

Audit Committee

31 July 2025

Local Public Audit Reform Update

Report from: Phil Watts, Chief Operating Officer (Section 151 Officer)

Author: Katey Durkin, Chief Finance Officer

Summary

This report provides an update on the Government's plans to reform the local audit system.

1. Recommendations

1.1. The Committee notes the update on local audit reforms.

2. Budget and policy framework

2.1. The Audit Committee is responsible for oversight of the Council's financial reporting processes including external audit, as set out in the Committee's Terms of Reference, presented elsewhere on this Agenda.

3. Background

3.1 In December 2024, the Government published 'Local Audit Reform: a strategy for overhauling the local audit system in England' and launched a consultation on its proposals. The strategy described the system as 'broken', stating "just one per cent of councils and other local bodies publishing audited accounts on time last year and a backlog of nearly 1,000 outstanding audits dating back to 2015/16."

3.2 In April 2025 the Government published the consultation outcome setting out its 16 commitments to 'repair' the system, including "simplifying financial reporting requirements and increasing capacity to avoid reliance on a small number of auditors". Alongside this, the Government also announced £49million of funding to help eligible bodies clear their audit backlogs and cover the additional cost of rebuilding audit assurance. In July 2025 the Government wrote to bodies who had received disclaimed audit opinions due to backstop dates and would therefore be eligible for the grant. Medway's initial allocation is £125,891.

3.3 Officers and the Chair of the Audit Committee are working with the Council's external auditors, Grant Thornton to ensure the build back of assurance over

Medway's Financial Statements as soon as practicably possible and further details are provided in Exempt Appendices 1 and 2 to this report.

4. Summary of reforms

4.1 The most significant changes outlined in the Government's response are as follows:

4.2 **The transfer of local audit leadership to MHCLG**; as set out in the Government's strategy, in February 2025 local audit system leadership responsibilities transferred from the Financial Reporting Council (FRC) back to the Ministry of Homes, Communities and Local Government.

4.3 **MHCLG intends to establish a new Local Audit Office (LAO)**, taking on functions currently fragmented across the framework and bring together strategic oversight and technical expertise to simplify the system and drive change. The Government is clear this is not a return to a 'bloated' Audit Commission. The LAO will have five strategic responsibilities:

- Coordinating the local audit system,
- Managing audit contracts (including setting fees, procurement and appointment of auditors to all eligible bodies),
- Setting the Code of Audit Practice and issuing statutory guidance to auditors,
- Providing oversight including both a regulatory framework (inspection, enforcement and supervision) and professional bodies,
- Reporting, insight and guidance including collating auditors reports and providing national insights on local audit issues.

4.4 **Simplifying financial reporting**; recognising that reforms must consider the needs of the user and the impact of accounting requirements on the work of account preparers, auditors and the wider audit system. The Government will also consider the introduction of Standardised Statements in the longer term.

4.5 **Improving capacity and capability**; noting that delays and complexity are preventing the right skills from entering the local audit market, contributing to delays and less effective audits. The government will work to ensure that bodies have skilled and resourced account preparers and will also consider supplementing private sector audit with public provision.

4.6 **Mandating audit committees and strengthening relationships**; setting out that relationships between local bodies and their auditor need to be strengthened and their respective relationship with the LAO must be clear. Audit committees will be required at all relevant bodies and must have at least one independent member, and audits will be required to be considered by Full Council.

4.7 **Reforming the audit regime and the backstop dates**; recognising there is a further work required to clear the backlog, the Government commits to work with system partners to produce additional guidance, advice and support to

allow full assurance to be rebuilt over the audit cycles up to the final backstop date, 30 November 2028.

4.8 An indicative timeline for the reforms is set out below:

Mid-2025	Introduction of primary legislation, subject to parliamentary timetable
Mid-2026	Laying of relevant secondary legislation, subject to parliamentary timetable
Autumn 2026	LAO legally established, public delivery built up (either within LAO or separately as consulted upon) with the ability to take on vacant contracts where appropriate
From early 2027	Procurement exercise for next appointing period (further clarity on the quality oversight framework, including enforcement, would be provided by this point)
By 2027/28	LAO fully resourced and begins contract management with other elements of its oversight, as set out in the transition plan to give the market clarity and time to adjust.

4.9 The Government's initial strategy and response to the consultation are lengthy and detailed, and links to the documents on the Government's website are provided in the background section of this report.

5. Risk management

Risk	Description	Action to avoid or mitigate risk	Risk rating
Reforms are not embedded quickly or ineffective and do not therefore deliver assurance and good value for money	The local audit system represents a significant cost to the public purse but has delivered limited assurance since the Covid-19 pandemic. If reforms are not implemented quickly and are not effective the system will continue to fail to deliver value for money.	Officers are monitoring developments and engaging with the reforms, and will continue to work with external auditors and the Audit Committee to ensure reforms are implemented in Medway.	CII

Likelihood	Impact:
A Very likely	I Catastrophic
B Likely	II Major
C Unlikely	III Moderate
D Rare	IV Minor

6. Financial implications

- 6.1. In July 2025 the Government wrote to bodies who had received disclaimed audit opinions due to backstop dates and would therefore be eligible for the grant. Medway's initial allocation is £125,891.
- 6.2. The core scale fee for the audit of 2024/25, set by Public Sector Audit Appointments Ltd (PSAA) for Medway is £443,336 and this is within the budget allocation in Corporate Management.

7. Legal implications

- 7.1. There are no direct legal implications to this report at this stage however this will be monitored as the reforms progress.

Lead officer contact

Katey Durkin, Chief Finance Officer, katey.durkin@medway.gov.uk

Appendices

Exempt Appendix 1 – Letter from Medway Council to Grant Thornton

Exempt Appendix 2 – Letter from Grant Thornton to Medway Council

Background papers

Press release: Overhaul of local audit will restore trust in broken system:
<https://www.gov.uk/government/news/overhaul-of-local-audit-will-restore-trust-in-broken-system>

Local audit reform: a strategy for overhauling the local audit system in England:
<https://www.gov.uk/government/consultations/local-audit-reform-a-strategy-for-overhauling-the-local-audit-system-in-england>

Consultation outcome: Local audit reform: Government response to the consultation to overhaul local audit in England:
<https://www.gov.uk/government/consultations/local-audit-reform-a-strategy-for-overhauling-the-local-audit-system-in-england/outcome/local-audit-reform-government-response-to-the-consultation-to-overhaul-local-audit-in-england>