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GOVERNMENT CONSULTATION SUBMISSION

Reform Think Tank's submission to the Ministry of Housing, Communities and Local Government's consultation on local audit reform

About *Reform*

Reform is established as the leading Westminster think tank for public service reform. We believe that the State has a fundamental role to play in enabling individuals, families and communities to thrive. But our vision is one in which the State delivers only the services that it is best placed to deliver, within sound public finances, and where both decision-making and delivery is devolved to the most appropriate level. We are committed to driving systemic change that will deliver better outcomes for all.

We are determinedly independent and strictly non-party in our approach. This is reflected in our cross-party Advisory Board and our events programme which seeks to convene likeminded reformers from across the political spectrum.

Reform is a registered charity, the *Reform* Research Trust, charity no. 1103739.

1. Do you agree the LAO should become a new point of escalation for auditors with concerns?

Yes. As we argued in *Accounting for failure*, **there is a need for a singly body responsible for the local audit system**.[1] If this is to be the Local Audit Office (LAO), being a new point of escalation for auditors with concerns should be within its remit. This would help to enhance the ability of auditors to act as an early warning system. Their ability to act as an early warning system has been limited since the closure of the Audit Commission, partly because there is no single body responsible for the local audit system and therefore no clear point of escalation for auditors with concerns.

Suitable ethical walls must be established to mitigate against any conflicts of interest.

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

Yes. Sharing relevant issues identified with auditors, government departments and inspectorates would allow issues to be acted upon.

[1] Sean Eke and Simon Kaye, *Accounting for Failure: Rebuilding the Local Audit System* (Reform, 2024).

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3. 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. This would help to enhance the ability of auditors to act as an early warning system, incorporating the ambitions of Oflog to proactively build data transparency. However, care must be taken to ensure that the scope of Advisory Notices does not expand too far.

4. Should the LAO own the register of firms qualified to conduct local audits?

Yes. As the local audit system leader, the LAO's remit should involve oversight of the firms qualified to conduct local audits. This would enable to LAO to have appropriate oversight of the entire local audit system.

5. 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?

Yes. This would increase the LAO's power — which is important if it is to be an effective local audit system leader — and increase the value of accounts because they would be more accurate, with required changes not having to wait until the following year.

6. Should any action to reform be prioritised ahead of the establishment of the LAO?

No. Establishing LAO, the local audit system leader, should be the priority. Once established LAO could provide input into any accounts reform and ensure that this is coordinated with the rest of the local audit system.

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

Yes. **Statutory overrides have unnecessarily increased complexity**. For example, local authorities must include additional disclosures in their accounts that International Financial Reporting Standards (IFRS) do 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.[2]

8. Should the Accounting Code be freely available if it is not transferred to the LAO?

Yes. Allowing all related bodies access to the Code will allow for greater standardisation and compliance.

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

The LAO should work with Ministry of Housing, Communities and Local Government and the Local Government Association to establish a dedicated local audit peer support programme for councils, building upon the Local Government Association's existing Peer Challenge work.

[2] Eke and Kaye.

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10. Should the market include an element of public provision?

The local audit system suffers from an acute capacity problem. There are an insufficient number of Key Audit Partners. This places a further financial burden on local authorities — following the latest procurement round PSAA advised local government bodies to expect fee increases of 150 per cent — and increases the likelihood of audit delays.[3]

The Government should consider all measures to address this capacity problem, including public provision if this can be done in a cost-effective and ethical way which does not inadvertently reduce private sector capacity.

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

The Government should strongly consider introducing a local public accounts committee or similar model in combined authority areas across England.

As Strategic Authorities take on more policy and financial power, they should also face more scrutiny of how they use that power. Current mechanisms are insufficient, with Overview & Scrutiny and Audit Committees having significantly less power than Parliamentary select committees and a focus on holding the executive to account and providing assurances on financial spending. A local public accounts committee examining value for money and outcomes across all public bodies operating in a region would complement these two committees.

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

Yes. A local public accounts committee model would generate more oversight of spending public money locally. It would be reviewing spending across all public bodies in a region, rather than just the strategic authority. And it would be focused on outcomes and value for money rather than just financial management.

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

This model could strengthen the local audit system and improve the work of local auditors, for example local public accounts committee could increase the publicity of audit reports, which would in turn increase pressure on public bodies to improve in response.

***Reform* has published the following papers on local audit reform and local government finances:**

Sean Eke and Simon Kaye, *Accounting for Failure: Rebuilding the Local Audit System* (Reform, 2024)

Simon Kaye, India Woodward, Giorgia Vittorino and Sean Eke, *Back from the Brink: Radical Ideas for Sustainable Local Finances* (Reform, 2024)

[3] Eke and Kaye.