

## **Response of the Government to the Independent Review of Local Authority Financial Reporting and External Audit in England (the “Redmond Review”)**

### **Purpose of report**

To inform members about the response of the Government to the report of the Independent Review of Local Authority Financial Reporting and External Audit in England (the “Redmond Review”), which was published on 17 December 2020.

### **Summary**

This report outlines the main points in the response from the Government to the recommendations in the Redmond Review. Although a lot remains to be finalised, as it currently stands, the Government’s response is largely in line with the views expressed in the LGA’s own response and so can be welcomed. Discussions will continue with the Government and other stakeholders in order to agree a way forward that aims to address the problems with local audit and create a sustainable audit market.

### **Recommendations**

That members Note the contents of the report and the need to continue to engage with MHCLG on the implementation of recommendations and further consideration of system leadership options.

### **Action**

Officers to proceed as directed.

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## **Response of the Government to the Independent Review of Local Authority Financial Reporting and External Audit in England (the “Redmond Review”)**

### **Background**

1. On 17 December the Government published its [response to the Independent Review of Local Authority Financial Reporting and External Audit in England](#) (the “Redmond Review”). The [report of the review](#) had been published on 8 September 2020 and was discussed at Resources Board in September 2020, as well as at the IDeA Board, the LGA Board (for implications for Public Sector Audit Appointments, PSAA), and the Executive Advisory Board. Sir Tony Redmond attended the Executive Advisory Board and the LGA Board, and also an LGA webinar arranged to discuss his report.
2. Following these discussions Resources Board lead members approved the LGA’s [response](#) to the review’s report, which was sent to the Secretary of State on 9<sup>th</sup> November 2020. The LGA’s response acknowledged that the current system was not working as well as it should but that overall the recommendations in the Redmond review would not solve the problems around the robustness in the audit market. Instead the LGA’s response recommended an alternative practical way forward that could be implemented quickly without the need for primary legislation.

### **Government’s response**

3. **Annex A** to this paper shows a summary list of Redmond’s recommendations, MHCLG’s response to them and a commentary on how they align with the LGA’s own response. From this, it can be seen that the Government has taken account of the views of the LGA in its response so far, with similar views on which recommendations it is important to implement immediately and which to reconsider or defer.
4. This is further reinforced by the commentary in the overall response. On the central issue of Redmond’s recommendation to create a new regulatory body, the Office for Local Audit Regulation (which the LGA argued against), the Government has deferred taking a decision and will consider it with a wider range of options for systems leadership. It acknowledges that the creation of a new body would require primary legislation and so cannot progress quickly, which is a point we made in our response.
5. Although a decision has not been made, the Government response outlined its thinking. This includes the statement that it “remains committed to a locally-led audit regime which enables genuine local accountability by residents and taxpayers. We do not wish to recreate the costly, bureaucratic and over-centralised Audit Commission. Furthermore, it is government’s long-standing intention not to create new arms-length bodies. Unless there is an exceptional reason for a new body, government should look to explore other options for delivering new services or functions, and we are not currently persuaded that a new arms-length body is required”.

6. The deferral has a practical implication for PSAA in that a decision has not yet been made on whether PSAA will be asked to carry out the next main audit procurement and this will now not be decided until later in the year.
7. In the response, MHCLG indicates that it intends to consult first on the implementation of most proposals, including those that are to be implemented quickly. We will engage with MHCLG on these and ensure that the LGA responds appropriately.
8. MHCLG has also announced that £15 million is to be allocated to councils in 2021/22 to pay for costs including additional audit fees arising from new financial statements and from additional work from implementing the NAO's new code of audit practice. Currently this is for one year only, in line with all Government spending plans following the one-year spending review. However, these are clearly ongoing costs so we will be seeking confirmation that the intention is for this to be ongoing funding.

#### **Next steps**

9. Members are asked to note the report and the need to continue to engage with MHCLG on the implementation of recommendations and further consideration of system leadership options.
10. Officers will proceed as directed.

#### **Implications for Wales**

11. The review applies to arrangements in England only.

#### **Financial Implications**

12. This is part of the LGA's core programme of work and as such has been budgeted for in 2020/21 core work programme budgets.

## 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

5. All auditors engaged in local audit be provided with the requisite skills and training to audit a local authority irrespective of seniority.

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.

8. Statute be revised so that audit firms with the requisite capacity, skills and experience are not excluded from bidding for local audit work.

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.

#### MHCLG Response

**Agree;** we will work with key stakeholders to deliver this recommendation.

**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.

**Part agree;** we will work with the FRC and ICAEW to deliver this recommendation, including whether changes to statute are required.

**Part agree;** we will look to extend the deadline to 30 September for publishing audited local authority accounts for two years, and then review.

#### LGA comment based on response

We commented on lack of skills of auditors as perceived by councils as auditees; this was recognised in the Government's fuller response.

Supported via response to PSAA consultation on fee variations.

See above; we should also point out that PSAA is another body that has a role in this given the link to the specification of the audit contract, although they may only contract with firms that the regulators have approved.

We called for this to be made permanent.

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**

Supported

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

#### Recommendation

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:

- 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

2. The current roles and responsibilities relating to local audit discharged by the:

- Public Sector Audit Appointments (PSAA)
- Institute of Chartered Accountants in England and Wales (ICAEW)
- FRC/ARGA

#### MHCLG response

**We are considering these recommendations further** and will make a full response by spring 2021.

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#### LGA comment based on response

We argued that the case against new body is a strong one. Government's fuller response suggests it is not in favour of the new body.

As above, we opposed creation of new body; procurement and contract management should be kept separate from regulation.

### **Recommendation**

- The Comptroller and Auditor General (C&AG) to be transferred to the OLAR

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.

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.

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.

17. MHCLG reviews its current framework for seeking assurance that financial sustainability in each local authority in England is maintained.

### **MHCLG response**

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### **LGA comment based on response**

We supported this liaison committee as the best way of achieving better system leadership quickly.

As above, we are opposed creation of new body.

In our response to the NAO consultation we endorsed these changes, but we also pointed out that any additional costs arising should be dealt with through the new burdens process.

In our response we stated, "The main factor affecting financial resilience is about government funding not keeping pace with the growing financial pressures on councils, not lack of control. The response to resilience should not be about auditors anticipating local democratic decision-making."

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

**Recommendation**

4. The governance arrangements within local authorities be reviewed by local councils with the purpose of:

- 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
- formalising the facility for the 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.

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.

**MHCLG response**

**Agree;** we will work with the LGA, NAO and CIPFA to deliver this recommendation.

**Agree;** we will work with the NAO and CIPFA to deliver this recommendation.

**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.

**LGA comment based on response**

In our response we proposed “Extend the use of independent members on Audit Committees while ensuring that committees remain member led, and that Full Council retains its role as having ultimate responsibility for governance”

We did not comment on this directly in our response.

We agree that full council should retain its role as having ultimate responsibility for governance and this was in our response. Further consideration should be given to timing – it may make a lot more sense for the report to go after the auditor has completed their work.

**Recommendation**

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.

**MHCLG response**

**Agree;** we will work with other departments and the NAO to deliver this recommendation.

**LGA comment based on response**

We did not reference this directly in our response but there is also a link here with the LGA's role as the main provider of Service Led Improvement. We will work with MHCLG on this.

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

**Recommendation**

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.

20. The standardised statement should be subject to external audit.

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.

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

**MHCLG response**

**Agree;** we will look to CIPFA to develop a product through consultation with local government. We will work with CIPFA to deliver this recommendation.

**Agree;** we will work with CIPFA, the LGA and the NAO to deliver this recommendation.

**Agree;** we will work with the LGA and CIPFA to deliver this recommendation.

**Agree;** we will look to CIPFA to deliver this recommendation.

**LGA comment based on response**

Proposals on simpler more transparent forms of accounts should be pursued, while ensuring that simplification does not create extra work for councils and auditors.

As above.

As above.

As above.

**Recommendation**

authority accounts by removing disclosures that may no longer be considered to be necessary.

**MHCLG response**

**LGA comment based on response**

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

**Recommendation**

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.

15. SAAA and OLAR examine the current arrangements for increasing audit activities and fees if a body's turnover exceeds £6.5m.

16. SAAA reviews the current arrangements, with auditors, for managing the resource implications for persistent and vexatious complaints against Parish Councils.

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:

- whether "Section 2 – the Accounting Statements"

**MHCLG response**

**Agree;** we will look to SAAA to deliver this recommendation.

**We are considering this recommendation further** and will make a full response by spring 2020.

**Agree;** we will look to SAAA to deliver this recommendation.

**Agree;** we will work to JPAG to deliver this recommendation.

**LGA comment based on response**

We did not refer to this in our response to the report but agreed in this is appropriate our response to the call for evidence.

As above but for SAAA only not OLAR.

As above – appropriate for SAAA to be the body to look at this.

As above.

**Recommendation**

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.

**MHCLG response**

**LGA comment based on response**



**LGA Resources Board**  
14 January 2021