

## Independent Review of Local Authority Financial Reporting and External Audit

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Cabinet Member: Cllr Mandy Chilcott, Cabinet Member for Resources

Division and Local Member: All

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

- 1.1. The report provides an update on the independent review into local authority financial reporting and external audit review by Sir Tony Redmond which was published on the 8<sup>th</sup> September.
- 1.2. The review makes a number of recommendations which would have an impact upon the Council and the Audit Committee.

### 2. Issues for consideration / recommendations

- 2.1. Members are asked to note the content of the report and its potential impact upon the Council and the Audit Committee if the recommendations of the Redmond Review were adopted.

### 3. Background

- 3.1. Sir Tony Redmond was commissioned in July 2019, under the former Communities Secretary, James Brokenshire to undertake a review into local authority financial reporting and external audit. The review was completed on 8<sup>th</sup> September and the results have been [published](#).

### 4. Consultations undertaken

- 4.1. Redmond found that there is a lack of coherence in local audit arrangements and in the approach to procuring audits. The review found that the cost of audit is 25% less than it should be and as a result the quality of auditors has fallen. Redmond noted that 40% of audits missed the deadline in 2018-19 and suggests that the deadline for audited accounts to be published be extended until 30<sup>th</sup> September.

The report also questions the effectiveness of audit committees and whether they have enough independent members. Redmond also considers the relationship between the audit committee and inspectors, and between the audit committee and full council.

Recommendations include the creation of a new local government audit body ("*small and focused*" rather than a recreation of the Audit Commission) and ministers changing the way they judge the financial sustainability of councils.

He also recommends that there is at least 1 independent member required on

each Audit Committee, and that Audit Committee members and new S.151 officers need improved training on audit and final accounts. It is also recommended that 3 statutory officers meet External Audit annually and that the External Auditor presents an annual report to the first council meeting after the 30<sup>th</sup> September.

The review concludes that the current reporting arrangements do not allow the public to understand the accounts and more should be done to improve transparency. He recommends the introduction of a standardised Statement of Services and Costs to enable a comparison between budget setting and outturn. CIPFA will consult on this between September and December with a view to trialing the statement in 2020-21 year-end.

#### 4.2. Key Findings of the Review:

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.

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.

Governance arrangements – ***question on whether the 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 Audit Committee and inspectors. No formal exchange of views. There seems to be no real relationship between Audit Committee and Full Council – very few reports go to Council. Question on the role of 3 statutory officers in relationship to Audit – do they engage with auditor together on informal or formal basis? Internal Audit not used much by External Audit as code of practice does not require them to liaise with internal audit work. Feeling that they can assist. Not always the expertise of staff in completing the accounts process.

Reporting - Current arrangements ***do not allow for public to understand the accounts***. More can be done to improve transparency of what local authorities do.

#### Review Recommendations:

Local Audits –

- ***A new 'Office of Local Audit Regulation' will be established*** and have responsibility for procuring, managing, overseeing and regulating local audits. Will include current responsibility fulfilled by Public Sector Audit Appointments (PSAA), National Audit Office (NAO) and Financial Reporting Council (FRC). These staff will be transferred to the new body. There will be a Liaison Committee chaired by MHCLG comprising Financial Reporting Council, Institute of Chartered Accountants in

England & Wales, National Audit Office, Chartered Institute of Public Finance and Accountancy (CIPFA), Local Government Association and authority representatives, as well as Probation, Home Office 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 Local Authority. For example, 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 are included.

Governance –

- **At least 1 independent member will be required on each Audit Committee.**
- Will be a **requirement for 3 statutory officers to meet External Audit annually.**
- **Audit Committee members will have a requirement to be trained.**
- Audit completion will move to 30 Sept from 31 July.
- **An annual report to be presented to 1<sup>st</sup> Council meeting after 30 September from the External Auditor.**
- Auditors must have skills and training but also needs to be in place for Local Authority finance staff. Need an induction/training mechanism for new s151s on Final Accounts.
- **National Audit Office (NAO) has issued a new Code of Practice on Value for Money (VFM) and these will be endorsed.**

Financial Reporting –

- **A new standardised statement of services and costs will be required to enable a comparison of budget setting CT info to outturn.** (Report has an annex with what the statement might look like). Will be consulted on between September and December via CIPFA. **Statement will be used in trial basis for Year End 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.

## 5. CIPFA Response

- 5.1. The Chartered Institute of Public Finance and Accountancy (CIPFA) is set to launch a consultation on enhanced financial reporting requirements for local

government, recommended by today's Redmond Review.

The CIPFA consultation will seek views on how best to implement Sir Tony Redmond's proposal for an additional financial performance report.

The wide-ranging report also recommended the creation of a new audit appointments body and stressed the importance of appropriate skills for both preparers of accounts and auditors.

The proposed new financial reporting requirements would support more effective communication of the often complex financial affairs of local authorities. We recognise the important role that CIPFA is expected to take in delivering this.

"While the report's main focus is on system architecture and frameworks it also identifies the importance of enhancing high calibre skills for auditors and council finance departments. To support this, CIPFA is developing a new top-up qualification for professionals in public sector audit, as well as new continuous professional development training for new and existing council finance directors.

## **6. Implications**

- 6.1. The review was commissioned by the Secretary of State and now that the review has been published it is for him to consider which of the recommendations are taken forward and implemented. The Audit Committee updated and kept informed of the response and any formal proposals for change.

## **7. Background papers**

- 7.1. Redmond Review ([published](#))