

WELWYN HATFIELD BOROUGH COUNCIL
AUDIT COMMITTEE 28 SEPTEMBER 2020
REPORT OF THE CORPORATE DIRECTOR (RESOURCES, ENVIRONMENT AND
CULTURAL SERVICES)

Part I

INDEPENDENT REVIEW INTO THE OVERSIGHT OF LOCAL AUDIT AND THE
TRANSPARENCY OF LOCAL AUTHORITY FINANCIAL REPORTING (“REDMOND
REVIEW”)

1 Executive Summary

- 1.1 In June 2019, the Government commissioned an independent review of the effectiveness of local audit and transparency of local authority financial reporting. Sir Tony Redmond was commissioned to undertake this review.
- 1.2 The findings and recommendations of the review have now been published, and this report seeks to make Audit Committee aware of the review and provide an overview of the recommendations which have been made to the Government.
- 1.3 It is unclear at this stage if all recommendations will be adopted, as the Government has not completed its review of the report and published a formal response. As some of the recommendations made would require changes to primary legislation, there may be a phased approach adopted for implementation of any agreed recommendations.

2 Recommendation(s)

- 2.1 That the committee note the update on the Redmond Review.

3 Explanation

- 3.1 In June 2019, the Government commissioned an independent review of the effectiveness of local audit and transparency of local authority financial reporting. Sir Tony Redmond was commissioned to undertake this review. The detailed terms of reference for this review are published on the Government website:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/815781/Independent_Review_ToR.pdf

- 3.2 In approaching the review, Sir Redmond undertook a “call for views” from stakeholders, including local councils, town and parish councils, fire and rescue authorities, accounting bodies and audit firms. Individual stakeholder meetings were held, and academia and media were also used in the review.
- 3.3 Some of the key areas which have been highlighted in the report, which the recommendations seek to address are:

- The state of the local audit market and ultimately the effectiveness of the work undertaken by audit firms. It is felt partly that this stems from the balance of price and quality of contracts which were tendered. In relation to the effectiveness, this is not suggesting that the audits are unprofessional, but questions whether audit reports deliver full assurance on financial sustainability and value for money;
- The fee structure and statutory timeframes, and therefore the ability to complete audits in a satisfactory way. Evidence used in relation to this element include that fact that 40% of audits failed to meet the required deadline for 2018/19;
- The absence of a body which co-ordinates all stages of the audit process. The report suggests that while there is scope to amend existing roles, it would not achieve the overriding objective of providing a coherent local audit function which offers assurance and accountability;
- Balancing the right level of required knowledge and expertise for the review and consideration of audit and financial reports; and,
- Improving the transparency of local government finance. In particular local authority accounts have been referred to as being designed for practitioners and impenetrable to the public.

3.4 The recommendations of the review are included in appendix A, and the full report and associated annexes are available on the Government's website:

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

3.5 It should be noted that the council is not considered a smaller authority for the audit and accounts purposes, so recommendations in this area do not apply to this council (recommendations 14, 15, 16 and 23)

3.6 The recommendations could directly impact on the council in the following summarised ways:

- Likely increase in audit fees;
- Need for an independent member on the Audit Committee;
- Production of additional financial summaries (although this may be offset by a removal of other disclosures following a review by the Local Authority Code Board); and,
- Extension to audit deadlines.

3.7 Other recommendations can be summarised as follows:

- Introduction of a governing body to manage, oversee and regulate (estimated to cost around £5m);
- A review of governance arrangements and accounting codes;
- Ensuring local auditors are provided with the requisite skills and training and statute be amended to ensure audit firms with these skills are not excluded from bidding from local authority work; and,
- That external audit recognises that internal audit work in appropriate circumstances.

Implications

4 Legal Implication(s)

- 4.1 At this stage, the report only sets out recommendations to the Government and has no legal standing. Some of the recommendations will require amendments to primary legislation if adopted.
- 4.2 The Government's response to the review, when published, will set out whether recommendations are adopted and how these will be approached.
- 4.3 The council will need to ensure it complies with any changes to the codes of practice and legislation as these arise.

5 Financial Implication(s)

- 5.1 Whilst it is not clear how these recommendations may impact on audit fees, detail within the report highlights that four large firms have suggested increases of between 15% and 25% would be required.
- 5.2 The additional work recommended on reporting is not anticipated to require additional resourcing as it is expected this could be managed within existing resources.
- 5.3 It has been flagged that sourcing a professionally skilled individual to sit as an independent person on the Audit Committee may be difficult to source, and it is recognised that financial incentives may be required to attract suitable candidates.
- 5.4 It should be noted that representations were made by councils that extending audit deadlines may take resources away from budget setting and planning for future financial challenges, and if the recommendations are accepted careful planning for the timing of audit work will be required.

6 Risk Management Implications

- 6.1 Risks associated are set out in this report including the financial risks associated with an increase in fees, resource implications and potential difficulties in sourcing an independent person to sit on Audit Committee.

7 Security and Terrorism Implication(s)

- 7.1 Not applicable

8 Procurement Implication(s)

- 8.1 Not applicable

9 Climate Change Implication(s)

- 9.1 Not applicable

10 Human Resources Implication(s)

- 10.1 Not applicable

11 Health and Wellbeing Implication(s)

11.1 Not applicable

12 Communication and Engagement Implication(s)

12.1 The recommended format for the summary of accounts has been recommended to improve transparency and therefore engagement of residents. The optimum way to communicate this information to residents and service users has been left to local authorities to consider.

13 Link to Corporate Priorities

13.1 The subject of this report is linked to the Council's Corporate Priority "Our Council".

14 Equality and Diversity

14.1 An EqIA was not completed for this report.

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Appendices

Appendix A – Recommendations of the Redmond Review

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External Audit Regulation

1. A new body, the Office of Local Audit and Regulation (OLAR), be created to 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.
2. The current roles and responsibilities relating to local audit discharged by the:
 - 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.
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. The governance arrangements within local authorities be reviewed by local councils with the purpose of:
 - 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.
5. All auditors engaged in local audit be provided with the requisite skills and training to audit a local authority irrespective of seniority.
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.
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.
8. Statute be revised so that audit firms with the requisite capacity, skills and experience are not excluded from bidding for local audit work.
9. External Audit recognises that Internal Audit work can be a key support in appropriate circumstances where consistent with the Code of Audit Practice.
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.

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.
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.
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.

Smaller Authorities Audit Regulation

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.
15. SAAA and OLAR examine the current arrangements for increasing audit activities and fees if a body's turnover exceeds £6.5m.
16. SAAA reviews the current arrangements, with auditors, for managing the resource implications for persistent and vexatious complaints against Parish Councils.

Financial Resilience of local authorities

17. MHCLG reviews its current framework for seeking assurance that financial sustainability in each local authority in England is maintained.
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.

Transparency of Financial Reporting

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 tax/precept/levy and presented alongside the statutory accounts.
20. The standardised statement should be subject to external audit.
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.
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.
23. 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:

- 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.