

22 February 2022

Redmond Review Update - Including update on Responsiveness of Local Audit

Ward(s): All

Portfolios: All

Purpose: For Information

1. Aim

- 1.1 To ensure members are aware of the work being progressed in relation to the Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting – “The Redmond Review”, and provides an overview of the associated updates received from the Department for Levelling Up, Housing and Communities (DLUHC) regarding measures to improve local audit delays, and to allow any appropriate questions to be raised or clarification to be provided in relation to that.

2. Summary

- 2.1 This report provides an update to Audit Committee to make Committee members aware of the current position in relation to the Redmond Review, and provides an overview of the associated updates received from the Department for Levelling Up, Housing and Communities (DLUHC) regarding measures to improve local audit delays.

3. Recommendations

- 3.1 Audit Committee are requested to note the position and to raise any relevant questions in relation to this.

4. Report detail – know

- 4.1 Audit Committee at their meeting on 12 April 2021 received a report and presentation which provided details of the outcome and recommendations of the Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting – “The Redmond Review”.
- 4.2 Since that point a summary of all recommendations from the review has been developed to identify the lead for each and provide ongoing information on the implementation of those actions. This ‘Redmond Review Recommendations and Implementation Tracker’ is attached at **Appendix 1** for information, and further updates will be provided to Audit Committee as the implementation of recommendations progresses.

- 4.3 In addition, as part of the response to the Redmond Review the authority has now received an update from the Department for Levelling Up, Housing and Communities regarding work it has undertaken with key partners across the local audit system to agree a new package of measures to help improve the timeliness of local audits.
- 4.4 Full details of these measures are available at the following link ([Measures to improve local audit delays - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/measures-to-improve-local-audit-delays)), with a summary of the main items and impact for Walsall (where known) set out below:
- The Department is proposing to issue revised guidance for audit arrangements during Spring 2022.
 - Additional funding of £15m nationally is being made available annually over the next three years to cover the costs related to implementation of additional audit requirements and Redmond recommendations (confirmation of the exact amount for each authority has not yet been provided, but assuming the same distribution as previous years this should equate to circa £56k per year for Walsall).
 - The CIPFA / LASAAC project to improve the presentation of local authority accounts commenced in July 2021 with the aim of informing the 2022/23 Accounting Code of Practice, taking in to account some of the Redmond recommendations.
 - CIPFA / LASAAC are also looking at providing a standardised 'Statement of Service Information and Costs' template.
 - Government have asked CIPFA / LASAAC to consider time limited changes connected with account presentation to the 2021/22 Accounting Code. The impact of this will not be known until further details are released, but if these are significant they may impact on the time required to produce the accounts.
 - There is an ask from external auditors to refrain from adding additional information into the accounts beyond that required in the accounting Code as it has an impact on extending the time taken to complete audits. This may for some authorities cause debate between auditors and officers / Audit Committee if there are certain areas where it is felt that additional information is required to aid understanding for the reader.
 - Government are proposing to change the final publication deadline for the 2021/22 audit to 30 November, and then to move this to 30 September for subsequent years.
 - However Government are not proposing to change the deadline for production of the draft accounts from 31 May as they believe the majority of authorities still work to this date, and may have an impact on the overall timing for the production of the Whole of Government Accounts.

5. Financial information

- 5.1 There are no direct financial implications associated with this update. As set out in the report Government have confirmed additional resources to support authorities with the costs related to implementation of additional audit requirements and Redmond recommendations, however confirmation of the allocation for Walsall has not yet been received.

6. Reducing Inequalities

- 6.1 There are no equality implications directly related to this report.

7. Decide

- 7.1 As this report is for information only there are no matters within this report for decision, however members may raise questions to allow further clarification to be provided in relation to the update provided.

8. Respond

- 8.1 Any issues raised by Audit Committee in relation to this update will be considered by management and further action taken as required.

9. Review

- 9.1 Further updates will be provided to Audit Committee as the implementation of Redmond Review recommendations progresses.

Background papers

The Redmond Review – Reported to Audit Committee 12 April 2021

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Redmond Review Recommendations and Implementation Tracker – Position as at 22 February 2022

No.	Recommendation	Lead	Current Position
	<u>External Audit Regulation</u>		
1	<p>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; and • Regulating the local audit sector. 	DLUHC	<p>The department are committed to exploring the full range of options as to how best to deliver the finding that a ‘system leader’ is required. This will include close consideration of whether existing bodies could take on this function. The department intends to make a full response on this recommendation by spring 2022.</p>
2	<p>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); and • The Comptroller and Auditor General (C&AG) to be transferred to the OLAR. 	DLUHC	<p>The department are committed to exploring the full range of options as to how best to deliver the finding that a ‘system leader’ is required. This will include close consideration of whether existing bodies could take on this function. The department intends to make a full response on this recommendation by spring 2022.</p>
3	<p>A Liaison Committee be established comprising key stakeholders and chaired by MHCLG (now DLUHC), to receive reports from the new regulator on the development of local audit.</p>	DLUHC	<p>The Department will also give thought to how government would interact with a system leader for local audit, and whether a Liaison Committee (as proposed by the review) is an appropriate method of engagement. The department recognises the need to continue to engage with appropriate bodies on local audit matters in the meantime, and will consider whether the role and membership of the department’s existing Local Audit Monitoring Board needs to be strengthened, and how it relates to other local audit forums. The department intends to make a full response on this recommendation by spring 2022.</p>

No.	Recommendation	Lead	Current Position
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 Officer and Chief Financial Officer (CFO) to meet with the Key Audit Partner at least annually. 	Walsall Council	<p>Presentation of an annual report to Full Council will be implemented (subject to confirmation of the required framework for that – linked to recommendation 12 below), alongside formalising an annual meeting between the Chief Executive, Monitoring Officer, Chief Finance Officer and Key Audit Partner.</p> <p>The council’s Audit Committee already meets the proposed requirement in terms of independent members.</p>
5	All auditors engaged in local audit be provided with the requisite skills and training to audit a local authority irrespective of seniority	External Audit	<p>Within Grant Thornton (GT), as the largest provider of local audit, we recognise the need to ensure that all staff engaged in public sector audit have the required level of skills and training necessary and to this end have a full support infrastructure of specialised public sector audit quality and financial reporting staff who develop and delivering our training arrangements. Where we use overseas people we have now developed induction/new to UK sector training. However, as with all firms our challenge is that the seniority and experience of our teams has reduced in recent years as experienced auditors have left the sector. This means that we are constantly having to catch up in terms of sector knowledge and experience. We are very aware of this challenge and design our training programme to address it as far as possible but it does take time to bring staff through.</p>
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	DLUHC	<p>PSAA work on procurement of audit contracts has commenced. Additionally PSAA have consulted on options to ensure greater consistency in the process for approving costs of additional work, with a response expected prior to the 2022 summer recess.</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.	DLUHC	<p>Being considered by the department as part of the review of options as to how best to deliver the finding that a ‘system leader’ is required. The department intends to make a full response on this recommendation by spring 2022.</p>

No.	Recommendation	Lead	Current Position
8	Statute be revised so that audit firms with the requisite capacity, skills and experience are not excluded from bidding for local audit work.	DLUHC	The department will seek to work with the FRC and the Institute of Chartered Accountants of England and Wales to review entry requirements within the scope of the existing regulatory framework, noting that an appropriate balance needs to be struck between ensuring quality and market sustainability. Depending on the results of this work, the department will consider whether legislative change may be required. No target date for the outcome of this review has yet been provided.
9	External Audit recognises that Internal Audit work can be a key support in appropriate circumstances where consistent with the Code of Audit Practice.	External Audit	For the financial statements audit, GT seek to rely on Internal Audit (IA) work to the extent possible under current Auditing Standards, which means we review IA work to inform our assessment of controls and the control environment and to identify any significant issues which could impact on our audit. The extent to which we can increase our reliance on IA work for the accounts audit is somewhat limited by the current Auditing Standards. However we are exploring whether we may be able to rely more on IA work in areas such as grants.
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.	DLUHC	The departments update regarding measures to improve local audit delays confirms proposals to change the final publication deadline for the 2021/22 audit to 30 November, and then to move this to 30 September for subsequent years.
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.	DLUHC	As above, the departments update regarding measures to improve local audit delays confirms proposals to change the final publication deadline for the 2021/22 audit to 30 November, and then to move this to 30 September for subsequent years.
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.	Walsall Council / External Audit	Presentation of an annual report to Full Council will be implemented (subject to confirmation of the required framework for that).

No.	Recommendation	Lead	Current Position
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.	DLUHC	The Department is considering this and is proposing to issue revised guidance during Spring 2022.
Smaller Authorities Audit Regulation (SAAA)			
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.	Not Applicable to Walsall	Not Applicable to Walsall.
15	SAAA and OLAR examine the current arrangements for increasing audit activities and fees if a body's turnover exceeds £6.5m.	Not Applicable to Walsall	Not Applicable to Walsall.
16	SAAA reviews the current arrangements, with auditors, for managing the resource implications for persistent and vexatious complaints against Parish Councils.	Not Applicable to Walsall	Not Applicable to Walsall.
Financial Resilience of local authorities			
17	MHCLG (now DLUHC) reviews its current framework for seeking assurance that financial sustainability in each local authority in England is maintained.	DLUHC	The Department is considering this and is proposing to issue a full response during Spring 2022.
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 and Fire & Rescue Services (HMICFRS) prior to completion of the external auditor's Annual Report.	DLUHC	The department agrees that the sharing of key information with external auditors should be strengthened where possible within existing frameworks. The department will work with the Department of Health and Social Care, the Department for Education, the Home Office and the National Audit Office (NAO) to support the sharing of key information between inspectorates and external auditors, and with the Chartered Institute of Public Finance and Accountancy (CIPFA), the NAO and the Local Government Association (LGA) on strengthening engagement, where possible within existing frameworks, between external and internal audit. No target date for the outcome of this work has yet been provided.

No.	Recommendation	Lead	Current Position
	Transparency of Financial Reporting		
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.	DLUHC	The department agree with these recommendations and have asked CIPFA / Local Authority (Scotland) Accounts Advisory Committee (LASAAC) to look at providing a standardised 'Statement of Service Information and Costs' template. The department's ambition is for the standardised statements to be introduced as soon as possible, and as such we will work closely with CIPFA as they lead on the development and consultation with local government to produce a product, with a view to rolling statements out in 2021/22.
20	The standardised statement should be subject to external audit.	DLUHC	The department agrees with the recommendations that all local authorities be required to prepare an audited standardised statement of service information and costs. The department will engage with the NAO on the required changes to the Code of Audit Practice.
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.	DLUHC	The department proposes that these should be short and accessible, for example one or two pages. Standardised statements should be communicated to all taxpayers and service users, and the department will explore how this can be done, for example, alongside or with council tax bills. No target date for the outcome of this review has yet been provided, but it is assumed this will be confirmed as part of the consultation on the introduction of the statement.
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.	DLUHC	The department agrees that there is an opportunity for CIPFA/LASAAC to consider whether there is scope to simplify the presentation of local authority accounts by removing disclosures that may no longer be considered to be necessary. The earliest that simplification could be reasonably incorporated into the main accounts is through the 2022/23 Accounting Code, and the department will work with CIPFA/LASAAC to determine what can feasibly be achieved in that time scale. Depending on the ambition, significant changes to the accounts may require a phased approach, which will be considered further with CIPFA/LASAAC.

No.	Recommendation	Lead	Current Position
23	<p>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; 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. 	Not Applicable to Walsall	Not Applicable to Walsall.