

Independent Review into the Oversight of Local audit and the Transparency of Local Authority Financial Reporting ("The Redmond Review")

Corporate Priority:	All
Relevant Ward Member(s):	All
Date of consultation with Ward Member(s):	N/A
Exempt Information:	No

1 Summary

- 1.1 In September 2020 the government published the results of an independent review, led by Sir Tony Redmond, into the effectiveness of local authority financial reporting and audit. Local authority accounts are complex and the review highlights a number of potential weaknesses with the current local audit framework and makes recommendations to address these.
- 1.2 The response of the Ministry of Housing, Communities and Local Government (MHCLG) was published in 2020 with an update in May 2021. Whilst some recommendations have been agreed, others are being considered further with further guidance awaited later in the year. Further consultation has been undertaken relating to the funding of the new burdens created by the recommendations made and, also regarding changes to audit fee variations.
- 1.3 This report provides the Audit and Standards Committee with a summary of the Redmond Review into the effectiveness of local audit and the transparency of local authority financial reporting, the recommendations made to the Government, along with the Government's response and the potential implications for the Council.

2 Recommendation

That Committee

- 2.1 **Note the update on the Redmond Review and potential implications for the Council.**

3 Reason for Recommendations

- 3.1 To ensure the committee is appraised of the latest position regarding the review and the potential implications.

4 Background

- 4.1 The current local audit framework was established by the Local Audit and Accountability Act 2014. It abolished the Audit Commission, which it was felt had become unnecessarily centralised and bureaucratic, creating a locally led audit regime to help local taxpayers, councillors, MPs and the media better hold their council to account, both for their spending and whether they had delivered effective value for money, through enhanced transparency arrangements.
- 4.2 Key benefits of the 2014 Act were the reduction in the cost to local authorities and government of local audit, delivering estimated savings of £1.35 billion over 10 years, and that it gave councils the freedom to procure their own audit services and required principal councils to publish certain information set out in Transparency codes.
- 4.3 In July 2019, MHCLG commissioned a review of the arrangements in place to support the transparency and quality of local authority financial reporting and external audit including those introduced by the Local Audit and Accountability Act 2014. Sir Tony Redmond was appointed to undertake the review due to his experience in the Local Government sector and former role as President of the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 4.4 The objectives of the Review were to examine the existing purpose, scope and quality of external audits of local authorities in England and the supporting regulatory framework to:
- a) Determine whether the audit and related regulatory framework for local authorities in England is operating in line with the policy intent set out in the Act and the related impact assessment,
 - b) Determine whether the reforms have improved the effectiveness of the control and governance framework along with the transparency of financial information presented by local authorities,

- c) Determine whether the current statutory framework for local authority financial reporting supports the transparent disclosure of financial performance and enables users of the accounts to hold local authorities to account, and
- d) Make recommendations on how far the process, products and framework may need to improve and evolve to meet the needs of local residents and local taxpayers, and the wider public interest.

5 Main Considerations

5.1 A call for views was launched in September 2019 and received 156 responses and more than 100 interviews were carried out. The resulting report was published on 8th September 2020. The review highlights a number of potential weaknesses with the current local audit framework and makes recommendations to address these. The final report issued can be found at <https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review>

5.2 The Redmond Review highlighted 3 key problems:

- a. Current local audit arrangements do not meet the policy objectives underpinning the Local Audit and Accountability Act 2014. In particular, Sir Tony identified weaknesses in the functioning and value of local audit, the timeliness of its findings and how these are considered and managed by local authorities;
- b. Market fragility. Sir Tony highlighted how local audit is an unattractive market for audit firms and individual auditors to operate within. He indicated that “without prompt action... there is a significant risk that the firms currently holding local audit contracts will withdraw from the market”
- c. Absence of system leadership. The introduction of the localised audit framework in the 2014 Act spread roles and responsibilities for local audit across multiple organisations. Sir Tony argues this has contributed to a lack of coherency and makes resolving the weaknesses in the system challenging.

5.3 In addition, the Redmond Review highlighted that the statutory accounts prepared by local authorities are widely agreed to be ‘impenetrable to the public’, limiting how effectively taxpayers can judge the performance of their authority.

5.4 The response by MHCLG was published in December 2020 with an update being provided in May 2021 and whilst some recommendations have been agreed, others are being considered further with more consultations due later in the year. The government's updated response can be found at the following link:

<https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-spring-update/local-authority-financial-reporting-and-external-audit-spring-update>

5.5 The Review recommendations are summarised in Appendix A with the government's updated response to these.

5.6 The key implications for this council as a result of the recommendations are as follows:

- a. Increased audit fees to enable adequate resources to be deployed to meet the full extent of local audit requirements.
- b. The deadline for publishing local authority accounts be revised to 30 September each year for 2 years then the deadline will be reviewed.
- c. The new Audit, Reporting and Governance Authority (ARGA) will replace the Financial Reporting Council (FRC) and be responsible for the local audit framework with the Code of Audit Practice transferring from the National Audit Office to ARGA.
- d. The new arrangements to encompass a separate appointing body, in which role PSAA will be reconfirmed, with commercial support from MHCLG for the next procurement
- e. External audit to recognise the work undertaken by internal audit in appropriate circumstances where it is consistent with the Code of audit Practice.
- f. The governance arrangements within local authorities be reviewed by local councils with the purpose of an annual report being submitted to Council by the external auditor and consideration being given to the appointment of at least one independent member, suitably qualified, to the Audit Committee.
- g. 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 and presented alongside the statutory accounts.
- h. A review be undertaken to the statutory accounts, in the light of the new requirement to prepare the standardised statement, to determine whether there is scope to simplify the presentation of local authority accounts by removing disclosures that may no longer be considered to be necessary.

5.7 A number of these recommendations require the Government to work with key stakeholders such as CIPFA (Chartered institute of Public Finance and Accountancy, the National Audit Office and the Local Government Association to ensure that, where appropriate, new guidance is developed and issued before they can be implemented.

5.8 As a result of the new burden from the proposed increase in audit fees and the need to prepare a standardised statement of service information alongside the accounts, an additional £15m was allocated as part of the finance settlement for 2021/22. A consultation was undertaken in April/May 2021 as to how this should be distributed across local authorities. Alongside this a consultation was also undertaken regarding the implementation of changes to the fee setting process as recommended in the Redmond review, seeking views on amending the timescale for setting the fee scales, enabling the appointing person to consult on and approve a standardised additional fee and for such payments to be made in year rather than at the completion of the audit. The consultation also sought to clarify some details around the appointment of auditors and the length of that appointment period.

6 Options Considered

- 6.1 This report is to update the Committee as such there are no alternative options.

7 Consultation

- 7.1 The Director for Corporate Services has responded to the consultation on the fee setting and allocation of new burdens funding.

8 Next Steps – Implementation and Communication

- 8.1 Once relevant guidance is received on each aspect the actions will be implemented.

9 Financial Implications

- 9.1 Until the new burdens funding is allocated and updated external audit fees known then the direct financial implications will not be known.
- 9.2 It is a concern that sourcing a professionally skilled individual to sit as an independent person on the Audit Committee may be difficult to source, and it is recognised that financial incentives may be required to attract suitable candidates.
- 9.3 Indirectly the requirement to produce a standardised statement of service information alongside the accounts will incur a significant burden on a small team when there is already considerable pressure from the finalisation of the accounts. It is highly likely that this new burden will be introduced prior to any review and simplification of the Statement of Accounts.

Financial Implications reviewed by: Dawn Garton, Director for Corporate Services

10 Legal and Governance Implications

- 10.1 The statutory framework within which local authority audits are conducted is set out in the Local Audit and Accountability Act 2014 and the Accounts and Audit Regulations 2015.
- 10.2 At this stage, the report only sets out recommendations to the Government and has no legal standing. Some of the recommendations will require amendments to primary legislation if adopted. The council will need to ensure it complies with any changes to the codes of practice and legislation as these arise.

Legal Implications reviewed by: Kieran Stockley, Monitoring Officer

11 Equality and Safeguarding Implications

- 11.1 As a briefing paper there are no equality and safeguarding implications

12 Community Safety Implications

12.1 As a briefing paper there are no community safety implications

13 Environmental and Climate Change Implications

13.1 As a briefing paper there are no environmental and climate change implications

14 Other Implications (where significant)

14.1 There are no other implications.

15 Risk & Mitigation

Risk No	Risk Description	Likelihood	Impact	Risk
1	That the additional burdens placed on the council from the increased audit fees and reporting requirements are not covered by the additional funding.	High	Marginal	Medium Risk

		Impact / Consequences			
		Negligible	Marginal	Critical	Catastrophic
Likelihood	Score/ definition	1	2	3	4
	6 Very High				
	5 High		1		
	4 Significant				
	3 Low				
	2 Very Low				
	1 Almost impossible				

16 Background Papers

16.1 None other than those referred to in the main body of the report.

17 Appendices

- 17.1 Appendix A - Summary of the recommendations made by the Redmond Review and the governments initial and updated response.

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