

21 November 2022

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

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”, commissioned by the Department for Levelling Up, Housing and Communities (DLUHC) and to provide an overview of the latest update regarding measures to improve local audit delays.

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 presented on 22 February and further in 27 June 2022 following the publication by DLUHC on 31 May of a consultation response on plans to strengthen the local audit framework in response to the Redmond Review. These reports 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.
- The new Regulator, ARGA to be established as the systems leader for local audit, with a new, simplified local audit framework, and shadow arrangements in September 2022. The first Director of Local Audit. Neil Harris (formerly a Key Audit Partner with Ernst Young) took up this role on 5 October 2022. The Director of Local Audit is a newly created position which will be integral in supporting the delivery of timely and high quality local authority audit and reporting.
- Plans to make Audit Committees compulsory for all local authorities, with an independent member required.

4.2 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.

4.3 For completeness, full details of the measures are available at the following link ([Measures to improve local audit delays - GOV.UK \(www.gov.uk\)](#)). In terms of impact:

- Additional funding of £15m nationally was made available annually over three years to cover the costs related to implementation of additional audit requirements and Redmond recommendations (this equates to circa £57k per year for Walsall);
- Changes to the final publication deadline for the 2021/22 audit to 30 November 2022, and then a move to 30 September for subsequent years. The deadline for production of the draft accounts remains 31 May.
- The CIPFA / LASAAC project to improve the presentation of local authority accounts, whilst also looking at providing a standardised ‘Statement of Service Information and Costs’ template, 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; This has however, been delayed due to capacity issues within the sector (items 19-23 in the Appendix). DLUHC have stated that whilst they remain committed to this, they are delaying implementation while audit timeliness issues are so severe, as they do not think it is the right time to introduce these new accounting and auditing requirements.
- Presentation of an Annual External Audit report was made to Council for 2020/21 and the 2021/22 Annual Report will be presented in the new year.
- Walsall already complies with the recommendation in relation to Independent members on the Committee.

External Audit Tender Update

4.4 DLUHC also set out a longer term measure for Public Service Auditor Appointments (PSAA) to progress their proposed procurement strategy for the next round of local audit contracts from 2023/24. In November 2021 Audit Committee received a report on the retender of the External Audit contract: National Scheme for External Auditor appointments with Public Sector Audit Appointments (PSAA) as the 'appointing person' asking the Committee to consider the invitation from PSAA to 'opt in' to the sector led option for the appointment of external auditors for five financial years commencing 1 April 2023. The Committee agreed with this and Council subsequently approved this approach in January 2022.

4.5 The procurement process has now concluded and on 17 October the council was advised that Grant Thornton was successful in winning a contract in the procurement, and that PSAA propose appointing this firm as the auditor of Walsall Council for five years from 2023/24. PSAA also advised that the final decision on the appointment of the auditor would be confirmed on or before 31 December 2022.

5. Financial information

5.1 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. In respect of scale fees, at this stage, PSAA's advice to bodies is to anticipate a major re-set of total fees for 2023/24 involving an increase of the order of 150% on the total fees for 2022/23. The actual total fees will depend on the amount of work required and scale fees will be confirmed by 30 November.

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, 22 February and 27 June 2022

[Local audit framework: technical consultation](#)

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

[Retender of External Audit Contract: Audit Committee November 2021](#)

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

No.	Recommendation	Lead	DLUHC Response	May / November 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	<p>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>	<p>The consultation response (published 31 May 2022) confirmed 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> <p>The first Director of Local Audit. Neil Harris (formerly a Key Audit Partner with Ernst Young) took up this role on 5 October 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) <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	Accept; we will work with the LGA, NAO and CIPFA to deliver this recommendation.	<p>CIPFA to publish strengthened guidance on audit committees by April 2022. The guidance will emphasise the role that audit committees should have in ensuring accounts are prepared to a high standard, alongside broader changes including appointment of independent members. Following consultation, consider making the guidance, committees and the independent member statutory.</p> <p>DLUHC to provide via the Local Government Association sector grant for a number of targeted training events for audit committee chairs.</p> <p>CIPFA in October published new, strengthened guidance relating to the operation of Audit Committees. This is currently being reviewed and will be presented to Audit Committee in March 2023 and used to inform the review of the Audit Committee's effectiveness.</p> <p>DLUHC plans to legislate to make it a statutory requirement to submit an Annual Report to Full Council and have an Audit</p>

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		External Auditor / Walsall Council	<p>Presentation of an Annual Report to Full Council has been 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>	<p>Committee, with at least one independent member.</p> <p>External Auditors Annual Report 2020/21 reported to Council on 24 February 2022. Second Annual Report 2021/22 due to be presented to Council in the new year.</p> <p>Annual meeting between the Chief Executive, Monitoring Officer, Chief Finance Officer and Key Audit Partner is currently being set up for 2022/23. (Meetings currently take place, to which the MO will be added).</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	DLUHC	Accept; we will work with the ICAEW, CIPFA and FRC to deliver this recommendation.	<p>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.</p> <p>DLUHC will work with CIPFA to further develop the proposal for a new local audit training diploma in local government financial reporting and management aimed at different levels of auditor.</p>
		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

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				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 £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 already have, are necessary.	DLUHC 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	DLUHC	Partially accept; we will work with the FRC and ICAEW to deliver this recommendation,	In progress. The FRC is consulting on changes to its Key Audit Partner guidance, and of potentially publishing updated

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	experience are not excluded from bidding for local audit work.		including whether changes to statute are required.	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. DLUHC 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 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. November 2022 (extended from September) for 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	DLUHC	Accept.	Delivered.

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	Government and Health final accounts work.			
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. DLUHC 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. Second Annual Report 2021/22 due to be presented to Council in the new year	
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.
	<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.

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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.
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. DLUHC 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</p>

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				strengthening engagement, where possible within existing frameworks, between external and internal audit.
	<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.	Still 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. DLUHC have stated that whilst they remain committed to this, they are delaying implementation while audit timeliness issues are so severe, as they do not think it is the right time to introduce these new accounting and auditing requirements.
20	The standardised statement should be subject to external audit.	DLUHC	Accept; we will work with CIPFA and the NAO to deliver this recommendation.	As above.
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.	As above.
22	CIPFA/LASAAC be required to review the statutory accounts, in the light of the new requirement to prepare the	DLUHC	Accept; we will look to CIPFA to deliver this recommendation.	Delayed. The department agreed that there is an opportunity for CIPFA/LASAAC to consider whether there is scope to simplify the

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	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.			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.
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.