

# English Devolution and Community Empowerment Bill: Committee Stage

Oral Evidence Session: 16 September 2025

Written submission from Grant Thornton UK LLP on Part 4 – Local Audit [English Devolution and Community Empowerment Bill](#)

## Introduction

Grant Thornton support the proposed reforms on local audit set out in the Bill, which we consider are essential in restoring trust and accountability to what has become a broken local audit system.

The backlog of audit opinions, which reached a peak in 2024, is well documented. The root causes of the problem have also been widely discussed, and we do not repeat the full arguments here. We believe it is important to acknowledge, however, that the audit profession and its wider stakeholders must take some responsibility. Following the abolition of the Audit Commission, work was procured by appointing bodies at too low a fee, as well as being concentrated amongst too small a number of firms.. At the same time, regulators were rightly highlighting the need for improved audit quality. Unfortunately, in the absence of a single systems leader – e.g. a body which truly understood the challenges and risks facing local authorities – regulation became driven by International Financial Reporting Standards, focusing for example on areas where there were large account balances and estimation uncertainty, such as the valuation of assets and pension liabilities, but where there was often limited or no impact on the General Fund. These areas attracted much greater attention than wider value for money risks such as financial performance risk management and governance at local authorities, at a time when many local authorities were facing extreme financial challenges..

Whilst the audit profession needs to learn from the failures of recent years, so too does local government. Failed investments, poorly managed risks, and a disregard for the proper stewardship of public money have unfortunately become far too common. Many authorities have not invested properly in accurate and timely financial reporting and they lack the expertise, and in many cases the capacity, to prepare high quality financial statements within the prescribed timeframes. Too many sets of accounts are now produced with poor working papers and inadequate audit trails. Our own firm has issued twenty two reports making Statutory Recommendations since 2022. In the past year we have also issued two Reports in the Public Interest. Section 114 Notices indicating that Councils are approaching bankruptcy, which were almost unprecedented until 2018, are now part of common parlance. Other firms have also taken statutory action against a number of councils.

Against this backdrop, we consider that the proposals in the Bill for the reform of local audit, drawing on the findings of Sir Tony Redmond's review in 2020, are sensible, proportionate and much needed. Taking it as a given that the proposals themselves are established, we set out below some further thoughts on how the Local Audit Office, once up and running, can fix the broken local audit system as quickly and effectively as possible.

We have set out below our further thoughts on the following:

- Key priorities for the Local Audit Office
- Safeguarding audit quality
- Public provision of local audit
- Simplification of local authority accounts

## Key priorities for the Local Audit Office

Once legislation is passed, we understand that the Local Audit Office is planned to be established in Shadow Form, before become fully operational, potentially from April 2027. There are many challenges facing local audit and a lot to be done. We believe that the following areas are of critical importance for success:

- **Quality and timeliness of audit reporting:** The local authority backstop (the mandatory date by which audit reports must be issued) has been successful in dealing with the backlog of local authority opinions. Auditors are now issuing

audit reports on an annual basis. However, over half of the reports issued for 2023/24 were disclaimed, as the auditor was unable to obtain sufficient assurance over the reported information by the backstop date. This in turn has resulted in qualifications on the National Audit Office's Whole of Government accounts. Work to rebuild assurance is underway, but this is difficult and unprecedented territory for audit firms. The challenges around accounting for local authority reserves make it especially so. Auditors will need help in regaining assurance, for example through guidance, best practice, and leadership in critical areas, for example, on radical solutions such as determination of reserve balances by statute. The LAO will need to support and encourage local authorities to support regaining assurance with sufficient resources.

- **Application of the auditing standards to local audit:** As highlighted above, in recent years, following feedback from regulators, auditors have significantly increased the amount of time and focus on certain areas of the accounts, including property and pension valuations which are high in value and are subject to management judgement and estimation. Whilst these are highly material areas of the financial statements and auditing standards require a sufficient level of coverage, changes in valuations are mitigated by statutory overrides to unusable reserves and therefore the impact on tax payers and other stakeholders is often minimal. The sector has missed appropriate direction on how to apply international auditing standards - which are often written with corporate entities in mind – in a local audit context. This may mean, for example, that auditors can undertake reduced and more focused work on property valuations – pinpointing risks on key areas such as investment properties – freeing up time and resources for additional work on areas such as procurement, or the risk of fraud around contract expenditure. The latter are both areas where local government has recently seen increased examples of fraud and it would therefore be sensible for auditors to increase their focus from both an accounts and value for money perspective.
- **Promoting higher quality financial reporting:** Many authorities are still struggling to produce draft accounts of the right quality, or on a timely basis. Until this is addressed, then the problem of disclaimed auditor's reports will continue. We believe that there is a significant role for the Local Audit Office in helping authorities to address this. Mechanisms which could work well include forums, guidance notes and sharing of best practice. Support should be provided to identify independent members to chair audit committees. This should be a paid role to encourage suitable candidates. Simplification of accounting requirements is also important and we say more about this below.

We note that whilst local government reorganisation will reduce the number of authorities, in theory enabling resources to be better spread, local government reorganisation brings with it its own challenges, including transfer of data and establishment of new financial systems. Where new bodies have been established in recent years, we have seen numerous instances of delayed accounts preparation and poor quality statements. MHCLG/LAO should have the powers to step in and appoint appropriately experienced commissioners or Improvement Panels to oversee a process of recovery.

### **Safeguarding audit quality**

One of the key areas of responsibility which will pass to the Local Audit Office is the oversight of audit quality. This previously sat with the FRC and the ICAEW.

It is vital that auditors deliver high quality audit work, and supervision and enforcement is a key role. The scope of local audit is much wider than for a commercial audit, and we believe it is right that supervision and enforcement should rest with specialists in the sector who best understand the wider role of the local auditor, drawing on support from other bodies as required.

In comparison with the current enforcement arrangements, we believe that:

- There needs to be more focus on the wider scope of the auditor, including value for money and use of statutory powers - especially where the circumstances would suggest strongly that auditors should be exercising those powers.
- There needs to be more focus on timeliness of delivery and meeting the needs of members and other stakeholders in terms of providing assurance in both financial statements audit and value for money.

Ultimately the question should be whether each local audit supplier is providing meaningful and high-quality audit assurance across their portfolio of audits, within the context of the Audit Code, and for the things which matter to local people.

Sanctions against auditors should include the power to reprimand, and to require corrective action. Sanctions should not include fining auditors or the power to name individuals publicly. In our experience, the latter is counterproductive and discourages people from careers in local audit. Given there are currently only 100 registered Key Audit Partners across all firms, this is a vitally important point.

### **Public Provision of local audit**

The Bill includes a proposal which would enable the public provision of local audit. We think this is a good idea as it would enable an auditor of last resort. This could also help address shortfalls in external provision. The National Audit Office could take on the role initially. We need to qualify this though by noting that it will only be a positive development if it genuinely introduces more capacity into the currently stretched local audit resources pool, rather than just moving capacity from the audit firms into another body.

Setting up a public audit practice would take time, as there would be a need to establish an audit methodology, framework and quality systems. As highlighted above, there is also a need to pull new people into the profession (with attendant training and development in a specialist area). This is something which would take time. We suggest that such a change needs to be managed carefully and in partnership with the National Audit Office (using their existing systems and expertise) and current local audit suppliers.

### **Simplification of local authority accounts**

We accept that using an IFRS-based Code of Accounting Practice is necessary to keep local government accounts consistent with the Whole of Government Accounts framework. However, several barriers make reform difficult. These include:

- the large number of statutory overrides that apply in local government (such as those for schools' budgets and pooled investment funds)
- the additional reporting requirements placed on councils
- a shortage of suitably qualified and experienced finance professionals.

In some areas, limited capacity has meant that authorities have not streamlined their accounts properly or applied materiality appropriately, leading to longer and more complex accounts. Without more resources, many finance teams will continue to copy prior year accounts rather than focusing on what is really needed.

We believe there is scope to reduce unnecessary disclosures and declutter accounts. Another idea highlighted by Sir Tony Redmond, is the use of short form accounts. These remain attractive but would need to be kept separate from the statutory accounts process and audited later.

### **Concluding thoughts**

We welcome the reforms set out in the Bill, which are essential in supporting the recovery of the broken local audit system. As a firm, we remain committed to working with the sector and welcome the opportunity to engage with key stakeholders as the plans progress.