

Audit Committee

1 July 2022



Update on the Independent Review of Local Authority Financial Reporting and Audit (Redmond Review) – Government consultation response

Ordinary Decision

Report of Paul Darby, Corporate Director of Resources

Electoral division(s) affected:

Countywide

Purpose of the Report

- 1 To provide Members with an update on the consultation outcome of the local audit framework: technical consultation (as recommended by the Redmond Review regarding the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting)

Executive Summary

- 2 In July 2021 the local audit framework: a technical consultation was published setting out its detailed proposal to establish the Audit Reporting and Governance Authority (ARGA). 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.
- 3 On 31 May 2022, the Department for Levelling Up, Housing and Communities (DLUHC) provided its response to the consultation confirming its intention to establish the new regulator - ARGA as the system leader for local audit within a new simplified local audit framework
- 4 The consultation response also announced plans to make audit committees compulsory for all councils, with at least one independent member appointed to each audit committee. This will create greater transparency and consistency across local bodies.

- 5 Durham County Council acknowledges that the audit committee is a vital part of the organisation, supporting good governance, strong public financial management and effective internal audit and external audit. The audit committee approach is well established within the authority and the committee includes two independent members.
- 6 The government's intention to mandate audit committees will have minimal impact on the council due to its already established audit committee governance approach.

Recommendation

- 7 It is recommended that Members note the contents of this report.

Background

- 8 In July 2019, Sir Tony Redmond was commissioned by the Department for Levelling Up, Housing and Communities (DLUHC) (previously MHCLG) to undertake an independent review into the arrangements in place to support the transparency and quality of local authority financial reporting and external audit. This was in response to the mounting delays in the local audit system.
- 9 Whilst conducting the Review his guiding principles were accountability and transparency. How are local authorities accountable to service users and taxpayers, 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.
- 10 Local Authority Financial Reporting and Auditing provided an initial key recommendation for clear system leadership to be established across the local audit system.
- 11 DLUHC published its initial response to the review in December 2020 and its spring report in May 2021 set out plans to establish the Audit Reporting and Governance Authority (ARGA) as the system leader for local audit.
- 12 In July 2021 the local audit framework: a technical consultation was published setting out its detailed proposal to establish the Audit Reporting and Governance Authority (ARGA). 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.
- 13 In July 2021, the government also established a Liaison Committee of key stakeholders and started acting as interim system leader for local audit.
- 14 In December 2021 a series of measures were set out by the government to support the improved timeliness of local audit and address the delays experienced by many organisations across the sector. These included changes to statutory financial year end reporting dates.

Consultation Outcome – Government Response to local audit framework: technical consultation.

- 15 The local audit framework: technical consultation set out the government's intention to establish the Audit Reporting and Governance Authority (ARGA) 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.
- 16 The consultation sought views on how these arrangements would work and received 57 responses from a range of local bodies, audit firms, partner organisations, and other stakeholders
- 17 On 31 May 2022, DLUHC provided its response to this consultation confirming its intention to establish the new regulator - ARGA as the system leader for local audit within a new simplified local audit framework. It also noted shadow arrangements to be established at the FRC ahead of that.
- 18 The consultation response further set out wider developments since the consultation was published, including activities undertaken by DLUHC and local audit partners as part of the Liaison Committee and the interim system leader arrangements.
- 19 DLUHC recommended that the response document be read in conjunction with its response to its White Paper - Restoring trust in audit and corporate governance which confirms its broader plans for reforming audit and corporate governance and establishing ARGA.
- 20 The response also announced plans to make audit committees compulsory for all councils, with at least one independent member appointed to each audit committee to create greater transparency and consistency across local bodies.
- 21 The response document does not set out a response to those consultation proposals related to smaller bodies. The government has reviewed the comments it has received and has concluded that more time is required to consider these proposals in the context of broader work underway to progress the commitments in the Levelling Up White Paper. The government will therefore provide a response to the proposals relating to smaller bodies in due course.

Conclusion

- 22 Durham County Council acknowledges that its Audit Committee is a vital part of the organisation, supporting good governance, strong public financial management and effective internal audit and external audit.
- 23 The Audit Committee is well established within the authority. The committee approves the council's Final Accounts and is an advisory body to the council and the executive on audit and governance issues in order to provide assurance over the adequacy of the council's Risk Management framework and associated control environment.
- 24 The council's Audit Committee includes two independent members.
- 25 The council has long undertaken an audit committee governance approach, therefore the government's intention to mandate audit committees across all authorities will have minimal impact on the council.

Other Useful documents

- 26 The consultation outcome – Government response document - [government consultation response](#).
- 27 White Paper - [Restoring trust in audit and corporate governance](#)

Contact: Jo McMahon Tel: 03000 261968

Appendix 1: Implications

Legal Implications

Preparation of annual accounts in compliance with the Accounts and Audit Regulations 2015 and the latest CIPFA Code of Practice on Local Authority Accounting which is based upon approved accounting standards in England and Wales and constitutes proper accounting practice under the terms of section 21(2) of the Local Government Act 2003.

Finance

None

Consultation

None.

Equality and Diversity / Public Sector Equality Duty

None.

Climate Change

None.

Human Rights

None.

Crime and Disorder

None.

Staffing

None.

Accommodation

None.

Risk

None.

Procurement

None.