a model generate more oversight of spending public money locally?

**Q25:** How would the creation of such a model impact the local audit system and the work of local auditors?

**Q26:** Do you agree that the MLA threshold should be increased?

**Q27:** Do you agree that some local bodies should be declared exempt from the regulatory focus of an MLA? For example, should Integrated Care Boards be exempt?

**Q28:** Do you agree that smaller authorities' thresholds should be increased?

**Q29:** Do you agree that the lower audit threshold of £25,000 should be increased broadly in line with inflation?

**Q30:** Are there other changes that would improve the accounting and limited assurance regime for smaller authorities?

## Local audit backlog

### 6: 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.

This section does not apply to **NHS bodies** or to **smaller bodies**

126. In September 2023 nearly 1,000 local body accounts had not been audited, stretching back to 2015/16. For 2022/23, just one percent of local bodies published audited accounts on time. This significant and unacceptable backlog of outstanding unaudited accounts has blighted financial assurance of local bodies in England and denied local residents a key check on how their taxpayers' money is used and whether value for money arrangements are adequate. It also means that those making decisions on the future use of funds on behalf of those residents, whether local officials or elected representatives, do not have this vital information. It is a clear demonstration of a malfunctioning system.
127. Together with key audit system partners the government has taken decisive action to tackle the backlog. It legislated to set a statutory backstop of 13 December 2024 to clear the backlog of unaudited accounts up to and including financial year 2022/23. The legislation also set further backstop dates for financial years 2023/24 to 2027/28 to enable the system to recover. These measures will enable auditors to focus on up-to-date accounts, where assurance is most valuable.
128. Due to the time constraints, auditors have issued hundreds of 'disclaimed' audit opinions at the first backstop for financial years up-to-and-including 2022/23, and these will likely continue for some bodies for years. There is a clear public interest in the system recovering as soon as feasible. It is the aspiration of the government and key local audit system partners that disclaimed audit opinions driven by backstop dates, should, in most cases, be limited to the next two years (up to and including the 2024/25 backstop date of 27 February 2026).
129. To support this aspiration, a proportionate approach to the rebuilding of assurance following disclaimed opinions is required by auditors - and all system partners including the FRC, NAO and auditors, are aware that this is the government's objective. The NAO has published implementation guidance for the reset and recovery period, endorsed by the FRC, advising auditors on how to approach the task of delivering outstanding audits and subsequently rebuilding audit assurance where audit opinions have been disclaimed and qualified.

130. The government also recognises that further cross system work is needed to support the recovery process. The government will work with system partners to ensure that additional guidance, advice and practical support is available. As noted above, the government intends to extend the exemption from normal accounting for infrastructure asset values, which should reduce the audit workload in the medium term. The government is also willing to consider additional temporary measures to ensure that workload and cost is proportionate, subject to appropriate management of any risks to public funds.
131. As the Written Ministerial Statement of 30 July highlighted, Ministers and system partners recognise that aspects of the proposals are uncomfortable. Local bodies should not be unfairly judged based on disclaimed or modified opinions caused by the introduction of backstop dates that are largely beyond their control. To support this, auditors should clearly communicate the reasons for issuing such opinions. Additionally, even where these opinions are issued, auditors' other statutory duties – including to report on VFM arrangements, to make statutory recommendations and issue Public Interest Reports – remain a high priority.
132. For the duration of the backstop programme, bodies that are non-exempt but have failed to comply with a backstop date will be required to publish an explanation; to send a copy of this to the Secretary of State (to facilitate scrutiny) and publish audited accounts as soon as practicable. The government also intends to publish a list of bodies and auditors that do not meet the backstop dates, which will make clear where draft (unaudited) accounts have also not been published.

### Commitments

The government commits to:

- work with system partners to produce additional guidance, advice and support.
- amend secondary legislation to extend existing exemptions to include infrastructure asset values, to reduce the audit workload in the medium term.
- consider any further, temporary exemptions to ensure workload and cost is proportionate.

### Consultation Questions

**Q31:** What additional support, guidance or advice do local bodies and/or auditors need for future statutory deadlines (including backstop dates) for the publication of audited accounts?

**Q32:** Do you think that financial reporting and/or auditing requirements should be amended for a limited period after the backlog has been cleared and as assurance is being rebuilt, to ensure workload and cost are proportionate?



## Annex A: Timeline

The table below sets out a provisional timeline for the transition to the new local audit system. 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. PSAA is considering whether to offer that option to the firms. Appointments to smaller bodies operate under different contracting periods.

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 2028

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Submitted to Local audit reform – a strategy for overhauling the local audit system in England  
Submitted on 2025-01-29 13:40:19

## Introduction

What is your name?

Name:

Paul Matravers

Are you responding on behalf of an organisation?

Yes

If yes, please specify which organisation:

Torbay Council

What is your position? (if applicable)

Job/role title:

Head of Corporate Finance

## Local Audit Office remit

1 Do you agree the Local Audit Office (LAO) should become a new point of escalation for auditors with concerns?

Agree

Please explain your answer (optional):

2 Do you agree relevant issues identified should be shared with auditors, government departments and inspectorates?

Agree

Please explain your answer (optional):

Yes, in addition the relevant issues should also be filtered through to all Local authorities where this is possible ie depending on the nature of the issue.

3 Should the Local Audit Office (LAO) also take on the appointment and contract management of auditors for smaller bodies in the longer term?

Yes

If yes, when should responsibilities transfer from Smaller Authorities Audit Appointments Ltd (SAAA)?:

It would make sense for all appointment and contract management of auditors to sit with one organisation.

If no, please explain your answer (optional):

4 Should the Local Audit Office (LAO) oversee a scheme for enforcement cases relating to local body accounts and audit?

Yes

Please explain your answer (optional):

This could potentially provide greater consistency in relation to enforcement cases. However, there is a lack of detail around the process to ensure there is a fair representation of both parties' views and opinions.

5 How could statutory reporting and Public Interest Reports (PIRs) be further strengthened to improve effectiveness?

Please explain your answer (optional):

6 Should the scope of Advisory Notices be expanded beyond unlawful expenditure, or actions likely to cause a loss or deficiency, as defined by the Local Audit and Accountability Act, to include other high-risk concerns?

Yes

Please explain your answer (optional):

7 Should the Local Audit Office (LAO) own the register of firms qualified to conduct local audits?

Yes

Please explain your answer (optional):

8 Should the Local Audit Office (LAO) hold the power to require local bodies to make changes to their accounts, so that auditors could apply to the LAO for a change to be directed instead of needing to apply to the courts?

Yes

Please explain your answer (optional):

## Financial reporting and accounts

9 What are the barriers to progressing accounts reform?

Please explain your answer (optional):

Resource constraints pose a critical barrier as local authorities and audit firms are encountering staff shortages and budget pressures. These limitations hinder their ability to adapt to and implement necessary changes effectively.

The current process operates within a complex regulatory environment, requiring extensive disclosures which causes significant challenges and inefficiencies. The lack of consensus among stakeholders including disagreements between auditors, local authorities, and regulatory bodies, has further delayed reforms and solutions.

10 Are there structural or governance barriers to accounts reform that need to be addressed?

Yes

Please explain your answer (optional):

11 Should any action to accounts reform be prioritised ahead of the establishment of the Local Audit Office?

No

Please explain your answer (optional):

There are priorities that could lay the groundwork for effective governance which would be in the remit of the LAO.

Simplifying reporting requirements - streamlining disclosures would reduce unnecessary complexity and duplication and would enable local authorities to produce clearer and more concise statements of accounts.

Consensus on codes of practice - is essential to avoid delays and ensure smoother implementation of reforms.

Resource constraints - including increasing funding, providing training and recruiting appropriately skilled staff would strengthen resilience and capacity within local authorities and audit firms.

Clarifying the roles and responsibilities of all stakeholders - would improve accountability and reduce ambiguity.

Establish an interim oversight mechanism - this would ensure progress continues and key tasks are completed and momentum for these reforms is sustained during the transition period.

12 Are there particular areas of accounts which are disproportionately burdensome for the value added to the accounts?

Yes

Please explain your answer (optional):

The current financial reporting practices contain areas which could be streamlined to improve efficiency and relevance. Examples being the narrative statement and preparation of group accounts.

An element of the narrative statement duplicates information which is available in other reports, such as the outturn report. The preparation of group accounts can be disproportionately resource-intensive when some subsidiaries have minimal financial impact.

13 Do you agree that the current exemption to the usual accounting treatment of local authority infrastructure assets should be extended and if so, when should it expire?

Yes

Please explain your answer (optional):

The treatment of local authority infrastructure assets should be extended until a solution is identified that is agreeable to all auditors, CIPFA, and the International Accounting Standards Board.

This will ensure that any future accounting treatment is well understood, feasible, and aligned with the needs of all stakeholders.

14 (a) Should the Local Audit Office adopt responsibility for CIPFA's Code of Practice on Local Authority Accounting?

Agree

Please explain your answer (optional):

However, the issue of potential for conflict of interest needs to be considered.

14 (b) Are there other options relating to responsibility of CIPFA's Code of Practice?

Not Answered

Please explain your answer (optional):

15 Should the Accounting Code be freely available if it is not transferred to the Local Audit Office?

Yes

Please explain your answer (optional):

The accounting code should be freely available to all and consideration should be given if it should be freely available if it is not transferred to the Local Audit Office

## Capacity and capability

16 What additional support should be provided to finance teams, audit committees and elected members to develop and strengthen financial governance?

Please explain your answer (optional):

Training sessions and continuous professional development should be available to all Finance teams to ensure they equipped with the skills and knowledge in this area. Consideration should be given whether this training is mandatory.

Similarly guidance and training for Audit committee members and elected members on the key questions to consider as part of their assessment of the accounts and audit process.

Regular updates should be provided to finance teams, audit committees and elected members to ensure they are kept updated on issues, reforms and updated guidance in this area.

17 How should Key Audit Partners (KAP) eligibility be extended further, should some categories of local audit be signed off by suitably experienced Responsible Individuals (and if so, which)?

Please explain your answer (optional):

The new pathway to the registration of KAPs knowledge-based Diploma in Local Audit developed by CIPFA is supported.

Agree that some categories of local audit could be signed off by suitably experienced Responsible Individuals (Ris) as this would increase capacity. However there needs to be a system of quality control implemented.

18 Should the market include an element of public provision?

Yes

Please explain your answer (optional):

An element of public provision is supported

19 If yes, should public provision be a function of the Local Audit Office (LAO)?

Please explain your answer (optional):

As the oversight by this function should fall with with the LAO remit.

20 What should the initial aim be in relation to proportion of public and private provision?

Please explain your answer (optional):

21 Should the Secretary of State, in consultation with the Local Audit Office (LAO) and for defined periods, set an envelope within which the body could determine the appropriate proportion of public provision for the market?

Yes

Please explain your answer (optional):

Audit regimes for different types and sizes of local body

22 Do you think that the Chair of an audit committee should be an independent member?

No

Please explain your answer (optional):

Assurance to the audit committee is provided by the statutory officers (monitoring officer and s151 officer) that the committee has terms of reference and is constituted to ensure the role of an audit committee is effectively discharged.

Support is given to there being an independent member on the committee, but do not believe it is necessary for the independent member to be the chair.

23 Do you have views on the need for a local public accounts committees or similar model, to be introduced in strategic authority areas across England?

Yes

Please explain your answer (optional):

There is a need for the outcome of audits of local authorities to be fed back to the strategic authority in order that there is an understanding of issues and that a local authority in the area of the strategic authority might have.

Whether this is delivered via a local public accounts committee or via another method needs to be considered. If the role of the strategic authority is to understand how local authorities are 'performing' as a whole and not just from a financial perspective then a local public accounts committee would not work.

24 Would such a model generate more oversight of spending public money locally?

Yes

Please explain your answer (optional):

However, the issue around duplication of the responsibilities need to be considered. Defining the 'model' and it's terms of reference are key to ensuring that value is being added.

25 How would the creation of such a model impact the local audit system and the work of local auditors?

Please explain your answer (optional):

Potentially increasing the work of local auditors if an additional report is required for the strategic authority. As mentioned in the previous answer the 'value added' and 'duplication' is the key question.

26 Do you agree that the Major Local Audits (MLA) threshold should be increased?

Yes

Please explain your answer (optional):

27 Do you agree that some local bodies should be declared exempt from the regulatory focus of an Major Local Audits (MLA)? For example, should Integrated Care Boards be exempt?

Not Answered

Please explain your answer (optional):

28 Do you agree that smaller authorities' thresholds should be increased?

Yes

Please explain your answer (optional):

29 Do you agree that the lower audit threshold of £25,000 should be increased broadly in line with inflation?

Yes

Please explain your answer (optional):

30 Are there other changes that would improve the accounting and limited assurance regime for smaller authorities?

Not Answered

Please explain your answer (optional):

### Local audit backlog

31 What additional support, guidance or advice do local bodies and/or auditors need for future statutory deadlines (including backstop dates) for the publication of audited accounts?

Please explain your answer (optional):

Any advisory notes, changes in legislation etc should be issued directly to local authorities.

Webinars or seminars held for key changes that may happen in future as there are significant change on how audits are delivered, auditor appointments etc in the immediate future.

32 Do you think that financial reporting and/or auditing requirements should be amended for a limited period after the backlog has been cleared and as assurance is being rebuilt, to ensure workload and cost are proportionate?

Yes

Please explain your answer (optional):

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