

REFORM

ACCOUNTING FOR FAILURE

Rebuilding the local audit system

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ABOUT REIMAGINING THE LOCAL STATE

This paper is part of the Reimagining the Local State work stream. English local and regional government stands at a turning point. There are signal opportunities for local innovation, close community engagement, and ambitious devolution of powers and responsibilities from the centre. There are also unprecedented challenges, driven by years of fiscal retrenchment and rocketing service demand. This programme will develop policy ideas for the future of devolution, the role of communities, and the structures, practices, and leadership of local government itself. This paper sets out policies to address the collapse in local financial audit.

Reimagining the Local State Advisory Group

Reform is grateful to the expert members of the Reimagining the Local State Advisory Group who provide invaluable insight and advise on the programme. Their involvement does not imply endorsement of every argument or recommendation put forward.

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Interviewees

We would like to thank 17 anonymous senior interviewees from the private, public and third sectors for giving their time and candid insights to support our research into local government finance and the audit system.

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Recommendations

Recommendation 1: Oflog, in addition to becoming independent of central government and adopting a growing role of organising the improvement and devolution ‘readiness’ of local systems, should be made the overall local audit system leader. This would ensure a single body is responsible for identifying systemic issues within local government finances.

Recommendation 2: The Local Audit Liaison Committee should be tasked with monitoring and providing guidance on Oflog’s activities to prevent overreach.

Recommendation 3: Oflog should take over responsibility for all work aimed at addressing workforce shortages currently being conducted by MHCLG and the FRC. This work should involve Oflog ensuring that a clear pathway exists for individuals at all stages of their careers to enter local audit.

Recommendation 4: Oflog should work with MHCLG and the LGA to establish a dedicated local audit peer support programme for councils, focused on ensuring the clarity of local accounts, building upon the LGA’s existing Peer Challenge work to help ensure greater accounting clarity and the sharing of good practice.

Recommendation 5: The CIPFA/LASAAC Local Authority Code Board, as the body responsible for adapting accounting and legislative guidance into The Code of Practice on Local Authority Accounting, should initiate a ‘simplification review’ of accounting requirements, in consultation with the sector and audit experts with the aim of removing unnecessary statutory overrides to improve the transparency and speed of the accounting process.

Recommendation 6: The FRC (and Oflog once established as the system leader) should give equal parity to monitoring and regulating both the quality and the timeliness of audits. They should transparently publish up-to-date information on audits as they are completed.

1. Introduction

A functioning local audit system is a prerequisite for a functioning local government system. Local authorities spend more than £110 billion every year providing crucial public services and driving economic growth.¹ Independent scrutiny helps ensure that this spending is efficient, effective and legal. In turn, this allows local leaders to be held to account and improves outcomes.

The current local audit system was established by the Local Audit and Accountability Act 2014. This abolished the Audit Commission, an organisation frequently criticised for its administrative overreach, in favour of a locally led audit regime, with local authorities procuring their own audit services from private companies.

This system is now in crisis. There is “no common view as to the purpose of local audit”.² Fewer than 100 individuals — the majority aged over 50 — are qualified to perform local audits.³ Local authority accounts are considered “virtually impossible to understand”.⁴ And, most significantly, the ability of the system to actually produce audits has all but collapsed. In 2021 only one per cent of local bodies published audited accounts by the statutory publication deadline.⁵

Only around 10 per cent of councils provided audited information for the Whole of Government Accounts (WGA) this year. From the rest, slightly more than half submitted unaudited accounts, while 44 per cent provided no data at all. As a result, the National Audit Office has been unable to sign off the WGA for the first time ever.⁶ Under current plans — which will see hundreds of ‘disclaimed’ audits from local government — the audit backlog will take years to clear.

Three key steps are needed to resolve this crisis. Firstly, a local audit ‘system leader’ must be established. The lack of a system leader over recent years has prevented any coherent local audit strategy from emerging. Secondly, chronic workforce issues must be tackled. If there is an inadequate number of people able to complete audits then delays will always be challenging to tackle. And, thirdly, the complexity of accounts and timeliness of audits must be reduced. These place excessive burdens on the process of auditing which, in turn, contributes to the delays.

This paper outlines how these three issues could be addressed and what a renewed local audit system could look like.

¹ Department for Levelling Up, Housing & Communities, Local Authority Revenue Expenditure and Financing: 2022-23 Outturn, England - Third Release, 2024.

² Housing, Communities and Local Government Committee, Financial Reporting and Audit in Local Authorities, 2023.

³ Public Accounts Committee, Timeliness of Local Auditor Reporting, 2023.

⁴ Housing, Communities and Local Government Committee, Financial Reporting and Audit in Local Authorities.

⁵ Public Sector Audit Appointments, Annual Report and Accounts 2023/24, 2024.

⁶ National Audit Office, *Spending watchdog disclaims government’s accounts for the first time*, Web page, 16 November 2024.

2. Leadership

For decades the arms-length Audit Commission provided systemic leadership for local audit. Established in the 1980s, its slowly growing portfolio of responsibilities eventually encompassed the oversight of audit and the appointment of auditors to public bodies including local government, the NHS, and fire and rescue services. In 2014 it was closed, partly in response to public sector complaints that it had become micro-managerial and partly because it was deemed too expensive. When announcing plans to disband the Audit Commission, Eric Pickles — the then Secretary of State for Communities and Local Government — said that “the corporate centre of the Audit Commission has lost its way. Rather than being a watchdog that champions taxpayers’ interests, it has become the creature of the Whitehall state”.⁷ Its responsibilities were parcelled out to numerous different bodies, with an expectation that private sector and ‘bottom-up’ audit would grow to fill the gap.

2.1 Fragmentation

This parcelling out of responsibilities has meant that significant fragmentation exists within the local government audit system.⁸ Thus, there is no single body responsible for identifying systemic problems or ensuring coordinated action. In the words of one interviewee, the resulting system is “unsupervised” with local authority performance declining because there is “no suspicion” to keep matters in check.

One widely accepted solution to this fragmentation would be to create an overall system leader, as both the Kingman⁹ and the Redmond¹⁰ Reviews recommended. In 2021 the previous Conservative Government announced their intention for the Audit Reporting and Governance Authority (ARGA) — the planned new regulator replacing the Financial Reporting Council (FRC) as leader of the corporate audit system — to take on this additional local audit system leader role.¹¹ The establishment of ARGA requires primary legislation. In the meantime, the FRC is acting as a ‘shadow’ local audit system leader.¹²

⁷ Ministry of Housing, Communities and Local Government, ‘Eric Pickles to Disband Audit Commission in New Era of Town Hall Transparency’, Web Page, 13 August 2010.

⁸ Tony Redmond, Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting (Ministry of Housing, Communities and Local Government, 2020).

⁹ John Kingman, Independent Review of the Financial Reporting Council (Department for Business and Trade, 2018).

¹⁰ Redmond, Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting.

¹¹ Ministry of Housing, Communities and Local Government, ‘Local Authority Financial Reporting and External Audit: Spring Update’, Web Page, 19 May 2021.

¹² Ministry of Housing, Communities and Local Government and Financial Reporting Council, Memorandum of Understanding between the Financial Reporting Council and the Department for Levelling Up, Housing and Communities, 2023.

ARGA would have responsibility for leading both corporate and local audit, despite both the Kingman and Redmond Reviews recommending having a body focused solely on leading local audit. Indeed, the Redmond Review noted that 82 per cent of respondents and many stakeholders interviewed expressed a preference for a single regulatory body.¹³

Interviewees for this paper, one of whom simply stated that “we need a dedicated body”, and stakeholders during a Public Accounts Committee inquiry — who questioned the wisdom of combining local audit leadership with responsibility for regulating the wider audit profession — echoed this view.¹⁴

A large reason for this is the sheer complexity of local government. Interviewees for this paper frequently commented on this and the Redmond Review remarks that “to be fully effective the system leader for local public audit will need to demonstrate detailed expertise and a clear focus on the sector”.¹⁵ Demonstrating such expertise and focus will be difficult if ARGA is simultaneously responsible for local and broader corporate audit.

In their 2020 response to the Redmond Review, the Ministry of Housing, Communities and Local Government (MHCLG) justified their decision to go with ARGA and reject the recommendation to establish a specialist local audit system leader because of the “pressing need to address the challenges within local audit”.¹⁶ Establishing a new body would require primary legislation — which could take up to three years — and the new body would take time to establish itself. Thus, the Department committed to exploring options which “may not require a legislative slot and/or a new body — and therefore could enable further action sooner”.¹⁷

In principle this is sensible. Local audit faces many acute challenges. The faster a system leader can be established the better. However MHCLG’s intention to make ARGA the system leader also requires primary legislation, and this legislation is not forthcoming. ARGA was originally meant to be established in 2023, before slipping to 2024 at the earliest.¹⁸ Given the 40 bills outlined by the new Labour Government in the King’s speech finding Parliamentary time for ARGA’s establishment will be difficult.¹⁹ Therefore, MHCLG’s original logic still holds. A system leader focused heavily on local audit is urgently required. And to avoid a lengthy legislative process an existing body should perform this role.

¹³ Redmond, Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting.

¹⁴ Housing, Communities and Local Government Committee, Financial Reporting and Audit in Local Authorities.

¹⁵ Redmond, Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting.

¹⁶ Ministry of Housing, Communities and Local Government, ‘Local Authority Financial Reporting and External Audit: Government Response to the Independent Review’, Web Page, 17 December 2020.

¹⁷ Ministry of Housing, Communities and Local Government.

¹⁸ Financial Reporting Council, Financial Reporting Council: 3-Year Plan, 2023.

¹⁹ Prime Minister’s Office, 10 Downing Street, *The King’s Speech 2024: Background Briefing Notes*, 2024.

2.2 Unification

The National Audit Office (NAO) is one existing body which could perform this role. However, the NAO already has multiple responsibilities and local audit system leadership, especially given the challenges facing the local audit system, will require significant resources. Furthermore, as pointed out by the Redmond Review, performing this role could increase the risks of a conflict of interest with the NAO's main responsibility of holding government departments to account.²⁰

An alternative approach would be to reconstitute the role of the Office for Local Government (Oflog) as local audit system leader. Oflog was established in 2023 to improve the performance of local government by increasing understanding about the performance of local authorities, warning when authorities are at risk of serious failure and supporting local government to improve itself.²¹ Oflog has faced numerous challenges during its first year. Its work can be seen as simply duplicating the work of other sector bodies such as the Local Government Association (LGA) and the Chartered Institute of Public Finance and Accountancy (CIPFA).²² It is not fully operationally independent of government. And the Government has announced their intention to pause Oflog's work on 'early warning conversations' and review Oflog's future role by the end of 2024.²³

As Reform has argued, there is potential value in Oflog developing expertise in local government and working to improve the sector, particularly by supporting and complementing the peer learning which is already taking place through bodies like the LGA.²⁴ To adequately perform this role, Oflog could become the institutional starting-point for an operationally independent arms-length body with a broader remit to ensure confidence that decisions are being based on objective analysis rather than political decisions.

Additionally, Oflog, or the body that Oflog evolves into, should utilise its expertise to also take on the role of local audit system leader. Witnesses to the Housing, Communities and Local Government Committee commented that this "feels fairly obvious" and was "probably more important than the other things that Oflog is presently given to do".²⁵ Similar points were made by multiple interviewees for this paper, who recognised that a system leader needs to be established as soon as possible and Oflog is the best-placed existing body to fulfil this role.

There is little appetite, though, to see Oflog – or any other body – replicate the approach of the old Audit Commission. A frequent complaint from interviewees was that the Audit Commission became overreaching, behaving in a "micromanaging" way and "came close to

²⁰ Redmond, Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting.

²¹ Office for Local Government, 'About Us', Web Page, n.d.

²² Clive Betts, 'Findings from The Committee's Inquiry into the Office for Local Government', 24 May 2024.

²³ Jim McMahon, 'Oflog: Review of Long-Term Role, and Short-Term Remit', 10 September 2024.

²⁴ Simon Kaye and Rachael Powell, *Devolve by Default: Decentralisation and a Redefined Whitehall*, 2024.; Simon Kaye, India Woodward, and Giorgia Vittorino, *What Powers Where? Achieving the 'Devolution Revolution'*, 2024.

²⁵ Betts, 'Findings from The Committee's Inquiry into the Office for Local Government', 24 May 2024.

trying to run councils”. To avoid Oflog facing a similar fate there must be clear limits imposed on its remit. One such way these limits could be monitored is through the Local Audit Liaison Committee. This body — established following the Redmond Review and comprised of key stakeholders — is tasked with encouraging coordination across the local audit system. In addition to this, the Committee should be tasked with monitoring and providing guidance on Oflog’s activity, ensuring that it does not encroach beyond agreed limits.

Recommendation 1: Oflog, in addition to becoming independent of central government and adopting a growing role of organising the improvement and devolution ‘readiness’ of local systems, should be made the overall local audit system leader. This would ensure a single body is responsible for identifying systemic issues within local government finances.

Recommendation 2: The Local Audit Liaison Committee should be tasked with monitoring and providing guidance on Oflog’s activities to prevent overreach.

3. Workforce

Severe workforce shortages afflict local government audit. As of January 2023 there are fewer than 100 key audit partners registered to perform local audits,²⁶ many of whom are over 50 years old.²⁷ Public Sector Audit Appointments Ltd (PSAA) — the body responsible for appointing auditors to local bodies — described this number as “worryingly low”.²⁸ Many interviewees for this paper expressed concern about the number of local government auditors, with one commenting that there is “no pipeline for [local government] auditors... where are the new people that are going to work in local audit going to come from?”

Shortages are also reflected in the number of firms willing to audit local authorities. When conducting the procurement exercise for audit contracts covering 2023-24 to 2027-28 PSAA could only initially secure 90 per cent of the required capacity, before securing 99.5 per cent following a supplementary process.²⁹ Only seven firms took part in the procurement and two firms carry out around 59 per cent of local authority audits.³⁰ PSAA has warned that without changes to the market the next five-year procurement will be equally difficult,³¹ and one interviewee for this paper said that “making the case for local audit in the commercial firms is not an easy sell”.

Workforce shortages are a major problem. They place a further financial burden on local authorities. Following the most recent procurement round PSAA advised local government bodies to expect fee increases of 150 per cent³² to make involvement in local government audit “much more financially viable” for audit firms.³³

Workforce shortages also increase the risks of further delays to the audit process. The departure of a single member delayed the audit in Bournemouth, Christchurch and Poole,³⁴ and higher workloads mean that auditors are conducting fewer interim audit visits which places pressure on the year-end audit.³⁵

²⁶ National Audit Office, Progress Update: Timeliness of Local Auditor Reporting on Local Government in England, 2023.

²⁷ Public Accounts Committee, Timeliness of Local Auditor Reporting.

²⁸ Public Accounts Committee.

²⁹ Ibid

³⁰ National Audit Office, Progress Update: Timeliness of Local Auditor Reporting on Local Government in England.

³¹ Public Accounts Committee, Timeliness of Local Auditor Reporting.

³² National Audit Office, Progress Update: Timeliness of Local Auditor Reporting on Local Government in England.

³³ Public Accounts Committee, Timeliness of Local Auditor Reporting.

³⁴ Public Accounts Committee.

³⁵ National Audit Office, Progress Update: Timeliness of Local Auditor Reporting on Local Government in England.

3.1 Current measures

Steps are being taken to tackle this workforce problem. The FRC is developing a workforce strategy,³⁶ MHCLG has worked with CIPFA to develop a new qualification to support senior audit staff with experience in other sectors to develop the knowledge needed to switch to local audit practice³⁷ and MHCLG has taken steps to recruit overseas auditors.³⁸

Nevertheless, these steps are taking too long. The FRC was due to publish their workforce strategy in Autumn 2023. It is still unpublished a year later, despite the Redmond Review's stark warning that "without prompt action... there is a significant risk that the firms currently holding local audit contracts will withdraw from the market".³⁹ Several firms engaged during the research for this paper disclosed that they were preparing to do just that.

What's more, these steps risk being ineffective. MHCLG and CIPFA's new qualification is targeted primarily at helping those who are already qualified auditors transition to local audit. While this has merit it can only ever be a stopgap if there is no pipeline of new auditors coming through choosing to specialise and develop expertise in local audit. Indeed, the Public Accounts Committee have already questioned whether the new qualification will be sufficient to attract people into local government audit⁴⁰ and audit providers Mazars have already described the challenges their own training programmes have faced keeping pace with the loss of qualified staff to other roles.⁴¹

Making local audit a more desirable career choice is therefore crucial — one interviewee for this paper commented forcefully that "we need to make the job more attractive". The FRC's workforce strategy aims to set out recommendations which "promote local audit as a prestigious and attractive profession",⁴² for example by establishing early routes into local audit and championing the career choice among people at college and university.⁴³ However, this is a long-term plan and — because it is not being produced by an overall local audit system leader — there is a risk that it fails to produce an effective and coherent strategy for addressing workforce issues.

³⁶ Financial Reporting Council, 'Local Audit Workforce Strategy', Web Page, 6 February 2024.

³⁷ Chartered Institute of Public Finance and Accountancy, 'Diploma in Public Financial Management, Reporting and Advanced Audit', Web Page, n.d., accessed 24 October 2024.

³⁸ Public Accounts Committee, Timeliness of Local Auditor Reporting.

³⁹ Redmond, Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting.

⁴⁰ Public Accounts Committee, Timeliness of Local Auditor Reporting.

⁴¹ Public Accounts Committee.

⁴² Financial Reporting Council, 'Local Audit Workforce Strategy'.

⁴³ Public Accounts Committee, Timeliness of Local Auditor Reporting.

The 2023 Memorandum of Understanding between the FRC and MHCLG setting out the roles and responsibilities of FRC as shadow system leader demonstrates this point. While FRC is the shadow system leader MHCLG still retains significant responsibilities. Relevant to the workforce question, MHCLG is leading on the new qualification alongside CIPFA, while the FRC is leading on the workforce strategy.⁴⁴ Dividing responsibilities in this manner risks incoherence, particularly when the qualification and the workforce strategy have different timelines. To ensure that workforce issues are addressed in the most efficient and coherent manner — and that local audit is presented as an attractive and viable career choice — action needs to be coordinated and managed by a single body. Oflog, as the new local audit system leader, should perform this role.

Recommendation 3: Oflog should take over responsibility for all work aimed at addressing workforce shortages currently being conducted by MHCLG and the FRC. This work should involve Oflog ensuring that a clear pathway exists for individuals at all stages of their careers to enter local audit.

3.2 Peer support

Beyond the previous two approaches — setting out a workforce strategy and starting a new qualification — an additional approach would be to utilise the Local Government Association’s (LGA) peer support programmes.

The LGA’s peer support programmes provide local authorities with tools, support and challenge to facilitate improvements in delivery and outcomes. One of the key pieces of support offered is the Corporate Peer Challenge. Offered to every council at least once every five years, this involves a team reviewing a council’s key finance, performance and governance information before spending up to four days at the council providing challenge and support. These are widely recognised as beneficial, with the peer challenge team producing a report with recommendations for the council which the council are required to publish alongside an action plan.⁴⁵

However, with the multifaceted crisis facing local authorities, the support and challenge offerings from the LGA are not sufficient to meet demand. Few of the reports produced following Corporate Peer Challenges in 2024 made explicit reference to audit⁴⁶ and the LGA’s guidance on audit is as focused on internal audit — a council’s own team of officers and contractors — as it is on external audit.⁴⁷

This paper’s interviewees suggested that the LGA could play a greater role in supporting local authorities with local government audit. They commented that “peer review processes from the LGA could be strengthened for this” and expressed support for a “properly

⁴⁴ Ministry of Housing, Communities and Local Government and Financial Reporting Council, Memorandum of Understanding between the Financial Reporting Council and the Department for Levelling Up, Housing and Communities.

⁴⁵ Local Government Association, ‘Corporate Peer Challenge Reports’, Web Page, 2024.

⁴⁶ Ibid.

⁴⁷ Local Government Association, Must Know Guide: Working with Auditors, 2024.

empowered LGA who's more critical and demanding of the sector". Peer-learning systems are a feature of a mature local government system and have been recommended in previous Reform work.⁴⁸

External audit to guarantee quality is always going to be important. As one interviewee said, external auditors from dedicated firms are required to "provide assurance that there is objective independent scrutiny of local government audit". And central government is currently unlikely to allow local authorities to audit themselves. Interviewees commented that "the national government would run a mile" from this idea and would be "very uncomfortable with a system where local authorities audit each other".

But the provision of additional support from the LGA to local authorities would, in conjunction with simplifying The Code of Practice on Local Authority Accounting, improve the clarity of local authority statement of accounts. Interviewees believed that these accounts "are often not well prepared in local government" and Deloitte have pointed out that the processes, controls and capacity of many local authorities to present information for audit have not developed at the same pace as auditing standards.⁴⁹

Improving clarity could help draw new entrants to the workforce who are currently put off by the byzantine nature of local government accounts. And local audits could be completed faster because auditors would not have to devote unnecessary time to deciphering poor-quality accounts.

Recommendation 4: Oflog should work with MHCLG and the LGA to establish a dedicated local audit peer support programme for councils, focused on ensuring the clarity of local accounts, building upon the LGA's existing Peer Challenge work to help ensure greater accounting clarity and the sharing of good practice.

⁴⁸ Kaye and Powell, *Devolve by Default: Decentralisation and a Redefined Whitehall*.

⁴⁹ Deloitte, *Written Evidence Submitted by Deloitte (Public Accounts Committee, 2023)*.

4. Content and timeliness

4.1 Complexity

Local authorities produce a statement of accounts every year, setting out their spending and financial situation in the form of tables and a narrative report. These accounts are then audited and a decision made as to whether they comply with reporting requirements, are free from errors and have sufficient arrangements in place to secure value for money.

Statement of accounts have evolved in complexity to the point of being “impenetrable to the public”.⁵⁰ Interviewees commented that accounts are incredibly difficult to understand and that some councils’ accounts have quadrupled in length. In the words of one interviewee, that “it is incredibly difficult to know what they’re doing with money”.

Auditing and statement of accounts are almost by definition complicated and difficult to understand, setting out as they do the financial situation of organisations managing billions of pounds. The NAO’s guide to understanding central government accounts runs to 42 pages and notes that understanding accounts can be difficult if one is not familiar with the specific requirements.⁵¹ But, crucially, local authority statement of accounts are particularly bad. They are “often longer, more complicated and more challenging to understand than accounts produced by other parts of the public sector”.⁵²

The complexity of accounts decreases their usefulness. The Public Accounts Committee has argued that “local government accounts are too often inaccessible to most users and few in the sector think they work as well as they ought”⁵³ and CIPFA — one of the bodies responsible for setting the code which local authorities must follow — has commented that this complexity makes it “difficult for council taxpayers and service users to understand how resources have been used”.⁵⁴

Another problem is that this increases the time, effort and specialist skills required to successfully audit local government’s annual accounts, thus further entrenching the workforce issues discussed above and contributing to the current backlog. Last year only one per cent of local bodies published audited accounts on time and this backlog is predicted to reach around 1,000 this year.⁵⁵ This undermines audit’s ability to ensure transparency and accountability. As one interviewee for this paper put it, “audit needs to be

⁵⁰ Redmond, Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting.

⁵¹ National Audit Office, *Understanding Central Government’s Accounts*, 2014.

⁵² Housing, Communities and Local Government Committee, Financial Reporting and Audit in Local Authorities.

⁵³ Public Accounts Committee, Timeliness of Local Auditor Reporting.

⁵⁴ Public Accounts Committee.

⁵⁵ Ministry of Housing, Communities and Local Government, ‘Significant Measures to Tackle Worsening Backlog in Local Audit’, Web Page, 31 July 2024.

in the moment based on this year's accounts, not worrying about what happened five years ago".

One cause of this growing complexity is local authorities growing complexity. This point has been made by the Redmond Review,⁵⁶ the Public Accounts Committee,⁵⁷ the Housing, Communities and Local Government Committee⁵⁸ and interviewees for this paper, who recognised that "as local authorities have become more complex and challenged, local audit has become more complex and challenged."

But an additional cause are the stringent requirements which local authorities and auditors must abide by.

The Code of Practice on Local Authority Accounting, developed by the CIPFA and the Local Authority Scotland Accounts Advisory Committee (LASAAC) Local Authority Code Board, lays out the requirements for local authorities when producing accounts. This is based on International Financial Reporting Standards (IFRS), which are used throughout the public sector, but also numerous statutory overrides. These statutory overrides have increased complexity. For example, local authorities must include additional disclosures in their accounts that the IFRS does not mandate, transactions and balances must be classified in different ways to the IFRS, and, in some areas, the same expenditure must be accounted for in different ways.⁵⁹

Manchester City Council have commented that statement of accounts are "made impenetrable" by having to comply with existing accounting requirements and Conrad Hall, Chair of the CIPFA/LASAAC Local Authority Code Board, argued that "many of the complexities in the accounts derive from the Government legislating to override the ordinary accounting practice".⁶⁰ Lee Rowley, the former housing minister, commented that "ideally, we would not have statutory overrides"⁶¹ and several interviewees for this paper agreed.

Recommendation 5: The CIPFA/LASAAC Local Authority Code Board, as the body responsible for adapting accounting and legislative guidance into The Code of Practice on Local Authority Accounting, should initiate a 'simplification review' of accounting requirements, in consultation with the sector and audit experts with the aim of removing unnecessary statutory overrides to improve the transparency and speed of the accounting process.

⁵⁶ Redmond, Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting.

⁵⁷ Public Accounts Committee, Timeliness of Local Auditor Reporting.

⁵⁸ Housing, Communities and Local Government Committee, Financial Reporting and Audit in Local Authorities.

⁵⁹ Ibid.

⁶⁰ Ibid.

⁶¹ Housing, Communities and Local Government Committee, 'Oral Evidence: Financial Reporting and Audit in Local Authorities, HC 1196', Web Page, 17 July 2023.

4.2 Timeliness

The Financial Reporting Council (FRC) regulates the quality of audits completed by providers. The FRC can use its sanction powers for the first time in 2022, issuing a fine of £250,000 for quality failings it identified in one local audit.⁶² Grant Thornton have said that the FRC's focus has improved the quality of financial reporting and local audit, and interviewees for this paper suggested the FRC has "introduced more rigour in terms of how firms do their audit work".

Nevertheless, this has also impacted the timeliness of audits because auditors are exercising greater risk aversion to ensure they meet the required standards and avoid fines. Grant Thornton have said that firms defer audit reports where work cannot be completed to the FRC's standards and greater caution is exercised when dealing with complex audit issues.⁶³ Interviewees for this paper said that there are "big reputational risks if [auditors] make a mistake and that the emphasis of auditors is now "upon quality rather than timeliness". This requires balance, where audits are of high quality but also deliverable soon enough to serve their purpose. As one interviewee for this paper said, "if an audit is being delivered perfectly but three years late does it mean anything?". The same should be said for an audit that is delivered early but is insufficiently rigorous.

If a system leader is established, workforce shortages addressed, and statutory override complications resolved, audits should be easier and faster to complete to a high standard.

Thus, the FRC — or Oflog once they are established as the system leader — should not only monitor and regulate the quality of audits, but their timeliness as well. This would also be facilitated by the provision of real time data on the completion of audits, which is currently not reliably available from the quarterly reports issued by the PSAA.

Recommendation 6: The FRC (and Oflog once they have been established as the system leader) should give equal parity to monitoring and regulating both the quality and the timeliness of audits. They should transparently publish up-to-date information on audits as they are completed.

⁶² Public Accounts Committee, Timeliness of Local Auditor Reporting.

⁶³ Public Accounts Committee.

Conclusion

Improving the local audit system is unglamorous but nevertheless important work. Effective audit is more than box-ticking. It is an early warning system for institutions facing economic turbulence, an incentive for efficiency, and strengthens systemic accountability.

The measures explored in this report are made doubly urgent by the reality of an ongoing financial crisis that threatens the success of every ambition, responsibility, and service provided by the local state.

Placing the local audit system on a more sustainable footing will provide the foundations required for a rapidly changing English local government system to begin to flourish. A system leader, a clear pipeline of incoming auditors and faster, more timely reports will ensure that the audit system can reach this footing and succeed in the future, with no need for further drastic action around delayed completions.

With a functioning audit system, achieving the other conditions for the success of local systems will also become easier. The top priority should be a programme of radical policy change to establish more sustainable local government. Forthcoming reports will set out proposals for such a programme.

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