

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 highlighted 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. A report was made to this committee in July 2021 on the position at that time. Whilst some recommendations were agreed, others were being considered further with further guidance awaited. 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 The Government published its final response in May 2022 and this report provides the Audit and Standards Committee with an updated 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 final 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 highlighted a number of potential weaknesses with the current local audit framework and made 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 a final response published on 31st May 2022. 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 A report was made to this committee in July 2021 on the position at that time. 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. Whilst new burdens funding has been provided this is unlikely to meet the increased additional cost;
- b. The deadline for publishing local authority audited accounts has been revised to 30 September each year until 2027/28 (2021/22 accounts have been extended to 30.11.22);
- c. the new regulator, the Audit Reporting and Governance Authority (ARGA) will act as system leader for local audit. Ahead of ARGA's establishment, shadow arrangements will start at the Financial Reporting Council;
- d. Legislation will be put in place to make it a statutory requirement to submit an annual report to Full Council and have an Audit Committee, with at least one independent member;
- e. Steps to be taken as part of updated guidance and amendments to regulations to require the external auditor be to present an Annual Audit Report to the first Full Council meeting after 30 September each year, irrespective of whether the accounts have been certified;

5.7 The Chair of the Committee has already taken steps to implement those recommendations ahead of legislation where it is practical to do so and the first annual report of the committee is included elsewhere in this agenda for approval for submission to the Council.

5.8 With regard to the requirement, subject to legislation, to have an independent member on the Audit and Standards Committee this has been discussed with the Chair and the leader and this recommendation will not be implemented until legislation is put in place. Whilst the benefits are recognised of such an arrangement it is felt this would be better implemented in partnership with other local authorities so recruitment can be undertaken together, hopefully supported by a national campaign. In addition it would be prudent to wait until the legislative requirements are known. It must also be considered that the democratic services team need to focus in the coming months on the local elections to be held in May 2023.

6 Options Considered

6.1 Other than the options set out above to implement recommendations made prior to legislation there are no other options to consider.

7 Consultation

7.1 The Director for Corporate Services 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. The current auditor appointment arrangements cover the period up to and including the audit of the 2022/23 accounts and due to additional burdens fee variations have been occurring resulting in increased fees under the current contract. The Council opted into the 'appointing person' national auditor appointment arrangements established by Public Sector Audit Appointments (PSAA) for the next contract period which would be applicable for the 2023/24 accounts onwards and procurement is currently underway.
- 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. The pause in this requirement is welcomed.
- 9.4 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: 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
2	The council will struggle to recruit a suitably experienced independent member to sit on the Audit Committee	High	Marginal	Medium Risk

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

Risk No	Mitigation
1	This will form part of the annual budget process and be taken into account in the MTFS projections
2	The Council will look to work in partnership with other local authorities and link to any national recruitment campaigns.

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.

Report Author:	Dawn Garton , Director for Corporate Services
Report Author Contact Details:	01664 502444 DGarton@melton.gov.uk
Chief Officer Responsible:	Dawn Garton , Director for Corporate Services
Chief Officer Contact Details:	01664 502444 DGarton@melton.gov.uk