

Report to Audit Committee

Subject: Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting (The Redmond Review).

Date: 24 November 2020

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1 Purpose of Report

To provide Members with an update on recommendations arising from the Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting (the Redmond Review).

<p>Recommendation:</p> <p>THAT:</p> <p>Members note the report.</p>
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2 Background

In June 2019, the Government commissioned Sir Tony Redmond to undertake an independent review of the effectiveness of local audit and the transparency of local authority financial reporting. The findings from this review were published on 8 September 2020.

The guiding principles of the review were accountability and transparency, ie. how are local authorities accountable to their 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.

In summary, the review makes detailed proposals for a new organisation, with the “clarity of mission and purpose” to act as the system leader for

the local audit framework; and for a standardised statement of service information and costs, compared to the annual budget, that is aimed at taxpayers and service users. A link to the Report can be found at: <https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review>

3 Proposal

3.1 The key findings of The Redmond Review can be summarised as follows:

a. Local External Audit arrangements

The most significant finding of the review is the lack of coherence in local audit arrangements:

- i. There appears to be no coherence in approach to the procurement of audit, and there are serious concerns regarding effectiveness of local audit;
- ii. Some of this is linked to the fee structure, and to a view that the cost is 25% lower than it should be, and as a result the quality of auditors has reduced;
- iii. There is concern that auditors do not have sufficient experience or knowledge of local authorities;
- iv. 40% of audits were not complete by the deadline for the 2018/19 Accounts.

b. Governance arrangements

This addresses the question whether Audit Committees understand the issues sufficiently to question and challenge in an effective way:

- i. There are relatively low numbers of independent Audit Committee members, and little communication between Audit Committees and inspectors;
- ii. There is little or no formal exchange of views.
- iii. There seems to be no real relationship between Audit Committee and Full Council, with very few reports going to Full Council;
- iv. There are questions on the role of the 3 statutory officers (Head of the Paid Service, S151 Officer and Monitoring Officer) in relation to Audit, ie. whether they engage with the auditor together on an informal or formal basis;
- v. Internal audit is not used much by External Audit, as the Code of Practice does not require them to liaise with internal audit work - although there is a feeling that they can assist;

- vi. There is not always the expertise in local authority finance departments in completing the accounts process.
- c. Reporting

Current arrangements do not allow the public to understand the accounts, and more can be done to improve the transparency of what local authorities do.

3.2 The recommendations in the Redmond Review centred on the three key areas above:

- a. Local Audits
 - i. A new Office of Local Audit Regulation (OLAR) will be established and have responsibility for procuring, managing, overseeing and regulating local audits. This will include the current responsibility fulfilled by Public Sector Audit Appointments (PSAA), National Audit Office (NAO) and Financial Reporting Council (FRC);
 - ii. There will be a Liaison Committee chaired by the Ministry for Housing, Communities and Local Government (MHCLG) comprising FRC, Institute of Chartered Accountants in England and Wales (ICAW), NAO, Chartered Institute for Public Finance and Accountancy (CIPFA), Local Government association (LGA) and authority representatives, as well as Probation, Home Office and Audit Partners. This would meet quarterly and provide link to the regulator and would provide facility for feedback and commentary in how the local audits are done;
 - iii. The OLAR could impose sanctions where there are significant issues in a local authority, e.g. if financial resilience issues where MHCLG are needed to intervene;
 - iv. The current fee structure for local audit should be revised to ensure that adequate resources are deployed to meet the full extent of local audit requirements;
 - v. The external auditor be required to present an Annual Audit Report to the first Full Council meeting after 30 September each year, irrespective of whether the accounts have been certified.
- b. Governance
 - i. At least 1 suitably qualified, independent member will be required on each audit committee;
 - ii. There will be a requirement for the 3 statutory officers to meet with External Audit annually;
 - iii. All audit committee members will have a requirement to be trained;
 - iv. The deadline for publishing audited local authority accounts should be revisited with a view to extending it to 30 September, from 31 July each year;

- v. An annual report to be presented to first Full Council meeting after 30 September from the External Auditor, irrespective of whether the accounts have been certified.
 - vi. Auditors must have skills and training but this also needs to be in place for local authority finance staff;
 - vii. There is a need for an induction/training mechanism for new s151 Officers on Final Accounts;
 - viii. The changes implemented in the 2020 Audit Code of Practice are endorsed; OLAR to undertake a post implementation review to assess whether these changes have led to more effective external audit consideration of financial resilience and value for money matters.
- c. Financial Reporting
- i. A new standardised statement of services and costs will be required to enable a comparison of budget setting Council Tax information to outturn;
 - ii. CIPFA/Local Authority (Scotland) Accounts Advisory Committee (LASAAC) be required to review the statutory accounts, in the light of the new requirement to prepare the standardised statement, to determine whether there is scope to simplify the presentation of local authority accounts by removing disclosures that may no longer be considered to be necessary.

3.3 Conclusion

Implementation of the recommendations contained in the Redmond Review would, in part, require regulatory or legislative changes. Such changes are currently being considered, and a further report will be presented to the Audit Committee in due course.

4 Financial Implications

There are no financial implications directly arising from this report.

5 Legal Implications

There are no legal implications directly arising from this report.

6 Equalities Implications

There are no equalities implications directly arising from this report

7 Carbon Reduction/Environmental Sustainability Implications

There are no carbon reduction/environmental sustainability implications arising from this report.

8 Appendices

None

Statutory officer Approval:

Approved by: Chief Financial Officer

Date: 13 November 2020

Approved by: Monitoring Officer

Date: 13 November 2020