

READING BOROUGH COUNCIL
REPORT BY DIRECTOR OF FINANCE

TO:	Audit and Governance Committee		
DATE:	25 January 2022		
TITLE:	Redmond Review Update		
LEAD COUNCILLOR:	Ruth McEwan	PORTFOLIO:	Corporate and Consumer Services
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1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

1.1 The purpose of this report is to:

- update Audit and Governance committee on the progress for the implementation of the recommendations contained in the Redmond Review;
- recommend that the committee endorses the proposal that the Council opts-in to the sector-led option for the appointment of external auditors from 1 April 2023.

Redmond Review

- 1.2** During 2021, the Government published two further Redmond Review updates and a technical consultation. A summary of these is detailed in the main body of the report.
- 1.3** CIPFA is 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 considering the appointment of independent members. Following consultation, the Government will consider whether it should make the guidance a statutory requirement. A further report will be brought back to Audit and Governance Committee in due course to consider the implications of that updated guidance.

External Auditor Appointment

- 1.4** Under the Local Government Audit & Accountability Act 2014, the Council is required to have appointed an external auditor to audit the accounts. The Council has previously opted into the ‘appointing person’ national auditor

appointment arrangements established by Public Sector Audit Appointments (PSAA) for the period covering the accounts for 2018/19 to 2022/23.

- 1.5 The national offer supplied by PSAA provides the appointment of an independent auditor at limited administrative cost to the Council. By joining the scheme, the Council would be acting with other councils to optimise the opportunity to influence the market. Due to the framework in which the audit of local government accounts is undertaken, the Council has very limited influence over the nature of the audit services being procured, the nature and quality of which are determined or overseen by third parties. Therefore, the recommended approach is that the Council opt-in to the national auditor appointment scheme.

2. RECOMMENDED ACTION

2.1 That Audit and Governance Committee notes:

- 1) the progress on the implementation of the Redmond Review; and
- 2) that a further report will be presented to Audit and Governance Committee following the publication of the updated CIPFA guidance on audit committees.

2.2 That Audit and Governance Committee agree the recommendation to accept the Public sector Audit Appointments' (PSAA) invitation to opt into the sector-led option for the appointment of external auditors for five years from 1 April 2023.

3. BACKGROUND

3.1 In June 2019, the Secretary of State for Housing, Communities and Local Government (MHCLG) asked Sir Tony Redmond to undertake an independent review (The Redmond Review) of the effectiveness of local audit and the transparency of local authority financial reporting.

3.2 The findings and recommendations of the review were published on 8 September 2020 and the response of the MHCLG was published on 17 December 2020. These were reported to Audit & Governance Committee on 28 January 2021.

3.3 This report provides an update on progress over the last year, including details of:

- An update published by MHCLG in May 2021;
- A technical consultation that ended in September 2021;
- A new package of measures to support the improved timeliness of local audit published by Department for Levelling Up, Housing and Communities (DLUHC) in December 2021

4. UPDATE

May 2021 Update

4.1 On 19 May 2021, MHCLG published an update to their previous response. This update included details of action taken to address immediate market instability, including the extension of the 2019/20 audited accounts deadline to 30

November for all local authority bodies, a deadline that was missed by over 260 (55%) of authorities, and an additional £15million of funding being provided to councils to meet increasing audit fees. The amount allocated to Reading Borough Council was £43,241.

- 4.2 The update also included a consideration of system leader options to deliver a strong and coordinated local audit framework, a buoyant local audit market, and improved transparency and governance. In the current local audit framework, there are different organisations responsible for procurement and contract management of local audit contracts (PSAA), determining the Code of Local Audit Practice (National Audit Office (NAO)), regulating the local audit sector (the Financial Reporting Council (FRC)), and monitoring and review of local audit performance (the FRC and the Institute of Chartered Accountants in England and Wales (ICAEW)).
- 4.3 In March 2021 the government published a White Paper setting out its plans to reform corporate audit, reporting and governance. The White Paper set out details of how the government proposes to establish a new regulator, the Audit, Reporting and Governance Authority (ARGA), to replace the FRC, with ARGA taking on the local audit system leader role.
- 4.4 The update indicated that ARGA will have forums for engaging directly with both local bodies and audit firms to ensure that local audits are focused on areas of most risk to local bodies, and that firms have a clear understanding of priorities for the sector, and are able to escalate issues and concerns where necessary.
- 4.5 ARGA will also have responsibility for producing annual reports summarising the state of local audit.

Technical Consultation

- 4.6 A further technical consultation ran from 28 July 2021 to 22 September 2021, and included consultation questions on:
 - strengthening the effectiveness of audit committees in English local government
 - the role of the Audit Reporting and Governance Authority (ARGA) in providing system leadership over local audit
 - addressing concerns about auditor training and supply
 - the local audit of smaller bodies

New measures published in December 2021

- 4.7 On 16 December 2021 the Department for Levelling Up, Housing and Communities published a range of measures to support the timely completion of local government audits and the ongoing stability of the local audit market.
- 4.8 In 2017/18 the deadline for issuing audit opinions was brought forward from 30 September to 31 July. Since this point there has been a reduction in the number of local government audit opinions delivered on time, with significant reductions from 2018/19 onwards. This downward trend accelerated during the COVID-19 pandemic, with only 45% of 2019/20 audits completed by the extended deadline of 30 November 2020 and, most recently, only 9% of 2020/21 audits completed by the extended deadline of 30 September 2021.

- 4.9 The National Audit Office (NAO) has outlined a variety of complex factors as contributing to audit delays. Audit firms are struggling with a net loss of qualified staff, with many qualified accountants choosing to leave the audit sector entirely. For auditors that are choosing to stay within the profession, alternative audit opportunities are often perceived as more attractive than local audit, which is contributing a high turnover of staff within firms.
- 4.10 In addition, increasing workload and regulatory pressure on auditors have contributed to further delays. The NAO found that the additional requirements of new International Financial Reporting Standards (IFRS), along with increased expectations from the Financial Reporting Council (FRC) following high-profile corporate failures such as Carillion and Patisserie Valerie, had combined to produce a significant increase in audit work, particularly on asset and pensions valuations.
- 4.11 In some cases, issues with the preparation of local authority accounts have also led to delays in audits being signed off. In the face of competing workload pressures, some local authorities have diverted staff resources away from completing working papers and preparing accounts, while the quality of processes within the finance functions of some local authorities has affected their preparedness for audit. These issues, have, understandably, been exacerbated by the impact of the COVID-19 pandemic.
- 4.12 In order to address these issues, the Government has set out a series of additional measures to support improved timeliness and the wider local audit market. These are set out in 4 sections:

1) Measures relating to audit firms and timely completion of audit

- FRC to publish updated Key Audit Partner (KAP) guidance by spring 2022, including new routes for an experienced Registered Individual to become a KAP
- 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, and a new technical advisory service that could provide support to firms, and in particular new entrants

2) Measures relating to local bodies and quality of accounts preparation

- DLUHC to provide further funding of £45 million over the course of next Spending Review period to support local bodies with the costs of strengthening their financial reporting, new burdens related to appointment of independent members and other Redmond recommendations and increased auditing requirements.
- 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

- DLUHC to provide via the Local Government Association sector grant for a number of targeted training events for audit committee chairs

3) Proposed measures relating to accounting and audit requirements

- To assist with the delivery of 20/21 audits, the NAO and FRC made amendments to guidance, including Auditor Guidance Notes 03 and 07, as well as the guidance note on going concern. The changes which included altering the timing of elements of the VFM arrangements work, have allowed more focus on fully delivering opinions on financial statements.
- CIPFA/LASAAC is undertaking a project to improve the presentation of local authority accounts to inform the development of the 22/23 Accounting Code and comply with IFRS and statutory accounting principles
- HM Treasury to undertake thematic review of financial reporting valuations for non-investment properties to inform development of the Accounting Code from 22/23 onwards
- The government has asked CIPFA/LASAAC to consider the merits of a time-limited change to the Accounting Code for 21/22
- Delaying implementation of standardised statements and associated audit requirements

4) Longer-term measures to help stabilise the market and address long-term supply issues

- PSAA to progress their proposed procurement strategy for the next round of local audit contracts from 2023/24
- Extending the deadline for publishing audited local authority accounts to 30 November 2022 for 21/22 accounts and the 30 September date for 5 years from 2023/24 - 2027/28.
- NAO to prepare for a re-laying of the Code of Audit Practice 2020 in parliament, so that it will apply for the whole of the next appointing period
- Developing an industry-led workforce strategy, working with the system leader and audit firms, to consider the future pipeline of local audits, and associated questions related to training and qualifications

External Auditor Appointment

- 4.13 The current auditor appointment arrangements cover the period up to and including the audit of the 2022/23 accounts. The Council opted into the 'appointing person' national auditor appointment arrangements established by Public Sector Audit Appointments (PSAA) for the period covering the accounts for 2018/19 to 2022/23.
- 4.14 PSAA is specified as the 'appointing person' for principal local government under the provisions of the Act and the Local Audit (Appointing Person) Regulations 2015 and is now undertaking the work needed to invite eligible bodies to opt in for the next appointing period, (2023/24 - 2027/28) and to complete a

procurement for audit services. The national opt-in scheme provides the following:

- (a) The appointment of a suitably qualified audit firm to conduct audits for each of the five financial years commencing 1 April 2023.
- (b) Appointing the same auditor to other opted-in bodies that are involved in formal collaboration or joint working initiatives to the extent this is possible with other constraints.
- (c) Managing the procurement process to ensure both quality and price criteria are satisfied. PSAA has sought views from the sector to help inform its detailed procurement strategy.
- (d) Ensuring suitable independence of the auditors from the bodies they audit and managing any potential conflicts as they arise during the appointment period.
- (e) Minimising the scheme management costs and returning any surpluses to scheme members.
- (f) Consulting with authorities on auditor appointments, giving the Council the opportunity to influence which auditor is appointed.
- (g) Consulting with authorities on the scale of audit fees and ensuring these reflect scale, complexity, and audit risk.
- (h) Ongoing contract and performance management of the contracts once these have been let.

4.15 If the Council does not opt into the scheme it will have to tender independently. It is recommended that the Council opt into the national auditor appointment arrangements in order to minimise administration costs to the Council and take advantage of the leverage being part of the national scheme brings.

5. CONTRIBUTION TO STRATEGIC AIMS

5.1 None arising from this report.

6. ENVIRONMENTAL AND CLIMATE IMPLICATIONS

6.1 None arising from this report.

7. COMMUNITY ENGAGEMENT AND INFORMATION

7.1 Not applicable to this report.

8. EQUALITY IMPACT ASSESSMENT

8.1 Not applicable to this report.

9. LEGAL IMPLICATIONS

9.1 None arising from this report.

10. FINANCIAL IMPLICATIONS

10.1 None arising from this report.

11. BACKGROUND PAPERS

11.1 None