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Redmond Review of Local Authority Financial Reporting and Audit

Report summary:

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:

1. To note the findings and recommendations of the Redmond Review, the implementation of some of these recommendations would require changes to primary legislation and revised Accounting Codes of Practice.
2. To consider recommending to Council the appointment of a suitably qualified, independent member the Audit and Governance Committee to support elected representatives in scrutinising local authority finances.

Reason for recommendation:

To ensure members of the Audit & Governance Committee are kept informed of recent developments effecting a key part of their terms of reference.

The appointment of an independent qualified member although not a requirement at this stage would meet a key recommendation of the Redmond review a head of time and accords with CIPFA Practical Guidance for Audit Committees publication.

Portfolio(s) (check which apply):

- Climate Action
- Corporate Services and COVID-19 Response and Recovery
- Democracy and Transparency
- Economy and Assets
- Coast, Country and Environment
- Finance
- Strategic Planning
- Sustainable Homes and Communities

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.

Equalities impact Low Impact

Climate change Low Impact

Risk: Low Risk;

Links to background information [Redmond Review](#)

Link to [Council Plan](#):

Priorities (check which apply)

- Outstanding Place and Environment
- Outstanding Homes and Communities
- Outstanding Economic Growth, Productivity, and Prosperity
- Outstanding Council and Council Services

Report in full

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.
- The appointment of at least one suitably qualified independent member to Audit Committee, previously raised as good practice.
- 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.