



Audit and Finance Committee

31 March 2022

Update on the Independent Review of Local Authority Financial Reporting and Audit (Redmond Review)

Report of Deputy Chief Executive

Purpose of the Report

- 1 To provide Members with an update on the outcome of the Redmond Review (the Review) into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting.

Background

- 2 In June 2019, Sir Tony Redmond was asked to undertake an independent review of the effectiveness of local audit and the transparency of local authority financial reporting. Whilst conducting the Review his guiding principles were accountability and transparency. How are local authorities accountable to service users and taxpayers, and how are auditors accountable for the quality of their work; and how easy is it for those same individuals to understand how their local authority has performed and what assurance they can take from external audit work. A copy of the report is attached for information.
- 3 On 8 September 2020, the Ministry of Housing, Communities and Local Government (MHCLG) published the results of the review which made 23 recommendations and identified the following four key themes for change:
 - (a) External Audit Regulation (13 recommendations)
 - (b) Smaller Authorities Audit Regulation (3 recommendations)
 - (c) Financial Resilience of local authorities (2 recommendations)
 - (d) Transparency of Financial Reporting (5 recommendations)
- 4 The findings of the review were initially reported to the Audit and Risk Committee for information at its meeting on 28 October 2020.
- 5 On 17 December 2020 MHCLG published an initial response to the review grouped into the following five themes:
 - (a) Action to support immediate market stability (recommendations 5, 6, 8, 10, 11)
 - (b) Consideration of system leadership options (recommendations 1, 2, 3, 7, 13, 17)



- (c) Enhancing the functioning of local audit and the governance for responding to its findings (recommendations 4, 9, 12, 18)
- (d) Improving transparency of local authorities' accounts to the public (recommendations 19, 20, 21, 22)
- (e) Action to consider the functioning of local audit for smaller bodies (recommendations 14, 15, 16, 23)

6 MHCLG provided a further response in May 2021 which clarified further its position on several of the points though some still required further consideration.

Summary of the Recommendations of the Review which affect the Authority

Action to support immediate market stability

Recommendation 06

7 The current fee structure for local audit be revised to ensure that adequate resources are deployed to meet the full extent of local audit requirements.

MHCLG Response

8 We are currently consulting on proposals to make amendments to The Local Audit (Appointing Person) Regulations 2015 that will, subject to stakeholders' views, provide Public Sector Audit Appointments Ltd (PSAA) (the bulk audit services procurement body) with more flexibility to agree fees that more closely match the actual costs of audit.

9 We are providing £15 million to principal bodies, both to help support affected bodies to meet the anticipated increase in audit fee costs in 21/22 and to support with new burdens relating to implementing Redmond's recommendations. We are currently seeking views via public consultation on the methodology for distributing this funding in the fairest way and our intention is to confirm individual allocations as soon as possible after the consultation closes on 18 May.

10 We have reconfirmed PSAA Ltd as the appointing body ahead of the next procurement, and will work closely with them, as well as other stakeholders, to ensure alignment in objectives between the procurement and the wider local audit system.

Recommendation 10

11 The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year.

MHCLG Response

12 Regulations extending the audit publication deadline to 30 September for 2 years came into force on 31 March 2021.



- 13 At the end of this period, we will review whether there is a continued need to have an extended deadline.

Enhancing the functioning of local audit and the governance for responding to its findings

Recommendation 12

- 14 The external auditor be required to present an Annual Audit Report to the first full Authority meeting after 30 September each year, irrespective of whether the accounts have been certified; the Office of Local Audit and Regulation (OLAR) to decide the framework for this report.
- 15 Formalise the facility for the Chief Fire Officer, Monitoring Officer and Chief Financial Officer to meet with the Key Audit Partner at least annually.

MHCLG Response

- 16 We are committed to working with stakeholders, including the Local Government Association (LGA), National Audit Office (NAO) and the Chartered Institute of Public Finance and Accountancy (CIPFA), to deliver this recommendation. We have established a working group to deliver this recommendation, which is currently considering proposals to deliver it and we will provide an update ahead of summer recess.
- 17 This includes consideration of new guidance developed with the stakeholders listed above, as well as the Institute of Chartered Accountants for England and Wales (ICAEW) and PSAA Ltd, and local bodies and audit firms.

Improving transparency of local authorities' accounts to the public

Recommendation 19

- 18 A standardised statement of service information and costs be prepared by each authority and be compared with the budget agreed to support the council tax precept and presented alongside the statutory accounts.

Recommendation 21

- 19 The optimum means of communicating such information to council taxpayers/service users be considered by each local authority to ensure access for all sections of the communities.

MHCLG Response

- 20 We are currently working with CIPFA to deliver this recommendation. We are taking time to consider how it should work, as it is important that it is of value for taxpayers.



Conclusion

- 21 The Redmond Review has provided a mechanism for positive change in strengthening the effectiveness of local audit and the transparency of local authority financial reporting.
- 22 The Review is welcomed by the Authority, and we will consider our arrangements to ensure those specific recommendations of the Review that require action to be taken are delivered for inclusion within the 2021/22 Statement of Accounts.
- 23 The requirement for the external auditor to present an Annual Audit Report to the first full Authority meeting after 30 September is expected to be introduced in 2022, following a proposed amendment to the Accounts and Audit Regulations. This will be in respect of the 2021/22 annual accounts. It is anticipated that this will be accompanied by a report from the Audit and Finance Committee with responses to the audit findings. This would take place at the first meeting of the Authority after the Audit and Finance Committee has considered the audit findings irrespective of whether the final set of accounts are approved or not.
- 24 It was initially proposed that the new standardised statement of service information and costs would be required to be presented alongside the 2020/21 accounts on a trial basis and would be subject to external audit from the 2021/22 year end. The implementation of this new requirement has been delayed whilst MHCLG work with CIPFA on the optimum format. Once we understand the new reporting requirement, we will inform members of this Committee.

Recommendation

- 25 Members are requested to **note** the report.