

# Allerdale Borough Council

## Audit Committee – 29 June 2021

### Redmond Review

---

<b>Portfolio holder</b>	Councillor Colin Sharp – Executive Member Portfolio: Finance and Legal
<b>Report from</b>	Sharon Sewell Chief Officer Place and Governance
<b>Wards affected</b>	All
<b>Is this a key decision</b>	No

---

#### 1.0 The reason for the decision

To provide Audit Committee with an overview of the report on the Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting, known as the 'Redmond Review'.

#### 2.0 Recommendations

- 2.1 That Members note the Redmond Review and the comments addressing the recommendations which will directly impact on the Council.

#### 3.0 Background and Introduction

- 3.1 In June 2019 Sir Tony Redmond was asked by the then Secretary of State for the Ministry of Housing, Communities and Local Government (MHCLG) (Rt Hon. James Brokenshire MP) to undertake an independent review of the effectiveness of local audit and the transparency of local authority financial reporting – The Redmond Review. In April 2020 a new Code of Audit Practice came into force and consultation started shortly afterwards on its application and guidance for 2020-21 external audits. The Redmond Review (Review) was published in early September 2020 and includes reference to the Audit Code, the consultation on which also closed in early September 2020.

- 3.2 The Review also considered how local authorities are accountable to service users and taxpayers, how auditors are 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. It encompassed not only principal local authorities but also Police and Crime Commissioners, Fire and Rescue Authorities and Parish Councils.

- 3.3 Sir Tony Redmond outlined that his guiding principles in undertaking the review were accountability and transparency. Posing questions such as:
- how are local authorities accountable to service users and taxpayers?
  - how are auditors accountable for the quality of their work?
  - how easy is it for service users and taxpayers to understand how their local authority has performed?
  - what assurance can be taken from external audit work.
- 3.4 The review received 156 responses to its 'Calls for Views' consultation and more than 100 interviews were undertaken with key stakeholders. The final report was published on 8 September 2020 and based on the findings and conclusions Sir Tony Redmond made 23 recommendations (see Appendix 1) relating to:
- External Audit Regulation
  - Smaller Authorities Audit Regulation (not applicable to county councils)
  - Financial Resilience of local authorities
  - Transparency of Financial Reporting
- 3.5 The key theme within the report is of greater accountability and improved transparency in financial report in local government. There is also a clear message of the need for urgent reform to address the local audit market where audit firms are struggling to meet contractual requirements. Redmond highlights in his report that it will only be possible to make some of the improvements required without legislation and that primary legislation will be required if all the recommendations are to be implemented. Whilst waiting for the Government to respond to the Redmond Review there was encouragement to progress all recommendations in advance of legislative reform. Bodies such as the Chartered Institute of Public Finance and Accountancy (CIPFA), Public Sector Audit Appointment Limited's (PSAA), the National Audit Office (NAO) and the audit firms are already working on some areas highlighted in the review.
- 3.6 Government subsequently published a response to the recommendations made by the review in December 2020 and, most recently, in May 2021.
- 3.7. The Ministry of Housing, Communities and Local Government (MHCLG) published its response to the findings of the review on 17 December 2020, grouped into five themes:
- i. Action to support immediate market stability
  - ii. Consideration of system leadership options
  - iii. Enhancing the functioning of local audit and the governance for responding to its findings

iv. Improving transparency of local authorities' accounts to the public

v. Action to consider the functioning of local audit for smaller bodies

3.8 The response confirmed the Government commitment to the principles of locally led audit regimes and that robust local scrutiny and accountability by the press and public are fundamental to the local audit framework.

3.9 To support the implementation of the recommendations the Government will provide £15m additional funding in 2021/22 to meet an anticipated rise in audit fees, driven by new requirement on auditors and to enable Councils to develop standardised statements of service information and costs.

3.10 There has also been a continued extension of the deadline for publishing audited accounts from 31st July to 30th September for a period of 2 years with a commitment to review again to see whether there is a continued need to have this extended deadline.

3.11 A new independent body, the Office of Local Audit and Regulation (OLAR), will be created and be responsible for procurement, contract management, regulation and oversight of external audit. A White Paper has also been published setting out details of how the Government proposes to establish a new regulator, the Audit, Reporting & Governance Authority (ARGA) to replace the Financial Reporting Council (FRC).

3.12 To work with CIPFA, NAO and LGA to provide new guidance on appointment of independent member to Audit Committee

3.13 Government will continue to engage with all stakeholders to refine their proposals for implementing the commitments made in response to the Redmond Review.

3.14 Full details of the Government response can be found here

December response <https://www.gov.uk/government/publications/local-authority-financial-reportingand-external-audit-government-response-to-the-redmond-review>

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

#### **4.0 Recommendations from the Review**

4.1 Serious concerns were expressed regarding the state of the local audit market and the ultimate effectiveness of the work undertaken by audit firms. The Review report highlights that this is not to say that the audits are carried out unprofessionally but that there remains a question of whether such audit reports deliver full assurance on the financial sustainability and value for money of every authority subject to audit. A particular feature of the evidence submitted related to concern about the balance of price and quality in the structure of audit contracts.

4.2 A regular occurrence in the responses to the call for views suggested that the current fee structure does not enable auditors to fulfil the role in an entirely

satisfactory way. To address this concern, the Review recommends that an increase in fees is considered. With 40% of audits failing to meet the required deadline for reporting in 2018-19, the Review reports that this signals a serious weakness in the ability of auditors to comply with their contractual obligations and recommends that the current deadline should be reviewed. A revised date of 30 September gathered considerable support amongst respondents who expressed concern about this current problem. However, the Review report concludes that this only in part addresses the perceived quality problem.

- 4.3 The Review report notes that an underlying feature of the existing framework is the absence of a body to coordinate all stages of the audit process and that although there is some scope to effect alterations to the individual roles, appropriately fulfilled within the existing framework, this would not achieve the overriding objective of providing a coherent local audit function which offers assurance to stakeholders and the public, in terms of performance and accountability of the local authority and the auditor.
- 4.4 Consequently, a key recommendation of the Review is to create a new regulatory body responsible for procurement, contract management, regulation and oversight of local audit. It is recognised that the new body will liaise with the Financial Reporting Council (FRC) with regard to its role in setting auditing standards. The engagement of audit firms to perform the local audit role would be accompanied by a new price/quality regime to ensure that audits were performed by auditors who possessed the skills, expertise and experience necessary to fulfil the audit of local authorities. These auditors would be held accountable for performance by the new regulator, underpinned by the updated code of local audit practice. A further recommendation is to formalise the engagement between local audit and Inspectorates to share findings which might have relevance to the bodies concerned.
- 4.5 The Regulator would be supported by a Liaison Committee comprising key stakeholders and chaired by the Ministry of Housing, Communities and Local Government (MHCLG). The new regulatory body would be small and focused and would not represent a body which has the same or similar features as the Audit Commission.
- 4.6 The Review recognises that local audit is subject to less critical findings in respect of audit procurement and quality relating to smaller authorities. However, the recommendations include a review by Smaller Authorities' Audit Appointments (SAAA) of current arrangements relating to the proportionality of small authority audits, together with the process for managing vexatious complaints, where issues have been raised by those bodies which have experienced such challenges.
- 4.7 Governance in respect of the consideration and management of audit reports by authorities has also been examined in considerable detail. Based on evidence presented, the Review concludes that there is merit in authorities examining the composition of Audit Committees, including the appointment of at least one independent member, in order to ensure that the required knowledge and expertise are always present when considering reports, together with the requirement that at least an annual audit report be submitted to Full Council. This would demonstrate transparency and accountability from a public perspective, which the Review reports is currently lacking in many authorities.

- 4.8 The Review questions whether external audit could make more use of the knowledge and expertise of internal audit in developing sufficient understanding of the local authority. Internal auditors are likely to be closer to the business than external audit and, in many authorities, a proportion of their work focuses on governance and service delivery matters.
- 4.9 The Review notes that the issue of transparency is of equal relevance to the current presentation and publication of the annual accounts. Given that the feedback from practitioners and other key stakeholders revealed that current statutory accounts prepared by local authorities are considered to be impenetrable to the public, the Review recommends that a simplified statement of service information and costs is prepared by each local authority, in such a way as to enable comparison with the annual budget and council tax set for the year. This would enable Council taxpayers and service users to judge the performance of the local authority for each year of account. The new statement would be prepared in addition to the statutory accounts, which could be simplified. The Review also recommends that all means of communicating such information should be explored to achieve access to all communities.
- 4.10 In summary, the outcome of the Review is designed to deliver a new framework for effective local audit and an annual financial statement, which enables all stakeholders to hold local authorities to account for their performance, together with a robust and effective audit reporting regime. The Review report notes that aside from the additional costs arising from a fee increase, the resource implications of the new regulatory body would amount to approximately £5m per annum after taking into account the amount related to staff subject to transfer under TUPE arrangements.

## **5.0 Delivery arrangements**

- 5.1 A complete list of the Recommendations from the Review is included at Appendix One to this report, alongside comments - where relevant - on the Council's position.
- 5.2 Implementation of the Review recommendations would, in part, require regulatory or legislative change but the Review report notes that many of the issues identified require urgent attention, given the current concerns about local audit demonstrated in the Review.

## **6.0 Implications and Impact**

### **6.1 Contribution to Council Strategy Priorities, Outputs and Outcomes**

Effective governance, along with the assurances provided by external audit processes, is vital and underpins all of the council's priorities, outputs and outcomes outlined in the Council Strategy

### **6.2 Finance/Resource implications**

There are no financial implications directly associated with this report.

### **6.3 Legal and governance implications**

There are no legal or governance implications directly associated with this report.

## 6.4 Risk analysis

<b>Risk</b>	<b>Consequence</b>	<b>Controls required</b>	<b>Mitigated score</b>
Recommendations directly impacting the Council are not implemented	Not addressing the identified improvements	Implementation of the recommendations are monitored and the Audit Committee are updated	Low

## 6.5 Increasing satisfaction and service

### 6.6 Equality impacts

There are no negative equality impacts from the update report

### 6.7 Health and Safety impacts

There are no health and safety implications directly associated with this report.

### 6.8 Health, wellbeing and community safety impacts

There are no health, wellbeing and community safety impacts.

### 6.9 Environmental/sustainability impacts

There are no environmental impacts

### 6.10 Other significant implications

None.

## Appendices attached to this report

<b>Appendix number</b>	<b>Title of appendix</b>
Appendix A	Redmond Review Recommendations

### Report author(s) and contact officer(s):

*Sharon Sewell*

*Chief Officer Place and Governance)*

*Sharon.sewell@allerdale.gov.uk*