



Classification	Item No.
Open	

<b>Meeting:</b>	Audit Committee
<b>Meeting date:</b>	17 <sup>th</sup> November 2020
<b>Title of report:</b>	Update regarding the Redmond Review on Local Authority Financial Reporting and Audit.
<b>Report by:</b>	Lisa Kitto Interim Director of Financial Transformation
<b>Decision Type:</b>	<b>Council</b>
<b>Ward(s) to which report relates</b>	<b>All</b>

### Executive Summary:

This report sets out the publication of the Sir Tony Redmond Report into Local Audit and the Transparency of Local Authority Financial Reporting which makes recommendations linked into external audit and the production of the Statement of Final Accounts.

Sir Tony Redmond was requested to undertake a review into the effectiveness of the local audit regime for local authorities and the transparency of the financial reporting regime. This review is complete and has reported back to the Secretary of State for Housing, Communities and Local Government. In total 23 recommendations were made covering the following topics:

- External Audit Regulation
- Smaller Authorities Audit Regulation
- Financial Resilience of Local Authorities
- Transparency of Financial Reporting

## Recommendation(s)

### That:

- Members note the content of the report.
- Updates are brought to Audit Committee regarding the status of the Redmond Review, the recommendations agreed by the Government and progress being made by Bury Council to implement the recommendations.

## Key considerations

### 1. Background

The regulatory regime for Local Audit changed under the coalition government when the Audit Commission was abolished. The functions undertaken by the Audit Commission were reallocated to a few bodies and Public Sector Audit Appointments (overseen by the Local Government Association) was created to undertake the tendering for and oversight of performance for local authority appointed auditors.

The decision to abolish the Audit Commission did attract some controversy and Sir Tony Redmond was commissioned to undertake an independent review by the Ministry of Housing, Communities and Local Government to assess the effectiveness of Local Audit regime and the Transparency of Local Authority Financial Reporting. Sir Tony Redmond is an experienced Finance Professional (Former Chief Executive and Treasurer)

### 2. Key findings of the review undertaken by Sir Tony Redmond:

#### 2.1 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 members and public
- The technical complexity of statutory accounts limiting public understanding and scrutiny.

2.2 As a result of his review Sir Tony made 23 recommendations to the Government who will now need to consider how many of the recommendations it decides to implement with associated timescales. The key recommendations are outlined below:

#### 2.3 External Audit Regulation and Oversight:

- The creation of an Office of Local Audit Regulation (OLAR) to procure, manage and regulate external audits. Some of the regulatory responsibilities which sit with other bodies such as the PSAA, 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 31st July to 30th September.

## 2.4 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.

## 2.5 Governance

- The composition of audit committees be examined to ensure they have the required knowledge and expertise. Many local authority audit committees have no independent members at all and consist entirely of Councillors.
- To demonstrate transparency and accountability, external audit would be required to submit an annual report to the first full council meeting after 30<sup>th</sup> September each year, irrespective of whether 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.

## 2.6 Financial Resilience and Sustainability

- The current framework for seeking assurance on financial sustainability is reviewed by the 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 auditors 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.

## 3. Implications for Bury Council

Assuming the recommendations are accepted and implemented by the Government the key implications for the Council are:

- A likely increase in audit fees; with evidence suggesting audit fees collectively are 25% lower than require to fulfil local audit requirements effectively. However, it is hoped that this will be offset by an improved system of regulation and a better co-ordination of the external audit role for local authorities.
- Formalisation of the facility for the Chief Executive, the Monitoring Officer and the Chief Financial Officer to meet with the Key Audit Partner at least annually.
- An Independent Audit Committee Member must be appointed.
- Potential for External Audit to recognise that Internal Audit work can be a key support in appropriate circumstances where consistent with the Code of Practice.
- A revised timetable, with a change in the reporting deadline for published audited local authority accounts being extended to 30<sup>th</sup> September from 31 July each year.
- The requirement for the external auditor to present an Annual Audit report to the first Full Council meeting after 30<sup>th</sup> September each year, irrespective of whether the accounts have been certified.
- A new standardised financial statement of service information and costs will form part of the audited statements in 2021-22 and this will be subjected to External Audit. ( Bury Council has pro-actively already commenced work on the standardised statement of service and information and costs and this will be included in the financial statements produced for the financial year 2020/21 and there is no requirement that this is subjected to Audit).

## **Community impact / Contribution to the Bury 2030 Strategy**

Compliance with Financial Management Code of Practice

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### **Equality Impact and considerations:**

24. *Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:*

*A public authority must, in the exercise of its functions, have due regard to the need to -*

- (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;*
  - (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;*
  - (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.*
25. *The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services.*
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## Assessment of Risk:

The following risks apply to the decision:

Risk / opportunity	Mitigation
Reputational risk of organisation should a critical external audit report be received in the event the Council fails to implement Government recommendations arising from the Redmond Review.	Corporate Governance representatives in the Council are aware of the Redmond Review report and will ensure that all Government recommendations arising from the Sir Tony Redmond Review which relate to Bury Council will be implemented within the timescales stipulated.

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## Consultation:

N/a

## Legal Implications:

There are no legal implications arising from this report. The recommendations from the Redmond Review if implemented will require further action.

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## Financial Implications:

There is potentially an increase in external auditor fees should the proposals be accepted. Any increase will be reflected in the Council's budget at the appropriate time.

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## Background papers:

The full report by Sir Tony Redmond can be found at:

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

**Please include a glossary of terms, abbreviations and acronyms used in this report.**

Term	Meaning
OLAR	Office of Local Audit Regulation
PSAA	Public Sector Audit Appointments
CIPFA	Chartered Institute of Public Finance and Accountancy
LASAAC	Local Authority (Scotland) Accounts Advisory Committee
MHCLG	Ministry of Housing, Communities and Local Government
NAO	National Audit Office