

AGENDA ITEM

REPORT TO AUDIT AND GOVERNANCE COMMITTEE

25 JULY 2022

REPORT OF DIRECTOR OF FINANCE, DEVELOPMENT AND REGENERATION AND DEPUTY MANAGING DIRECTOR

INDEPENDENT REVIEW OF LOCAL AUTHORITY FINANCIAL REPORTING AND AUDIT (REDMOND REVIEW) AND OTHER EXTERNAL AUDIT UPDATES

PURPOSE OF REPORT

To provide Members with an update on the Redmond Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting and other relevant external audit changes.

RECOMMENDATIONS

That Members note the report.

DETAIL

1. The independent audit of a local authority's statutory accounts and arrangements for achieving value for money is a key transparency and accountability mechanism which is fundamental to sustaining public confidence in systems of local democracy. Local audit enables taxpayers, and local bodies themselves, to have confidence that financial accounts are true and fair and that the authority has been acting with propriety and has arrangements in place to secure value for money through the economic, efficient and effective use of its resources.
2. In June 2019, Sir Tony Redmond was asked to undertake an independent review of the effectiveness of local audit and the transparency of local authority financial reporting. Whilst conducting the Review his guiding principles were accountability and transparency. How are local authorities accountable to service users and taxpayers, and how are auditors accountable for the quality of their work; and how easy is it for those same individuals to understand how their local authority has performed and what assurance they can take from external audit work.
3. Sir Tony Redmond's Independent review, reported in September 2020 that there was 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.
4. In July 2021 the Government issued the Local Audit Framework: technical consultation which set out the government's intention to establish the Audit Reporting and Governance Authority (ARGA), which will be established to replace the Financial Reporting Council (FRC), as the new system leader for local audit. It also set out proposals to implement other recommendations from the Redmond Review: to

strengthen audit committees, improve capacity and capability and a number of measures relating to smaller bodies.

5. The consultation response which was published on the 31st May 2022 sets out how the government plans to act in the light of comments received, confirming its intention to establish ARGA as the system leader for local audit and for shadow arrangements to be established at the FRC ahead of that.
6. The Government also plan to make audit committees compulsory for all councils (currently this is not statutory), **with at least one independent member appointed to each audit committee**. It sets out wider developments since the consultation was published, including activities undertaken by the Department for Levelling Up, Housing and Communities (DLUHC) and local audit partners.
7. The full consultation response can be found in the following link;

[Government response to local audit framework: technical consultation - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/government-response-to-local-audit-framework-technical-consultation)

Other External Audit Updates

8. In addition, Public Sector Audit Appointments Ltd (PSAA) has continued to progress its procurement strategy for the next round of local audit contracts. In March, PSAA confirmed that 470 out of 475 (99%) eligible local bodies had opted-in to its scheme for the procurement of the 23/24-27/28 audit contracts, SBC were one of those. In addition, following good feedback from audit firms at the Selection Questionnaire stage, PSAA issued the Invitation to Tender in April. Audit firms have until 11 July to submit bids for the local audit contracts.
9. The Accounts and Audit Regulations (Amendment 2022) were laid before Parliament on the 28th June 2022. These amendments change the deadline for Authorities to publish their statement of accounts and supporting documents (together with any certificate or opinion of the local auditor) from 30th September to 30th November for the financial year beginning in 2021, and from 31st July to 30th September for the financial years beginning in 2022, 2023, 2024, 2025, 2026 and 2027.
10. To aid local bodies with the quality of accounts preparation and to support bodies to meet the anticipated increase in audit fee costs DLUHC to provide funding of £45 million over the course of the next Spending Review period to support local authorities with the costs of strengthening their financial reporting, new burdens related to appointment of independent members and other Redmond Review recommendations and an increase in audit requirements. SBC received £48,000 for 2021/22 so it is assumed that a similar amount will be received for the next three years.

FINANCIAL AND LEGAL IMPLICATIONS

The outcome of the next audit procurement exercise via PSAA is not yet known but it could increase the cost of the external audit fee. SBC share of the additional £45 million over the Spending Review period from 2022/23 to 2024/25 is approximately £48,000 per annum.

There are no legal implications arising directly from the measures set out. However, the Council will need to ensure that arrangements are put in place to comply with any amendments to the Local Audit and Accountability Act 2014, Accounts and Audit Regulations 2015 and statutory guidance, including the Code of Practice on Local Authority Accounting in England and Wales.

RISK ASSESSMENT

None directly from this report.

COMMUNITY STRATEGY IMPLICATIONS

None directly from this report.

CONSULTATION

None directly from this report.

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