

**Status of Report: Public**

**Meeting: Corporate Governance Committee**

**Date: 10 March 2021**

**Subject: The Government's response to the Redmond Review recommendations**

**Report by: The Treasurer and the Monitoring Officer**

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Leicestershire County Council**

**For: Information Only**

### **Purpose**

1. The purpose of this report is to provide the Committee with a brief explanation of the Government's response to recommendations made following an independent review of the effectiveness of local (external) audit and the transparency of local authority financial reporting (the Redmond Review).

### **Recommendation**

2. The Committee is asked to note the report and to refer any observations to the Combined Fire Authority, Interim Chief Fire Officer (CFO), Treasurer or the Monitoring Officer as they see fit.

### **Executive Summary**

3. In June 2019 Sir Tony Redmond was asked by the Ministry of Housing Communities and Local Government (MHCLG) to undertake an independent review of the effectiveness of local (external) audit and the transparency of local authority financial reporting.
4. The Committee has previously received two reports on this matter. The first on 20 November 2019 explained about the formal call for views and contained the questions being asked by the review. The second report on 17 November 2020, summarised the review's key findings, outlined its 23 recommendations, explained 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 occurred on 17 December 2020.
5. A link to the full response from MHCLG is found below. A summary of the responses to the recommendations is contained in Appendix A to this report. Overall, 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 implementing them. However, for recommendations relating to system leadership options, including creating a new body, the Office of Local Audit and Regulation (OLAR) to manage, oversee and regulate local

audit, MHCLG said it is considering those further and will make a full response by spring 2021.

6. In its response to two recommendations designed to enhance the functioning of local audit, and the governance for responding to its findings, MHCLG stated that Redmond's recommendations (and MHCLG's responses) applied only to principal local authorities (i.e. not fire and rescue authorities). However, a view from the Governance Advisor at the public sector accounting body CIPFA was sought. In their opinion, that there wasn't anything in the Redmond report that would say that these two recommendations wouldn't apply to fire authorities. The Government's response was from MHCLG i.e. not from the Home Office (HO) which is responsible for fire authorities, so any changes on governance for fire would need to be endorsed by the HO.

## **Background**

7. MHCLG's response reconfirms the importance of external audit in providing assurance to councils and local taxpayers, particularly at a time when local authorities are exposed to greater risks.
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 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 that 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 a meeting of the full Council and it agreed with the recommendation to consider an independent member on the audit committee. MHCLG agreed there should be closer working relationships between external audit and internal audit and it 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, to be prepared by each authority and to 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. The Treasurer and Monitoring Officer (and potentially the HoIAS) 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.

### **Report Implications/Impact**

14. Legal (including crime and disorder)

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. Lauren Haslam, Director of Law & Governance, Leicestershire County Council, 0116 305 6240

15. Financial (including value for money, benefits and efficiencies)

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. In its response MHCLG stated it would provide relevant authorities with £15m in additional funding in 2021/22 to meet the anticipated rise in audit fees driven by new requirements on auditors, including the 2020 Code of Audit Practice, as well as enabling authorities to develop standardised statements of service information and costs. - Colin Sharpe, Deputy Director of Finance, Leicester City Council, 0116 454 4081

16. Risk (including corporate and operational, health and safety and any impact on the continuity of service delivery)

There are no risks arising from this report.

17. Staff, Service Users and Stakeholders (including the Equality Impact Assessment)

None.

18. Environmental

None.

19. Impact upon Our Plan Objectives

Within the CFA's priority of Finance and Resources is the aim of providing a value for money service. The provision of a robust local (external) audit provides assurance to Members and local taxpayers that value for money is being delivered and provides public confidence in the system of local democracy.

### **Background Papers**

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

<https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-government-response-to-the-redmond-review>

Report to Corporate Governance Committee 20 November 2019 - Developments in audit and governance

<https://leics-fire.gov.uk/wp-content/uploads/2019/11/item-10-developments-in-audit-and-governance.pdf>

Report to Corporate Governance Committee 18 November 2020 - Update on developments on local (external) audit arrangements

<https://leics-fire.gov.uk/wp-content/uploads/2020/11/item-9-update-on-audit-dev-final.pdf>

### **Appendices**

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

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