



Report to Audit and Governance Committee

Date: 18 November 2020

Title: Redmond Review on the Effectiveness of Local Audit and Accountability to the Public

Relevant councillor(s): Katrina Wood

Author and/or contact officer: Richard Ambrose – Director of Corporate Finance (S151)

Ward(s) affected: N/A

Recommendations: Members are recommended to **note** the report

Reason for decision: N/A

Executive summary

Sir Tony Redmond carried out a review into the arrangements in place to support the transparency and quality of local authority financial reporting and external audit in England. The objectives of the review were as follows:

- 1.1 Whether the audit and related regulatory framework for local authorities in England is operating in line with the policy intent set out in the Act and the related impact assessment;
- 1.2 Whether the reforms have improved the effectiveness of the control and governance framework along with the transparency of financial information presented by councils;
- 1.3 Whether the current statutory framework for local authority financial reporting supports the transparent disclosure of financial performance and enables users of the accounts to hold local authorities to account; and
- 1.4 To make recommendations on how far the process, products and framework may need to improve and evolve to meet the needs of local residents and local taxpayers, and the wider public interest.

Content of report

The Sir Tony Redmond review noted the following key findings:

- 1.1 Local Audit arrangements - most significant finding is the *lack of coherence in local audit arrangements. No coherence in approach to procure audit*. There were serious concerns regarding effectiveness of local audit. Some of this is linked to the fee structure.
- 1.2 A view that the *cost is 25% less than it should be* and as a result *the quality of auditors has reduced*. There is concern they don't have the experience or knowledge of local authorities. 40% of audits were not complete by deadline for 2018/19.
- 1.3 Governance arrangements – *question on whether Audit Committees understand the issues to question and challenge in an effective way?* There are relatively low number of independent Audit Committee Members, little communication between the Audit Committee and Inspectors and no formal exchange of views. There seems to be no real relationship between the Audit Committee and Full Council – very few reports go to Council.
- 1.4 Internal Audit is not used much by External Audit as code of practice does not require them to liaise with internal audit work.
- 1.5 Reporting - Current arrangements *do not allow for public to understand the accounts*. More can be done to improve transparency of what local authorities do.

The recommendations in the Redmond report are:

Local Audits –

- A new 'Office of Local Audit Regulation' be established and have responsibility for procuring, managing, overseeing and regulating local audits. Will include current responsibilities fulfilled by Public Sector Audit Appointments (PSAA), National Audit Office (NAO) and Financial Reporting Council (FRC). These staff will be TUPE'D to the new body. There will be a Liaison Committee chaired by Ministry of Housing, Communities and Local Government (MHCLG) comprising FRC, Institute of Chartered Accountants in England and Wales (ICAEW), NAO, Chartered Institute of Public Finance and Accountancy (CIPFA), Local Government Association (LGA) and authority representatives, as well as Probation and Audit Partners. Would meet quarterly and provide link to Regulator. Would provide facility for feedback and commentary in how the local audits are done. Not a recreation of Audit Commission. Will be 30-35 staff. Office of Local Audit Regulation could impose sanctions where there are significant issues in a LA. E.g. If financial resilience issues where MHCLG are needed to intervene.
- Fee structure needs to be revised to reflect the true cost with local audit firms.

Governance –

- At least 1 independent member will be required on each Audit Committee.
- Will be a requirement for three statutory officers to meet External Audit annually.
- Audit Committee members will have a requirement to be trained.
- Audit completion will move to 30 September from 31 July.
- An annual report to be presented to 1st Council meeting after 30 September from the External Auditor.
- Auditors must have skills and training but also needs to be in place for LA finance staff. Need an induction/training mechanism for new s151s on Final Accounts.
- NAO has issued a new Code of Practice on VFM and these to be endorsed.

Financial Reporting –

- A new standardised statement of services and costs be required to enable a comparison of budget setting Council Tax info to outturn. Will be consulted on between September and December via CIPFA. Statement will be used in trial basis for YE 2020/21. Following year, the statement will be subject to audit. This will be a standard format and will be a requirement but does not need to be published.
- CIPFA will also be tasked with reviewing the accounts. Property, Plant & Equipment and Pension Fund issues need to be reviewed (as add little value for a local authority).

Other options considered

N/A

Legal and financial implications

None

Corporate implications

None.

Consultation and communication

None.



Next steps and review

The PSAA Public Accounts Committee has written to MHCLG regarding the report and requested a full response by December. A report will be brought back to the Committee at the appropriate time following the response from MHCLG.

Background papers

PSAA – Advisory Panel 19th October 2020

