

**Meeting:           AUDIT COMMITTEE**

Portfolio Area:   Resources

**Date:               17 November 2020**

## **THE REDMOND REVIEW: INDEPENDENT REVIEW ON THE QUALITY OF LOCAL AUTHORITY REPORTING AND EXTERNAL AUDIT**

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### **1. PURPOSE**

1.1. To update Members on the Redmond Review and advise Members of any impending changes to future Statement of Accounts and External Audit.

### **2. RECOMMENDATIONS**

2.1. That the outcome of the review is noted by the Audit Committee.

2.2. That the views of the Council’s Chief Finance Officer (CFO) are noted.

2.3. That the views of the Council’s External Auditors are noted (Appendix B).

### **3. BACKGROUND**

3.1. The Local Audit and Accountability Act 2014 (the 2014 Act) introduced a new Audit regime for local government to replace the previous arrangements, under which the Audit Commission performed that role.

3.2. In June 2019, Sir Tony Redmond was asked to undertake an independent review of the effectiveness of local audit and the transparency of local authority financial reporting by the government and the Review examined the effectiveness of local audit under this new regime.

3.3 The purpose of the Review was not only to test the impact of external audit activity in local government but also to look, critically, at how this helps to demonstrate public accountability, particularly to service users and council taxpayers. In a similar context the brief of the Review extended to the issues of transparency in financial reporting of local authorities, with attention being directed towards whether the annual accounts and associated published financial information can be readily understood by the public.

3.4 The review included procurement, contract management and delivery of External Audits and the code of audit practice and regulation and accountability for performance. Whilst the focus of the Review was on local audit and public accountability there were a number of related factors which have contributed to the shape and nature of the findings. Such matters include: the breadth and complexity of International Financial Reporting Standards (IFRS); the role of the sponsoring department (MHCLG); and the current state of the local audit market. Local authorities include Councils, Police and Crime Commissioners (PCCs), Fire and Rescue Authorities (FRAs), and National Parks Authorities. NHS bodies are not local authorities and are outside the scope of this Review.

3.5 The Review received 156 responses to the Calls for Views and there were more than 100 interviews carried out.

3.6 The report is appended to this report at Appendix A.

## **4. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS**

### **4.1. Key recommendation -A new body, the Office of Local Audit and Regulation (OLAR), be created.**

4.1.1 This body will manage, oversee and regulate local audit with the following key responsibilities:

- procurement of local audit contracts;
- producing annual reports summarising the state of local audit;
- management of local audit contracts;
- monitoring and review of local audit performance;
- determining the code of local audit practice; and
- regulating the local audit sector.

4.1.2 The current roles and responsibilities relating to local audit are discharged by a number of bodies who are:

- Public Sector Audit Appointments (PSAA); (to be transferred to the OLAR).
- Institute of Chartered Accountants in England and Wales (ICAEW);
- FRC/ARGA; and
- The Comptroller and Auditor General (C&AG) (to be transferred to the OLAR).

4.1.3 A Liaison Committee be established comprising key stakeholders and chaired by MHCLG, to receive reports from the new regulator on the development of local audit.

4.1.4 **CFO Commentary:** The current arrangements are disjointed and the role of the PSAA in mediating fee variations and arbitrating on fees has not been clear from a Stevenage perspective.

### **4.2. Key Recommendation: The governance arrangements within local authorities be reviewed by local councils.**

4.2.1 **The external auditor be required to present an Annual Audit Report to the first Full Council meeting after 30 September each year** , this is irrespective of whether the accounts have been certified; OLAR will decide the framework for this report, but as such this would mean the terms of the SOA committee would need to be reviewed

and a report of the Council's Accounts from the External Auditors would go either to both the Audit Committee and Council or just the latter.

**4.2.2 Consideration being given to the appointment of at least one independent member**, suitably qualified, to the Audit Committee. The Stevenage Audit Committee has appointed a n independent member with related experience of Audit Committees.

**4.2.3 Formalising the facility for the CEO, Monitoring Officer and Chief Financial Officer (CFO) to meet with the Key Audit Partner at least annually.** The Audit Partner meets with the CFO quarterly and there are scheduled meetings with the CE, but currently not the Monitoring officer. The Monitoring Officer writes a letter annually to the Auditors on governance and any legal issues that the External Auditors should be aware of, as part of their review of the accounts.

## **4.2 Key Recommendations for External Audit Firms and Fees**

**4.2.1 All auditors engaged in local audit be provided with the requisite skills and training to audit a local authority irrespective of seniority.** The CFO would welcome this as lack of understanding how Local Authority accounts work can put an onus on the finance team. In discussion with the Council's External Audit Client Lead, he has given assurances that EY provides LA specific training and understanding at all grades.

**4.2.2 The current fee structure for local audit be revised to ensure that adequate resources are deployed to meet the full extent of local audit requirements.** The current system does not work for External Audit firms or Local Councils, the report does note that the fee system is not adequate. This is likely to mean fee increases but it is hoped by the CFO that this will be consistent across all councils.

**4.2.3 That quality be consistent with the highest standards of audit within the revised fee structure.** In cases where there are serious or persistent breaches of expected quality standards, OLAR has the scope to apply proportionate sanctions, this is welcomed by the CFO as the current position on this is not clear.

**4.2.4 Statute be revised so that audit firms with the requisite capacity, skills and experience are not excluded from bidding for local audit work.** Increasing the number of Audit Firms capable of carrying out the audits must be seen as a way of ensuring competition and capacity in the market to complete Audits on time. The External Audit firms who responded to the review also stressed the need to ensure there is sufficient capacity and availability of public sector audit specialists. Just increasing the number of suppliers might improve competition but may not address the underlying issues in Redmond report and result in competition for those staff between more firms, which doesn't increase the number of LA specialists.

**4.2.5 The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year.** This is seen by the CFO as a backward step, the Council has been able to meet the deadlines in completion of the accounts by end of May and that by putting the deadline for Audit back to the end of September, has an impact on other functions provided by the Finance service, such as budget monitoring and medium term planning and budget setting.

4.2.6 The Audit Companies welcomed this change as auditing all accounts in a two month window (including NHS clients) caused pinch points in resources in a narrow time frame. EY's responses to the consultation are summarised in Appendix B to this report.

### 4.3 Transparency of Financial Reporting

4.3.1 **A standardised statement of service information and costs be prepared by each authority and be compared with the budget agreed to support the council tax/precept/levy and presented alongside the statutory accounts. (see Appendix 4a to the Redmond Review).**

4.3.2 The standardised statement should be subject to external audit, which will naturally increase the scale fee, however the CFO feels this was an opportunity missed to simplify the accounts, rather than overlay another document to make the accounts more transparent. The CFO raised the point with the Author of the report that the language used in the example given included wording which did not necessarily would be understandable to the 'person on the street'. It was expected that this statement would evolve. The example given has similarities with the SBC's outturn report to the Executive and this could be adapted to meet the changes required.

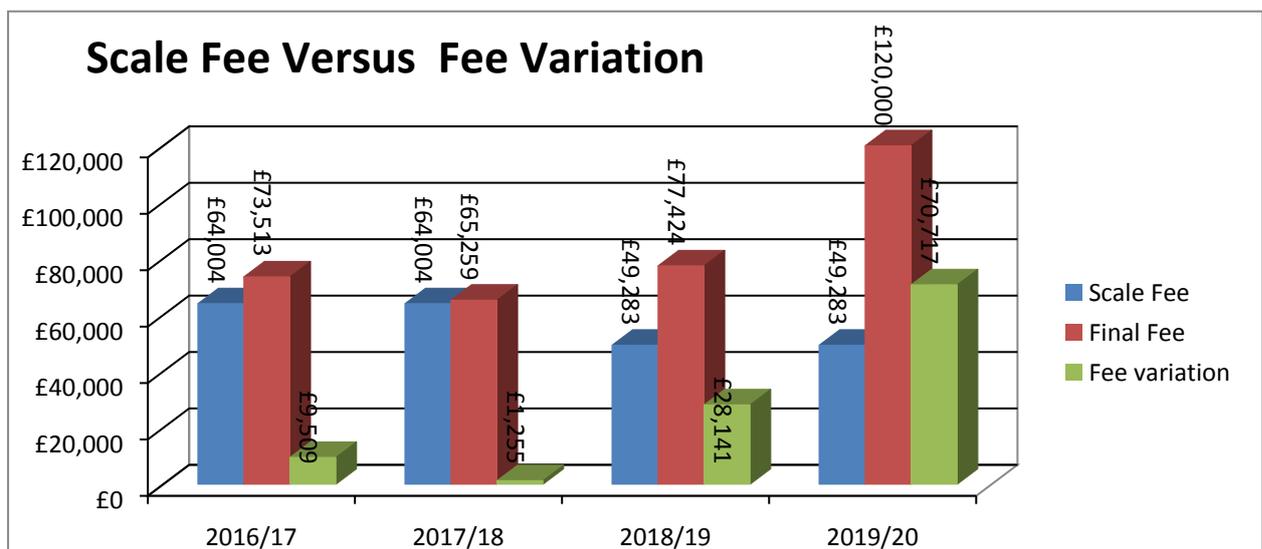
4.3.3 **Councils should consider the optimum means of communicating such information to council taxpayers/service users.**

4.3.4 **CIPFA/LASAAC be required to review the statutory accounts,** in the light of the new requirement to prepare the standardised statement, to determine whether there is scope to simplify the presentation of local authority accounts. The CFO considers this would be the optimum solution to the transparency issue, by removing disclosures that may no longer be considered to be necessary or applicable to LA's as opposed to the private sector.

## 5. IMPLICATIONS

### 5.1 Financial Implications

5.1.1 There will be financial implications of a revision to the fees, the audit of the additional simplify statement and financial resilience. The increase in fee variation is shown in the table below.



*\*2016 fee variation reduced by 50% by PSAA, 2018/19 Fee referred to PSAA*

5.1.2 The review identifies that the resource implications of the new regulatory body would amount to approximately £5Million per annum after taking into account the amount related to staff subject to transfer under the TUPE arrangements. This cost is likely to also increase fees.

## **5.2 Legal Implications**

5.2.1 The review recommends the Monitoring Officer meets once a year with the Audit Partner. A letter of disclosure is completed by the Monitoring Officer as part of the closure of accounts.

5.2.2 The review will also require a review of the terms of the SOA Committee to determine whether the Accounts and the Annual Audit report both go to Full Council.

5.2.3 Some of the recommendations in the review require a change in legislation and cannot be implemented until then.

## **5.3 Policy Implications**

5.3.1 None.

## **5.4 Equalities and Diversity Implications**

5.4.1 The Council must have due regard to the requirements of the public sector equalities duty under the Equalities Act 2010.

## **5.4 Climate change**

5.4.1 The SOA is heavily regulated in terms of the disclosures required. The Council has a Climate Change Strategy and items contained with the budget pertain to delivery of the Strategy.

## **6 BACKGROUND DOCUMENTS**

None.

## **7 APPENDICES**

Appendix A – the Redmond Report (including relevant annexes).

Appendix B – Ernst & Young’s comments on the Redmond Report.