
To consider the Independent review by Sir Tony Redmond into the effectiveness of external audit and transparency of financial reporting in local authorities

Committee considering report:	Governance and Ethics Committee
Date of Committee:	01 February 2021
Portfolio Member:	Councillor Ross Mackinnon
Date Portfolio Member agreed report:	17 December 2020
Report Author:	Joseph Holmes (Executive Director – Resources)
Forward Plan Ref:	GE3897

1 Purpose of the Report

- 1.1 This report summarises the key findings from the Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting, or 'Redmond Review', undertaken by Sir Tony Redmond. The Redmond Review took place between summer 2019 and summer 2020 with the final report issued in September 2020.
- 1.2 Given the significant challenges to the effectiveness of both local public audit and the presentation of Local Government financial reporting, this review is timely and the report highlights how the Council may wish to respond to these, and specifically, for the Governance and Ethics committee to consider if there is anything further that it may wish to undertake that has been raised as part of the review.

2 Recommendation

For the Governance & Ethics Committee to comment on the report and suggest any further amendments to its terms of reference in light of the Redmond Review.

3 Implications and Impact Assessment

Implication	Commentary
Financial:	Potential impact of additional audit fee and further costs. The Redmond Review has already meant that the PSAA has written out to Councils stating that audit variation work fees will

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	increase by 25%. Longer term audit fees could rise subject to further MHCLG (Ministry of Housing, Communities and Local Government) responses. MHCLG have also highlighted some funding for local authorities through this review but this is subject for further consideration by MHCLG.			
Human Resource:	None directly from the report; could be some impact depending on the requirement for more resource depending on the Government's response to this review.			
Legal:	None			
Risk Management:	None			
Property:	None			
Policy:	None			
	Positive	Neutral	Negative	Commentary
Equalities Impact:				
A Are there any aspects of the proposed decision, including how it is delivered or accessed, that could impact on inequality?		X		None due to proposed review and awaiting MHCLG further responses
B Will the proposed decision have an impact upon the lives of people with protected characteristics, including employees and service users?		X		None
Environmental Impact:		X		None

Health Impact:		X		None
ICT Impact:		X		None
Digital Services Impact:		X		None
Council Strategy Priorities:		X		None
Core Business:		X		Some impact if additional audit and accountancy requirements are approved by MHCLG.
Data Impact:		X		None
Consultation and Engagement:	Cllr Mackinnon – Portfolio Holder for finance			

4 Executive Summary

- 4.1 The Redmond Review was completed in September 2020 and provided 23 recommendations for the Government to consider. Some of these recommendations are also relevant for the Governance and Ethics committee to consider and decide if there is anything further that it wishes to do to implement these recommendations or to raise with officers or with External Auditors (Grant Thornton).
- 4.2 The recommendations are mainly for the Ministry of Housing, Communities and Local Government (MHCLG) but there are some points raised that could be implemented locally. Review of the recommendations has highlighted that the Council is already progressing some of these, for example an independent person on the G&E Committee.
- 4.3 The MHCLG have responded to the recommendations as part of the Local Government Finance Settlement in December 2020 so providing a clearer way forward on the review.

5 Supporting Information

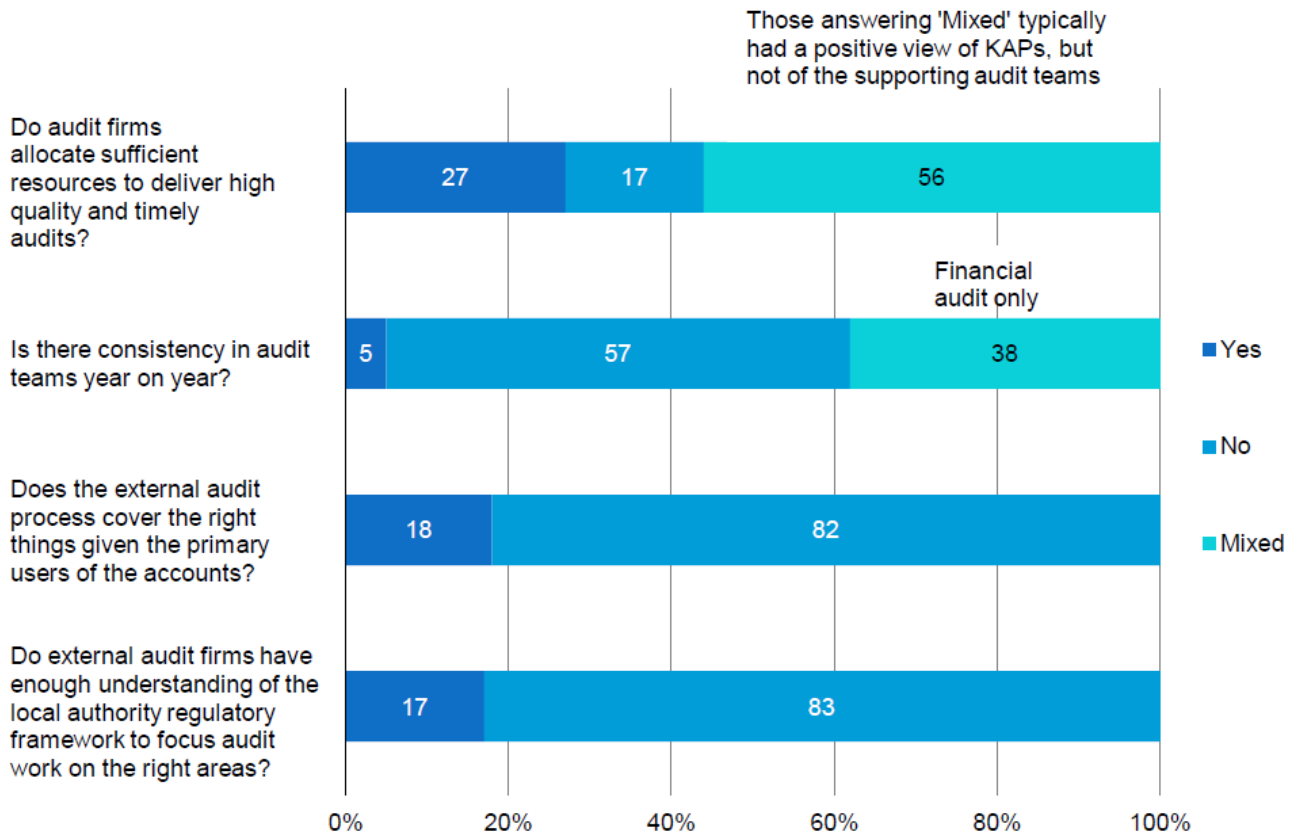
Introduction and Background

- 5.1 The Redmond Review is attached to the paper as a link in Appendix A; the document is large and so is not replicated here. However, the key recommendations are set out below with some commentary for the Governance & Ethics Committee to consider and respond on.

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5.2 There are clearly concerns over the quality of Local Government audit as well as the level of fee that is required to deliver these audits. The recent procurement undertaken by the PSAA (Public Sector Audit Appointments) for 2018-19 onwards has seen audit fees reduce on a 'scale fee' basis, but has seen a lot of increased fee variations. There has also been concern over the quality of audits and the timeliness of audit has also suffered, see charts below:

Opinions on External Audit Quality



Local Authority Call for Views responses

*n.b. KAP – Key Audit Partner

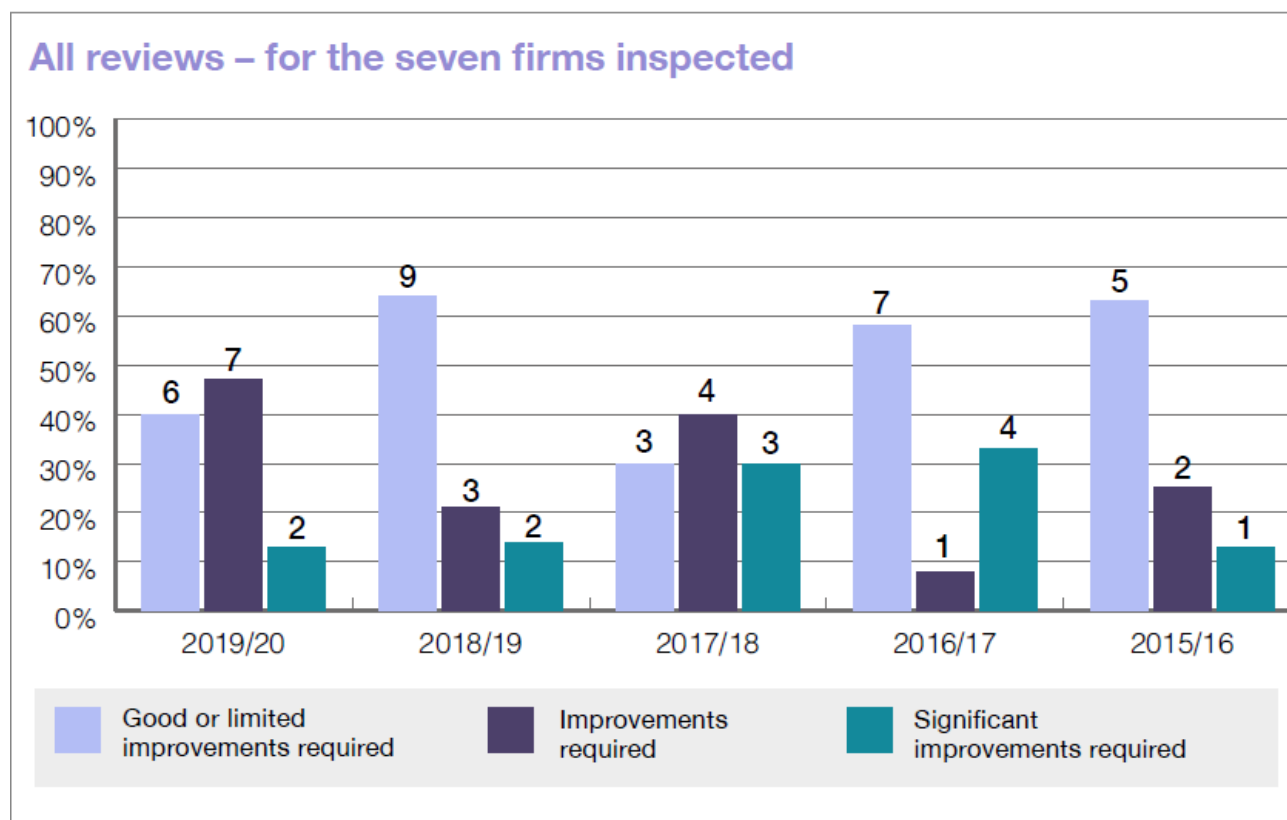
Audit opinions signed off by the statutory deadline for publishing audited accounts

	2018/19	2017/18	2016/17
Opinions issued by the statutory publication deadline	57% *31 July 2019	87% *31 July 2018	95% *30 September 2017
Opinions issued by 30 September	70%	95%	N/A

*statutory deadline for publishing local authority accounts 30 September in 2016-17; and 31 July thereafter.

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- 5.3 West Berkshire’s audit was delayed in 2018-19, and the reasons for this have already been to the G&E Committee. The 2019-20 audit will also be delayed due to the completion of the Berkshire pension fund audit being delayed.
- 5.4 The Financial Reporting Council recently (October 2020) reviewed Local Government audit quality in the report at <https://www.frc.org.uk/getattachment/da3446de-8d37-4970-828d-e816d7c0826c/FRC-LA-Public-Report-30-10-20.pdf>. The table below shows that there are still quite a high proportion of local government audits that require improvement or significant improvements:



Proposals

- 5.5 Below is a table of the 23 recommendations and a commentary against these recommendations, as well as a column highlighting some of the further steps that the Council could take, and why these are proposed or not supported.

No	Recommendation	Comments
1	A new body, the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit	MHCLG response: “the department will commit to explore the full range of options as to how best to deliver Sir Tony’s finding that a ‘system leader’ is required. This will include close

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		consideration of whether existing bodies could take on this function.”
2	<p>The current roles and responsibilities relating to local audit discharged by the:</p> <ul style="list-style-type: none"> • Public Sector Audit Appointments (PSAA); • 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. 	No comments – for MHCLG
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.	No comments – for MHCLG
4	<p>The governance arrangements within local authorities be reviewed by local councils with the purpose of:</p> <ul style="list-style-type: none"> • an annual report being submitted to Full Council by the external auditor; • consideration being given to the appointment of at least one independent member, suitably qualified, to the Audit Committee; and • formalising the facility for the CEO, Monitoring Officer and Chief Financial Officer (CFO) to meet with the Key Audit Partner at least annually. 	<p>MHCLG agreed with this recommendation – timescales tbc</p> <p>In the revised ToR for G&E (Nov. meeting) included an annual report on activity – but not delivered by the External Auditor</p> <p>Approved by the G&E committee (Nov. report)</p> <p>Noted and accept this recommendation for implementation</p>
5	All auditors engaged in local audit be provided with the requisite skills and training to audit a local authority irrespective of seniority.	MHCLG to work with stakeholders

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6	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.	Grant Thornton have already provided a revised fee for 2019-20 that has been accepted – MHCLG will look to revise regulations to enable fee changes
7	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.	See recommendation 1 in that MHCLG do not initially support the creation of an OLAR but will make a response in Spring 2021
8	Statute be revised so that audit firms with the requisite capacity, skills and experience are not excluded from bidding for local audit work.	MHCLG to work with the Financial Reporting Council and ICAEW
9	External Audit recognises that Internal Audit work can be a key support in appropriate circumstances where consistent with the Code of Audit Practice.	WBC is supportive of this to reduce work for external audit and to reduce duplication of effort on accountancy teams
10	The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year.	Supportive of this to manage internal workload and audit timescales – MHCLG have confirmed this change for 20-21 and 21-22 accounts years.
11	The revised deadline for publication of audited local authority accounts be considered in consultation with NHSI(E) and DHSC, given that audit firms use the same auditors on both Local Government and Health final accounts work.	MHCLG agree
12	The external auditor be required to present an Annual Audit Report to the first Full Council meeting after 30 September each year, irrespective of whether the accounts have been certified; OLAR to decide the framework for this report.	Unsure of the value of this as G&E is a public meeting, is online, and if external audit have concerns there is a clear framework to raise these

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13	The changes implemented in the 2020 Audit Code of Practice are endorsed; OLAR to undertake a post implementation review to assess whether these changes have led to more effective external audit consideration of financial resilience and value for money matters.	Supportive of additional work on Value for Money in Local Government – for MHCLG to clarify in Spring 2021
14	SAAA considers whether the current level of external audit work commissioned for Parish Councils, Parish Meetings and Internal Drainage Boards (IDBs) and Other Smaller Authorities is proportionate to the nature and size of such organisations	No comments – for MHCLG
15	SAAA and OLAR examine the current arrangements for increasing audit activities and fees if a body's turnover exceeds £6.5m.	No comments – for MHCLG
16	SAAA reviews the current arrangements, with auditors, for managing the resource implications for persistent and vexatious complaints against Parish Councils	No comments – for MHCLG
17	MHCLG reviews its current framework for seeking assurance that financial sustainability in each local authority in England is maintained.	See item 13
18	Key concerns relating to service and financial viability be shared between Local Auditors and Inspectorates including Ofsted, Care Quality Commission and HMICFRS prior to completion of the external auditor's Annual Report.	Would agree this seems a sensible approach and surprising that this does not happen at present – MHCLG agreed
19	A standardised statement of service information and costs be prepared by each authority and be compared with the budget agreed to support the council	MHCLG agreed to this recommendation and are seeking how to deliver this and communicate for example with it going out alongside Council Tax bills.

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	tax/precept/levy and presented alongside the statutory accounts.	
20	The standardised statement should be subject to external audit.	Agreed by MHCLG
21	The optimum means of communicating such information to council taxpayers/service users be considered by each local authority to ensure access for all sections of the communities	Agreed
22	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 by removing disclosures that may no longer be considered to be necessary.	Noted and could assist on item 19.
23	<p>JPAG be required to review the Annual Governance and Accountability Return (AGAR) prepared by smaller authorities to see if it can be made more transparent to readers. In doing so the following principles should be considered:</p> <ul style="list-style-type: none"> • Whether “Section 2 – the Accounting Statements” should be moved to the first page of the AGAR so that it is more prominent to readers; • Whether budgetary information along with the variance between outturn and budget should be included in the Accounting Statements; and • Whether the explanation of variances provided by the authority to the auditor should be disclosed in the AGAR as part of the Accounting Statements. 	No comment – responded to by MHCLG

6 Other options considered

- 6.1 The G&E committee could ignore the Redmond Review and not engage in the recommendations provided, or propose other changes. The recent report to the committee in November 2020 did set out some changes to the G&E Committee's Terms of Reference.

7 Conclusion

- 7.1 There has been considerable pressure on the financial reporting requirements of the Council in recent years as well as on the external audit provision and the fee levels. The Redmond Review highlights some changes that can be made to address these. The committee is asked to consider these recommendations.

8 Appendices

- 8.1 Appendix – A – The 'Redmond Review' - Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/916217/Redmond_Review.pdf

Background Papers:

MHCLG's response to the Redmond Review

<https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-government-response-to-the-redmond-review/local-authority-financial-reporting-and-external-audit-government-response-to-the-independent-review>

Subject to Call-In:

Yes: No:

- | | |
|--|--------------------------|
| The item is due to be referred to Council for final approval | <input type="checkbox"/> |
| Delays in implementation could have serious financial implications for the Council | <input type="checkbox"/> |
| Delays in implementation could compromise the Council's position | <input type="checkbox"/> |
| Considered or reviewed by Overview and Scrutiny Management Committee or associated Task Groups within preceding six months | <input type="checkbox"/> |
| Item is Urgent Key Decision | <input type="checkbox"/> |
| Report is to note only | <input type="checkbox"/> |

Wards affected: All

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Document Control

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