Ministry of Housing,
Communities &
Local Government

Implementing the new local audit system – a Transition Plan

November 2025

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Introduction

This document sets out the transition to the new system of oversight for local audit set out in Local audit reform: a strategy for overhauling the local audit system in England and the further commitments in Local audit reform: Government response to the consultation to overhaul local audit in England - GOV.UK.

The plan describes arrangements for:

- leading and coordinating the local audit system with partner organisations during the transitional period,
- legislative changes to implement the reformed system,
- plans for the creation of a new public body, the Local Audit Office, to oversee and coordinate local audit and
- arrangements to transfer functions and staff from existing bodies to the Local Audit Office.

Transition to the reformed system will take place over a number of years, with the initial focus on coordination by the Local Audit Office of key functions, such as audit quality and oversight, appointment of auditors, addressing the backlog of audits and rebuilding assurance for disclaimed audits.

The Local Audit Office will be sponsored by the Ministry of Housing, Communities and Local Government (MHCLG) and accountable to ministers for performance of its statutory functions and any remit which it is set by the Secretary of State. Some functions of the Local Audit Office will be transferred once the new body is established. Others will transfer later as the Local Audit Office builds its capacity to deliver. Similarly, where planned functions are not currently being delivered, the Office will develop its capacity once established.

MHCLG will continue to be accountable for the system through Ministers to Parliament and, through the Permanent Secretary, oversee the accountability system for local government including the audit system.

This transition plan is iterative and will be updated periodically as implementation of the reform strategy progresses and detailed plans develop.

Section1 – Overview of transition

The current local audit system

External audit of local public bodies is a core element of ensuring accountability. It provides an independent opinion on the accuracy (true and fair) of accounts and effectiveness of financial management for local taxpayers and assesses whether governance arrangements are appropriate for securing value for money.

The current legal framework for the local audit system is contained in the Local Audit and Accountability Act 2014. The Act requires local bodies (including principal authorities [county, district and unitary], Combined Authorities, NHS bodies, Police Forces, Police Authorities and Fire and Rescue Authorities) to publish externally audited accounts on an annual basis and sets out requirements and registration arrangements for local auditors. Parish councils and other smaller bodies are required to publish an Annual Governance and Accountability Return (AGAR), assured by an external auditor.

MHCLG is accountable for the local audit system and currently responsible for its oversight while responsibility for various functions is spread across a number of national bodies:

- the Financial Reporting Council (FRC), responsible for the audit quality framework, including inspection of Major Local Audits, enforcement, supervision and professional bodies oversight.
- the National Audit Office, responsible for the statutory Code of Audit Practice for local auditors
- Public Sector Audit Appointments, responsible for appointing auditors to all local bodies (other than smaller authorities and NHS Bodies) that opt in to its scheme and managing audit contracts with private sector audit firms. Public Sector Audit Appointments are appointed to carry this out by the Secretary of State under the Local Audit (Smaller Authorities) Regulations 2015
- Smaller Authorities Audit Appointments, responsible for appointing auditors for smaller authorities that opt in to its scheme and managing audit contracts with private sector audit firms. Smaller Authorities Audit Appointments are appointed to carry this out by the Secretary of State under the Local Audit (Appointing Person) Regulations 2015
- the Institute of Chartered Accountants in England and Wales (ICAEW), responsible for the licensing and registration of qualified local auditors, and inspection of non-Major Local Audits

Commitments for reform of local audit

The Government's reform strategy commits to:

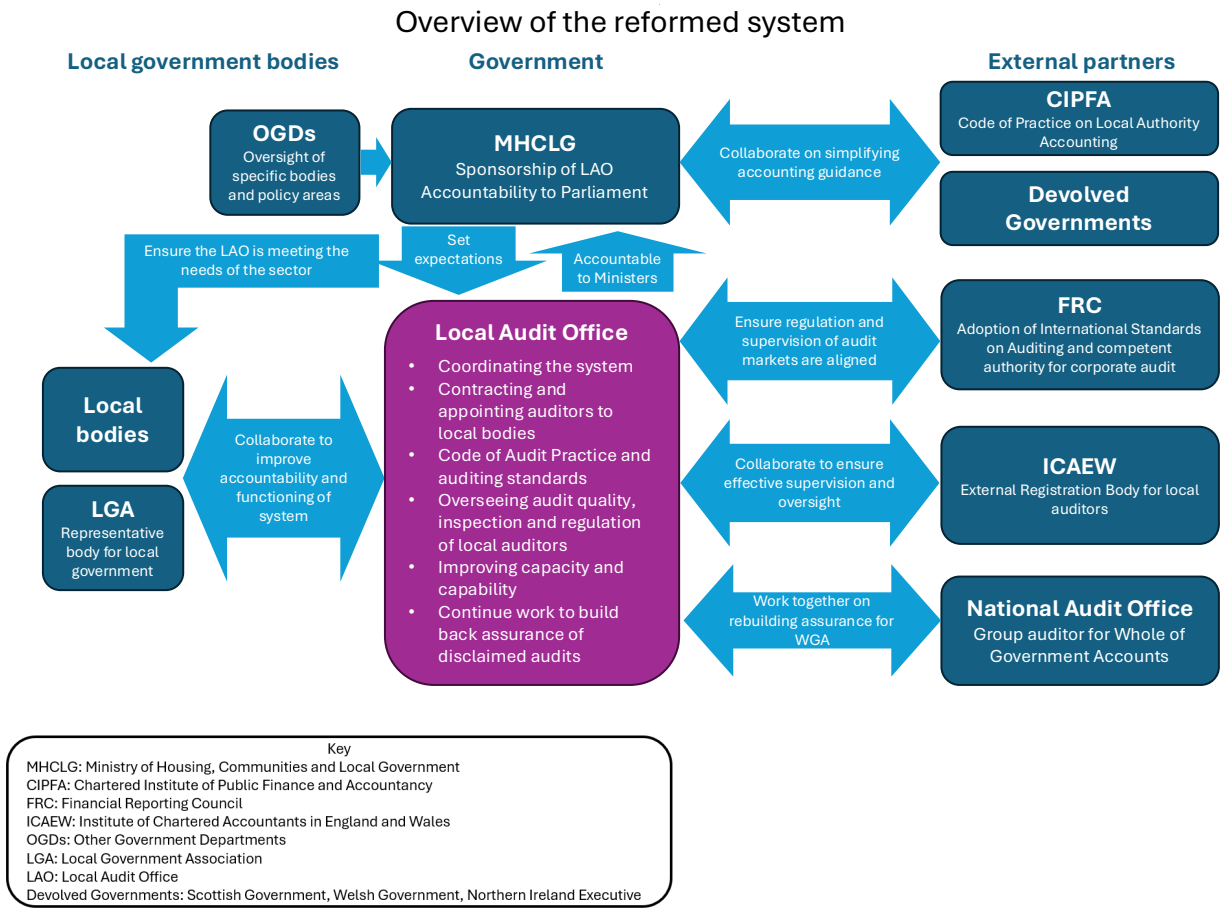
- a new purpose and vision for local audit
- addressing fragmentation in the current local audit system by bringing together a number of functions into a single public body, the Local Audit Office
- reforming financial reporting and accounting for local government, in partnership with the Chartered Institute of Public Finance and Accountancy

- taking action to address a lack of capacity and capability in the local audit system, including the establishment of some public local audit provision
- addressing the backlog of published external audits and rebuilding assurance for local bodies that have had their accounts disclaimed
- a review and consultation on the transfer of Smaller Authorities Audit Appointments functions for contracting and appointing auditors into the Local Audit Office, once the new body has been securely established and demonstrated its strategic capacity to take on additional functions
- enabling the Local Audit Office to implement a structured escalation process in instances where auditors have identified serious concerns

The English Devolution and Community Empowerment Bill, laid in Parliament on 10 July 2025, includes the proposed legislation needed to implement this strategy. It will create the Local Audit Office with a statutory purpose to secure the effective operation of the system of local audit, and specific duties to:

- set the statutory code of practice for local audit
- appoint auditors to local bodies and manage contracts with auditors to provide these audits
- set fees for audit, and
- oversee registration of qualified local auditors, and an audit quality regime.

Figure 1: Overview of the reformed system



Governance and leadership during transition

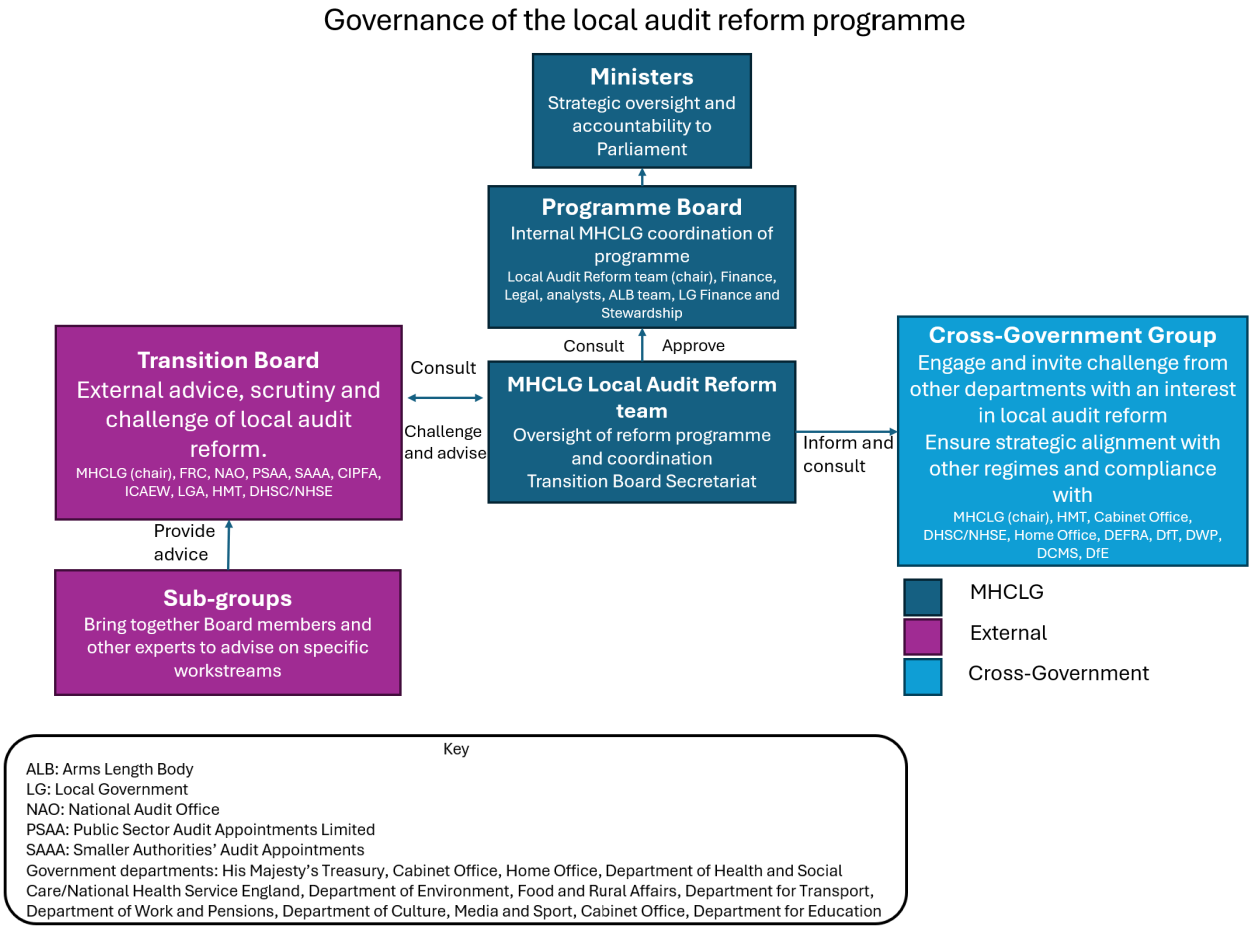
The Department will coordinate the local audit system and reform work through its recently established Transition Board, which will, through its system and sector perspective, provide advice, support and critical challenge to support MHCLG to reform the system. The board's remit covers:

- reform of the local audit system and coordination of functions during the transition period
- establishment of the Local Audit Office
- recovery of the audit position and build back of assurance
- reforms to financial reporting
- building capacity and capability in the market

The Transition Board meets regularly and brings together national bodies that play a role in the local audit system.

The Department also works with other government departments including those whose policies are delivered by bodies that are subject to local audit as well as devolved governments in relation to financial accounting reform and to update on the wider reforms.

Figure 2: Transition governance



Putting the legislative framework in place

The English Devolution and Community Empowerment Bill will provide the legislative framework for the government's strategy for local audit reform, subject to parliamentary approval.

The primary legislation sets out:

- Statutory objectives for the Local Audit office to secure the effective operation of the local audit system, and in particular to ensure:
    - that audits are carried out to a high standard.
    - that there is a suitable range of providers able and willing to carry out audits.
- Governance arrangements for the new body
- That the Local Audit Office will be overseen by the Secretary of State for Housing, Communities and Local Government, who will be able to:
    - Appoint the chair and non-executive board members.
    - Issue directions to the Local Audit Office on the exercise of its functions and request information on the delivery of these functions. The Secretary of State will be required to consult with the Local Audit Office before doing this and would not be able to make requests or directions in respect of a specific authority.
    - Pay Grant in Aid to the Local Audit Office to support the costs of delivering its functions.
- Functions of the Local Audit Office:
    - Oversight of a register of qualified individuals and firms that are qualified to carry out audits of local bodies.
    - Setting requirements that individuals and firms must meet to be entered onto the register.
    - Oversee audit quality and inspections of audits of local bodies. The Bill allows the Local Audit Office to make arrangements with another body to oversee audit quality, with appropriate Local Audit Office oversight. There will be a clear separation between regulatory functions and the Local Audit Office's operational role to maintain independence and avoid conflicts of interest.
    - Responsibility for the Code of Audit Practice and related guidance. It will have powers to interpret and apply ISA requirements for the local audit context.
    - Appoint qualified auditors to local bodies listed in Schedule 2 of the Local Audit and Accountability Act 2014, except for smaller authorities and health service bodies. In practice, this means the Local Audit Office would appoint auditors to local authorities, as well as some other types of body including police bodies, fire bodies, and national parks authorities.
    - Where it has responsibility for auditor appointments, also setting audit fees for those bodies, overseeing collection of fees, and determining variations to fees should the audit work required be more or less than expected.

    - The Bill sets out powers for the Local Audit Office to charge fees for some functions, including appointing auditors to audit a local body, registration and oversight of audit providers and/or oversight of a body that maintains a register of local auditors.

- A statutory requirement for local bodies to have audit committees (from which health service bodies are exempted). The Bill also creates a power for the Secretary of State to issue statutory guidance for audit committees.
- The Bill provides for the Local Audit Office to provide audit services to local bodies, or to set up a company, or to work with a firm to provide services.
- The Bill will decouple the audit of local authority pension accounts from the audit of general accounts to streamline the annual audit process.

Secondary legislation will also be required such as commencement orders, regulations to clarify requirements in relation to smaller authorities, and other areas where the Bill is providing regulation making powers to set out further detail.

Section 2 - Key work strands

The following sections set out how we will deliver the plan for reforming the local audit system. This covers the following work strands

	Work strand	Overview	Key milestones	
1	Legislation	The Government will put in place the legislative framework for the new system. The English Devolution and Community Empowerment Bill includes clauses to establish the new Local Audit Office and the new system of oversight for local audit. The Department will enact provisions and commence new powers for the Local Audit Office as the body takes on capacity to deliver through secondary legislation stemming from the Bill Changes have already been made to thresholds for audit regimes through secondary legislation laid under existing powers.	Parliamentary process for English Devolution and Community Empowerment Bill Commencement regulations	July 2025 – Spring 2026 Summer 2026 to Spring 2027
2	Business case and budgets	Agree the budget, funding model and business case for the Local Audit Office.	Agree funding model for the Local Audit Office Final business case approved Budget agreed for new body	Autumn/Winter 2025 Spring 2026 Spring 2026

3	Local Audit Office: Organisational design, location and corporate policies	MHCLG will work with system partners to develop an initial organisational structure, governance arrangements and funding model for the Local Audit Office to enable it to deliver its remit. Location decision for the Local Audit Office will be taken based on an assessment of value for money, scope for alignment with the wider public sector audit market, and the government's Places for Growth strategy. MHCLG will work with system partners and incoming board members to develop a set of interim corporate policies for the Local Audit Office, in order for it to be able to deliver its functions as they transfer.	Agreed draft organisational design and headcount Decision on location for the Local Audit Office Pay scales and policy agreed Initial terms and conditions for Local Audit Office employees Review policies with incoming Chair and Controller of the Local Audit Office	Autumn 2025 Autumn 2025 Winter 2025 Spring 2026 Summer 2026
4	Local Audit Office: Board recruitment	The chair and first Controller of Local Audit (chief executive) will be appointed before the Local Audit Office is established. The Department will manage a public appointment and recruitment process for board members, including the Chair and Controller of Local Audit roles. Formal recruitment campaigns for the chair will commence in the Autumn of 2025. Shortlisting and interviews for the role of Chair will take place in 2026, along with	Launch chair recruitment campaign Consideration of candidates and due diligence Secretary of State appoints chair. Interviews for Controller role	Autumn 2025 Spring 2026 Spring 2026 Spring 2026

		due diligence and consideration of potential conflicts of interest. The Chair will be appointed by the Secretary of State ahead of the formal establishment of the Local Audit Office, with further consideration of the appropriate timing for non-executive directors. In order for the new body to have a Controller of Local Audit in place at the point of establishment, the Secretary of State will appoint the first Controller in consultation with the incoming Chair. The Department will work with the incoming Chair and Controller in the final phase of establishing the Local Audit Office to enable them to shape the incoming body.	Controller appointed	Spring/Summer 2026
5	Transfer staff from existing bodies	We will ensure that any staff transferring to the Local Audit Office are able to transfer with protection of terms and conditions. The Department has commenced the process of identifying staff who are eligible to transfer to the Local Audit Office.	Complete role scoping and confirm staff in scope for transfer with protected conditions Agreement on protected conditions and measures for transferring staff Staff transfer with functions.	Autumn 2025 Spring 2026 Autumn 2026-Spring 2027
6	Recruit new staff	The Department will develop a recruitment strategy for roles below board level.	Identify roles that require recruitment	Winter 2025/26

			Develop recruitment strategy	Winter 2025/26
			Commence advertising posts	Spring 2026
			Interviews and job offers	Summer 2026 onwards
7	Put in place corporate systems	The Department will make arrangements for corporate services for the Local Audit Office ahead of its establishment. In line with government policy, we will make use of existing government and departmental shared services as appropriate.	Agree approach to implementing corporate systems	Autumn 2025
			Development of detailed requirements with partners	Autumn/Winter 2025
8	Develop quality and professional oversight function	The Local Audit Office will hold responsibility for quality oversight of local audit, including overseeing an inspection programme, enforcement and some elements of supervision. It will be able to recognise and oversee an External Registration Body to conduct registration, quality oversight, and conduct oversight for local auditors. The Local Audit Office will assume responsibility for the Code of Audit Practice from the NAO. The current Code of Practice will remain in force until the Local Audit Office updates it. The timing of any new codes will be a matter for the Local Audit Office.	Recognition agreement for new External Registration Body in place	Summer/Autumn 2026
			Local Audit Office assumes responsibility for audit quality and oversight of registration of local auditors	Autumn 2026
			Responsibility for Code of Audit Practice transfers to the Local Audit Office	Autumn/Winter 2026/27

			Oversight of backstop programme transfers from MHCLG to the Local Audit Office following completion of backstop process for 2025/26	Spring 2027
9	Recovering assurance	The Government will work with the sector during transition to address the backlog of audit assurance. Statutory backstop dates have been set until 2027/28. The Department continues to work with system partners to develop guidance and support for auditors and account preparers to rebuild assurance. The department is also providing funding to local authorities for the additional audit costs of rebuilding assurance where accounts are disclaimed.	Backstop date for publication of 2024/25 accounts	February 2026
			Second instalment of grant to support build-back of assurance	Spring 2026
			Backstop for 2025/26 accounts	January 2027
			Oversight of the backstop programme transfers to the Local Audit Office	Spring 2027
10	Procuring and appointing auditors and managing audit services contracts	Public Sector Audit Appointments will continue to oversee appointment of auditors, setting fee scales, contract management and fee variations for category 1 authorities that are opted-in to its appointment scheme until the Local Audit Office is established. Contracts for audit services between Public Sector Audit Appointments and audit firms have recently been extended until 2030. This will provide certainty for local bodies	Agreement on extension of current audit contracts to 2030	Autumn 2025
			Local Audit Office established	Autumn 2026
			Auditor appointment and contracting duties transfer to the LAO along with staff and current audit contracts	Spring 2027

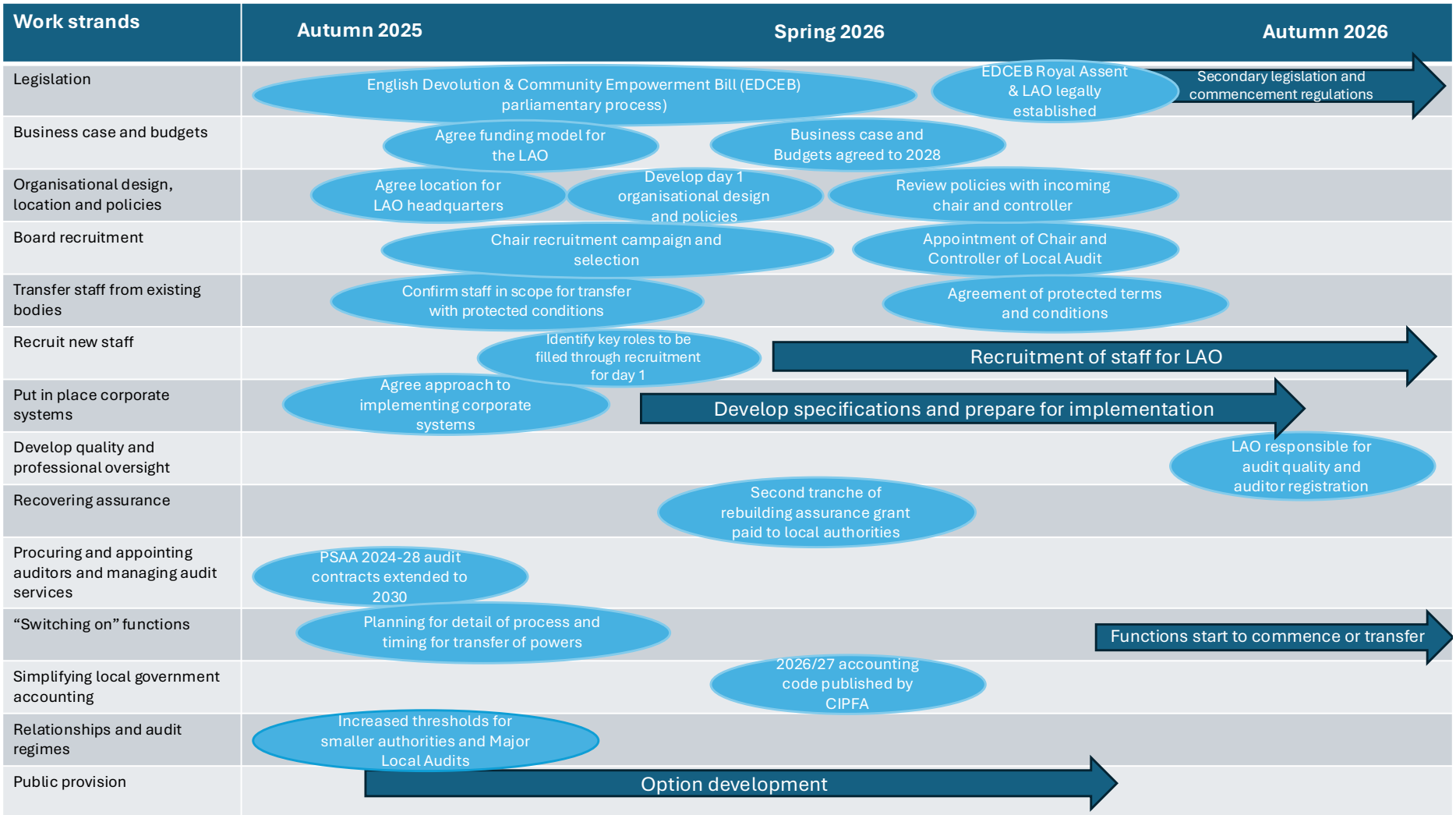
		and firms during transition and allow the Local Audit Office to establish itself and its systems once appointment and contract management of auditors transfers. Staff from PSAA will transfer to the LAO as powers to contract and appoint auditors are commenced and the contractual novation processes completed.		
11	“Switching on” functions	Once the English Devolution and Community Empowerment Bill (EDCEB) has received royal assent, we will start the process of commencing the agreed provisions through regulation. This will include formal appointments of board members and the Controller of Local Audit, formally establishing the Local Audit Office and delegation of budgets. Timings will be dependent on the date of Royal Assent and the standard two-month period before commencement via secondary legislation. We are continuing to work with system partners to develop detailed arrangements for transferring functions to the Local Audit Office.	Detailed process and timing of transfer of powers Commencement Regulations to: • establish local audit office as a public body • Commence powers to appoint auditors and set fees • transfer ownership of the Code of Audit Practice • Commencement of supplementary provisions. Secondary legislation under delegated powers	Autumn 2025 Summer 2026 - Spring 2027 Autumn- Winter 2026

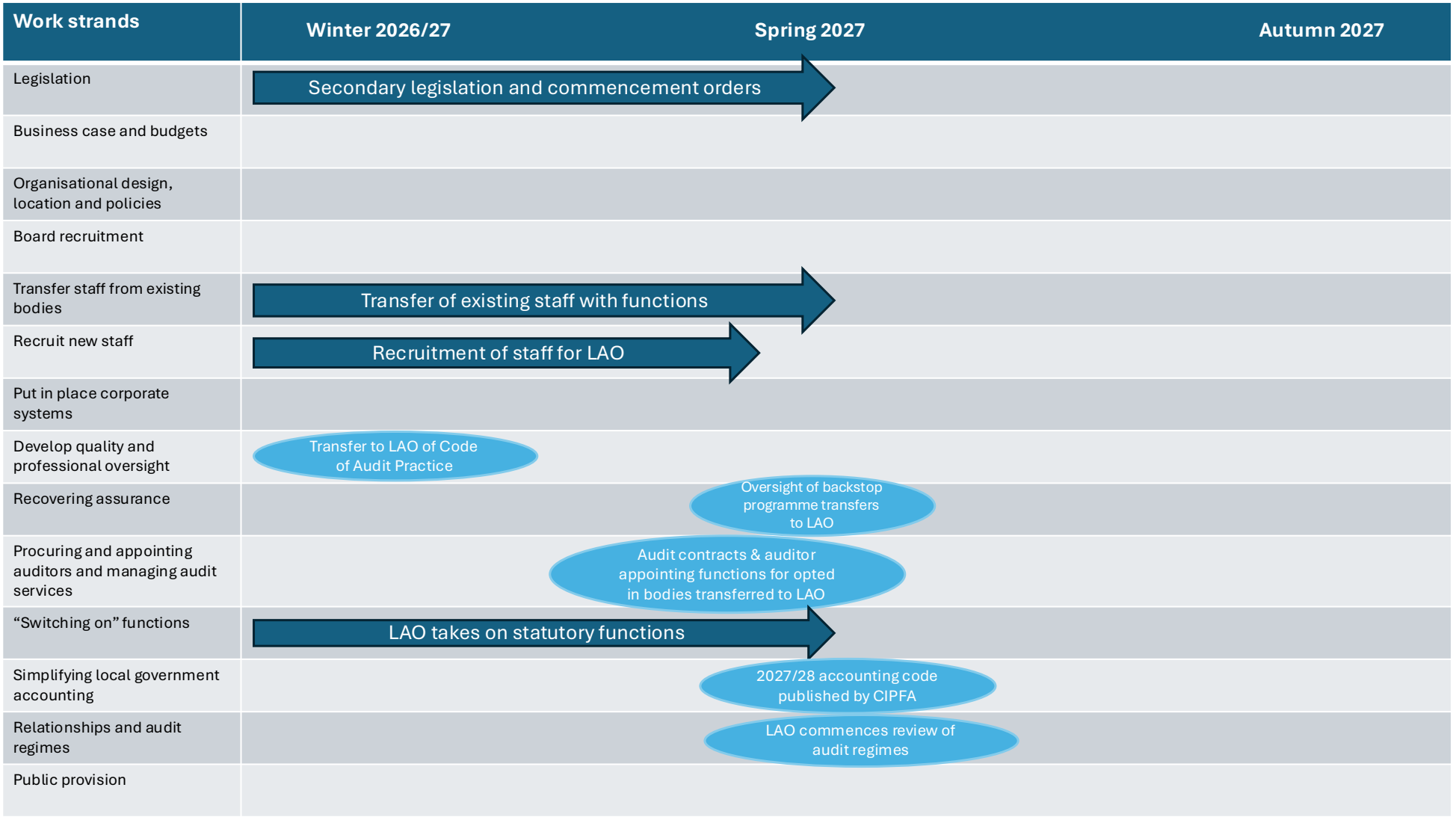
			in the English Devolution and Community Empowerment Bill laid	
12	Simplifying local government accounting	MHCLG will work with the Chartered Institute of Public Finance and Accountancy and the Local Authority Scotland Accounts Advisory Committee board, who will continue to set and publish the local government accounting code of practice and guidance for local authorities in England, Wales, Scotland and Northern Ireland. This work is intended to reduce complexity in current arrangements through a review of the content and format of the accounts and statements; ensuring users of the accounts, including the public, can understand them more easily.	2026/27 Accounting Code of Practice published by CIPFA 2027/28 Accounting code of practice published by CIPFA	Spring 2026 Spring 2027
13	Relationships and audit regimes	The Government's strategy on local audit reform commits to action to improve relationships between local bodies and their auditors. Improving this relationship should mean that the audit process is more effective, issues are identified earlier and senior leaders in local authorities and auditors are able to hold each other to account and have open conversations about risks.	Increased financial thresholds for smaller authorities and major local audits enacted Local Audit Office commences review of audit regimes	September 2026 2027/28

		This will include changes to local accounting guidance to require twice - yearly meetings between Lead Audit Partners and statutory officers in councils - Chief Executives, Chief Finance Officers (s151 officer) and Monitoring Officers. The Government has laid Statutory Instruments to increase the income/expenditure thresholds where a body is required to have a full audit of its accounts and Best Value arrangements, and where a larger body's audit is considered a Major Local Audit (MLA). These thresholds had not been increased since 2015 and these increases will ensure that proportionate audit standards are applied to smaller local bodies and that Major Local Audit requirements are only applied to the largest bodies. The EDCEB will enable a more flexible approach to determining which bodies fit into different audit regimes to ensure these remain proportionate. The Local Audit Office will be able to recommend new approaches that are risk-based, not solely based on their income (for example the type of body).		
14	Public Provision	The Government has committed to develop publicly owned local audit provision as part	Option development	Autumn 2025-Summer 2026

of work to address capacity constraints in the existing local audit market. Options for public provision including a timeline for establishment will be developed later in the reform process. The English Devolution and Community Empowerment Bill gives the Local Audit Office power to carry out audits of local bodies itself through an in house provider, but decisions on whether public provision will be based on in house provision, or a separate, publicly owned provider will be made after the organisation is set up.

Annex A: timeline overview




Work strands
Winter 2026/27
Spring 2027
Autumn 2027
Legislation
Secondary legislation and commencement orders
Business case and budgets
Organisational design, location and policies
Board recruitment
Transfer staff from existing bodies
Transfer of existing staff with functions
Recruit new staff
Recruitment of staff for LAO
Put in place corporate systems
Develop quality and professional oversight
Transfer to LAO of Code of Audit Practice
Recovering assurance
Oversight of backstop programme transfers to LAO
Procuring and appointing auditors and managing audit services
Audit contracts & auditor appointing functions for opted in bodies transferred to LAO
"Switching on" functions
LAO takes on statutory functions
Simplifying local government accounting
2027/28 accounting code published by CIPFA
Relationships and audit regimes
LAO commences review of audit regimes
Public provision