Research for ACTION

Research for Action evidence submission on English Devolution and Community Empowerment Bill

1. For nearly a decade, Research for Action has been investigating the crisis in local audit and barriers to scrutiny at council level, which will be the topic of this evidence submission.

2. We welcome the plans to introduce the Local Audit Office. We have further recommendations for the remit of the new body and other priorities for reforms to local audit, including audit committees, as well as wider recommendations on strengthening scrutiny including local public accounts committees and the simplification of local authority accounts.

What our research has found

3. Our research has found that the abolition of the Audit Commission in 2015 has created a crisis in local audit. The capacity for scrutiny and challenge at all levels has been reduced, private interests have overshadowed public interests, and a huge backlog in audited accounts is preventing proper scrutiny of financial decision-making by local councils. These conditions are reducing openness and transparency in local government, effectively excluding the public and wider civil society from holding power to account. Reforming local audit should not just be about clearing backlogs in audited accounts, but creating a system that serves the public good *(See full reports from 2021 and 2023).*

4. The impact of the failures in local audit has become clear through high-profile cases like Birmingham, Woking and Slough. Importantly, it has led to the fragmentation of the regulatory landscape, with nobody holding the big picture of local government finances and the audit crisis. We have also seen the knock-on effect of missing or disclaimed accounts at local authority level leading to the National Audit Office refusing to sign off on the Whole Government Accounts.

5. We have also found that scrutiny at local councils is undervalued and often politicised amid a significant lack of openness and transparency. Barriers to scrutiny – either from committees, or more generally from the public and media – include power being centralised by directly-elected mayors, an increasingly stretched council workforce since austerity, and the outsourcing of services. Meanwhile scrutiny training and support for councillors is not prioritised, scrutiny is seen as a block to getting things done, and there is often a culture of avoidance or even hostility towards scrutiny. This is particularly the case when one political party dominates (See full report).

6. Our research underlines the difficulties with transparency and the barriers presented to public accountability by the lack of contemporaneous, accessible (readable) financial information. However, it has also found that focusing simply on information disclosure as the problem (or solution) to public accountability ignores many of the other significant barriers that citizens experience when trying to exercise their rights in relation to public audit. Public efforts to scrutinise their local council's accounts and play a potentially important role in safeguarding public finances, are frequently undermined and are too easily ignored. Existing rights should be strengthened and protected through more rigorous monitoring and enforcement and a direct line of appeal should be created.

7. We welcome the recognition that the current local audit system is broken and also welcome the plans to establish the Local Audit Office. However, we believe the reforms need to go further to re-orientate local audit so it has at its heart the public who are served by local government. Auditing is a vital democratic process and public involvement enables better-quality and more accountable governance.

Our recommendations for change

8. In addition to current Government proposals, we believe the Local Audit Office should:
    - Have a remit for carrying out regular investigations on cross-cutting issues impacting on several local authorities
    - Have the responsibility and capacity to collect data on fraud and corruption and enforce tackling it
    - Introduce clearer and enforceable criteria for when auditors should carry out a Public Interest Report in response to objections from residents. Under the 2014 Local Audit and Accountability Act, residents have the right to object to their council's spending, yet despite meeting the existing criteria for a Public Interest Report, auditors have been reluctant to raise the alarm in response to concerns, effectively negating this right.
    - Set up a complaints and appeal process for audit that is open to the public, as well as a whistleblowing system where significant concerns could be raised with an independent external body.
    - Take on responsibility for local audits from the private sector to prevent further market failure.
    - Take on responsibility for local government financial data to improve accessibility to the wider public, which will facilitate democratic participation, comparison across councils and oversight of the sector.
    - Create a traffic light warning system for the financial health of local authorities based on indicators that are timely and easy for the public to understand.
    - Introduce new data standards for local government to improve accessibility, which should include making financial information machine-readable where possible and using accessible file formats.

- Create a single repository where all councils must share links to financial information that is already published.

9. We believe that local audit reform should also make sure that:
    - The purpose of local audit is expanded from a technical 'value for money' exercise to take into consideration the public interest. Its scope should include governance arrangements, particularly when raised in residents' objections.
    - Public inspection rights in the 2014 Local Audit and Accountability (LAA) Act are strengthened by abolishing reporting restrictions (Schedule 11) in relation to auditors' handling of public objections, and mandating all public bodies subject to the LAA Act inspection and objection rights to report how these rights are used.
    - Accounts reform is prioritised so that council accounts are simplified to make them less burdensome for local authorities and more accessible to the public. This could also include mandating councils to attach a narrative report to their annual accounts in order to make council accounts more accessible to the wider public. This was recommended in the Redmond Review.
    - In order to tackle the audit backlog, auditors are not allowed to disclaim accounts, still charging rising fees (LGC Aug 2025)

10. We are also glad to see that audit committees will become mandatory and that the government is exploring the introduction of Local Public Accounts Committees.

11. To further strengthen scrutiny and accountability in local government:
    - Local PACs should be designed to include spaces for civil society membership, as well as opportunities for members of the public to have input into all aspects of their work. This could happen through including residents with experience of engaging with accountability rights in developing the PACs. Local PACs will also be especially important in the context of English Devolution to ensure scrutiny of new strategic authorities with extra powers and appointed commissioners.
    - Audit committees should be statutory full committees with clearly defined responsibilities, remits and investigative powers, including overseeing corruption risk assessments.
    - Councils should adopt a proportional representation approach to appointing members and chairs of committees, based on vote share rather than seats won, so that minority parties have a bigger and more representative role in scrutiny. Audit Committee Chairs should be from opposition parties, and committees should include independent members with relevant expertise.
    - The government should make available resources for ongoing councillor training and development so that all councillors are given better scrutiny training and councils are able to share training and induction resources more effectively.

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