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Jonathan, Justin, Rob and Innes,

Local Audit Reform: A strategy for overhauling the local audit system

I am delighted to confirm that today the Government launched a strategy to overhaul the broken local audit system in England and laid this in Parliament via a Written Ministerial Statement. A copy of the strategy is enclosed with this letter.

Local government is the heart of decision-making for our communities. We have inherited a fragile local government sector in a precarious financial position, with a crisis in vital support services. We are determined to fix the foundations of local government, and that must start with its financial foundations with effective audit being a critical component. Local audit provides the only independent check on local bodies' financial arrangements. The external audit of local bodies' annual accounts is vital in supporting democratic accountability and providing assurance for local people and their elected representatives. This check is vital for good decision-making, as part of our early warning system, and for transparency. This Government is restoring stability and bringing forward reform to ensure local government is fit, legal and decent and can play its critical role in providing the critical services communities rely on.

The Government has inherited a broken local audit system in England. Three key systemic challenges faced as part of this flawed system include capacity (limited auditors), co-ordination (no clear ownership of the system), and complexity of financial reporting and audit requirements. The scale of this failure was epitomised by the backlog of outstanding unaudited accounts in England which totalled nearly 1,000 in

September 2023 and led to a paralysis of local audit – with just one per cent of councils and other local bodies publishing audited accounts on time last year. More recently, the Whole of Government Accounts for financial year 2022/23 was disclaimed primarily due to a lack of audit assurance on local government accounts – which serves to further illustrate the dire straits of the system and the contagion caused by the lack of real reform. Although it has been uncomfortable, we have taken decisive action to clear this backlog.

The Government is grateful for the recommendations of Sir Tony Redmond, Sir John Kingman, the previously constituted HCLG Committee and the Public Accounts Committee. Weaknesses of the local audit system are inherent and, despite the best efforts by all existing organisations, local bodies' finance teams and auditors, cannot be simply rectified. The system that underpins local audit is too dispersed and fragmented and the only true option is a bold overhaul of current arrangements - to ensure that every pound spent is treated with care.

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

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

Building on the recommendations of Redmond, Kingman and others, we will ensure the core underpinnings of the system are fit for purpose. The strategy therefore includes a range of other measures, including:

- setting out the vision and key principles for the local audit system;
- committing to a review of the purpose and users of local accounts and audit and ensuring local accounts are fit for purpose, proportionate and relevant to account users;

- enhancing capacity and capability in the sector;
- strengthening relationships at all levels between local bodies and auditors to aid early warning system; and
- focus on the support auditors and local bodies need to rebuild assurance following the clearing of the local audit backlog.

We are also consulting on the potential delivery of local audit through a mixed market, supplementing the private market with public delivery of local audit – in the first instance to meet the needs of those authorities who are without an auditor in the current system.

This consultation will run for six weeks from today until 29 January. I would encourage you to engage in the consultation to share your valuable professional insights into the audit system. The link to the consultation is [here](#).

We are committed to our manifesto to overhaul the local audit system to enable taxpayers to get better value for money. The scale of the challenge means that it will take time to put right, but this Government is clear that local communities deserve the transparency, accountability and effective early warning system that local audit provides.

Our strategy and proposals are an important step in overhauling the local government audit system and restoring timely and high-quality financial reporting and audit for local bodies. We will work closely with you on the transition to the Local Audit Office and welcome your support in this process. I have today also written to local bodies and audit firms and thanked them for their continued hard work and dedication and welcome their views throughout the consultation.

With every good wish,



Jim McMahon OBE MP

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