

## Somerset County Council

Audit Committee – 21 November 2019

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### **Redmond review – call for views**

Service Director: Sheila Collins, Interim Finance Director

Lead Officer: Sheila Collins, Interim Finance Director

Author: Lizzie Watkin, Strategic Manager – Corporate and Deputy s151

Contact Details: [scollins@somerset.gov.uk](mailto:scollins@somerset.gov.uk)

Cabinet Member: Cllr Mandy Chilcott, Cabinet Member for Resources

Division and Local Member: All

#### **1. Summary/link to the County Plan**

- 1.1.** On the 17 September 2019 a review, led by the former President of the Chartered Institute of Public Finance Sir Tony Redmond, was launched to examine the effectiveness of local authority financial reporting and the audit regime.
- 1.2.** The review also looks at how councils publish their annual accounts and if the financial reporting system is sufficiently transparent to be held to account.
- 1.3.** The review closes on 20 December 2019 with an expected final report due from Sir Tony Redmond in the first half of 2020.

#### **2. Issues for consideration**

- 2.1.** Members are asked to consider and comment on the arrangements in place to support financial reporting in Somerset. An officer response will be submitted by Somerset County Council to provide information and evidence on the aspects of the review.

#### **3. Background**

- 3.1.** On the 17 September 2019 a review, led by the former President of the Chartered Institute of Public Finance Sir Tony Redmond, was launched to examine the effectiveness of local authority financial reporting and the audit regime (**attached as Appendix A**). This review of financial reporting and external audit follows the full implementation of the Local Audit and Accountability Act of 2014 and the responsibilities for local authority audits and how they are conducted is set down within that Act.
- 3.2.** The 2014 Act gave effect to manifesto commitments to abolish the Audit Commission and its centralised performance and inspection regimes and put in place a new localised audit regime, refocussing local accountability on improved transparency. Now the Act has been fully implemented, the government is required to review its effectiveness. This review will meet the Ministry of Housing, Communities and Local Government's commitment to undertake a post implementation review of the audit framework and financial reporting elements of the Act.

**3.3.** Local authorities in England are responsible for 22% of total UK public sector expenditure and it is vitally important that readers of the accounts can effectively scrutinise public stewardship of public funds and that annual accounts and financial reporting system is sufficient transparency so that it can be held to account.

**3.4.** When launched Sir Tony Redmond commented:

“This call for evidence is a key part of my review of the effectiveness of audit in local authorities and the transparency of their financial reporting.

“I will look to test the assurance processes in place with regard to value for money arrangements together with the financial resilience in local councils.

“I am keen to hear from practitioners as well as the audit community and will consider all information as I formulate my report to the Secretary of State.”

**3.5.** This call for views invites views, information and evidence on, in particular:

- definitions of audit and its users
- the expectation gap
- audit and wider assurance
- the governance framework
- audit product and quality
- auditor reporting
- how local authorities respond to audit findings
- the financial reporting framework

The call for views is aimed at anyone with a direct or indirect interest in local authority audit and financial reporting.

**3.6.** A total of 43 questions are included within the review document. Officers are keen to provide views, information and evidence with a focus on how the accounts could provide greater assurance to locally elected members along with local taxpayers and service users. It will also include how the accounts and audit process might be developed to better meet users’ needs and serve the interest of other stakeholders and the wider public interest alongside other financial and non financial reporting requirements. The response will recognise the increasing complexity of local government financial reporting requirements and the increasing pressure within the audit process.

## 4. Consultations undertaken

- 4.1** This is a comprehensive, far reaching national independent review that seeks views on the topic and encourages practitioners who work in the local government sector, the audit community, representative bodies and other relevant or interested parties, to submit their response to an open set of questions.

Officers hold regular meetings with the external auditor, where robust planning and progress against plans are monitored and the topics included within the review form a key part of the discussions.

## 5. Implications

- 5.1** The Financial Reporting Council's expectations have changed recently:
- with an increased focus on improved financial reporting from organisations;
  - an expectation for auditors to demonstrate increased scepticism and challenge;
  - an expectation for auditors to undertake additional and more robust testing.

These expectations are alongside reducing audit fees, and shorter statutory deadlines for the completion of the annual audit (moving from 30 Sept to 31 July wef 2017/18 accounting period). Collectively, the above has created additional pressure and is no longer considered sustainable.

- 5.2** However, by way of assurance, we continue to seek improvements and continue to work closely with external auditors on all aspects of the review throughout 2019/20 and into future years.

## 6. Background papers

- 6.1** Independent review into the arrangements in place to support the transparency and quality of local authority financial reporting and external audit in England: call for views:  
<http://democracy.somerset.gov.uk/ieListDocuments.aspx?CIId=160&MIId=709&Ver=4>

**Note** For sight of individual background papers please contact the report author