Ministry of Housing, Communities & Local Government

Rt Hon Robert Jenrick MP
Secretary of State for Housing, Communities and Local Government

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Clive Betts MP
Chair, Housing, Communities and Local Government Select Committee
House of Commons
London
SW1A 0AA

24 December 2020

Dear Clive,

I am writing to inform you that we have published our response to the Redmond Review, which fulfils the requirement for post legislative scrutiny of the Local Audit and Accountability Act 2014. We intend to lay a copy of the response in both house libraries.

A robust local audit system is key to delivering transparency and value for money for taxpayers, and for sustaining public confidence in our systems of local democracy. The recent Public Interest Reports issued in relation to Nottingham City Council and Croydon Council have only underlined the crucial role which local audit plays in holding councils to account.

Effective local audit is also integral to my Department's ongoing stewardship of the local government sector. Timely and good quality external audit findings are a key source of intelligence and inform whether and how Government can support individual councils that may be at risk of failure.

I am grateful to Sir Tony Redmond for his independent review into the effectiveness of external audit and transparency of financial reporting in local authorities in England. Sir Tony published his report on 8 September; my Department has closely considered his findings and I am pleased to confirm that I intend to take most of his recommendations forward.

The Redmond Review highlighted significant concerns about the stability of the local audit market. My Department will move swiftly to ensure its ongoing sustainability. This will include, subject to consultation, amending regulations to enable audit firms, councils and PSAA to agree fees that more closely match the actual costs of the work, and temporarily extending the deadline for the publication of auditor opinions on local authorities' accounts. My Department will also support work by CIPFA, the Financial Reporting Council and the Institute of Chartered Accountants to both improve local auditor training and review market entry criteria for key audit partners, to secure the right balance between audit quality and supply.

Sir Tony also made a number of recommendations as to how auditors' findings could be better gripped by local authorities, and to improve the transparency of councils' accounts. I agree that more needs to be done in both these areas and have committed my Department to a range of actions. This includes working with CIPFA and the local government sector to develop a standardised statement of service costs, which will make it much easier for taxpayers to scrutinise their council's financial performance, and working with the Local Government Association, National Audit Office and others to consider how we can best implement Sir Tony's recommendation that auditors be required to present their findings to Full Council.

Noting the additional costs that implementation of the above will place on audited bodies in 2021/22, I am providing local authorities with £15m in additional funding. This is intended to help councils meet the likely increase in audit firm fees in 2021/22, and to enable them to develop new standardised statements of accounts.

Finally, Sir Tony recommended the creation of a new independent body that would manage, oversee and regulate local audit. This requires careful consideration. Government needs to be assured that any system leader has the right objectives, powers and makeup to be able to fully grip the complex and cross-cutting problems which Sir Tony exposed. It needs to effectively align with the Health audit system.

This Government remains committed to an audit framework where councils are held to account by local people and taxpayers. I am not currently persuaded the creation of a new body is the best way to achieve this, and it carries significant risk of becoming another costly, bureaucratic and over-centralised Audit Commission. My Department will therefore work with the National Audit Office, CIPFA, the Financial Reporting Council, the Institute of Chartered Accountants, PSAA, audit firms, councils and DHSC and BEIS to explore the full range of options for establishing robust systems leadership, with a view to making a further announcement on this by spring 2021.

Officials in my Department will continue to keep you updated on our work in response to Sir Tony Redmond's review.

Robert Jenrick.

RT HON ROBERT JENRICK MP