



Governance Scrutiny Group

Thursday, 24 June 2021

Update on the Redmond Review of Public Sector Audit

Report of the Director of Finance and Corporate Services

1. Purpose of report

1. To provide the Group with an update on recommendations arising from the Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting.

2. Recommendation

It is RECOMMENDED that Governance Scrutiny Group consider the recommendations arising from the Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting and in particular consider the appointment of at least 1, suitably qualified, independent member to sit on the Governance Scrutiny Group.

3. Reasons for Recommendation

- 3.1 To present the Group with the opportunity to consider the content of the Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting.
- 3.2 The recommendations arising from this national review have been considered by Government (current response contained in Appendix A). It is clear from the Government's response there is still much to be determined given the voracity, scale, and number of recommendations.

4. Supporting Information

- 4.1 The responsibilities for the framework within which local authority audits are conducted is the Local Audit and Accountability Act 2014. When the Government abolished the Audit Commission and its centralised performance and inspection regimes it put in place a new localised audit regime, refocussing local accountability on improved transparency. Now the Act has been fully implemented, the Government had a commitment to review its effectiveness by undertaking a post implementation review of the audit framework and financial reporting elements of the Act.

- 4.2 In June 2019, the Government commissioned Sir Tony Redmond to undertake an independent review of the effectiveness of local audit and the transparency of local authority financial reporting. The findings from Sir Redmond's report were published on 8 September 2020. The Review did not look at the broader issues of local authority finances and sustainability.
- 4.3 The guiding principles of the review 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.
- 4.4 In summary, it makes detailed proposals for a new organisation with the clarity of mission and purpose to act as the system leader for the local audit framework; and for a standardised statement of service information and costs, compared to the annual budget, that is aimed at taxpayers and service users. A link to the Report can be found here: <https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review>

Summary of Key Findings

- 4.5 Below are the key findings from the review. Appendix A details MHCLG's current response on the recommendations arising from the review.
- 4.6 Local External Audit arrangements - most significant finding is the lack of coherence in local audit arrangements.
- a. There appeared to be no coherence in approach to procure audit and there were serious concerns regarding effectiveness of local audit.
 - b. Some of this is linked to the fee structure and a view that the cost is 25% less than it should be and as a result the quality of auditors has reduced.
 - c. There is concern auditors do not have the experience or knowledge of local authorities.
 - d. 40% of audits were not complete by the deadline for 2018/19.

See section at Appendix A - Action to support immediate market stability

- 4.7 Governance arrangements – question on whether the Audit Committees understand the issues to question and challenge in an effective way?
- a. There are relatively low number of independent Audit Committee members and little communication between Audit Committee and inspectors.
 - b. No formal exchange of views.
 - c. There seems to be no real relationship between Audit Committee and Full Council with very few reports going to Full Council.
 - d. Question on the role of the 3 statutory officers in relationship to Audit – do they engage with auditor together on informal or formal basis?

- e. Internal Audit not used much by External Audit as code of practice does not require them to liaise with internal audit work although there is a feeling that they can assist.
- f. Not always the expertise in local authority finance departments in completing the accounts process.

See section at Appendix A - Enhancing the functioning of local audit, and the governance for responding to its findings

4.8 Reporting - Current arrangements do not allow for public to understand the accounts. More can be done to improve transparency of what local authorities do.

4.9 The recommendations in the report centred on 3 aspects, namely: Local Audit arrangements, Governance and Financial Reporting.

4.10 Local Audits –

- a. A new Office of Local Audit Regulation (OLAR) will be established and have responsibility for procuring, managing, overseeing and regulating local audits. This will include current responsibility fulfilled by Public Sector Audit Appointments (PSAA), National Audit Office (NAO) and Financial Reporting Council (FRC).
- b. There will be a Liaison Committee chaired by the Ministry for Housing, Communities and Local Government (MHCLG) comprising FRC, Institute of Chartered Accountants in England and Wales (ICAW), NAO, Chartered Institute for Public Finance and Accountancy (CIPFA), Local Government association (LGA) and authority representatives, as well as Probation, Home Office and Audit Partners. This would meet quarterly and provide link to the regulator and would provide facility for feedback and commentary in how the local audits are done.
- c. The OLAR could impose sanctions where there are significant issues in a local authority, e.g. if financial resilience issues where MHCLG are needed to intervene.
- d. 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.
- e. 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.

See sections at Appendix A – Consideration of System Leadership Options; Action to support immediate market stability; and Action to further consider the functioning of local audit for smaller bodies

4.11 Governance –

- a. At least 1, suitably qualified, independent member will be required on each Audit Committee.
- b. There will be a requirement for the 3 statutory officers to meet with External Audit annually.

- c. All Audit Committee members will have a requirement to be trained.
- d. The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year.
- e. An annual report to be presented to first Full Council meeting after 30 September from the External Auditor, irrespective of whether the accounts have been certified.
- f. Auditors must have skills and training but also needs to be in place for local authority finance staff.
- g. The need for an induction/training mechanism for new s151 Officers on Final Accounts.
- h. 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.

See sections at Appendix A – Support Market stability and Enhancing the functioning of local audit, and the governance for responding to its findings

4.12 Financial Reporting –

- a. A new standardised statement of services and costs will be required to enable a comparison of budget setting Council Tax information to outturn.
- b. CIPFA/ Local Authority (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 local authority accounts by removing disclosures that may no longer be considered to be necessary.

See Section at Appendix A - Improving transparency of local authorities' accounts to the public

5. Risks and Uncertainties

- 5.1. There are no direct risks although the to ensure sound governance and accountability a good system of audit is a necessity.

6. Implications

6.1. Financial Implications

The appointment of an Independent Member will incur a minor cost of £320 per annum, based on the current costs of independent members at the Council and will be identified from existing budgets.

6.2. Legal Implications

The principle of having an appointed independent member on Governance Group will require a minor change to the Constitution and would reported to July Full Council.

6.3. Equalities Implications

There are no equalities implications.

6.4. Section 17 of the Crime and Disorder Act 1998 Implications

There are no Section 17 implications.

7. Link to Corporate Priorities

Quality of Life	Effective audit impacts across all council corporate priorities.
Efficient Services	
Sustainable Growth	
The Environment	

8. Recommendations

It is RECOMMENDED that Governance Scrutiny Group consider the recommendations arising from the Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting and in particular consider the appointment of at least 1, suitably qualified, independent member to sit on the Governance Scrutiny Group.

For more information contact:	Peter Linfield Director of Finance and Corporate Services Tel: 0115 9148439 plinfield@rushcliffe.gov.uk
Background papers available for inspection:	There are no other background papers although the original report and MHCLG consultation responses are available on the MHCLG website.
List of appendices:	Appendix A – MHCLG Response to the Redmond Review

MHCLG Response to the Redmond Review

Local Authority financial reporting and external audit: Spring update

Annex A: Table of recommendations outlining our response and our progress implementing them

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

	Recommendation	December MHCLG Response	Progress update
5.	All auditors engaged in local audit be provided with the requisite skills and training to audit a local authority irrespective of seniority.	Accept; we will work with the ICAEW, CIPFA and FRC to deliver this recommendation	In progress. <ul style="list-style-type: none"> We committed to working with stakeholders, including the ICAEW, CIPFA and FRC, 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
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.	Accept	In progress. <ul style="list-style-type: none"> 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. 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. 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.
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 accept; we will work with the FRC and ICAEW to deliver this recommendation, including whether changes to statute are required	In progress. <ul style="list-style-type: none"> • We committed to working with stakeholders, including the ICAEW and FRC, 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. • This includes reviewing guidance relating to the entry criteria for key audit partners (KAPs).
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 accept; we will look to extend the deadline to 30 September for publishing audited local authority accounts for two years, and then review	Delivered. <ul style="list-style-type: none"> • Regulations extending the audit publication deadline to 30 September for 2 years came into force on 31 March 2021. • At the end of this period we will review whether there is a continued need to have an extended deadline.
11.	The revised deadline for publication of audited local authority accounts be considered in consultation with NHSE/I and DHSC, given that audit firms use the same auditors on both Local Government and Health final accounts work.	Accept	Delivered. <ul style="list-style-type: none"> • Regulations extending the audit publication deadline to 30 September for 2 years came into force on 31 March 2021. • At the end of this period we will review whether there is a continued need to have an extended deadline.

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

	Recommendation	December MHCLG Response	Progress update
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:	We are considering these recommendations further and will make a full response by spring 2021	Part accept; <ul style="list-style-type: none"> • We accept the need for a single organisation to have responsibility for leadership of the local audit system, including oversight of the quality framework and encouraging competition in the local audit market. • We accept that this requires a single

	<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; and • regulating the local audit sector. 		<p>body to have responsibility for:</p> <ul style="list-style-type: none"> o Producing annual reports summarising the state of local audit; o Monitoring and review of local audit performance; o Determining the code of local audit practice; and o Regulating the local audit sector. <ul style="list-style-type: none"> • We do not accept that a new body needs to be created to undertake these functions, and think that these functions, as well as an overarching responsibility for system leadership and encouraging competition in the local audit market, should be undertaken by the Audit, Reporting and Governance Authority (ARGA), set to be established to replace the Financial Reporting Council. • We do not accept that this body should also have responsibility for procurement and management of local audit contracts, and think that these should functions should continue to be undertaken by PSAA. • We will work with stakeholders to refine these proposals ahead of a public consultation before summer recess.
2.	<p>The current roles and responsibilities relating to local audit discharged by the:</p> <p>Public Sector Audit Appointments (PSAA);</p> <ul style="list-style-type: none"> • Institute of Chartered Accountants in England and Wales (ICAEW); • FRC/ARGA; and • The Comptroller and Auditor General (C&AG) <p>to be transferred to the OLAR.</p>		
3.	<p>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>Part accept; we will establish this new Liaison Committee, but think that this should be chaired by ARGA as the 'system leader' once the new arrangements are established. MHCLG will chair this in the intervening period.</p>
7.	<p>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>Part accept; we will work with stakeholders to consider whether additional sanction powers beyond the audit enforcement procedures that ARGA will already have are necessary.</p>
13.	<p>The changes</p>	<p>We are considering</p>	<p>Accept; we have endorsed the</p>

	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.	these recommendations further and will make a full response by spring 2021	changes to the 2020 Audit Code of Practice, and will look to ARGA 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 in due course.
17.	MHCLG reviews its current framework for seeking assurance that financial sustainability in each local authority in England is maintained.	We are considering these recommendations further and will make a full response by spring 2021	Accept; MHCLG carries out a range of assurance activity, drawing on local authority data and financial metrics and soft intelligence from engagement with the sector. The Department has undertaken additional data collection in 2020-21 to provide government with robust data on local financial pressures in the context of the Covid-19 pandemic, and has also implemented a consistent process to engage with local authorities facing financial challenges and, where appropriate, provide exceptional financial support.

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

	Recommendation	December MHCLG Response	Progress update
4.	<p>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; and • formalising the facility for the CEO, Monitoring 	Accept; we will work with the LGA, NAO and CIPFA to deliver this recommendation	<p>In progress.</p> <ul style="list-style-type: none"> • We committed to working with stakeholders, including the LGA, NAO and 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. • This includes consideration of new guidance developed with the stakeholders listed above, as well as the ICAEW and PSAA Ltd, and local bodies and audit firms.

	Officer and 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.	Accept; we will work with the NAO and CIPFA to deliver this recommendation	<p>In progress.</p> <ul style="list-style-type: none"> • We committed to working with stakeholders, including the LGA, NAO and 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. • This includes consideration of new guidance developed with the stakeholders listed above, as well as the ICAEW and PSAA Ltd, and local bodies and audit firms.
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.	Accept; we will work with the LGA, NAO and CIPFA to deliver this recommendation, including whether changes to statute are required	<p>In progress.</p> <ul style="list-style-type: none"> • We committed to working with stakeholders, including the LGA, NAO and 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. • This includes consideration of new guidance developed with the stakeholders listed above, as well as the ICAEW and PSAA Ltd, and local bodies and audit firms.
18.	Key concerns relating to service and financial viability be shared between Local Auditors and Inspectorates including Ofsted, Care Quality Commission and HMICFRS prior to completion of the external auditor's Annual Report.	Accept; we will work with other departments and the NAO to deliver this recommendation	<p>In progress.</p> <ul style="list-style-type: none"> • We committed to working with stakeholders, including the LGA, NAO and 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. • This includes consideration of new guidance developed with the stakeholders listed above, as well as

			the ICAEW and PSAA Ltd, and local bodies and audit firms.
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Improving transparency of local authorities' accounts to the public (recommendations 19, 20, 21, 22)

	Recommendation	December MHCLG Response	Progress update
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.	Accept; we will work with CIPFA to deliver this recommendation	In progress. • 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.
20.	The standardised statement should be subject to external audit.	Accept; we will work with CIPFA and the NAO to deliver this recommendation	In progress. • 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.
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.	Accept; we will work with the LGA and CIPFA to deliver this recommendation	In progress. • 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.
22.	CIPFA/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 local authority accounts by removing disclosures that may no longer be considered to be necessary.	Accept; we will look to CIPFA to deliver this recommendation	In progress. • CIPFA/LASAAC has agreed a new Strategic Implementation Plan that includes delivery of this recommendation.

**Action to further consider the functioning of local audit for smaller bodies
(recommendations 14, 15, 16, 23)**

	Recommendation	December MHCLG Response	Progress update
14.	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.	Accept; we will look to SAAA to deliver this recommendation	In progress <ul style="list-style-type: none"> • We committed to working with stakeholders, including SAAA and JPAG, to deliver these recommendations. 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. • This includes changes to current auditor guidance notes and what additional audit work might be appropriate for 'larger' small bodies.
15.	SAAA and OLAR examine the current arrangements for increasing audit activities and fees if a body's turnover exceeds £6.5m	No response but assume the same as 14.	No response but assume the same as 14.
16.	SAAA reviews the current arrangements, with auditors, for managing the resource implications for persistent and vexatious complaints against Parish Councils.	Accept; we will look to SAAA to deliver this recommendation	In progress <ul style="list-style-type: none"> • We committed to working with stakeholders, including SAAA and JPAG, to deliver these recommendations. 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. • This includes changes to current auditor guidance notes and what additional audit work might be appropriate for 'larger' small bodies.
23.	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:	Accept; we will work to JPAG to deliver this recommendation	In progress <ul style="list-style-type: none"> • We committed to working with stakeholders, including SAAA and JPAG, to deliver these recommendations. 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. • This includes changes to current auditor guidance notes and what

	<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; and• Whether the explanation of variances provided by the authority to the auditor should be disclosed in the AGAR as part of the Accounting Statements.		additional audit work might be appropriate for ‘larger’ small bodies.
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