

27 June 2022

Redmond Review Update - Oversight of Local Audit and the Transparency of Local Authority Financial Reporting

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 provide an overview of the latest update 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 latest position in relation to the Redmond Review.

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 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”. An update report was then presented on 22 February 2022. These provided updates as follows:

- Sir Tony Redmond was commissioned by DLUHC in July 2019 to undertake an independent review into the arrangements in place to support the transparency and quality of local authority financial reporting and external audit, in response to mounting delays in the local audit system.
- The Review (September 2020) made recommendations relating to the quality, transparency, timeliness and sustainability of local audit. The Review reported a lack of coherence and join up across the current local audit framework, as none of the organisations in the system “had a statutory responsibility, either to

act as a systems leader or to make sure that the framework operates in a joined-up and coherent manner”, which was contributing to wider issues including audit delays and market instability. A key recommendation was for clear system leadership to be established across the local audit system.

- DLUHC’s initial response to the Review was published in December 2020 and a spring report published in May 2021 setting out plans to establish Audit Reporting and Governance Authority (ARGA) as system leader for local audit.
- In July 2021 DLUHC published [Local audit framework: a technical consultation](#).
- In December 2021 DLUHC set out a series of measures to support the improved timeliness of local audit and address the delays experienced by many organisations across the sector.

4.2 For completeness, full details of the measures are available at the following link ([Measures to improve local audit delays - GOV.UK \(www.gov.uk\)](#)), with a summary of the main items and impact for Walsall (where known) set out below:

- 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 (this equates to circa £56,704 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 recommendation;.
- CIPFA / LASAAC are also looking at providing a standardised ‘Statement of Service Information and Costs’ template;
- Government asked CIPFA / LASAAC to consider time limited changes connected with accounts presentation to the 2021/22 Accounting Code. Exceptional consultation to help alleviate current delays to the publication of audited financial statements was published in February 2022 and CIPFA published its proposals to the responses in March, which included deferring implementation in the Code of IFRS 16 *Leases*, which was subsequently considered and agreed by the Financial Reporting Advisory Board (FRAB) in March 2022. This deferral would be for a fixed period of two years;
- 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;
- Changes to the final publication deadline for the 2021/22 audit to 30 November, and then a move to 30 September for subsequent years. The deadline for production of the draft accounts remains 31 May.

4.3 DLUHC on 31 May published a consultation response on plans to strengthen the local audit framework in response to the Redmond Review. 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. The latest ‘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.

4.4 In summary, the latest consultation response proposes:

- The new Regulator, ARGA will be established as the systems leader for local audit, with a new, simplified local audit framework, and shadow arrangements will start in September 2022.
- Plans to make Audit Committees compulsory for all local authorities, with an independent member required.

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, in particular the establishment of ARGAs.

Background papers

Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting

The Redmond Review – Reported to Audit Committee 12 April 2021 and 22 February 2022

[Local audit framework: technical consultation](#)

[Government response to local audit framework: technical consultation](#)

Author - Vicky Buckley, Head of Finance and Assurance, ☎ 01922 652326

✉ vicky.buckley@walsall.gov.uk

Redmond Review Recommendations and Implementation Tracker – Position as at 10 June 2022

No.	Recommendation	Lead	December 2020/ May 2021 DLUHC Response	February 2022 / May 2022 Update
	<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	Partially accept; 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 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.	<p>In progress.</p> <p>The consultation response (published 31 May 2022) confirms the next steps for establishing the ARGA to manage, oversee and regulate local audit, with work ongoing to ensure that the Financial Reporting Council is ready to start functioning in shadow form from September 2022.</p> <p>Statutory responsibilities will transfer to ARGA once primary legislation allows.</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) <p>to be transferred to the OLAR.</p>			

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3	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.	DLUHC	Partially accept; we will establish this new Liaison Committee, but think that this should be chaired by ARGAs as the 'system leader' once the new arrangements are established. DLUHC will chair this in the intervening period.	Delivered. The Liaison Committee has now been established with committees meeting regularly to discuss key issues affecting the Local Audit sector. DLUHC will continue to chair this important committee whilst ARGAs is operating in shadow with the intention of migrating the role fully to ARGAs in due course.
4	The governance arrangements within local authorities be reviewed by local councils with the purpose of: <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. 	DLUHC External Auditor / Walsall Council	Accept; we will work with the LGA, NAO and CIPFA to deliver this recommendation. 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. The council's Audit Committee already meets the proposed requirement in terms of independent members.	In progress. We consulted on proposals to deliver this recommendation as part of our technical consultation. CIPFA is due to publish new, strengthened guidance relating to the operation of Audit Committees, with the endorsement of other key stakeholders in June 2022. DLUHC plans to legislate to make it a statutory requirement to submit an Annual Report to Full Council and have an Audit Committee, with at least one independent member. External Auditors Annual Report 2020/21 reported to Council on 24 February 2022. Annual meeting between the Chief Executive, Monitoring Officer, Chief Finance Officer and Key Audit Partner currently being set up for 2022/23. (Meetings currently take place, to which the MO will be added). The council's Audit Committee already meets the proposed requirement in terms of independent members.

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5	All auditors engaged in local audit be provided with the requisite skills and training to audit a local authority irrespective of seniority	DLUHC	Accept; we will work with the ICAEW, CIPFA and FRC to deliver this recommendation.	In progress. The Government is currently undertaking a process of pre-market engagement to test appetite ahead of a possible procurement to fund a new technical advisory service to provide specialist training to auditors.
		External Audit	N/A	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.
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	Accept.	Delivered. On 16 February 2022, new regulations designed to streamline the process for the Appointing Person to set fee scales and fee variations came in force. £15m additional funding is being provided to local bodies in 2021/22 and a commitment to

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				£45m further funding over the course of the next Spending Review period.
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	Partially accept; we will work with stakeholders to consider whether additional sanction powers, beyond the audit enforcement procedures that ARGAs will already have, are necessary.	We are currently not minded of the case for additional sanctions powers beyond the audit enforcement procedures already available.
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	Partially accept; we will work with the FRC and ICAEW to deliver this recommendation, including whether changes to statute are required.	In progress. The FRC is consulting on changes to its Key Audit Partner guidance, and of potentially publishing updated guidance in Spring 2022. Following consultation, it has been confirmed that changes to statute are not necessary.
9	External Audit recognises that Internal Audit work can be a key support in appropriate circumstances where consistent with the Code of Audit Practice.	DLUHC	Accept; we will work with the NAO and CIPFA to deliver this recommendation.	In progress. We emphasised the importance and value of internal Audit within local government bodies and the importance of operating in accordance with the requirements of the Accounts and Audit Regulations 2015, as part of our summer (2021) consultation, and the NAO is considering how this might also be reinforced through auditor guidance notes.
		External Audit	N/A	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

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				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	Partially accept; we will look to extend the deadline to 30 September for publishing audited local authority accounts for 2 years, and then review.	Delivered. In addition, we intend to extend the deadline for the 2021/22 accounts, before reverting to 30 September for 6 years, until the 2027/28 accounting year.
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	Accept.	Delivered. Regulations extending the audit publication deadline to 30 September for 2 years came into force on 31 March 2021.
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.	DLUHC	Accept; we will work with the LGA, NAO and CIPFA to deliver this recommendation, including whether changes to statute are required.	In progress. We consulted on this matter in our technical consultation. This will be reflected in updated guidance, and also amendments to regulations.
		Walsall Council / External Audit	Presentation of an annual report to Full Council will be implemented (subject to confirmation of the required framework for that).	External Auditors Annual Report 2020/21 reported to Council on 24 February 2022.
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	Accept; we have endorsed the 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.	In progress. This consultation response confirms the expectation of a post-implementation review, to be completed within 3 years on the new Code being implemented.

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	<u>Smaller Authorities Audit Regulation (SAAA)</u>			
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.	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.	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.	Not Applicable to Walsall.
	<u>Financial Resilience of local authorities</u>			
17	MHCLG (now DLUHC) reviews its current framework for seeking assurance that financial sustainability in each local authority in England is maintained.	DLUHC	Accept; DLUHC carries out a range of assurance activity, drawing on local authority data and financial metrics and soft intelligence from engagement with the sector. We have 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.	Delivered.

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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	Accept; we will work with other departments and the NAO to deliver this recommendation.	<p>In progress. We have had discussions with the NAO and others to start to take this forward.</p> <p>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.</p>
	<u>Transparency of Financial Reporting</u>			
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	Accept; we will work with CIPFA to deliver this recommendation.	Delayed. The department agreed with these recommendations and asked CIPFA / Local Authority (Scotland) Accounts Advisory Committee (LASAAC) to look at providing a standardised 'Statement of Service Information and Costs' template. However, DLUHC have paused the implementation of this recommendation due to ongoing capacity issues in the sector.
20	The standardised statement should be subject to external audit.	DLUHC	Accept; we will work with CIPFA and the NAO to deliver this recommendation.	Delayed. The department agreed with the recommendations that all local authorities be

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				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. However, DLUHC have paused the implementation of this recommendation due to ongoing capacity issues in the sector.
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	Accept; we will work with the LGA and CIPFA to deliver this recommendation.	Delayed. The department proposed 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 would explore how this can be done, for example, alongside or with council tax bills. However, DLUHC have paused the implementation of this recommendation due to ongoing capacity issues in the sector.
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	Accept; we will look to CIPFA to deliver this recommendation.	In progress. The department agreed 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.

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				CIPFA/LASAAC is undertaking its Strategic Implementation Plan that includes delivery of this recommendation.
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.	Not Applicable to Walsall.