

**CORPORATE GOVERNANCE COMMITTEE – 29 JANUARY  
2021**

**JOINT REPORT OF THE DIRECTOR OF CORPORATE  
RESOURCES AND THE DIRECTOR OF LAW AND  
GOVERNANCE**

**UPDATE ON DEVELOPMENTS IN LOCAL (EXTERNAL) AUDIT  
ARRANGEMENTS**

**Purpose of report**

1. The purpose of this report is to provide the Corporate Governance Committee (the Committee) with an update on developments in local (external) audit arrangements, that are associated with the Committee's responsibilities.

**Summary**

2. A series of large scale corporate governance and financial failings in both the private and public sectors and criticisms of the roles taken by auditors prompted a number of reviews of audit and governance arrangements in all sectors.
3. In June 2019 Sir Tony Redmond was asked by the Ministry of Housing, MHCLG to undertake an independent review of the effectiveness of local (external) audit and the transparency of local authority financial reporting. The review met the MHCLG's commitment to undertake a post implementation review of the audit framework and financial reporting elements of the Local Audit and Accountability Act 2014.
4. At its meeting on 1 November 2019, the Committee received a report containing a link to the formal call for views. The Director of Corporate Resources responded to the consultation and shared the response with the Chair of the Committee. The review report was originally scheduled for release in March 2020.
5. Because of delays caused by the coronavirus pandemic, the review report was not issued until 8 September 2020. At its meeting on 25 November, the Committee received a report summarising the review's key findings, outlining its 23 recommendations, how the report was being taken forward and communicated to stakeholders and what the next steps were, including awaiting a formal response from MHCLG which had commissioned the review.
6. MHCLG formally responded on 17 December 2020.

## **Report**

### **Local authority financial reporting and external audit: government response to the Redmond review**

7. A link to the full response from MHCLG is found below. A summary of the response to the recommendations is contained in the Appendix. There was a positive response to most of the review's recommendations and the MHCLG has agreed to work with a wide range of key stakeholders to deliver the recommendations.
8. A key area of disagreement was the recommendation to develop and implement a new body, the Office of Local Audit and Regulation (OLAR), to be created to manage, oversee and regulate local audit. MHCLG had concerns this would mark a significant departure from the 2014 Act, it remained committed to a locally-led audit regime. Furthermore, it was the government's long-standing intention not to create new arms-length bodies. Primary legislation would be required, which could take up to three years, and a new body would take time to establish itself. Finally, MHCLG was mindful that there are significant interdependencies between local and health audits: both sectors share the same regulatory framework and code of audit practice, the work is undertaken by the same audit firms, and both sectors are confronted by similar market capacity issues. There would need to be consideration of how a 'systems leader' for local audit would interface with health bodies to ensure that it did not create divergence. Nevertheless, MHCLG recognised certain areas needed to be addressed so it proposed further engagement with the sector leaders so that ideas can be put forward in the Spring.
9. Regarding the recommendations on action to support immediate market stability, MHCLG is proposing changes to regulations to allow greater flexibility on the setting of scale fees for additional work. It supported additional funding to the sector to meet additional audit fees. It agreed to look to extend the deadline for publishing audited local authority accounts from 31 July to 30 September for two years, and then review the situation.
10. MHCLG welcomed initiatives in developing local auditor training. There was some overlap with another (Brydon) review on the auditing profession. MHCLG would also focus on capacity and capability issues in local authorities and would engage with local government to better understand the issues and consider how they might best be addressed.
11. Regarding the governance arrangements for responding to local audit findings, MHCLG strongly agreed that the local auditor should present an annual audit report to full Council and it agreed with the recommendation to consider an independent member on the audit committee. It also agreed there should be closer working relationships between external audit and internal audit and MHCLG will work with the National Audit Office (NAO) and Chartered Institute of Public Finance and Accountancy (CIPFA) to deliver it.

12. For the recommendations to improve the transparency of local authority accounts, MHCLG agreed on producing an annual 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. MHCLG will work with CIPFA to roll them out in 2021-22. Additional funding would be available to local authorities to enable them to prepare.

### **Next stages**

13. County Council officers from legal services, democratic services, finance and internal audit will undertake a detailed analysis of the review recommendations and government responses. A further report will be brought back to this Committee at the appropriate time.

### **Circulation under the Local Issues Alert Procedure**

14. None.

### **Resource implications**

15. There are no resource implications arising directly from this report at this stage, although there is a potential for higher external audit fees and accounts preparation costs in future years.

### **Legal Implications**

16. The proposals in the recent review call for some potentially significant changes to how the Corporate Governance Committee performs its functions. Further reflection and analysis will follow, after which time any local Constitutional implications can be considered.

### **Equality and Human Rights Implications**

17. There are no discernible equality and human rights implications resulting from the audits listed.

### **Recommendation**

18. The Committee is asked to note the Ministry of Housing, Communities and Local Government (MHCLG) responses to the Redmond Review recommendations.

### **Background Papers**

Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting (the Redmond review)

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/916217/Redmond\\_Review.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/916217/Redmond_Review.pdf)

Local authority financial reporting and external audit: government response to the Redmond review

[www.gov.uk/government/news/government-publishes-response-to-audit-review](http://www.gov.uk/government/news/government-publishes-response-to-audit-review)

Reports to the Corporate Governance Committee:

- 1 November 2019 - Developments in Audit and Governance -  
<http://politics.leics.gov.uk/ieListDocuments.aspx?CId=434&MId=5782&Ver=4>
- 25 November 2020 – Updates on Developments in Local (External) Audit Arrangements  
<http://politics.leics.gov.uk/ieListDocuments.aspx?CId=434&MId=6361&Ver=4>

## **Appendix**

Summary of MHCLG's response to the recommendations made by the Redmond Review

### **Officers to Contact**

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