

Subject:	The Redmond Review of Local Audit and Financial Reporting		
Date of Meeting:	12 January 2020		
Report of:	Acting Chief Finance Officer		
Contact Officer:	Name:	Nigel Manvell	Tel: 01273 293104
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Ward(s) affected:	All		

FOR GENERAL RELEASE**1 PURPOSE OF REPORT AND POLICY CONTEXT**

- 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 the new local audit arrangements and the transparency of local authority financial reporting. The guiding principles for the review were ones of accountability and transparency.
- 1.2 This report provides a summary of the findings and recommendations and updates the committee on the recently provided response from the Ministry of Housing, Communities & Local Government (MHCLG).

2 RECOMMENDATIONS

- 2.1 That the Audit & Standards Committee note the report.

3 CONTEXT/ BACKGROUND INFORMATION

- 3.1 The guiding principles of the Redmond Review were ones of accountability and transparency. The review questions: 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 well their local authority has performed and what assurance they can take from external audit work?
- 3.2 The review was concluded in September 2020 and the resulting report is entitled "Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting". The report is available on the .GOV.UK web site and the web link is provided under 'Background Documents' below. The report made 23 recommendations to the Secretary of State for Housing, Communities & Local Government, the Rt Hon Robert Jenrick MP and the key findings and recommendations from the report are summarised below.

4 KEY FINDINGS OF THE REVIEW

Local Audit Arrangements:

- 4.1 The most significant finding concerned the lack of coherence in the oversight of local audit arrangements, including the approach to procuring external auditors. There were concerns expressed regarding the effectiveness of local audits, some of which were linked to the effectiveness of the current 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 authority accounts and audit. 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 and 55% of 2019/20 audits were not completed by the extended 30 November 2020 deadline.

Governance Arrangements:

- 4.2 The report raised the question of whether Audit Committees understand the issues sufficiently to be able to question and challenge in an effective way. There are relatively low numbers of independent Audit Committee members across the sector generally, little communication between Audit Committees and inspectors and no formal exchange of views.
- 4.3 It was also commented that Internal Audit is not formally used by External Audit as the code of practice does not require them to liaise with internal auditors. The report observes that there was also little evidence of any relationship between the Audit Committee and Full Council, with very few reports passing on to Full Council from Audit Committees. There is also a question around the role of the three statutory officers (Chief Executive, Monitoring Officer and S151 Officer) in terms of their level of engagement with the external auditors, either together or individually.

Reporting:

- 4.4 The report observes that the current arrangements do not easily allow the public to understand the accounts. There is more that could be done to improve their transparency and accessibility as to what local authorities do and how they have performed.

5 SUMMARY OF THE REVIEW'S RECOMMENDATIONS

- 5.1 The report puts forward 23 recommendations to the Secretary of State for Housing, Communities & Local Government for consideration. The key recommendations are as follows:

Recommendations for the oversight of Local Audit Arrangements:

- A new 'Office of Local Audit Regulation' (OLAR) should be established, having responsibility for procuring, managing, overseeing and regulating local audits. OLAR would include the current responsibilities currently fulfilled by the Public Sector Audit Arrangements Ltd (PSAA), National Audit Office (NAO) and Financial Reporting Council (FRC), with staff being TUPE transferred to the new body. The report emphasises that OLAR is not a recreation of the Audit Commission, with staff numbers in the region of 30-35 being significantly lower. OLAR could impose sanctions where there are significant issues in a local authority, for example, for financial resilience issues where MHCLG have been called to intervene, for example, following a

public interest report from the external auditor or the issuing of a Section 114 report by a Chief Finance Officer.

- A linked recommendation includes creating a Liaison Committee, chaired by the Ministry of Housing, Communities & 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 (OLAR), as well as providing a facility for feedback and commentary in how local audits are being undertaken.
- A further recommendation is that the fee structure needs to be revised to reflect the true cost with local audit firms included in any consultation.

Governance Recommendations:

- At least 1 independent member to be required on each local authority's Audit Committee.
- There will be a formal requirement for local authorities' three statutory officers to meet external audit partners 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 date of 31 July. [Note: due to COVID-19 the 2019/20 deadline was moved for one year only to 30 November 2020.]
- It is proposed that the annual audit report should be presented to the first Full Council meeting after 30 September by the External Auditor.
- There is a recognition that auditors must have the skills and training required but so must the local authority finance staff.

Financial Reporting Recommendations:

- A new standardised statement of service information and costs to be prepared to enable comparison with the approved budget to the statutory accounts. The Chartered Institute of Public Finance & Accountancy (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 should 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.

6 MHCLG RESPONSE TO THE RECOMMENDATIONS

- 6.1 The ministry's response to the recommendations was published on 17 December 2020 and a summarised version of its responses to each of the 23 recommendations is provided at Appendix 1. Many of the recommendations have been accepted but will only come into force when the relevant codes or practice, regulations or statutes are amended or passed.

6.2 The main implications for local authorities will be:

- A likely increase in External Auditor scale fees to address the recommendations for improving the quality and timeliness of external audit. In this respect, MHCLG have also announced, as part of the provisional Local Government Financial Settlement 2021/22, that £15 million additional funding will be provided nationally to help local authorities meet the anticipated increase in costs.
- A change to the deadline for the completion and approval of the annual Statement of Accounts from 31 July 2020 to 30 September 2020 for a minimum period of 2 years after which this will be reviewed.
- If ultimately accepted, the creation of new oversight arrangements including an Office of Local Audit & Regulation (OLAR) to replace the roles of the current bodies which will include taking over responsibility for procurement of local audit contracts, producing annual reports summarising the state of local audit, management of local audit contracts, monitoring and review of local audit performance, and determining the code of local audit practice. However, this is the main area that the government has stated in the media that it is not convinced about and plans to conduct a further review of governance to look at other options. MHCLG's detailed response to these oversight recommendations will not therefore be provided until Spring 2021.
- The Full Council of each local authority will be required to receive an annual report from the external auditor after 30 September each year, irrespective of whether the accounts have been certified.
- All local authorities will be required to appoint at least one independent member to their Audit Committee. However, this council has long had in place good practice and has already appointed two Independent Persons to its Audit & Standards Committee and will therefore automatically comply with this requirement.
- There will be a formal facility for the CEO, Monitoring Officer and Chief Financial Officer (CFO) to meet with the Key Audit Partner at least annually. Similarly, this authority already follows good practice and the Chief Executive and Chief Finance Officer meet regularly with the external auditor. The Monitoring Officer can easily be brought into this arrangement.
- There will be a requirement (which could be through a code of practice, guidance or regulatory change) for External Audit and Internal Audit work to be aligned where it is relevant to assisting the external auditor to form their opinion. MHCLG will consult with the National Audit Office and CIPFA regarding the mechanics of this recommendation.
- There will be a requirement for every local authority to prepare a standardised annual statement of service information and costs, including comparison with the budget agreed to support the council tax/precept, and for this to be presented alongside the statutory accounts. The statement will also be externally audited. MHCLG will work with the Local Government Association (LGA) and CIPFA regarding the format and content of the statement.

7 ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS

- 7.1 If accepted, most of the recommendations of the Redmond Review regarding financial reporting will become minimum requirements on local authorities through changes to the relevant codes of practice or associated regulations agreed with the relevant regulatory and professional accountancy bodies. Similarly, arrangements for local audits, including fee scales, would be set by the new body (OLAR) if its creation is ultimately confirmed by MHCLG. Local authorities will, as now, be consulted by their appointed external auditor on the annual audit plan and any specific control or governance risks that the external auditor proposes to address in their audit of the accounts.

8 COMMUNITY ENGAGEMENT & CONSULTATION

- 8.1 The Redmond Review encompasses not only principal local authorities but also Police & Crime Commissioners, Fire and Rescue Authorities, Parish Councils and Drainage Boards. The Review issued a 'Call for Views' and received 156 responses and carried out more than 100 interviews across the sector in forming its conclusions and recommendations.

9 CONCLUSION

- 9.1 The Redmond Review report is presented to the Audit & Standards Committee for information along with MHCLG's response to the recommendations. None of the recommendations, whether accepted and confirmed by MHCLG or not, are yet in force. However, the report indicates the likely implications for local authorities on the basis that the recommendations so far accepted by MHCLG will be implemented as recommended by the review.

10 FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

- 10.1 Most of the recommendations of the review, if all ultimately accepted, do not have direct financial implications for the authority. For example, the preparation of a 'standardised annual statement of service information' is a new requirement but is not expected to require additional staffing or other resources as it is expected to be a summarised version of information already provided in the annual financial statements. Similarly, regular training of local authority finance staff is already provided for and this authority is not one of those that has ever failed to meet the statutory deadline. The provision of additional training for Audit & Standards Committee members and Independent Persons can be provided within existing resources as required.
- 10.2 Conversely, any increase in the fee scales provided to external auditors will have a financial implication for the council. The amount of any increase is not known although the report indicates an increase of at least 25% is probably needed which could be between £25,000 to £40,000 for Unitary Councils. However, as noted in the report, MHCLG have confirmed, through the provisional Local Government Financial Settlement 2021/22, that additional funding of £15 million will be provided nationally to assist local authorities in meeting any increase in fees. The distribution of this funding across local authorities is currently unknown and it remains to be seen whether or not this will cover any negotiated increases.

Finance Officer Consulted: James Hengeveld

Date: 17/12/2020

Legal Implications:

- 10.3 As noted at paras 6.1 and 6.2 above, the recommendations which have been accepted in principle by the ministry will not come into force until existing codes of practice, regulations or statutes are amended or new requirements are introduced. As a result, this report is for noting only. Any changes to the council's arrangements which require formal approval will be the subject of a future report to Committee.

Lawyer Consulted:

Name Victoria Simpson

Date: 20/12/2020

Equalities Implications:

- 10.4 There are no equalities implications arising from this report.

Sustainability Implications:

- 10.5 There are no sustainability implications arising from this report.

Brexit Implications:

- 10.6 There are no Brexit implications arising from this report.

Any Other Significant Implications:

None

SUPPORTING DOCUMENTATION

Appendices:

1. Summary of MHCLG's response to the Redmond Review.

Background Documents

1. The Redmond Review. Web link to the full report:

[Local authority financial reporting and external audit: independent review - GOV.UK \(www.gov.uk\)](http://www.gov.uk)