



**Brief from: Corporate Director Resources**

Meeting of	Date	Agenda Item	Ward(s)
Audit Committee	29 September 2020		ALL

## **Redmond Review of Local Authority Financial Reporting and Audit**

### **Overview**

On 8 September 2020 the Government published the results of an independent review, led by Sir Tony Redmond, into the effectiveness of local authority financial reporting and audit. Local authority accounts are complex and the Review highlights a number of potential weaknesses with the current local audit framework and makes recommendations to address these. This briefing note summarises the key findings and recommendations within the report, as well as implications for the Council.

### **Key Findings:**

The review identified a number of key issues with local audit, including:

- An ineffective balance between price and quality with 40% of audits in 2018-19 failing to meet required reporting deadlines in part due to under-resourcing and lack of experienced staff
- A lack of coordination and regulation of audit activity
- Outcomes not always being effectively considered and presented to the local authority and public
- The technical complexity of statutory accounts limiting public understanding and scrutiny

### **Recommendation**

To note that, as a result of these findings, 23 recommendations were made, with the key ones outlined below. The implementation of some of these recommendations would require changes to primary legislation however, many could be implemented without.

## **External Audit Regulation and Oversight**

- The creation of an Office of Local Audit Regulation to procure, manage and regulate external audits. Some of the existing regulatory responsibilities, which currently sit with other bodies, to transfer to the new body.
- Revisions to the current fee structure for external audits to ensure adequate resources are deployed.
- Additional skills training for those involved in local audits and the amendment of statute to allow audit firms with the requisite capacity, skills and experience to bid for local audit work.
- The deadline for publication of audited local authority accounts be considered in consultation with the NHS, with a view to extending the deadline from 31 July to 30 September.

## **Financial Reporting**

- A simplified and standardised financial statement of service information and costs be made available to the public to allow comparison with the annual budget and council tax. This new statement would be prepared in addition to the statutory accounts and would be subject to audit.
- CIPFA/LASAAC to look again at the composition of the statutory accounts to see if improvements can be made to simplify their presentation and enhance their usefulness and understandability.

## **Governance**

- The composition of audit committees be examined to ensure they have the required knowledge and expertise. Consideration should be given to the appointment of at least one suitably qualified, independent member to support elected representatives in scrutinising local authority finances.
- To demonstrate transparency and accountability, external audit would be required to submit an annual report to the first full council meeting after 30 September each year, irrespective of whether the financial accounts have been certified.
- A formal requirement for statutory officers (Chief Executive, Monitoring Officer and Section 151 Officer) to meet, at least annually, with the Key Audit Partner.

## **Financial Resilience and Sustainability**

- The current framework for seeking assurance on financial sustainability is reviewed by MHCLG to help address the gap between stakeholder expectations and what the auditor is required to do.
- The sharing of key concerns relating to service and financial viability, between local auditors and inspectorates, prior to completion of the external auditor's report.
- In addition, an update to the NAO's Code of Audit Practice that will be applicable from 2020-21 will require auditors to provide a narrative statement on the arrangements an authority has in place to secure value for money.

## **Conclusions and implications for the Council**

Recommendations will now be considered by relevant bodies. A number of recommendations require primary legislation to be in place, after which the timescale for implementation will be clearer. It is

expected that a number of recommendations will be in place for the audit of the 2021-22 accounts, at least in part. For instance, it is proposed that for 2020-21 the new standardised financial statement of service information and costs is produced on a trial basis, with full implementation as an audited statement in 2021-22.

Assuming that the recommendations are implemented, key implications for the Council will include:

- A likely increase in audit fees; with evidence suggesting audit fees collectively are at least 25% lower than required to fulfil current local audit requirements effectively.
- The requirement for the auditor to present an annual report to Full Council.
- (Continuation of) the appointment of at least one suitably qualified independent member to Audit Committee.
- An additional requirement to produce a standardised statement of service information and costs.
- A revised timetable, with a change in the reporting deadline from 31 July to 30 September.

Some of the recommendations made by other reviews on audit reform, e.g. Kingman and Brydon reviews, may also be relevant to the future of local audit and legislation to implement these is pending.

### **Financial Implications**

These are included in the main body of the report.

### **Legal Implications**

The statutory framework within which local authority audits are conducted is set out in the Local Audit and Accountability Act 2014 and the Accounts and Audit Regulations 2015. Both primary and secondary legislation would be required in order to implement the recommendations of the Redmond Review in relation to financial reporting and the audit regime.

### **Environmental Implications**

This report does not have any direct environmental implications.

### **Resident Impact Assessment**

The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding.

A Resident Impact Assessment has not been carried out in this instance, since this is a briefing paper and does not have direct policy implications.

### **Background papers:**

<https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review>

<b>Signed by:</b>		
	Corporate Director of Resources	Date 21 September 2020

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