

Report to: **Audit Committee**

Date: **6 November 2020**

By: **Chief Finance Officer**

Title of report: **Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting: The Redmond Review**

Purpose of report: **To update the Audit Committee on the Redmond Review and the recommendations arising.**

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**RECOMMENDATIONS: The Committee is asked to note the report**

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**1. Background**

1.1 The Local Audit and Accountability Act 2014 introduced a new audit regime for local government to replace the previous arrangements, under which the Audit Commission performed that role. In June 2019, Sir Tony Redmond was asked to undertake an independent review of the effectiveness of local audit as now practised and the transparency of local authority financial reporting. The guiding principles were ones of 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?

1.2 The review received 156 responses to a Call for Views and conducted over 100 interviews. The report, "Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting" is attached at Appendix 1. The key findings and recommendations from the report are set out in sections 2 and 3 respectively below.

**2. Key Findings**

2.1 Local Audit Arrangements: the most significant finding was the lack of coherence in local audit arrangements, including the approach to procure audit. There were concerns expressed regarding the effectiveness of local audits, some of which being linked to the fee structure. The report reflects that fees are probably 25% less than they should be, which has impacted on the quality of auditors and, in particular, the level of experience and knowledge of local authorities. This is evidenced in part by the fact that 40% of the 2018/19 audits were not completed by the deadline of 31 July 2019.

2.2 Governance Arrangements: the report raised whether Audit Committees understand the issues sufficiently to question and challenge in an effective way. There are relatively low numbers of independent Audit Committee members, little communication between Audit Committees and inspectors and no formal exchange of views. Internal Audit is not used by External Audit as the code of practice does not require them to liaise with internal audit work. The report observes that there is no real relationship between the Audit Committee and Full Council, with very few reports passing on to Full Council from the Audit Committee. There is also a question around the role of the three statutory officers (Chief Executive, Monitoring Officer and S151 Officer) have in engaging with the external auditors, either together or individually.

2.3 Reporting: The report observes that the current arrangements do not allow the public to understand the accounts. There is more that can be done to improve their transparency and accessibility as to what local authorities do.

### 3. Report Recommendations

3.1 The report puts forward 23 recommendations to the Secretary of State for Housing, Communities and Local Government for consideration, including:

3.2 Local Audit Arrangements:

- A new **'Office of Local Audit Regulation' (OLAR) to be established**, having responsibility for procuring, managing, overseeing and regulating local audits. OLAR would include the current responsibilities fulfilled by Public Sector Audit Arrangements Ltd (PSAA), National Audit Office (NAO) and Financial Reporting Council (FRC), with staff being TUPE'd to the new body. There will be a Liaison Committee chaired by the Ministry of Housing, Communities and Local Government (MHCLG) comprising FRC, NAO, Institute of Chartered Accountants in England and Wales (ICAEW), Chartered Institute of Public Finance and Accountancy (CIPFA), Local Government Association (LGA) and authority representatives, as well as Probation, Home Office and Audit Partners. The Committee would meet quarterly and provide a link to the regulator, as well as providing a facility for feedback and commentary in how local audits are being undertaken. The report emphasises that this is not a recreation of the Audit Commission, with staff numbers in the region of 30-35. OLAR could impose sanctions where there are significant issues in a local authority, for example, for financial resilience issues where MHCLG are needed to intervene.
- **Fee structure needs to be revised to reflect the true cost** with local audit firms included.

3.3 Governance:

- **At least 1 independent member will be required on each Audit Committee.**
- There will be a **requirement for the authority's three statutory officers to meet External Audit at least annually.**
- There will be a requirement for **Audit Committee members to receive appropriate training.**
- It is proposed to move the **audit completion date back to 30 September** each year from the current 31 July. Due to COVID-19 the 2019/20 deadline was moved to 30 November 2020.
- **The annual audit report to be presented to the first Full Council meeting after 30 September by the External Auditor.**
- There is a recognition that auditors must have skills and training required but so must the local authority finance staff. Also noted that there needs to be in place an **induction programme for new S151 Officers** on the Statement of Accounts and audit requirements.

### 3.4 Financial Reporting:

- **A new standardised statement of service information and costs to be prepared to enable comparison with the approved budget to the statutory accounts.** CIPFA will be consulting on a proposed format for the new statement, which will be trialled for the 2020/21 year end. If adopted, the statement will be subject to audit.
- CIPFA will 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 the local authority accounts by removing disclosures that may no longer be considered necessary.

## 4. Conclusion and Recommendation

4.1 The Redmond Report is presented to the Audit Committee for information. The report has a number of key findings and recommendations which have been presented to the Secretary of State for Housing, Communities and Local Government. The response to the report is awaited and therefore, it is unclear as to whether any of the recommendations will be accepted.

4.2 The response from the Secretary of State for Housing, Communities and Local Government will be brought to the Audit Committee when available.

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Local Member(s): All

Background Documents: None