



## **BRIEFING NOTE – LOCAL AUDIT REFORM**

### **Consultation**

The Government published its response to the consultation on Local Audit Reform in April 2025 (the consultation ran from December 2024 to the end of January 2025).

The intention of the consultation was to seek views from the sector on how to fix the local audit system which has been beset by a backlog of outstanding unaudited accounts (and hence a lack of a formal audit opinion).

The ministerial foreword to the consultation set out why getting local audit 'right' is important:

*Local audit should be the bedrock of local accountability and transparency, of trust and confidence in councils to spend taxpayer money wisely. But the system is broken – we have lost a key part of our early warning system over local government finances at the time we need it the most. The scale of this failure was epitomised by the backlog of outstanding unaudited accounts which led to a paralysis of local audit – with 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.*

The consultation asked stakeholders for their views on a number of different reforms the Government had identified as key to resolving the current position.

Annex A contains the consultation questions.

The full consultation is available here:

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

### **Public Finance article on the consultation response**

The article below was published in Public Finance and is a good summary of the key points made by Jim McMahon on publication of the consultation response.



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A package of 16 commitments to reform the “fragmented and broken” English local audit system has been unveiled by local government minister Jim McMahon.

The commitments follow a consultation on the government’s local audit strategy, which included the creation of the Local Audit Office.

The government’s response pledged to ensure audit deadlines are “realistic and achievable, with clear guidance provided” while exploring “pragmatic solutions” for authorities with disclaimed audits. It will develop a “phased approach” for reintroducing full reporting requirements.

Ministers also promised to make regulatory risk more proportionate for audit firms, clarify the application of auditing standards and reduce reporting requirements “where appropriate, to lessen the workload on local bodies and auditors.

The government pledged to raise the upper audit threshold to ease administrative burdens, and to introduce “a risk-based approach” to enable the LAO to determine audit regimes that are proportionate and appropriate. Statutory guidance on audit committees will also be published.

Ministers will work with the organisations that make up the local audit system to produce additional guidance, advice and support for auditors on rebuilding assurance, particularly for auditing opening balances.

A bespoke quality review will be commissioned in the spring “focused on learning, improvement and sharing of good practice rather than inspecting and grading audits”.

Regulatory enforcement or sanctions relating to “build back” activity was highly unlikely to be in the public interest, the government conceded.

The government will also work with the National Audit Office to update guidance and provide “more clarity on requirements, particularly for auditing opening balances for statutory reserves”, with a framework expected to be in place by July.

Other commitments include working with devolved governments and CIPFA to review the content and format of local authority accounts and options for reform ahead of the LAO’s establishment, including whether to introduce standardised statements. It will amend primary legislation to separate pension fund accounts from administering



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authority main accounts as well extending the exemption on local authority infrastructure asset valuation.

“We inherited a broken local audit system, not fit for purpose, inefficient, fragmented and with a massive backlog,” McMahon said. “We are working in lock-step with local bodies to clear the backlog and move towards a simplified streamlined system.”

Public Finance, 16 April 2025

### **Consultation Response**

The consultation response provides an update on the broad commitments outlined in the original consultation with the responses across the 6 main areas.

1. Purpose of Local Audit
2. Local Audit Office remit
3. Financial reporting and accounts
4. Capacity and Capability
5. Underpinning the system: Relationships and audit regimes
6. Local Audit backlog

Annex B contains the breakdown of responses to each consultation question (as published).

The full consultation response is available here:

<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>

### **1. Purpose of Local Audit**

The consultation response did not provide any updated view on the purpose of Local Audit (with the original consultation document indicating the 8 core principles below should define Local Audit). The core principles underpinning local audit and the operation of the Local Audit Office (LAO), as set out in the consultation response are:



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- **Value for money.** A system that provides confidence that bodies and the new LAO have arrangements in place to deliver value for money for taxpayers.
- **Transparency** of the sector's financial health and value for money arrangements.
- **Capacity and capability.** A sustainable and resilient market with access to the right expertise and with sufficient capacity to serve all eligible bodies.
- **External scrutiny** to independently identify issues, challenge and drive improvement
- **Professionalism.** Building a sector attractive to auditors to build careers and become future audit leaders.
- **Proportionality.** Local audit that is proportionate and relevant, from regulations to governance.
- **Stronger accountability.** Scrutiny and reporting of issues and high standards of financial reporting to promote public accountability.
- **Timely.** High quality accounts audited and published on time to ensure relevance and increase value to the public, including timely reporting of issues.

### **2. Local Audit Office remit**

The consultation response set out in more detail the remit of the Local Audit Office. The original consultation document established the broad principles for the LAO remit:

- Be statutory and independent, with a remit to streamline and simplify the system.
- Assume the functions of appointing and contracting auditors for local authorities. This would remove the power for authorities to appoint their own auditor.
- Adopt ownership of the Code of Audit Practice from the NAO and deliver relevant training. It would have powers to interpret ISA requirements for the local audit context (though the FRC would continue to maintain ownership of ISAs for the UK as a whole).
- Hold responsibility for quality oversight of local audit, including overseeing an inspection programme, enforcement and some elements of supervision.



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- Publish national insight reports on local audit health, which could include emerging trends, quality, market sustainability, VFM arrangements and statutory recommendations and PIRs.
- Oversee professional bodies with regard to their remit for the qualification, registration and conduct of local auditors.

The Local Audit Office (LAO) will have five strategic responsibilities:

1. **Coordinating the System:** The LAO will act as the central coordinating body for the local audit system, ensuring that audits are conducted efficiently and effectively across all local councils.
2. **Contract Management:** The LAO will manage contracts with audit firms, ensuring that they deliver high-quality audit services and adhere to the Code of Audit Practice.
3. **Ownership of the Code of Audit Practice:** The LAO will be responsible for maintaining and updating the Code of Audit Practice, which sets out the standards and requirements for local audits.
4. **Quality Oversight:** The LAO will oversee the quality of audits conducted by audit firms, ensuring that they meet the required standards and provide accurate and reliable information.
5. **Reporting:** The LAO will report on the performance of the local audit system, providing transparency and accountability to local taxpayers.

The aim is for the LAO to improve local audit efficiency through:

1. **Centralized Coordination:** By acting as the central coordinating body, the LAO will streamline the currently fragmented local audit system. This centralization will ensure that audits are conducted more efficiently and consistently across all local councils 1.
2. **Contract Management:** The LAO will manage contracts with audit firms, ensuring that they deliver high-quality audit services. This will help maintain a consistent standard of auditing and reduce inefficiencies caused by varying practices among different firms 1.
3. **Quality Oversight:** The LAO will oversee the quality of audits, ensuring that they meet the required standards. This oversight will help identify and address any issues promptly, leading to more reliable and accurate audits 1.



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4. **Simplified Reporting:** The LAO will simplify financial reporting requirements, making them more proportionate to the size and complexity of the council. This will reduce the administrative burden on councils and allow them to focus more on delivering services 1.
5. **Structured Escalation Routes:** The LAO will develop structured escalation routes to address issues and barriers faced by auditors. This will ensure that any problems are resolved quickly and efficiently, preventing delays in the audit process 2.
6. **Review of Barriers:** The LAO will review and remove barriers to auditors exercising their powers. This will enable auditors to perform their duties more effectively and without unnecessary hindrances 2.

### **3. Financial Reporting and accounts**

In the response, the Government committed to review the content and format of local authority accounts with relevant stakeholders. This will include ensuring the Accounting Code does not require more disclosures than is necessary and consider the purposes and users of local authority accounts.

It is likely this will involve technical discussion on accounting standards and a review of the way in which guidance (i.e. the Accounting Code) is developed. Specifically, the Government is recommending a more collaborative approach to accounting issues:

*CIPFA will maintain responsibility for its Code of Practice on Local Authority Accounting. However, given the urgent need for action and for more collaborative approaches to the issues, the government, and devolved governments, will work with CIPFA to identify priorities and a programme plan for reform. This will include a joint review of the content and format of local authority accounts, in consultation with relevant stakeholders, to ensure they are not unduly complex and meet user requirements for transparency, accountability and understandability. The government and CIPFA are committed to work together to set out options for accounts reform in readiness for the establishment of the LAO and identify solutions to reduce complexity and burden, and increase accessibility and efficiency, focussing on the examples offered by stakeholders. This will also include further consideration of the introduction of standardised statement first recommended in the Redmond Review, although this should not be a substitute for ensuring accounts meet user*



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*needs. The government will also agree with CIPFA any governance changes needed to ensure an appropriate and active role for the LAO and how the government can support CIPFA to drive reform*

A further consideration is how Pension Fund accounts are produced, audited and signed off separately from the main body's accounts. Some of the delays in Local Audits being completed is due to the status of the main body's accounts – if these are not signed off then other body's accounts that include their element of the pension fund cannot be signed off.

### **4. Capacity and Capability**

The Government's response indicates a willingness to consider how barriers entry to the local audit market can be reviewed.

Perhaps more importantly, an element of public provision will be put in place – thereby reducing reliance on the private sector to provide all local audit capacity.

*The government will establish public provision of audit services to support the private market. The government will explore options to mitigate the unintended consequence of an increased competitive market. It will introduce public provision through a phased approach to gradually scale up over time and explore various delivery models. The government will collaborate with the NAO, other public audit bodies and private firms to build capacity and recruit new auditors into the sector through the creation of an attractive new career pathway in public sector local audit. The LAO will implement safeguards to ensure independence and prevent conflicts of interest within its oversight role.*

### **Relationships and Audit regimes**

The part of the consultation sought views on the composition of audit committees, how external auditors and key audit partners (statutory officers) interacted, and what the thresholds and arrangements should be for smaller authorities (typically Parish and Town Councils).

Of most relevance is the view on audit committees:



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*The December strategy commits to require twice-yearly meetings between Key Audit Partners (KAPs) and authorities' statutory officers (Head of Paid Service, Monitoring Officer and Section 151 Officer). We will mandate audit committees with at least one independent member and consideration at full council, where this requirement does not yet apply in the sector. The government will consider further the merits of mandating audit committee chairs to be independent members. As outlined in the recent English Devolution White Paper, the government will also work with the sector to explore how to improve external scrutiny of value for money on local public spending. This will include exploring a Local Public Accounts Committee model alongside reforms to local audit where we will review how the audit system supports and provides external assurance.*

### **5. Local Audit Backlog**

The Government have provided the sector with a series of backstop dates that audit opinions are required by. Should these dates not be achieved in a given year, the external auditor will need to consider the appropriateness of a modified or disclaimed opinion.

The backstop dates are shown below. The Council received an unmodified opinion (i.e. unqualified/clean) before the backstop date for the 2023/24 accounts and is planning for and anticipating a similar position for subsequent years.

- 2023/24: 28 February 2025
- 2024/25: 27 February 2026
- 2025/26: 31 January 2027
- 2026/27: 30 November 2027
- 2027/28: 30 November 2028

The consultation response outlined measures the government intend to take to rebuild confidence and assurance including

- additional guidance, advice and support for auditors
- work with the NAO to issue updates to existing guidance providing more clarity on requirements, particularly for auditing opening balances for statutory reserves, that will support a proportionate and more consistent approach by audit firms



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### **6. Next Steps**

The Council will need to consider whether the governance arrangements already in place for the Audit and Governance Committee are adequate/fit for purpose given the government's views expressed in the consultation response.

The Council will need to ensure adequate resources are available to meet the backstop dates in terms of publication of draft accounts, responding to external audit queries, finalising the accounts ahead of publication.

More generally, a summary of what Councils should consider is set out below:

1. **Prepare for Implementation:** Councils should start preparing for the establishment of the new Local Audit Office (LAO) and the transition to the new system. This includes reviewing current accounts preparation practices and identifying areas that need improvement.
2. **Enhance Governance Structures:** Councils will need to strengthen their audit committees and governance structures. This may involve appointing new members, providing training, and consulting on additional functions for the LAO.
3. **Simplify Financial Reporting:** Councils should review their financial reporting processes and make necessary adjustments to comply with the simplified requirements. This will help reduce administrative burdens and improve efficiency.
4. **Build Capacity and Capability:** Councils should invest in training and development to enhance the capacity and capability of their finance teams. This may include providing professional development opportunities, and collaborating with other councils to share best practices.
5. **Foster Collaboration with Auditors:** Councils should work closely with auditors to build stronger relationships and foster a collaborative approach to auditing. This will help improve financial management and governance.

In addition, councils should take several proactive steps to ensure a smooth transition and effective implementation of the new system:



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1. **Review Current Audit Practices:** Councils should start by reviewing their existing audit practices and identifying areas that need improvement. This will help them understand the gaps and prepare for the changes required by the new Local Audit Office (LAO).
2. **Strengthen Governance Structures:** Enhancing governance structures is crucial. Councils should focus on strengthening their audit committees by appointing qualified members, providing training, and defining clear roles and responsibilities. This will ensure that the audit committees are well-equipped to handle the new requirements.



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### **Consultation Questions:**

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

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

**Question 3:** Should the LAO also take on the appointment and contract management of auditors and for smaller bodies in the longer term? If so, when should responsibilities transfer from SAAA?

**Question 4:** Should the LAO oversee a scheme for enforcement cases relating to local body accounts and audit?

**Question 5:** How could statutory reporting and Public Interest Reports be further strengthened to improve effectiveness?

**Question 6:** 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?

**Question 7:** Should the LAO own the register of firms qualified to conduct local audits?

**Question 8:** 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?

**Question 9:** What are the barriers to progressing accounts reform?

**Question 10:** Are there structural or governance barriers to accounts reform that need to be addressed?

**Question 11:** Should any action to reform be prioritised ahead of the establishment of the LAO?



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**Question 12:** Are there particular areas of accounts which are disproportionately burdensome for the value added to the accounts?

**Question 13:** Do you agree that the current exemption to the usual accounting treatment of local authority infrastructure assets should be extended and if so, when should it expire?

**Question 14a:** Should the LAO adopt responsibility for CIPFA's Code of Practice on Local Authority Accounting?

**Question 14b:** Are there other options relating to responsibility of CIPFA's Code of Practice?

**Question 15:** Should the Accounting Code be freely available if it is not transferred to the LAO?

**Question 16:** What additional support should be provided to finance teams, audit committees and elected members to develop and strengthen financial governance?

**Question 17:** How should KAP eligibility be extended further, should some categories of local audit be signed off by suitably experienced RIs (and if so, which)?

**Question 18:** Should the market include an element of public provision?

**Question 19:** If yes, should public provision be a function of the LAO?

**Question 20:** What should the initial aim be in relation to proportion of public and private provision?

**Question 21:** Should the Secretary of State, in consultation with the LAO and for defined periods, set an envelope within which the body could determine the appropriate proportion of public provision for the market?

**Question 22:** Do you think that the Chair of an audit committee should be an independent member?

**Question 23:** 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?



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**Question 24:** Would such a model generate more oversight of spending public money locally?

**Question 25:** How would the creation of such a model impact the local audit system and the work of local auditors?

**Question 26:** Do you agree that the MLA threshold should be increased?

**Question 27:** Do you agree that some local bodies should be declared exempt from the regulatory focus of an MLA? For example, should Integrated Care Boards be exempt?

**Question 28:** Do you agree that smaller authorities' thresholds should be increased?

**Question 29:** Do you agree that the lower audit threshold of £25,000 should be increased broadly in line with inflation?

**Question 30:** Are there other changes that would improve the accounting and limited assurance regime for smaller authorities?

**Question 31:** What additional support, guidance or advice do local bodies and/or auditors need for future statutory deadlines (including backstop dates) for the publication of audited accounts?

**Question 32:** Do you think that financial reporting and/or auditing requirements should be amended for a limited period after the backlog has been cleared and as assurance is being rebuilt, to ensure workload and cost are proportionate?



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### **Consultation Question responses:**

#### **Question 1: Do you agree the LAO should become a new point of escalation for auditors with concerns?**

- Respondents who agreed with the proposal: 201 (84%)
- Respondents who disagreed with the proposal: 5 (2%)
- Respondents who did not answer this question or did not have a view: 33 (14%)

#### **Question 2: Do you agree relevant issues identified should be shared with auditors, government departments and inspectorates?**

- Respondents who agreed with the proposal: 189 (79%)
- Respondents who disagreed with the proposal: 10 (4%)
- Respondents who did not answer this question or did not have a view: 40 (17%)

#### **Question 3: Should the Local Audit Office (LAO) also take on the appointment and contract management of auditors for smaller bodies in the longer term?**

- Respondents who agreed with the proposal: 119 (50%)
- Respondents who disagreed with the proposal: 52 (22%)
- Respondents who did not answer this question or did not have a view: 68 (28%)

#### **Question 4: Should the LAO oversee a scheme for enforcement cases relating to local body accounts and audit?**

- Respondents who agreed with the proposal: 177 (74%)
- Respondents who disagreed with the proposal: 12 (5%)
- Respondents who did not answer this question or did not have a view: 50 (21%)

#### **Question 5: How could statutory reporting and Public Interest Reports (PIRs) be further strengthened to improve effectiveness?**



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**Question 6: 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?**

- Respondents who agreed with the proposal: 111 (46%)
- Respondents who disagreed with the proposal: 59 (25%)
- Respondents who did not answer this question or did not have a view: 69 (29%)

**Question 7: Should the LAO own the register of firms qualified to conduct local audits?**

- Respondents who agreed with the proposal: 164 (69%)
- Respondents who disagreed with the proposal: 21 (9%)
- Respondents who did not answer this question or did not have a view: 54 (23%)

**Question 8: 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?**

- Respondents who agreed with the proposal: 115 (48%)
- Respondents who disagreed with the proposal: 61 (26%)
- Respondents who did not answer this question or did not have a view: 63 (26%)

**Question 9: What are the barriers to progressing accounts reform?**

**Question 10: Are there structural or governance barriers to accounts reform that need to be addressed?**

- Respondents who agreed with the proposal: 144 (60%)
- Respondents who disagreed with the proposal: 30 (13%)
- Respondents who did not answer this question or did not have a view: 65 (27%)

**Question 11: Should any action to accounts reform be prioritised ahead of the establishment of the LAO?**



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- Respondents who agreed with the proposal: 131 (55%)
- Respondents who disagreed with the proposal: 53 (22%)
- Respondents who did not answer this question or did not have a view 55 (23%)

### **Question 12: Are there particular areas of accounts which are disproportionately burdensome for the value added to the accounts?**

- Respondents who agreed with the proposal: 163 (68%)
- Respondents who disagreed with the proposal: 25 (10%)
- Respondents who did not answer this question or did not have a view: 51 (21%)

### **Question 13: Do you agree that the current exemption to the usual accounting treatment of local authority infrastructure assets should be extended and if so, when should it expire?**

- Respondents who agreed with the proposal: 155 (65%)
- Respondents who disagreed with the proposal: 22 (9%)
- Respondents who did not answer this question or did not have a view 62 (26%)

### **Question 14(a): Should the LAO adopt responsibility for CIPFA's Code of Practice on Local Authority Accounting?**

- Respondents who agreed with the proposal: 78 (33%)
- Respondents who disagreed with the proposal: 101 (42%)
- Respondents who did not answer this question or did not have a view: 60 (25%)

### **Question 14(b): Are there other options relating to responsibility of CIPFA's Code of Practice?**

- Respondents who agreed with the proposal: 63 (26%)
- Respondents who disagreed with the proposal: 86 (36%)
- Respondents who did not answer this question or did not have a view 90 (38%)



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### **Question 15: Should the Accounting Code be freely available if it is not transferred to the LAO?**

- Respondents who agreed with the proposal: 185 (77%)
- Respondents who disagreed with the proposal: 10 (4%)
- Respondents who did not answer this question or did not have a view 44 (18%)

### **Question 16: What additional support should be provided to finance teams, audit committees and elected members to develop and strengthen financial governance?**

### **Question 17: How should Key Audit Partners (KAP) eligibility be extended further? Should some categorise of local audit be signed off by suitably experienced Responsible Individuals (and if so, which)?**

### **Question 18: Should the market include an element of public provision?**

- Respondents who agreed with the proposal: 149 (62%)
- Respondents who disagreed with the proposal: 22 (9%)
- Respondents who did not answer this question or did not have a view: 68 (28%)

### **Question 19: If yes, should public provision be a function of the LAO?**

### **Question 20: What should the initial aim be in relation to proportion of public and private provision?**

### **Question 21: Should the Secretary of State, in consultation with the LAO and for defined periods, set an envelope within which the body could determine the appropriate portion of public provision for the market?**

- Respondents who agreed with the proposal: 77 (32%)
- Respondents who disagreed with the proposal: 56 (23%)
- Respondents who did not answer this question or did not have a view: 106 (44%)

### **Question 22: Do you think that the Chair of an audit committee should be an independent member?**



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- Respondents who agreed with the proposal: 80 (33%)
- Respondents who disagreed with the proposal: 99 (41%)
- Respondents who did not answer this question or did not have a view: 60 (25%)

### **Question 23: Do you have views on the need for a local public accounts committees or similar model, to be introduced in strategic authority areas across England?**

- Respondents who agreed with the proposal: 95 (40%)
- Respondents who disagreed with the proposal: 72 (30%)
- Respondents who did not answer this question or did not have a view: 72 (30%)

### **Question 24: Would such a model generate more oversight of spending public money locally?**

- Respondents who agreed with the proposal: 72 (30%)
- Respondents who disagreed with the proposal: 72 (30%)
- Respondents who did not answer this question or did not have a view 95 (40%)

### **Question 25: How would the creation of such a model impact the local audit system and the work of local auditors?**

### **Question 26: Do you agree that the Major Local Audits (MLA) threshold should be increased?**

- Respondents who agreed with the proposal: 136 (57%)
- Respondents who disagreed with the proposal: 20 (8%)
- Respondents who did not answer this question or did not have a view: 83 (35%)

### **Question 27: Do you agree that some local bodies should be declared exempt from the regulatory focus of Major Local Audits (MLA)? For example, should Integrated Care Boards be exempt?**

- Respondents who agreed with the proposal: 66 (28%)



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- Respondents who disagreed with the proposal: 64 (27%)
- Respondents who did not answer this question or did not have a view: 109 (46%)

### **Question 28: Do you agree that smaller authorities' thresholds should be increased?**

- Respondents who agreed with the proposal: 132 (55%)
- Respondents who disagreed with the proposal: 23 (10%)
- Respondents who did not answer this question or did not have a view: 84 (35%)

### **Question 29: Do you agree that the lower audit threshold of £25,000 should be increased broadly in line with inflation?**

- Respondents who agreed with the proposal: 147 (62%)
- Respondents who disagreed with the proposal: 20 (8%)
- Respondents who did not answer this question or did not have a view: 72 (30%)

### **Question 30: Are there other changes that would improve the accounting and limited assurance regime for smaller authorities?**

- Respondents who agreed with the proposal: 46 (19%)
- Respondents who disagreed with the proposal: 59 (25%)
- Respondents who did not answer this question or did not have a view: 134 (56%)

### **Question 31: What additional support, guidance or advice do local bodies and/or auditors need for future statutory deadlines (including backstop dates) for the publication of audited accounts?**

### **Question 32: Do you think that financial reporting and/or auditing requirements should be amended for a limited period after the backlog has been cleared and as assurance is being rebuilt, to ensure workload and cost are proportionate?**

- Respondents who agreed with the proposal: 100 (42%)



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- Respondents who disagreed with the proposal: 68 (28%)
- Respondents who did not answer this question or did not have a view: 71 (30%)