



## **Administrative Paralysis:**



The Marketisation of Local Authority Audits  
and the Breakdown of Accountability

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The  
**Audit**  
Reform Lab



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## Executive summary

This report presents an empirical assessment of the breakdown in England's local authority audit system following the abolition of the Audit Commission and its replacement with a privatised audit market. Drawing on data for over 300 councils from 2018 to 2024, the report finds significant deterioration in audit timeliness, rising costs, and market concentration among a small number of private audit firms. The comparative performance of English local authority audits was notably weaker relative to the different systems in Scotland and Wales. We are supportive of the need for a new, centralised Local Audit Office (LAO), but strongly recommend that it develops sufficient internal capacity to provide a public sector alternative to private sector local authority audit provision.

The key findings are as follows:

- **England's local authority audits have become increasingly delayed.** As of 30 June 2024, only 1% of 2022/23 audits were completed on time, while 68% remained outstanding. Delays of over 12 months have become commonplace.
- **English local authority audits perform comparatively poorly.** In contrast to England's 32% audit completion rate by June 2024, Scotland and Wales achieved 88% and 91%, respectively. English audit delays are also significantly longer, with 59% of 2021/22 audits delayed by over 12 months, compared to none in Scotland or Wales.
- **Audit costs in England have risen sharply to respond to these failures.** The PSAA fee scales increased by 238% between 2022/23 and 2023/24, with over four fifths of this attributable to basic price hikes, rather than requirements for additional recurring audit work, audit completions where they have been delayed and new local audit requirements (such as accounting rule changes or changes to audit scope).
- **Audit cost increases in England reflect higher hourly charges.** Audit Directors in England increased their rate from £165 per hour in 2022/3 to £414 in 2023/4; Senior Managers from £91 to £228 and Senior Auditors from £59 to £148. The 2023/4 hourly rates for Audit Directors in England are now more than double those charged by Audit Scotland and Audit Wales.

Our key finding - that audit firms **hiked hourly costs** whilst presiding over the **breakdown of local authority audit in England** - would, in any other industry, be viewed as a **moral hazard** or a **reward for failure**.

These findings challenge the idea that unfettered markets always improve efficiency, and raise wider questions about audit firm concentration. It also raises questions about the erosion of regulatory capacity: the English audit system now exhibits fragmentation (by design), rising costs, and diminished capacity to deliver public assurance. In contrast, Scotland and Wales—where centralised oversight remains—have a better performance (and now also cost control) record.

We argue that the dismantling of the Audit Commission removed critical public audit infrastructure and capacity. The resulting decentralised audit model has failed to meet expectations and has reduced the ability of the system to coordinate responses during periods of institutional stress.

Local authority audits are essential not only to council finance and governance, but also to the production of whole-of-government accounts. Their failure compromises both local accountability and national fiscal oversight.

In light of these issues, the report supports the creation of a Local Audit Office with regulatory authority and coordinating capacity. Drawing on comparative evidence, it further recommends a substantive role for public sector audit provision alongside private firms, moving to a 70/30 split. The goal is not merely to manage audit backlogs, but to re-establish a system that is transparent, resilient, and aligned with the public interest.

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# 1. Introduction

Almost 15 years ago, the then newly elected Coalition Government announced its reform ambitions for local government audit, abolishing the “wasteful, ineffective and undemocratic” Audit Commission and replacing it with a privatised system based on an “open and competitive market”<sup>1</sup>. The new system would provide “better local audit arrangements” by “radically scal[ing] back centrally imposed, bureaucratic and costly inspection and auditing”<sup>2</sup>. It was estimated that this would save councils over £50million annually; a figure revised upwards in 2014 to at least £1billion over 10 years.

Ten years on, however, it now seems clear that these reform ambitions have failed. Only 1% of audits were delivered on time in 2022/23, with many audits delayed by several years. Audit costs have risen dramatically in response. An unwieldy, but ultimately operational centralised bureaucracy was replaced by market chaos. The £100m p.a. savings heralded by the UK Government in 2014<sup>3</sup> are now a distant memory.

Various reasons are given for the current predicament: the combination of local authority austerity and increased Covid-related spending have undoubtedly complicated the activity and increased audit risk. Similarly, the adoption of IFRS accounting standards in 2010/11 added significant complexity for auditors trying to verify the fair value of the complex asset bases of local authorities, which often have no comparable market and where their economic benefit is often difficult to measure.

However, it is also clear that outsourcing external audit provision to private sector firms with less experience and capacity in the sector, together with the fragmentation of oversight and procurement, have contributed to the current situation.<sup>4</sup> Previous research by the Redmond Review and the PSAA<sup>5</sup>, had already identified the early signs of failure – noting that local authority audit costs were “at least 25% lower than is required to fulfil current local audit requirements effectively”<sup>6</sup> in 2020. Things have deteriorated markedly since then. By June 2024, one council leader noted: “I don’t think anyone can pretend that the system is working”<sup>7</sup>.

Government now recognises that fixing local authority audit is an urgent policy priority. But this has been a long road travelled. Whilst the previous government advocated for a reset of local council audits to clear the backlog, they did not act despite sector-wide agreement on key

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<sup>1</sup> <https://www.gov.uk/government/news/audit-commission-abolition-on-course-to-save-taxpayers-over-1-billion>

<sup>2</sup> <https://www.gov.uk/government/news/eric-pickles-to-disband-audit-commission-in-new-era-of-town-hall-transparency>

<sup>3</sup> <https://www.gov.uk/government/news/audit-commission-abolition-on-course-to-save-taxpayers-over-1-billion>

<sup>4</sup> <https://www.psaa.co.uk/appointing-auditors-and-fees/auditor-appointments-and-scale-fees-2023-24-2027-28/2023-24-auditor-appointments-and-audit-fee-scale/summary-of-response-to-2023-24-fee-scale-consultation/5/>

<sup>5</sup> <https://www.psaa.co.uk/wp-content/uploads/2020/03/PSAA-Future-Procurement-and-Market-Supply-Options-Review.pdf>

<sup>6</sup> [https://assets.publishing.service.gov.uk/media/5f58b7cd8fa8f5106d15633b/Redmond\\_Review.pdf](https://assets.publishing.service.gov.uk/media/5f58b7cd8fa8f5106d15633b/Redmond_Review.pdf)

<sup>7</sup> <https://www.lgcplus.com/finance/william-benson-we-need-to-rethink-council-audits-05-12-2023/>

measures<sup>8</sup>. Others, notably Redmond himself, called for further regulatory reform. Labour now accepts that it inherited a policy failure and seeks to rebuild the system once the most immediate issues, namely the backlog, are resolved via secondary legislation.<sup>9</sup> A newly established Local Audit Office (LAO) will once again centralise previously fragmented oversight over local audits and bring together many of the functions and powers previously held by the Audit Commission.<sup>10</sup> The new body will also reintroduce public local audits to supplement private audit firms<sup>11</sup> to resolve the “chronic lack of capacity in local government and the audit market that serves it”<sup>12</sup>. These recommendations reflect earlier work by the Levelling Up, Housing and Communities Committee’s 2023 inquiry<sup>13</sup> and more recently by the 2025 parliamentary consultation<sup>14</sup> which has set in motion planning for primary legislation later this year. But questions remain over the extent to which this new body should provide direct audit provision and whether a lighter-touch, system-management focused organisation can perform better than the more comprehensive and interventionist Audit Commission.

This report seeks to contribute to the debate by assessing existing data on the performance and costs of local audit in England. In addition, we will compare local audits in England with Scotland and Wales to demonstrate that these alternative systems to England have proven themselves to be more resilient and outperformed the parallel model in England.

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<sup>8</sup> <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#capacity-and-capability>

<sup>9</sup> <https://questions-statements.parliament.uk/written-statements/detail/2024-07-30/hcws46>

<sup>10</sup> <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>

<sup>11</sup> <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#capacity-and-capability>

<sup>12</sup> <https://www.ft.com/content/3b56256a-e8a8-41ae-80e9-bde3768beba7>

<sup>13</sup> <https://committees.parliament.uk/publications/42279/documents/210125/default/>

<sup>14</sup> <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>



## 2. Fragmented expertise in a dysfunctional local audit market

Good public sector governance sets out actors' responsibilities towards achieving specific goals, coordinating activities, and assigning accountability<sup>15</sup>. It is traditionally concerned with managing the relation between politicians, public managers, private actors and the public at large. Trust between the various parties is crucial in enabling arm's length bodies to successfully fulfil their objectives without undue political interference. Throughout the 1980s, a new, more decentralised 'regulatory state'<sup>16</sup> became central to the management of these relations, empowering new para-statal and non-state actors to govern activities formerly undertaken by the state, establishing new governance systems and measures of accountability (to whom, and for what). In the case of local authority audit, these arrangements were governed by the Audit Commission and codified by the Cabinet Office<sup>17</sup>.

For three decades the Audit Commission oversaw local government audit, effectively acting as an independent regulator for local government finances via its 'value for money' regime. Whilst its regulatory powers were modest, it amassed a general authority over and specialist knowledge of local audit which enabled it to steer and support audit processes, improving standards and the quality of financial accounts (Kelly 2003)<sup>18</sup>. The Audit Commission, even though it outsourced 30% of local audits, was responsible for ensuring the technical competence of auditors as well as defining both scope and usefulness of local audits (de Widt et al. 2020)<sup>19</sup>. The expertise and competence developed by the Audit Commission allowed it to oversee the delivery of timely, high-quality audits, which were published within deadline almost 100% of the time.

However, running the Audit Commission required ongoing investment, which became a target during the period of government austerity policies after the Great Financial Crisis in 2008. It was also regularly accused of being overly bureaucratic, heavy-handed in its inspections, and lacking independence and accountability. The Conservative/Lib Dem Coalition government of 2010 decided to abolish the Commission and replace it with a decentralised market for local audit, which would involve a more significant role for private audit firms. The government anticipated significant savings - £50m annually, later revised upwards to over £100m annually – from this exercise.

Yet the abolition of the Audit Commission was never purely cost-based. Its abolition was also driven by a political view about the efficacy of markets and the inefficient and sclerotic tendencies of

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<sup>15</sup> Almquist, R. Grossi, G., van Helden, G.J. & Reichard, C. (2013) Public sector governance and accountability. *Critical Perspectives on Accounting*, 24(7-8): 479-487.

<sup>16</sup> Moran, M. (2010) The political economy of regulation: Does it have any lessons for accounting research? *Accounting and Business Research*, 40(3): 215-225.

<sup>17</sup> <https://www.gov.uk/government/publications/partnerships-with-arms-length-bodies-code-of-good-practice/partnerships-between-departments-and-arms-length-bodies-code-of-good-practice#assurance>

<sup>18</sup> Kelly, J. (2003) The Audit Commission: guiding, steering and regulating local government. *Public Administration*, 81(3): 459-476.

<sup>19</sup> de Widt, D., Llewelyn, I. & Thorogood, T. (2020) Stakeholder attitudes towards audit credibility in English local government: A post-Audit Commission analysis. *Financial Accountability & Management*, 38(1): 29-55.



State, or state-adjacent, entities when governing economic activity; and the inherent efficiencies of unfettered markets. According to Morse cited in CLGC (2011) “it was a policy-driven decision. It wasn't a question of merit or demerit”<sup>20</sup> – it was based on a belief that ‘the market will fix it’, invoking private actors’ capacity to generate significant savings through efficiencies. Tonkiss and Skelcher (2015) similarly identify a powerful coalition – including regulators, private audit firms, right-wing press and Conservative MPs amongst others – ideologically and financially interested in the Audit Commission’s abolition<sup>21</sup>.

Opponents of the abolition of the Audit Commission highlighted the risks associated with a private market for audit, including the risk of effectively treating local government audits within the system of company audits as well as the fragmentation of oversight<sup>22</sup>. They raised concerns about the largely undebated conclusion to abolish the Audit Commission without considering the benefits of retaining a “residual function for the Audit Commission [...] to prevent the fragmentation of functions”<sup>21</sup>. In support, Ferry (2019, pg.14)<sup>23</sup> notes that “Parliament deliberately wanted to separate functions” as the Audit Commission was seen as too powerful, potentially interfering with policy. Others pointed to the likely outcome of these developments: “payments to private audit firms will be more costly than public sector provision in the longer term and the authorities will migrate to expensive Big 4 firms. There are also ‘costs’ in terms of the lower audit quality: reduced independence, the potential for cosy relationships, loss of specialist public sector expertise and understanding of the special requirements of public audit.”<sup>24</sup>

Those concerns about fragmentation appear warranted. The Redmond Review (2020) found that no fewer than six entities oversaw local government audit – the LGA / PSAA, NAO, FRC, ICAEW, CIPFA and MHCLG, outlined below.

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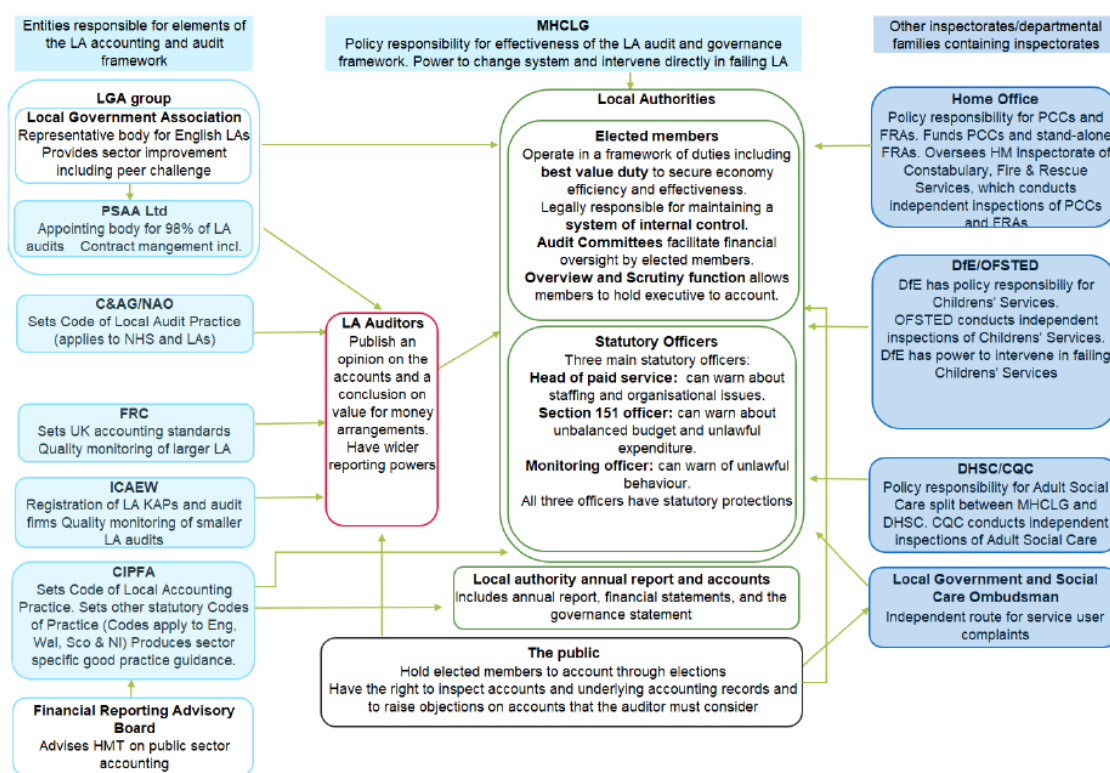
<sup>20</sup> CLGC (2011) Abolition of the Audit Commission. 4th Report of the Communities and Local Government Select Committee. Available at: <https://publications.parliament.uk/pa/cm201012/cmselect/cmcomloc/763/76305.htm#note5>

<sup>21</sup> Tonkiss, K., & Skelcher, C. (2015). Abolishing the Audit Commission: Framing, Discourse Coalitions and Administrative Reform. *Local Government Studies*, 41(6), 861–880.

<sup>22</sup> <https://publications.parliament.uk/pa/cm201012/cmselect/cmcomloc/763/76305.htm#note5>

<sup>23</sup> Ferry, L. (2019) Audit and Inspection of Local Authorities in England: Five years after the Local Audit and Accountability Act 2014. Available at: <https://durham-repository.worktribe.com/OutputFile/1605004>

<sup>24</sup> Ellwood, S. (2014) ‘Autonomy, Governance, Accountability and a New Audit Regime’, *Public Money and Management*, 34(2), pp.139-141.

**Figure 1: The Local Authority Governance, Audit Accounting Framework 2018-19****Notes**

- Adapted from Figure 1 in NAO report *Local Authority Governance* (Jan 2019)
- There are other statutory officers in local authorities, but between them, the three listed have overall responsibility for effective governance
- Arrows show the influences on local authority governance arrangements
- In a Police and Crime Commissioner or Fire and Rescue Authority, the Commissioner is the sole elected member; in a Mayoral Combined Authority, the mayor is the sole
- Audit Committees are mandatory in PCCs, stand-alone FRAs and mayoral combined authorities. They are not mandatory for other LAs.
- ICAS also has the power to act as a registering body for KAPs and audit firms. However, following mergers, no firms active in England are currently registered with ICAS.
- MHCLG part funds the LGA's sector improvement work

(Source: Redman Review 2020)

The Redmond Review found that the absence of system leadership contributed to inconsistent practices, reduced audit quality oversight, and provided a general lack of strategic direction; whilst the creation of multiple bodies created confusion over roles, responsibilities and jurisdictional boundaries, undermining effective coordination and accountability. The result was audit delays, poor audit completion rates, difficulty attracting audit firms to the local audit market and weak feedback loops between audit findings and local authority governance improvements. Fast forward five years, and this system has deteriorated further. We have a situation whereby a virtual breakdown in the local authority audit function cannot be rectified within the current fragmented system of regulation and oversight. We have, in other words, **administrative paralysis**: a situation where fragmentation provides no single entity with the information or powers of intervention to identify and rectify emerging systemic problems, and where coordination between the different bodies is frustrated by siloed responsibilities. This does not mean there are not good people doing good work in these different regulatory bodies; rather that the system of regulation and oversight is simply not capable of resolving the current systemic problems.

The outstanding issue is whether retaining elements of the Audit Commission would have been more effective; whether a central body with concentrated powers and responsibilities would have been better able to adjust to changing and challenging requirements (Eke and Kaye, 2024<sup>25</sup>). This report extends prior research into local audit by strengthening the evidence base in support of the (re-)establishment of single regulator. We do this by 1) expanding on existing analyses on the state of local audits in England, focusing on actors, timeliness and costs; and 2) by comparing local audit outcomes in England with those in Scotland and Wales. The latter is important because, to our knowledge, there has been no recent attempt to consider the different experiences across these different local audit regimes. Scotland and Wales could be seen as accounts of what may have happened in England, had a residual Audit Commission with central oversight over local audit been retained.

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<sup>25</sup> <https://reform.uk/wp-content/uploads/2024/12/Accounting-for-failure-final-.pdf>

### 3. Data and Methods

Data on local authority audits in England – including details on councils, auditors, and scale fees – were obtained from the Public Sector Audit Appointments (PSAA) website<sup>26</sup>. Data on audit opinions, including non-standard opinions and weaknesses in value for money (VFM) arrangements, for the period from 2018/19 to 2022/23, was also provided by PSAA on request. All data referenced was based on information available as of 30th June 2024. To assess audit delivery of local council audits in England, we requested additional data from Audit Scotland and Audit Wales, effectively enabling us to compare delivery of audits like-for-like.

In addition, we also manually extracted data on the actual audit fees<sup>27</sup> paid by local authorities from their respective annual reports covering the period from 2018/19 to 2022/23, which can differ from the PSAA data. Data for the audit year 2023/24 were not yet available. Data for 2022/23 statements are incomplete as a proportion of local councils has yet to deliver their audit. We removed non-council local organisations – including ‘Chief Constable’, ‘Fire and Rescue Authority’, and ‘Pension Fund audits’ – from the PSAA dataset to focus the analysis on council bodies only.

English local council auditor engagement was examined to establish the limits of the competitive market for audits and potential barriers for entry. We then examine the number of audits delivered “on-time” and by the “delayed” cut-off dates in England to highlight the rise in outstanding “delay likely” audits over time. We then review audit fees changes over time using PSAA fee-scales data and compare these to actual fees paid by councils with completed audits. Scale fees data alone ignores fee variations. Scale fees are set before the audit begins (and often before the previous audit has finished or even begun). Hence actual fees paid can be higher, and these fee variations have become an increasingly important component of the total fee.

Our comparison of English, Scottish and Welsh audit data reviews like-for-like data on audit delivery status and calculates the length of delays for each year. We also examine the average audit cost per year. Only Audit Scotland presented figures dating back to 2010/11. We expand our PSAA dataset back in time using de Widt et al’s (2020)<sup>28</sup> figures which are based on an internal PSAA document. Welsh data was estimated using the average difference between Welsh and Scottish audit costs which was 58% for the 2017/18 to 2022/23 period for which Wales provided data. Estimating the historic cost of audit fees therefore is ‘illustrative only’ and may diverge from actual figures.

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<sup>26</sup> The annual ‘directory of auditors and scale fees for opted-in bodies’ is publicly available via [www.psaa.co.uk](http://www.psaa.co.uk)

<sup>27</sup> It is important to note potential limitations regarding the use of external audit fee figures reported in the financial statements. These fees are often estimates provided by auditors, and due to ongoing work, the final fees may differ from the amounts accrued in the accounts. Any variations in fees are subject to approval by PSAA.

<sup>28</sup> de Widt, D., Llewelyn, I. & Thorogood, T. (2020) Stakeholder attitudes towards audit credibility in English local government: A post-Audit Commission analysis. *Financial Accountability & Management*, 38(1): 29-55.

## 4. Part 1: The Failure of the English Market for Local Government Audit

### 4.1. Who audits local councils in England?

Although the Audit Commission was not formally abolished until April 2015, all local council audits in England have been conducted by private audit firms since 2012/13. Auditor appointments are fixed for a 5-year period. Participating audit firms in each audit year are summarised in Table 1. Three auditors – Ernst & Young, Grant Thornton, and Mazars (now renamed ‘Forvis Mazars’) – dominate local audits throughout the two appointment periods. Until 2023/24, they audited almost 90% of local councils, falling to 73% from 2023/24 onwards. The reduction in dominance is primarily linked to the limited entrance of new audit firms – KPMG, Azets Audit Services, and Bishop Fleming – from 2023/24 onwards.

Audit firm entrants face considerable barriers in this market. The profit-making opportunities in the sector are considered to be low, the complexity of the job is considered to be rising and there is often considerable audit liability and risk. A number of auditors are also exiting the sector, including Deloitte and BDO in the current appointment period. Deloitte cited concerns related to contract terms, regulatory imbalances, and difficulties in attracting and retaining skilled staff<sup>29</sup>. This can lead to auditor shortages. The PSAA reported substantial challenges in the recent procurement process, initially securing only 90% of the required capacity<sup>30</sup>. Consequently, a supplementary process was necessary, resulting in securing 99.5% of the capacity, but only after agreeing to a “significant increase in the audit fees payable by bodies”<sup>31</sup> (which we discuss later). The PSAA warned that without market reforms, future procurement rounds may encounter similar challenges<sup>32</sup> and “that local audit remains highly fragile and vulnerable”<sup>33</sup>. Ultimately, the PSAA’s struggle to attract key auditors’ participation shows the difficulties of producing a well-functioning market for local audits, particularly as local authorities become increasingly high-risk audit entities.

Movements in auditor appointments bridging both periods (Figure 2) demonstrates that despite some changes to the ecology of appointed auditors, existing auditors retained the majority of their council audit clients: Mazars retained 75% of its clients, whilst Ernst & Young and Grant Thornton retain 56% and 62% respectively. In total 57% of councils retained their auditor.

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<sup>29</sup> <https://committees.parliament.uk/writtenevidence/119022/pdf/>

<sup>30</sup> <https://publications.parliament.uk/pa/cm5803/cmselect/cmpubacc/995/report.html>

<sup>31</sup> <https://www.psaa.co.uk/managing-audit-quality/contract-monitoring-2018-19-to-2022-23/contract-monitoring-2020-21/audit-quality-monitoring-report-2020-21/>

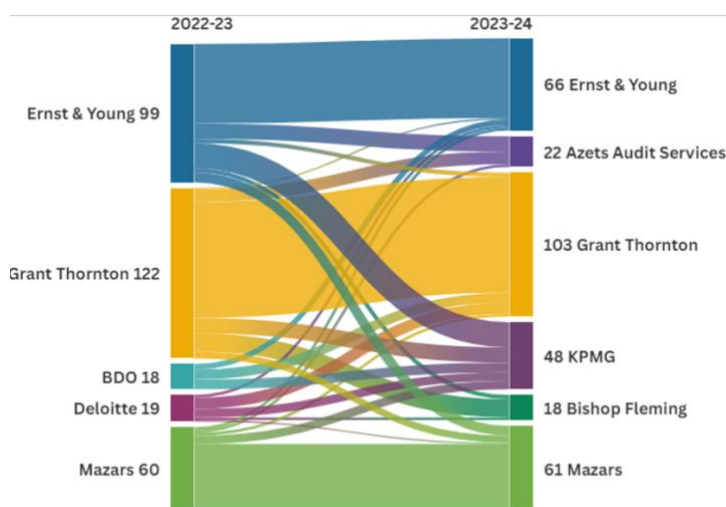
<sup>32</sup> <https://committees.parliament.uk/publications/40545/documents/197720/default/>

<sup>33</sup> <https://www.psaa.co.uk/managing-audit-quality/contract-monitoring-2018-19-to-2022-23/contract-monitoring-2020-21/audit-quality-monitoring-report-2020-21/>

**Table 1: Auditors in local audit market**

Audit firm	2024/25	2023/24	2022/23	2021/22	2020/21	2019/20	2018/19
Azets Audit Services	22	22					
Bishop Fleming	18	18					
Ernst & Young	68	68	102	102	110	114	116
Grant Thornton	106	107	133	133	131	132	135
KPMG	49	48					
Mazars	63	64	64	64	64	63	61
BDO			18	18	18	18	18
Deloitte			20	20	20	20	25
No auditor appointed	1						
Total	327	327	337	337	343	347	355

(Source: Authors' analysis of PSAA "auditor appointments and audit fee scale" data (various years))

**Figure 2: Between appointment changes in auditor (n= 318 local councils)<sup>34</sup>**

Source: Authors' analysis, created with Flourish

(Source: Authors' analysis, created with Flourish)

Within the market there is also noticeable segmentation, despite efforts by the PSAA to open up the market. As summarised in Table 2, Azets Audit Services and Bishop Fleming only audit District Councils; whilst KPMG is awarded more complex audit appointments including London Boroughs and Unitary Councils. Established market leaders such as Ernst & Young, Grant Thornton, and Mazars are primarily engaged with higher-fee local bodies, including unitary authorities, metropolitan district councils, and London Boroughs. Grant Thornton audits approximately 50% of Metropolitan District Councils and Unitary Authorities.

<sup>34</sup> This figure is slightly lower than the 327 local council figures due to the creation of new and abolishment of old councils

**Table 2: Types of local councils audited by audit firms in 2023/24**

Table 2: Types of local councils audited by audit firms in 2023/24

Type of council	Azets Audit Services	Bishop Fleming	Ernst & Young	Grant Thornton	KPMG	Mazars	Total
County Council			7	7	5	2	21
District Council	22	18	41	42	24	17	164
London Borough Council			10	8	7	7	32
Metropolitan District Council			2	18	1	15	36
Unitary Authority			6	30	10	17	63
Combined Authority			2	2	1	6	11
Total	22	18	68	107	48	64	327

Source: Authors' analysis of PSAA data<sup>35</sup>(Source: Authors' analysis of PSAA data<sup>35</sup>)

## 4.2. The collapse of local government audit delivery in England

Under the Audit Commission<sup>36</sup> over 95% of local authority audits were completed on time. By 2022/23, under a system of private audit, that figure had fallen to just 1% (one percent) (Table 3).

**Table 3: Audit delay for all local bodies<sup>37</sup>**

Year	Audit deadline	% of authorities meeting deadline
2014/15	30-Sep-15	97%
2015/16	30-Sep-16	97%
2016/17	30-Sep-17	95%
2017/18	31-Jul-18	87%
<b>2018/19</b>	<b>31-Jul-19</b>	<b>57%</b>
2019/20	30-Sep-20	45%
2020/21	30-Sep-21	9%
2021/22	30-Nov-22	12%
<b>2022/23</b>	<b>30-Sep-23</b>	<b>1%</b>

(Source: HOC Research Briefing<sup>38</sup>)

Alongside the drop in “on time” deliveries of local audits since 2018/19, there was a rise in the “delay likely” category to 68% in 2022/23 (Figure 3). ‘Delay likely’ means that the audit was

<sup>35</sup> <https://www.psaa.co.uk/appointing-auditors-and-fees/auditor-appointments-and-scale-fees-2023-24-2027-28/2023-24-auditor-appointments-and-audit-fee-scale/>

<sup>36</sup> <https://www.gov.uk/government/news/eric-pickles-to-disband-audit-commission-in-new-era-of-town-hall-transparency>

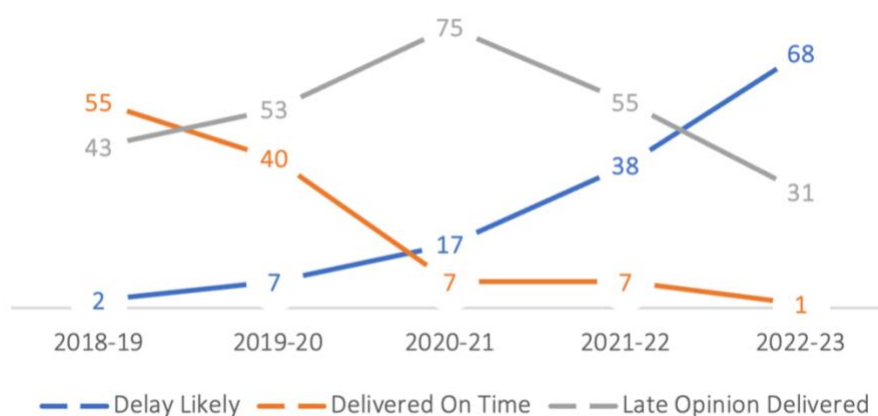
<sup>37</sup> Note: this includes not-council local authorities

<sup>38</sup> <https://researchbriefings.files.parliament.uk/documents/CBP-7240/CBP-7240.pdf>



outstanding (i.e. it was not signed off by the auditor as of June 2024). These delays can be long. According to data received from the PSAA, 6 audits for the 2018-19 audit year were still ‘likely delayed’ by June 2024. At the aggregate level, **of the 1719 local audits that were meant to be completed between 2018 and 2023, 446 (or 26%) remain outstanding** as of 30 June 2024. Half of those (N=228) are still outstanding for the 2022/23 audit year.

**Figure 3: Proportion of various audit statuses (in %)**



(Source: Authors' analysis of PSAA data)

These delays show a near total collapse in the provision of timely financial assurance. By 2024 some authorities were without an audited set of accounts for as long as five years<sup>39</sup>, which was particularly the case in high-risk authorities. The factors cited in driving these delays include the adoption of complex accounting treatments, the COVID-19 pandemic, and the difficult financial position of authorities<sup>40</sup>, together with increased regulatory scrutiny from the Financial Reporting Council (FRC) following notable corporate failures, such as Carillion. Others also highlighted that the newly privatised market suffered from a shortage of staff with the necessary qualifications, skills, and experience, while regulatory fragmentation and a lack of market oversight also appear to have played a role (Redmond 2020, pg.92).

While these factors undoubtedly led to an increase in audit work and delays in areas such as asset and pension valuations, it is also clear that when audits became higher risk and higher complexity, audit firms managed that risk by postponing the signing off of those more complex accounts. This undermined the central purpose of external audit, which is to provide a timely assurance that the accounts are true and fair and free from material fraud and error.

The proliferation of unsigned local authority audits did not appear to significantly affect fees paid to audit firms. Prior to 2023/24, the auditor invoiced the council on a quarterly basis<sup>41</sup>. The collapse

<sup>39</sup> <https://www.ft.com/content/880099cd-60e8-47a8-a9d2-7b411674ea7d>

<sup>40</sup> <https://www.nao.org.uk/wp-content/uploads/2021/03/Timeliness-of-local-auditor-reporting-on-local-government-in-England-2020-.pdf>

<sup>41</sup> <https://www.psaa.co.uk/appointing-auditors-and-fees/auditor-appointments-and-scale-fees-2023-24-2027-28/2023-24-auditor-appointments-and-audit-fee-scale/2023-24-audit-fee-scale/4/#invoicing>

in the timely delivery of audit opinions, therefore, meant that councils often paid the total audit fee to auditors before receiving the sign-off accounts or – in some cases - audit opinions. The new payment arrangement requires milestones to be reached prior to payouts; however, as final payment is due prior to the audit completion / sign-off, audit firms receive 100% of the fee when 75% of the work is completed, meaning there is no effective penalty for not signing off the accounts.

**Table 4: Reproduction of PSAA ‘payment milestones’**

Milestone	Value	Delivery requirement
1	25%	Paid on either prior year draft Auditor’s Annual Report or Opinion issued, but not before 1 December
2	50%	Paid on draft Audit Plan production and issue
3	75%	Paid on 50% planned hours delivered
4	100%	Paid on 75% planned hours delivered

(Source: PSAA (2024)<sup>42</sup>)

### 4.3. How much do local council audits (and audit failure) cost?

Market concentration also provides the context for what happened after the local audit market collapsed. A market with a small number of large players can disincentivise new entrants if prices are kept at a level at which few firms can compete. But those active within the market can in theory also increase prices and hence recover costs in lockstep at important junctures. This needn’t imply collusive practice but does highlight problems of competition in markets when there are too few actors capable of competing effectively, because a small number of firms can radically change procurement prices in a short space of time. Understanding this requires: 1) an examination of audit costs using PSAA fee scales; 2) a review of actual audit fees based on council reported data. We will then examine this in the context of audit costs for councils with financial difficulties and Section 114 notices.

#### 4.3.1. PSAA fee scale developments and the costs of audits

The PSAA is the public body for England who appoints auditors and sets and adjusts audit fees. The PSAA were set up by the Local Government Association (Redmond Review 2020, pg.11), following recognition that local authorities were less keen to appoint their own auditor, although the option to appoint their own auditors was retained. Authorities are required to ‘opt-in’ to – rather than ‘opt out’ of – the PSAA regime and in practice the vast majority choose to opt into the PSAA regime: 99% of authorities had opted in by 2023<sup>43</sup>.

<sup>42</sup> <https://www.psaa.co.uk/wp-content/uploads/2024/11/2024-25-fee-scale-document-1.pdf>

<sup>43</sup> <https://www.psaa.co.uk/2022/03/psaa-announces-that-99-of-eligible-bodies-have-opted-in-to-its-national-auditor-appointment-scheme-from-april-2023/>

The PSAA also set the fee scales for local authority auditors. This fee scale setting process consists of three phase<sup>44</sup>s: Phase 1 - firms bid on a scale basis for a 5-year period and the PSAA applies – increases or decreases - the successful bid rates to all local councils’ previous audit costs to create a new baseline cost for the 5-year appointment period; Phase 2) fee scale adjustments are applied to all councils annually to reflect inflationary pressures and recurring additional audit work required in subsequent years - reflecting changing national requirements in auditing and financial reporting arrangements – such as VFM commentary and ISA (UK) 540), or as one-off fee variations if the additional work is non-recurring; and, Phase 3) additional adjustments may be made at individual councils via a process of ‘fee variation’ if circumstances change and additional work is required – e.g. if the auditors need to do more work, then the fee increases but the contracted rates apply<sup>45</sup>. Across all three phases the PSAA consults with a range of stakeholders - opted-in authorities, relevant representative associations of local authorities and relevant bodies of accountants – and in the case of fee variations affecting individual councils, auditors are obliged to consult councils directly prior to making a decision on any general or individual fee adjustments taking place.

In this analysis we consider changes to fee scales across the most recent appointment period (2018-2024) and assess changes between the previous and current appointment period. We have also added a data point for 2024/25 which was published after much of the analysis was conducted because we consider developments during that period to be relevant. Overall, fee scales increased by 19% within the previous appointment period of 2018/19-2022/3 (Figure 4). The consultation process for the 2023/24 to 2027/28 appointment period noted changing national requirements in auditing and financial reporting arrangements – such as VFM commentary and ISA (UK) 540) – and adjusted fees upwards to reflect the additional audit work required<sup>46</sup>. Although these were significant changes, the PSAA estimated that these would add less than 20% to the price of an average local authority audit<sup>47</sup> (Table 5). Yet **fees rose 238% on average in that single year**, with the majority accountable for by an uplift in the procurement outcome i.e. the market clearing price needed to secure sufficient audit firms willing to take on local authority audits. According to an illustrative example provided by the PSAA, **84% of the increase in audit costs came from the market clearing price alone**, not new challenges<sup>48</sup>. This was reported as a 151% uplift, but that percentage was calculated after summing last year’s fee *plus the VFM/ISA(UK)540 and the prior year’s fee variations for recurring work*.

Further adjustments have been made to the fee scales since<sup>49</sup>: in 2024/25 fees were raised by a further 9.5% to cover “additional audit work under revised standards and a contractual inflationary increase payable to audit firms”. In other words, the more than doubling of the fees in the prior

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<sup>44</sup> <https://www.psaa.co.uk/appointing-auditors-and-fees/>

<sup>45</sup> <https://www.psaa.co.uk/wp-content/uploads/2023/09/Consultation-on-2023-24-fee-scale-FINAL-060923.pdf>

<sup>46</sup> <https://www.psaa.co.uk/appointing-auditors-and-fees/auditor-appointments-and-scale-fees-2023-24-2027-28/2023-24-auditor-appointments-and-audit-fee-scale/>

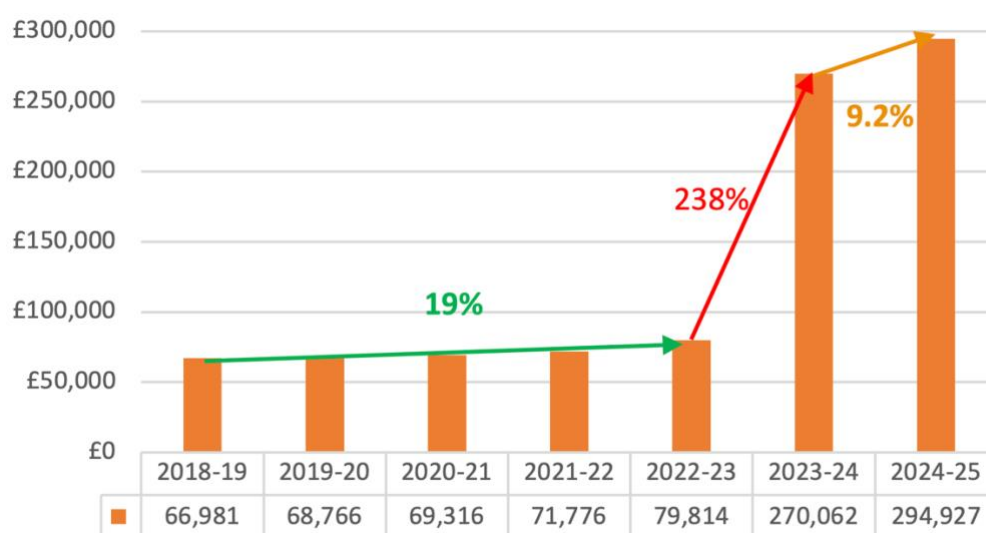
<sup>47</sup> <https://www.psaa.co.uk/appointing-auditors-and-fees/auditor-appointments-and-scale-fees-2023-24-2027-28/2023-24-auditor-appointments-and-audit-fee-scale/consultation-document-2023-24-audit-fee-scale/3/>

<sup>48</sup> Ibid; see also Table 5 below. NB this is an *illustrative example* to highlight the breakdown of fee increases.

<sup>49</sup> <https://www.psaa.co.uk/appointing-auditors-and-fees/auditor-appointments-and-scale-fees-2023-24-2027-28/2024-25-auditor-appointments-and-audit-fee-scale/>

year were deemed insufficient, and additional audit costs have been added since at a cost to local councils.

**Figure 4: Average PSAA approved audit fees for local councils in £**



(Source: Authors' analysis of PSAA data)

The very high procurement premium rise, according to the PSAA, followed from their consultation exercise with providers in which the audit firms cited a significant change in the local audit system and the “high levels of scrutiny” the audit profession had experienced in recent years following “several widely reported financial failures in the private sector”<sup>50</sup>. They also cite the dearth of auditors willing to enter into contracts near the previous rates<sup>51</sup>. Hence, rising audit fee scales relate, at least partially, to prior failures and competition problems that were *sui generis* to the failing local authority audit system itself of that time.

**Table 5: Reproduced breakdown of PSAA’s “setting of the 2023/24 fee scale”<sup>52</sup>**

Table 5: Reproduced breakdown of PSAA’s “setting the 2023/24 fee scale” <sup>52</sup>	
1) 2022/23 scale fee	£52,140
2) Add: approved fee variations or estimates for recurring work not already included	£10,500
3) Add: changes in audit requirements (VFM arrangements, ISA 540)	£10,000
4) Add: adjustment for special circumstances (where applicable)	£0
5) 2022/23 scale fees plus recurring fees	£72,640
6) Audit fee adjustment to reflect the procurement outcome (uplift by 151%)	£109,686
Total scale fee for 2023/24	£182,326

<sup>50</sup> PSAA Webinar (2023) 2023/24 Fee Scale Consultation. <https://www.psaa.co.uk/wp-content/uploads/2023/08/2023-09-Fees-Consultation-Final.pptx>

<sup>51</sup> <https://www.psaa.co.uk/wp-content/uploads/2023/10/2023-09-26-fees-consultation-webinar-QA-FINAL-041023.docx>

<sup>52</sup> PSAA Webinar (2023) 2023/24. <https://www.psaa.co.uk/wp-content/uploads/2023/08/2023-09-Fees-Consultation-Final.pptx>

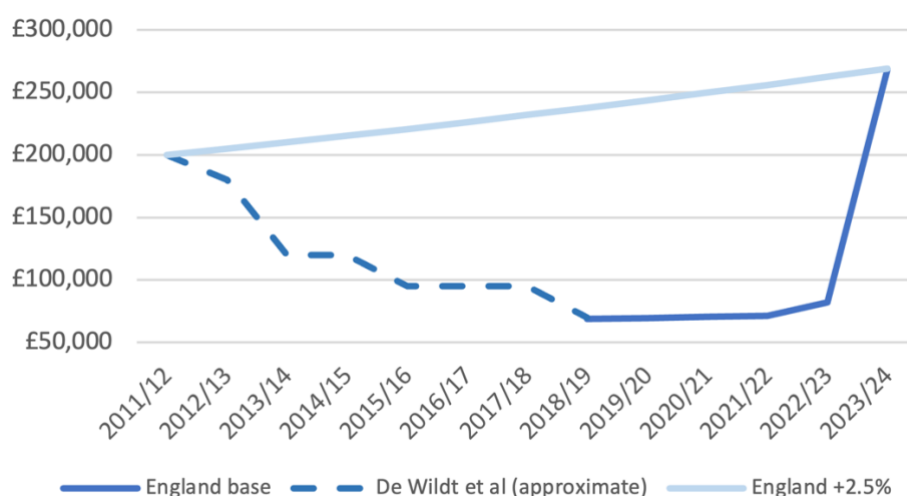
The PSAA confronted a sellers' market and had no leverage to push prices lower. They argued that:

*“The...increase is the outcome of our public procurement and is not something we can negotiate. It represents the market rates required by eligible audit firms to undertake local audits. The procurement was difficult, and it was extremely challenging to obtain sufficient capacity.”*

All audit firms in the market for local authority audits raised their bid price substantially, meaning that without a public audit provider of last resort, the PSAA had little choice – in a context of incomplete audits – but to set a fee scale 238% higher.

A longer-term review of audit fees in England (Figure 5) further emphasises the failure of the current local audit system. Following the 2023/24 hikes in audit fees, **the average cost of local audits is now at least £50,000 higher in nominal terms than it was when the Audit Commission was disbanded.**

**Figure 5: A long-term view of English local audit fees 2011/12 to 2023/24**



(Source: Authors' analysis of PSAA data and de Wildt et al (2020))

#### 4.3.2. Differences between PSAA fee scales and actual costs

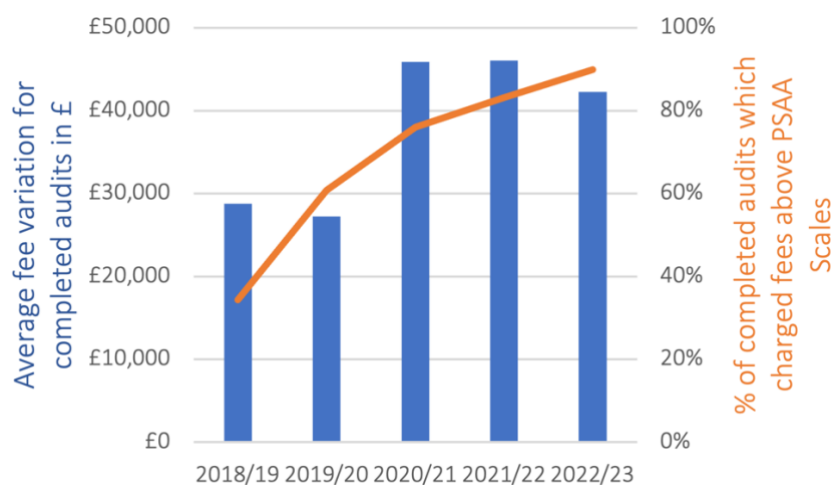
Less well recognised across academic and policy literature is that *fees actually paid by local authorities can be higher than the rates agreed with the PSAA*. As noted above, this is by statutory design and relates to the timing of the PSAA fee scales setting: firms bid on a scale basis and if the auditors need to do more work, then the fee are adjusted accordingly.

As Figure 6 shows, auditors have increasingly received income from fee variations over and above the fee scales: whereas **36% of auditors who had completed audits in 2018 charged fees above the PSAA scale rate, that figure rose to 91% in 2023**<sup>53</sup>. That may be due to the growing complexity and risk in auditing local authorities, as well as mounting regulatory pressures, and an extended

<sup>53</sup> There are few councils that are charged a lower fee (n between 1 and 5 for the years); other councils pay the "PSAA fee scale" fee

scope under the new NAO Code of Audit Practice. But nevertheless, it is a trend, and it will be interesting to see whether fee variations persist after the dramatic hike in PSAA fee scales, which should notionally accommodate these variations into the next fee scale arrangement.

**Figure 6: Average difference (in £) between PSAA fee scales and actual fees charged, and the percentage of councils with completed audits who are charged a higher fee**



(Source: Authors' analysis of PSAA data and councils' annual accounts)

#### **4.3.3. High costs for councils subject to Section 114 or in financial difficulties**

In total 13 councils received fee scale increases of 300% or more in 2022/3. Some of those councils are already in dire financial circumstances, including a number that have filed a Section 114 (bankruptcy) notice. Woking (which issued a Section 114 notice), Runnymede and Spelthorne were subject to audit fee increases of 620%, 470% and 450% respectively. Others at high risk of issuing a Section 114 notice – Warrington, South Cambridgeshire and Guildford – also experienced substantial rises of between 310% and 375%, together with high-profile councils in Section 114 such as Birmingham, Nottingham, and Thurrock, who saw rises of between 229% and 327%.

Table 6 shows the audit fee rises for all councils who issued a Section 114 notice in 2023/24. Birmingham City Council paid an audit fee above the £1m mark representing a 314% increase.

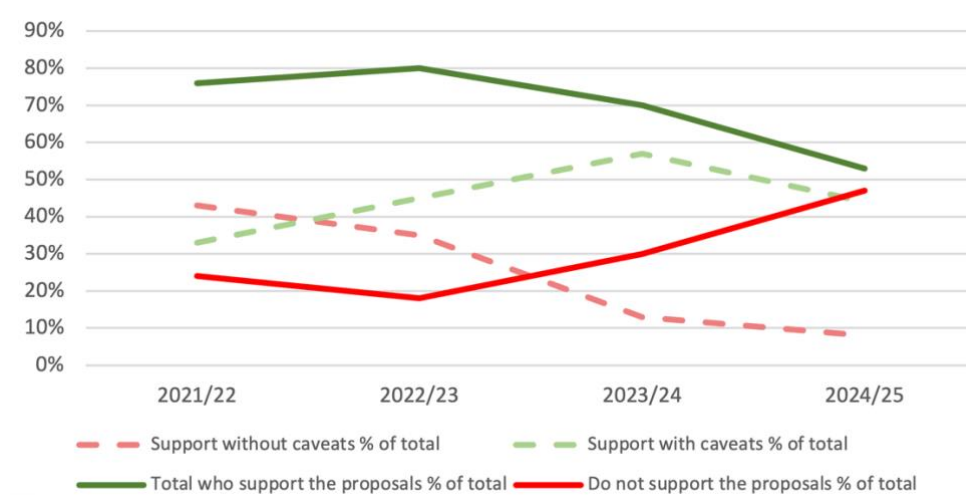
**Table 6: Fee scale increases for councils that issued a Section 114 notice**

	Section 114 Date	Relevant Audit year	Fee scale prior to 114	Fee scale from 23-24	% increase fee scale
Nottingham City Council	29-Nov-23	2023-24	£141,531	£603,891	327%
Birmingham City Council	05-Sep-23	2023-24	£271,284	£1,122,055	314%
Woking Borough Council	07-Jun-23	2023-24	£42,121	£306,112	627%
Thurrock Borough Council	18-Dec-22	2022-23	£109,217	£359,723	229%
Croydon Borough Council	22-Nov-22	2022-23	£160,602	£586,341	265%
Croydon Borough Council	02-Dec-21	2021-22	£140,102	£586,341	319%
Nottingham City Council	15-Dec-21	2021-22	£141,531	£603,891	327%
Slough Borough Council	11-Nov-20	2020-21	£98,193	£472,362	381%
Croydon Borough Council	11-Nov-20	2020-21	£133,102	£586,341	341%
Northamptonshire County Council	24-Jul-18	2018-19	£105,998	Disbanded	
Northamptonshire County Council	02-Feb-18	2017-18	£105,998	Disbanded	

(Source: Authors' analysis of PSAA data and councils' annual accounts)

#### 4.3.4. Waning stakeholder support for increases to audit fee scales

Many local councils are increasingly dissatisfied with PSAA fee scale proposals (Figure 7). Whilst the number of participating respondents to the PSAA fee scale consultation has increased from 70 in 2021/22 to 124 in 2024/25, support for proposals has declined from 76% to 53%, with 47% of respondents now withdrawing support for the new fee scales in 2024/25. Only 8% of respondents supported the fee consultation without caveats, yet five times as many only support the fee increases with caveats. Overall, these findings suggest that councils are becoming increasingly frustrated with the system as it stands, and the inability of the current system to control audit costs.

**Figure 7: Fee scale consultation responses 2021-2025 in %**

(Source: Authors' analysis of PSAA data)



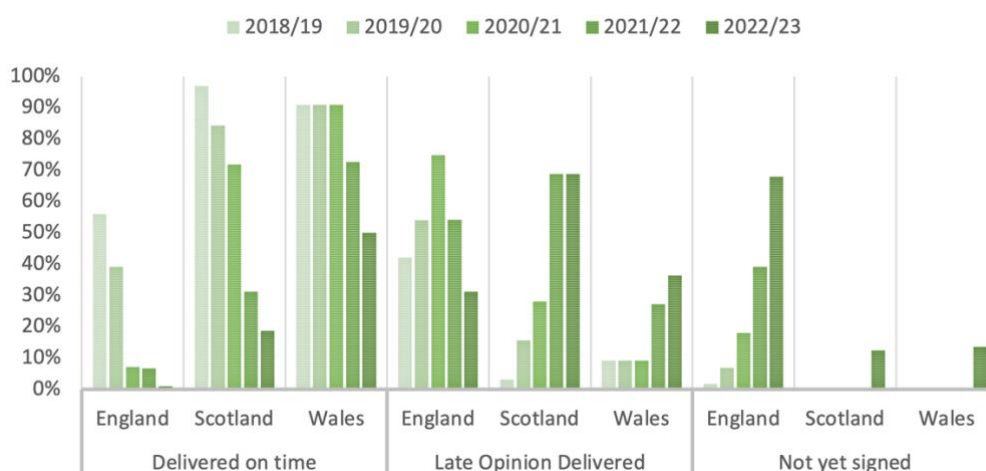
## 5. Part 2: Decentralised Markets versus Centralised Administration: The Diverging Fortunes of England, Scotland and Wales

It is important not to diminish the change and complexity that local auditors have had to confront over the past decade. But it is also important to remember that these challenges have been felt across the UK, in local audit systems which are materially different to those in England. Whilst England opted for an almost entirely privatised system of local authority audit, Scotland and Wales carry many vestiges of the Audit Commission into their systems. England's system uses a market for private auditors with no public bodies undertaking any council audits, Audit Scotland and Audit Wales retain significant public oversight and control of audits in their nations. Audit Scotland adopt the principle of rotating audits between public (Audit Scotland) and private auditors: after 2 audit cycles (5 years) with Audit Scotland, local authorities are then audited by a private audit firm before returning to Audit Scotland. Audit Wales did engage private auditors on a limited basis (Grant Thornton and Deloitte with 2 councils each) but since 2020/21 it has been the sole auditor of Welsh councils as levels of audit work increased. By comparing the performance of local government audit across England, Scotland and Wales we therefore get a better sense of how different systems of oversight, regulation and audit are performing in response to these challenges.

### 5.1. Audit delays across Great Britain

A comparison of Welsh, Scottish and English audit delay data up to 30<sup>th</sup> June 2024 in Figure 8 shows starkly different outcomes. As previously noted, the performance **of England's local authority audit completions is poor**: only 1% of audits were delivered on time and **68% still had to receive an opinion** by 30<sup>th</sup> June 2024. In **Scotland** 19% of audits were delivered on time, but by 30<sup>th</sup> June 2024 **only 13% of 2022/23 audits had yet to receive** an opinion. In Wales, 50% of 2022/23 local audits were delivered on time and just 14% were outstanding by 30<sup>th</sup> June 2024.

**Figure 8: Audit status and delays as % of total audits = for England, Scotland and Wales for the 5 years 2018/19 to 2022/23 as of 30 June 2024**



(Source: Authors' analysis of PSAA data)

Table 7 shows that there are not only more delays under the English system, but that the length of delay is also much higher. By 2021/22 the majority of delays (194) in England were over 12 months in duration. In Scotland, on the other hand, most audits (18) were delayed by less than 3 months. The mean audit delay for **England was nearly 10 months (296 days) in 2021/22, compared with 45 days for Scotland and 99 days for Wales.**

**Table 7: Council audit delays in months as of 30 June 2024 – completed audits only**

	England				Scotland				Wales			
	</=3	>3 to =6	>6 to =12	>12	</=3	>3 to =6	>6 to =12	>12	</=3	>3 to =6	>6 to =12	>12
2018/19	52	32	25	43	1	0	0	0	0	0	0	2
2019/20	69	53	30	53	4	1	0	0	0	1	0	1
2020/21	104	33	31	141	9	0	0	0	0	2	0	0
2021/22	42	27	64	194	18	4	0	0	4	1	2	0
2022/23	29	46	27		18	4	0		5	5	0	

(Source: Authors' analysis of PSAA data)

Note: Data for 2022/23 that are delayed cannot be calculated as our data set ended before the 12-month period.

The effects of Covid are often highlighted as a major cause of audit delays. Our analysis suggests that whilst Covid undoubtedly increased delays, audit completion in England had already deteriorated prior to the pandemic. 43 local authority audits in England were delayed in 2018/19, Scotland had one delayed audit in the same period and Wales had two. The one delayed Scottish audit was delayed by 1 month only, whilst those in Wales were delayed by over 12 months. The 2018/19 delays in English local council audits averaged 8.5 months, with a maximum delay of nearly 5 years (58 months). This suggests that local audits overseen by Audit Scotland and Audit Wales outperformed the English system even before Covid-19 impacted audit delivery.

Overall, the comparison between Scotland, Wales and England shows that local council audit in Scotland and Wales appear to be more resilient and adaptive to change.

## 5.2. Local audit costs across England, Scotland and Wales

The analysis above highlights the different performance outcomes of audit in England, Scotland and Wales with respect to delays and incompleteness. There is then a secondary question about audit costs. Before comparing the cost of local audits over time in England, Scotland and Wales, it is important to highlight that different arrangements are in place across the three nations which have implications for the cost of local audit.

Ferry and Ahrens (2022)<sup>54</sup> conclude that “audit scope is narrowest in England” with a focus on financial audits and value for money *arrangements*. The Scottish and Welsh systems place a higher emphasis on value for money *achievements* – quality and improvements (Ferry and Ahrens 2022). This implies a more extensive audit process in Scotland and Wales, which may incur additional costs. Scottish local audits, for example, may be more costly due to the Accounts Commission’s programme of performance audits being included which accounts for 20% of the audit fee from 22/23 and 30% before then. A counter to that may be that Scotland and Wales are generally less densely populated and cover fewer per capita obligations; although larger geographical footprints can also present their own audit challenges.

Moreover, the organisation of English local authorities, in particular the prominence of district councils in the dataset, has an impact on average costs in England. 164 out of 327 local authorities are ‘district councils’ and audit costs for these entities are on average substantially lower than other types of local authorities (Table 8). This lowers the total average cost of local audits in the UK. Consolidating district councils into larger structures - such as county councils - or removing them altogether would raise the average for 2023/24 by almost 40% to ~£360,000<sup>55</sup> – which, as we discuss below, provides a clearer comparative picture on costs across the three systems.

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<sup>54</sup> Ferry & Ahrens (2022) The future of the regulatory space in local government audit: A comparative study of the four countries of the United Kingdom. *Financial Accountability & Management*, 38(3). 323-467.

<sup>55</sup> Removing combined authorities as well would raise the average local audit costs to above £380,000 for 2023/24

**Table 8: Average cost of local audits by type of council in £**

	2023-24	2022-23	# of councils
County Council	311,532	100,138	21
District Council	154,587	46,548	164
London Borough Council	434,507	142,807	32
Metropolitan District Council	416,484	135,377	36
Unitary Authority	363,809	114,266	63
Combined Authority	126,527	38,656	11
Weighted Average	260,256	81,970	
w/ District Councils Removed	358,036	115,000	

(Source: Authors' analysis of PSAA data)

While a comparison of audit cost is somewhat impacted by the different scopes of the audit process in England relative to Scotland and Wales, the longer-term trends presented in Figure 9a still provide important insights.

For England<sup>56</sup>, audit costs fell as the audit system transitioned after the 2010 decision to abolish the Audit Commission. These costs included the removal of the central costs of running the Audit Commission (especially after March 2015) as well as cost savings delivered during that period. The Audit Commission conducted a large number of local council audits (70% of local audits<sup>57</sup>) working alongside private auditors which were contracted by the Audit Commission before transferring all audits and staff to private firms in 2012/13. Further reductions occurred in 2017 based on “bid rates” by auditors following guidelines put in place by the PSAA. The upward correction of local audit fees in England in 2023/24, raises audit costs above the 2011/12 figure under the Audit Commission. For Scotland<sup>58</sup> and Wales<sup>59</sup> who retained an “Audit Commission”-like system, audit fees remained much more stable over time. Audit costs did not decline in line with the market-based system in England until 2018/19; yet, neither did audit costs in Scotland and Wales increase dramatically as they did in England in 2023/24.

Current fee levels show a recalibration of audit costs over the long-term. **English local audit fees were 35% higher in 2023/24 than in 2011/12** (Figure 9b), **compared with around 12% for Scotland and 17% for Wales. The recent fee increases now mean that England’s average cost of audit is higher than Wales’**. Wales therefore, on the surface at least, appears to provide a cost-effective, reliable and robust public audit of local authorities, that is now price and performance competitive with private auditors.

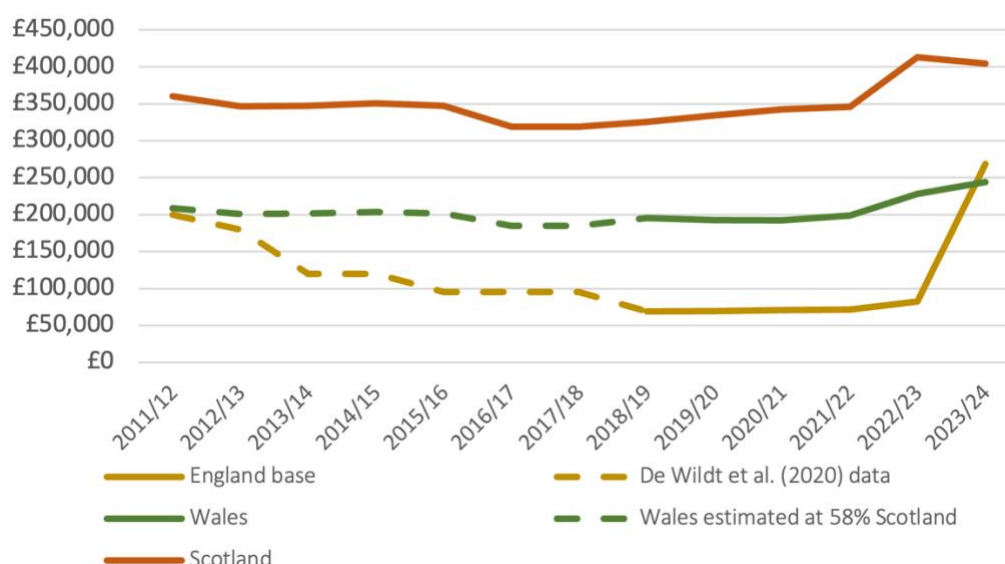
<sup>56</sup> We supplement PSAA figure 2018 to 2024 with de Widt et al (2020) figures.

<sup>57</sup> See pg. 8 <https://www.psaa.co.uk/wp-content/uploads/2020/03/PSAA-Future-Procurement-and-Market-Supply-Options-Review.pdf>

<sup>58</sup> Using actual figures provided by Audit Scotland for the time period 2011 to 2024

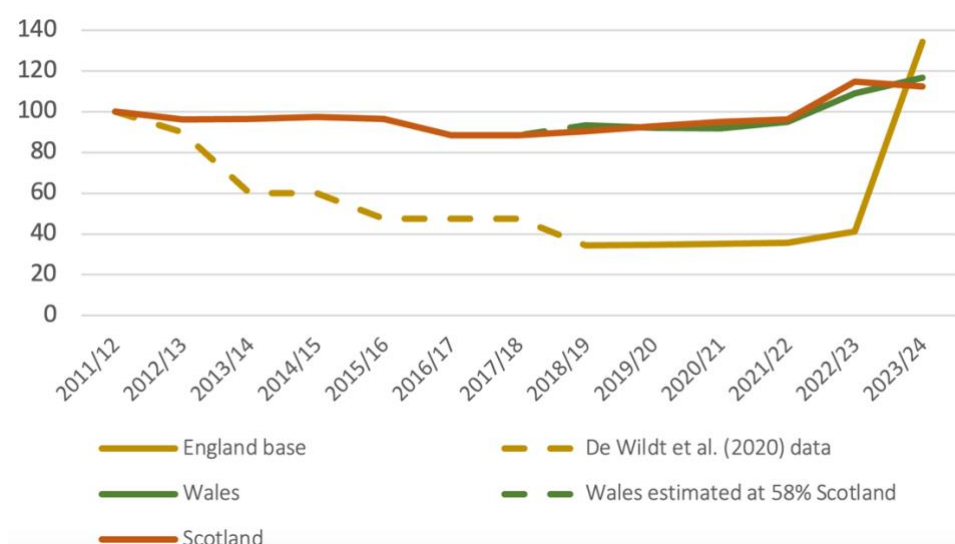
<sup>59</sup> Estimates data at 58% of Scottish fees due to lack of data available from Audit Wales for the period 2011 to 2018

**Figure 9a: Average cost of council audits (estimated and real) for England, Scotland<sup>60</sup> and Wales from 2011/12 to 2023/24**



(Source: Authors' calculations based on PSAA, Audit Scotland and Audit Wales data)

**Figure 9b: Average cost of council audits (estimated and real) for England, Scotland<sup>61</sup> and Wales – rebased with 2011/12 = 100**



(Source: Authors' calculations based on PSAA, Audit Scotland and Audit Wales data)

The divergence in audit cost developments between England, and Scotland and Wales is most visible when examining hourly rates (Table 9). Previously, rates in England were similar to those charged by Audit Scotland and Audit Wales, however, **the procurement uplift of 151% was**

<sup>60</sup> Scottish figures for 2023/24 are costs estimates based on [https://audit.scot/uploads/docs/um/expected\\_fees\\_2023-24.xlsx](https://audit.scot/uploads/docs/um/expected_fees_2023-24.xlsx)

<sup>61</sup> Scottish figures for 2023/24 are costs estimates based on [https://audit.scot/uploads/docs/um/expected\\_fees\\_2023-24.xlsx](https://audit.scot/uploads/docs/um/expected_fees_2023-24.xlsx)

applied to the hourly rates used to calculate fees for additional work undertaken<sup>62</sup>. The PSAA suggests that this increase reflects “markets rates in the current challenging audit environment” in response to a query following its webinar on the fee consultation<sup>63</sup>. Whilst new hourly rates may be the prevailing rate in private markets, the new hourly rates for Audit Directors are now more than double those charged by Audit Scotland and Audit Wales, when they were practically identical the year before. In essence, private auditors in England are now considerably more expensive than a public auditor would be.

**Table 9: Comparison of hourly charged rates across England, Scotland and Wales**

Table 9: Comparison of hourly charged rates across England, Scotland and Wales

	England		Scotland		Wales	
	2022/23	2023/24	2022/23	2023/24	2022/23	2023/24
Audit Director	£165	£414	£164	£169	£163	£170
Senior Manager/Manager	£91	£228	£98	£102	£122	£130
Senior Auditor	£59	£148	£65	£69	£84	£86

(Source: Authors’ calculations based on PSAA, Audit Scotland and Audit Wales data<sup>64</sup>)

<sup>62</sup> <https://www.psaa.co.uk/wp-content/uploads/2023/09/Consultation-on-2023-24-fee-scale-FINAL-060923.pdf>

<sup>63</sup> <https://www.psaa.co.uk/wp-content/uploads/2023/10/2023-09-26-fees-consultation-webinar-QA-FINAL-041023.docx>

<sup>64</sup> <https://www.psaa.co.uk/wp-content/uploads/2023/09/Consultation-on-2023-24-fee-scale-FINAL-060923.pdf>

[https://www.audit.wales/sites/default/files/2022-08/Consultation\\_on\\_Fee\\_Scales\\_2023-24\\_Eng.pdf](https://www.audit.wales/sites/default/files/2022-08/Consultation_on_Fee_Scales_2023-24_Eng.pdf)

Data for Scotland was requested by authors from Audit Scotland and provided in full

## 6. Discussion: Administrative Paralysis and the Regulatory State

The current situation in England's local audit system highlights the importance and urgency of local audit reform. There has been a near collapse in the delivery of timely financial assurance, with just 1% of audits issued on time, with many authorities experiencing audit delays of many years. This has come at a time when many local authorities are facing effective "section 114" bankruptcies and other high-profile value for money failures. The crisis is so severe that the NAO has refused to sign off the whole of government accounts for 2022/23.

It is difficult to think of any other industry where a 238% increase in fees, with this background of failure, could occur without instigating a major national scandal. Audit firms anticipated that local authority audits would be a low risk, low complexity procedure, and bid for it on that basis. When risk and complexity increased, they instead claimed they were unable to – or refused to – sign off on the local authority accounts they were paid to give assurance on.

In a context where reliable financial information is essential for the public sector to function properly, auditors hold a gatekeeper-like position. When those positions fail to deliver that function, fee increases are likely because, in the absence of an alternative public audit provider like the District Audit agency of the Audit Commission, and in a concentrated market, there are no alternatives. As we have noted elsewhere, this can create 'reward for failure' features<sup>65</sup>. And in this specific case, where the increase in fee scales in 2023/4 appears to be accountable for by *higher per hourly charges* rather than additional work hours, it also creates a *moral hazard*: that the opportunity to raise billed hourly rates for audit teams is taken, shifting costs and risks onto other stakeholders.

The regulatory context which has allowed this to occur is one of **administrative paralysis**. This is directly attributable to regulatory fragmentation and reflects a wider malaise in the England's 'regulatory state'<sup>66</sup> – the system of governance which developed in the 1980s and 90s, which created new regulatory bodies with formal powers backed by sanction to oversee public service delivery by private actors<sup>67</sup>. Its erosion has been slow then fast, as expertise, resource and capacity to act has been hollowed out as reforms were introduced to remove regulatory obstacles. Our analysis traces the collapse in external audit provision back to the move to private auditors, the abolition of the Audit Commission, and the subsequent fragmentation of the regulatory environment. We show that the performance of the English system with fragmented oversight seemed OK for a while as costs fell, but then collapsed very quickly once put under pressure. It now performs materially worse than in Scotland and Wales, where a more centralised system of audit regulation and the continued public provision of some audit services continues.

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<sup>65</sup> <https://auditreformlab.group.shef.ac.uk/reward-for-failure/>

<sup>66</sup> Moran, M., 2003. *The British Regulatory State: High Modernism and Hyper-innovation*. Oxford University Press.

<sup>67</sup> Dunleavy, P., Hood, C., 1994. From old public administration to new public management. *Public Money & Management* 14, 9–16. <https://doi.org/10.1080/09540969409387823>



## 6.1. What explains such divergence of fortunes in these three nations' local audit performances?

In Part 1 of this report, we explored the various factors that led to the delays in local audit in England. These included the difficulty in auditing the complex valuations under IFRS rules. We also noted the impact of Covid-19 and the deteriorating financial health of the local authority sector. However, these problems were broadly felt in Scotland and Wales too yet, their performance on audit delivery has been markedly better. We attribute this difference to the private provision of audit and the absence of one single body overseeing commissioning, quality assurance, and audit delivery.

## 6.2. How may our findings support current reform agendas?

The Redmond Review questioned the efficacy of the current English local audit system and bemoaned the “absence of a body to coordinate all stages of the audit process” (Redmond 2020, pg. 3), offering a solution to rebuild some of the lost expertise and capacity to coordinate with the establishment of a new regulator. The previous government responded with the establishment of the (short-lived) Office for Local Government to function alongside existing administrative and regulatory bodies, but with a rather weakly-defined purpose.

We welcome the current government's call for the establishment of the Local Audit Office (LAO) which is positioned to become the core regulatory entity, thereby centralising expertise and capacity to coordinate and intervene. The December 2024 proposals for the LAO enhanced the scope for a re-entry of public audit “to supplement[...] private sector audit with public provision” (pg. 12)<sup>68</sup>. The April 2025 House of Commons research briefing<sup>69</sup> went further – that the LAO will explore in-house auditing capacity to relieve bottlenecks and tackle market failure, effectively enabling the LAO to potentially compete with or supplement private audit firms, restoring some legacy features of the Audit Commission's direct audit practice. However, when taken in total, the primary role envisaged for the LAO is still regulatory and strategic, rather than operational. The LAO is conceived as a central appointing and oversight body, not the default auditor for local authorities, with entry into the audit market contingent on need, i.e., if market provision proves inadequate. To enhance the performance and resilience of local audit, we believe this operational role should be reinstated via a substantial public audit function, building up to 70% of total local authority audits by 2030. This would go some way to rectifying the aforementioned moral hazard, keeping a check on costs and building public sector capacity in this core area.

Our comparison of English, Scottish and Welsh systems support such a view. It has been argued that it may not be possible to replicate the Scottish and Welsh value for money practices in England

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<sup>68</sup> [https://assets.publishing.service.gov.uk/media/67653472cdb5e64b69e308e7/Local\\_audit\\_reform\\_-\\_a\\_strategy\\_for\\_overhauling\\_the\\_local\\_audit\\_system\\_in\\_England.pdf](https://assets.publishing.service.gov.uk/media/67653472cdb5e64b69e308e7/Local_audit_reform_-_a_strategy_for_overhauling_the_local_audit_system_in_England.pdf)

<sup>69</sup> <https://researchbriefings.files.parliament.uk/documents/CBP-7240/CBP-7240.pdf>

due to the number of authorities. We believe that the blueprint for a functioning system of local audit exists. The Audit Commission has, throughout its existence, delivered local audits on time (Tonkiss & Skelcher 2015<sup>70</sup>).

We would note that the proposed responsibilities of the Local Audit Office (LAO) differ subtly in both scope and function from the former Audit Commission. Whilst the Audit Commission was a more centralised body overseeing a wide range of local audit activities, the LAO is designed to address specific gaps and systemic inefficiencies in the current local audit system.

The Audit Commission's powers were multi-faceted and extensive. It was involved in audit management by directly appointing and managing auditors for local public bodies and conducting its own audits through in-house teams and contracted private firms. It also had oversight of value for money, conducting studies on the economy, efficiency, and effectiveness of public services and publishing reports on good practice. The Audit Commission also had powers of inspection and intervention – it assessed the performance of local authorities and had the power to intervene in poorly performing councils or bodies. It was a body that combined expertise, a clear public mandate and the power to act and intervene in the public interest.

The proposed Local Audit Office (LAO) is intended to be a lighter-touch, more streamlined and specialised body. Whereas the Audit Commission could conduct direct performance assessments of public services and had interventionist powers, the LAO focuses instead on system oversight, contract management, and audit quality. Similarly, whilst the Audit Commission conducted audits in-house, the LAO will still rely on private sector auditors and instead manage their contracts. The LAO is tasked more with mitigating some of the weaknesses in the audit market- it is specifically tasked with addressing the shortage of qualified auditors and the overconcentration of audit work in a few firms—issues that were less acute during the Audit Commission's time.

The still prevalent perception is that the Audit Commission was an unwieldy, undemocratic, overly-interventionist body that became a law unto itself. The common antidote is light touch regulation - that private actors just need a bit more competition, clearer guidelines and even encouragement or incentives to behave in ways that align with the public interest. There is something to be said about the efficacy of the older system. The combination of tacit knowledge and expertise, clear public interest objectives that are superordinate to private sector (and public organisational) interests and, most importantly, the mandate and tools to intervene and change undesirable outcomes remains a powerful model for regulation. At time when regulation is failing everywhere from water to energy to building safety and so on, this may prove to be a better model for the regulatory state going forward.

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<sup>70</sup> <https://doi.org/10.1080/03003930.2015.1050093>

