

Report to: **Audit Committee**

Date: **26 March 2021**

By: **Chief Finance Officer**

Title of report: **The government response to The Redmond Review: Local authority financial reporting and external audit.**

Purpose of report: **To update the Audit Committee on the government's initial response to the Redmond Review**

RECOMMENDATIONS: The Committee is asked to:

(i) note the report

1. Background

- 1.1 The Local Audit and Accountability Act 2014 introduced a new audit regime for local government to replace the previous arrangements, under which the Audit Commission performed that role. In June 2019, Sir Tony Redmond was asked to undertake an independent review of the effectiveness of local audit as now practised and the transparency of local authority financial reporting. The guiding principles were ones of 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?
- 1.2 The review received 156 responses to a Call for Views and conducted over 100 interviews. The report: Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting was published in September 2020 and was reported to the Audit Committee on 6 November 2020.
- 1.3 The Ministry of Housing, Communities and Local Government (MHCLG) has published its initial response to the report and its 23 recommendations:
<https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-government-response-to-the-redmond-review/local-authority-financial-reporting-and-external-audit-government-response-to-the-independent-review>

2. Initial Response to The Redmond Review

- 2.1 MHCLG reflect that a robust local audit system and transparent local authority reporting are key to delivering value for money for taxpayers, and for sustaining public confidence in the systems of local democracy. With the statement of accounts being the only financial information to local residents that is independently verified by external audit, there must be confidence in the audit process and the information provided.
- 2.2 Recent public interest reports issued in relation to Nottingham City Council and Croydon Council demonstrate the crucial role of external audit in bringing concerns into the public domain.

- 2.3 Effective, high quality audit is becoming increasingly important as local authorities' accounting practices become more complex and the sector remains under financial pressure.
- 2.4 External audit is also a key assurance mechanism for MHCLG, in its role as the steward of the local government accountability framework, with assurance provided that the authority has been acting with regularity, propriety and value for money in the use of their resources.

3. Report Recommendations

- 3.1 The report puts forward 23 recommendations to the Secretary of State for Housing, Communities and Local Government for consideration. In response, MHCLG has grouped its responses into 5 themes, which are summarised at Annex A:
- Action to support immediate market stability
 - Consideration of system leadership options
 - Enhancing the functioning of local audit and the governance of responding to its findings
 - Improving transparency of local authorities' accounts to the public
 - Actions to further consider the functioning of local audit for smaller bodies
- 3.2 To support local authorities meet the anticipated increase in audit fees arising from this review, plus the revised requirements on auditors arising from the 2020 Code of Audit Practice, a grant of £15m will be allocated to authorities in the new financial year.

4. Conclusion and Recommendation

- 4.1 The initial response by MHCLG to The Redmond Review is presented to the Audit Committee as an update and for information. There are a number of areas of work still to be undertaken by MHCLG and a final report is expected later in the year.
- 4.2 The final report from the Secretary of State for Housing, Communities and Local Government will be brought to the Audit Committee when available.

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Local Member(s): All

Annex A: Summary of MHCLG's response to the recommendations made by the Redmond Review

Action to support immediate market stability (recommendations 5, 6, 8, 10, 11)

Recommendation	MHCLG Response
5. All auditors engaged in local audit be provided with the requisite skills and training to audit a local authority irrespective of seniority.	Agree ; we will work with key stakeholders to deliver this recommendation.
6. 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.	Agree ; we will look to revise regulations to enable PSAA to set fees that better reflect the cost to audit firms of undertaking additional work.
8. Statute be revised so that audit firms with the requisite capacity, skills and experience are not excluded from bidding for local audit work.	Part agree ; we will work with the FRC and ICAEW to deliver this recommendation, including whether changes to statute are required.
10. The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year.	Part agree ; we will look to extend the deadline to 30 September for publishing audited local authority accounts for two years, and then review.
11. The revised deadline for publication of audited local authority accounts be considered in consultation with NHSI(E) and DHSC, given that audit firms use the same auditors on both Local Government and Health final accounts work.	Agree

Consideration of system leadership options (recommendations 1, 2, 3, 7, 13, 17)

Recommendation	MHCLG response
<p>1. A new body, the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit with the following key responsibilities:</p> <ul style="list-style-type: none"> – procurement of local audit contracts – producing annual reports summarising the state of local audit – management of local audit contracts – monitoring and review of local audit performance – determining the code of local audit practice – regulating the local audit sector 	We are considering these recommendations further and will make a full response by spring 2021.

<p>2. The current roles and responsibilities relating to local audit discharged by the:</p> <ul style="list-style-type: none"> – Public Sector Audit Appointments (PSAA) – Institute of Chartered Accountants in England and Wales (ICAEW) – Financial Reporting Council (FRC)/Audit Reporting and Governance Authority (ARGA) – The Comptroller and Auditor General (C&AG) to be transferred to the OLAR 	<p>We are considering these recommendations further and will make a full response by spring 2021.</p>
<p>3. A Liaison Committee be established comprising key stakeholders and chaired by MHCLG, to receive reports from the new regulator on the development of local audit.</p>	<p>We are considering these recommendations further and will make a full response by spring 2021.</p>
<p>7. That quality be consistent with the highest standards of audit within the revised fee structure. In cases where there are serious or persistent breaches of expected quality standards, OLAR has the scope to apply proportionate sanctions.</p>	<p>We are considering these recommendations further and will make a full response by spring 2021.</p>
<p>13. The changes implemented in the 2020 Audit Code of Practice are endorsed; OLAR to undertake a post implementation review to assess whether these changes have led to more effective external audit consideration of financial resilience and value for money matters.</p>	<p>We are considering these recommendations further and will make a full response by spring 2021.</p>
<p>17. MHCLG reviews its current framework for seeking assurance that financial sustainability in each local authority in England is maintained.</p>	<p>We are considering these recommendations further and will make a full response by spring 2021.</p>

Enhancing the functioning of local audit, and the governance for responding to its findings (recommendations 4, 9, 12, 18)

Recommendation	MHCLG response
<p>4. The governance arrangements within local authorities be reviewed by local councils with the purpose of:</p> <ul style="list-style-type: none"> – an annual report being submitted to Full Council by the external auditor – consideration being given to the appointment of at least one independent member, suitably qualified, to the Audit Committee 	<p>Agree; we will work with the Local Government Association (LGA), National Audit Office (NAO) and Chartered Institute of Public Finance and Accountancy (CIPFA) to deliver this recommendation</p>

– formalising the facility for the Chief Executive Officer (CEO), Monitoring Officer, Chief Financial Officer (CFO) to meet with the Key Audit Partner at least annually.	
9. External Audit recognises that Internal Audit work can be a key support in appropriate circumstances where consistent with the Code of Audit Practice.	Agree; we will work with the NAO and CIPFA to deliver this recommendation
12. The external auditor be required 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; OLAR to decide the framework for this report.	Agree; we will work with the LGA, NAO and CIPFA and other key stakeholders to deliver this recommendation, including whether changes to statute are required
18. Key concerns relating to service and financial viability be shared between local auditors and inspectorates including Ofsted, Care Quality Commission and Her Majesty's Inspectorate of Constabulary & Fire & Rescue Services prior to completion of the external auditor's annual report.	Agree; we will work with other departments and the NAO to deliver this recommendation

Improving transparency of local authorities' accounts to the public (recommendations 19, 20, 21, 22)

Recommendation	MHCLG response
19. 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/levy and presented alongside the statutory accounts.	Agree; we will look to CIPFA to develop a product through consultation with local government. We will work with CIPFA to deliver this recommendation.
20. The standardised statement should be subject to external audit.	Agree; we will work with CIPFA, the LGA and the NAO to deliver this recommendation.
21. 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.	Agree; we will work with the LGA and CIPFA to deliver this recommendation.
22. CIPFA/Local Authorities (Scotland) Accounts Advisory Committee (LASAAC) be required to review 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	Agree; we will look to CIPFA to deliver this recommendation.

local authority accounts by removing disclosures that may no longer be considered to be necessary.	
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Action to further consider the functioning of local audit for smaller bodies (recommendations 14, 15, 16, 23)

Recommendation	MHCLG response
<p>14. Smaller Authorities' Audit Appointments Ltd (SAAA) considers whether the current level of external audit work commissioned for Parish Councils, Parish Meetings and Internal Drainage Boards (IDBs) and Other Smaller Authorities is proportionate to the nature and size of such organisations.</p>	<p>Agree; we will look to SAAA to deliver this recommendation</p>
<p>15. SAAA and OLAR examine the current arrangements for increasing audit activities and fees if a body's turnover exceeds £6.5m.</p>	<p>We are considering this recommendation further and will make a full response by spring 2020.</p>
<p>16. SAAA reviews the current arrangements, with auditors, for managing the resource implications for persistent and vexatious complaints against Parish Councils.</p>	<p>Agree; we will look to SAAA to deliver this recommendation</p>
<p>23. The Joint Panel on Accountability and Governance (JPAG) be required to review the Annual Governance and Accountability Return (AGAR) prepared by smaller authorities to see if it can be made more transparent to readers. In doing so the following principles should be considered:</p> <ul style="list-style-type: none"> – whether “Section 2 – the Accounting Statements” should be moved to the first page of the AGAR so that it is more prominent to readers – whether budgetary information along with the variance between outturn and budget should be included in the Accounting Statements – whether the explanation of variances provided by the authority to the auditor should be disclosed in the AGAR as part of the Accounting Statements. 	<p>Agree; we will look to JPAG to deliver this recommendation</p>