

# Audit and Risk Committee

02 March 2021

Agenda item number 11

## Independent review of External Audit and Financial Reporting

Report by Chief Financial Officer

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### Summary

This report seeks to provide an overview of the recommendations raised by Sir Tony Redmond raised in his review into external audit and financial reporting.

### Recommendation

To note the report.

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## 1. Introduction

- 1.1. During 2019 the Ministry of Housing, Communities and Local Government (MHCLG) invited Sir Tony Redmond to review the arrangements in place to support the transparency and quality of local authority financial reporting and external audit including those introduced by the Local Audit and Accountability Act 2014.
- 1.2. The results of this review were published in September 2020 outlining 23 recommendations. MHCLG provided an initial response to some of those recommendations in December 2020, with the aim of making a full response this

spring. Links to the details of both of these reports can be found at the bottom of this report, under background papers.

- 1.3. This report aims to highlight the recommendations and those relevant to the Authority.

## 2. Review Recommendations

- 2.1. Of the 23 recommendations raised, these were split into four areas: External Audit Regulation, Smaller Authorities Audit Regulation, Financial Resilience of Local Authorities and Transparency of Financial Reporting.

### External Audit Regulation

- 2.2. 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.
- 2.3. 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);
  - The Financial Reporting Council (FRC)/Audit, Reporting and Governance Authority (ARGA); and
  - The Comptroller and Auditor General (C&AG) to be transferred to the OLAR.
- 2.4. 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.
- 2.5. 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.

- 2.6. All auditors engaged in local audit be provided with the requisite skills and training to audit a local authority irrespective of seniority.
- 2.7. 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.
- 2.8. 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.
- 2.9. Statute be revised so that audit firms with the requisite capacity, skills and experience are not excluded from bidding for local audit work.
- 2.10. External Audit recognises that Internal Audit work can be a key support in appropriate circumstances where consistent with the Code of Audit Practice.
- 2.11. The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year.
- 2.12. The revised deadline for publication of audited local authority accounts be considered in consultation with NHS England and NHS Improvement (NHSI(E)) and Department for Health and Social Care (DHSC), given that audit firms use the same auditors on both Local Government and Health final accounts work.
- 2.13. 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.
- 2.14. 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 (SAAA)**

- 2.15. 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.
- 2.16. SAAA and OLAR examine the current arrangements for increasing audit activities and fees if a body's turnover exceeds £6.5m.
- 2.17. 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.**

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

- 2.19. Key concerns relating to service and financial viability be shared between Local Auditors and Inspectorates including Ofsted, Care Quality Commission and Her Majesty's Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS) prior to completion of the external auditor's Annual Report.

### **Transparency of Financial Reporting**

- 2.20. 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.
- 2.21. The standardised statement should be subject to external audit.
- 2.22. 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.
- 2.23. 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.
- 2.24. Joint Panel on Accountability and Governance (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.

## **3. Recommendations applicable to the Authority**

- 3.1. Whilst the government considers its full response to the recommendations, it is important to recognise that these have been drafted for Local Government bodies, many who have council tax/precept payers, and that National Parks also sit within those regulations. It is slightly disappointing that National Parks are not considered a SAAA, given the level of turnover of many National Parks just exceeds the £6.5 million threshold.
- 3.2. The creation of a new OLAR would require a change in primary legislation and is not supported by MHCLG. It also falls outside of government policy not to create new arms-length bodies. MHCLG will look at other ways of supporting the recommendations within the existing frameworks.

- 3.3. With regard to recommendation 4 (2.5), it is important to note that the Authority already partially complies with this. Whilst this committee receives the annual report rather than the Broads Authority, annual meetings already take place between the CEO and the CFO with the key audit partner. MHCLG have indicated that they would like to see this recommendation delivered and will work with the LGA, NAO and CIPFA to do so. The Authority would need to consider if a further independent person would need to be appointed to this committee once this becomes a requirement.
- 3.4. The fee structure will be of interest to the Authority (2.7) given the large increase that has been requested for the 2019/20 audit. Whilst MHCLG is offering £15 million to relevant local authorities in 2021/22, it is unclear how National Parks may benefit from this. At the November committee, it was agreed to contact DEFRA regarding the fee increases and the Chief Executive has followed this up with DEFRA officials. They have committed to discussing this and the scope of our audit with MHCLG.
- 3.5. Recommendation 10 (2.11) has been considered by MHCLG and it is looking to extend the deadline to 30 September for the next two financial years and then review. MHCLG is looking to have the revised regulations in place before the 2021 summer recess. The draft committee timetable has been amended moving the November audit and Risk Committee meeting to September. The draft timetable will be considered at the Broads Authority meeting on 19 March 2021.
- 3.6. MHCLG has supported the standardised statement of service which will ideally be only one or two pages long. It will work with CIPFA with a view to it being produced from 2021/22 as part of the Statement of Accounts. MHCLG hope that it will also be distributed with council tax bills from 2022 and the Authority will need to consider how this could be achieved for its users.

## 4. Conclusion

- 4.1. The Redman review is one in a number of reviews into audit. During 2018, Sir John Kingman carried out a review of the FRC and recommended that the local audit regime be fundamentally rethought to improve scrutiny, quality and leadership. Further criticisms around audit quality, transparency and departmental oversight in terms of system assurance were made in the March 2019 Public Accounts Committee Inquiry Auditing Local Government which was based on an earlier report issued by the National Audit Office (NAO). This was followed by the Brydon Review into the quality and effectiveness of audit in December 2019. It recommended that the creation of a new corporate auditing profession to tackle problems in the wider audit market. This recommendation was aimed at the audit profession as well as at government. The government is developing proposals in response to this.
- 4.2. Members will be aware that there have been issues surrounding the completion of the audit for the 2018/19 and 2019/20 Statement of Accounts. In 2018/19 40% of audits did not meeting the publication deadline of 31 July and for the 2019/20 over 50% did not meet the deadline of 30 November. Covid-19 has no doubt increased these delays

with audits being conducted remotely. The review recognises the pressures that both audit firms and finance teams face in these delayed deadlines so the temporary movement of the deadline is welcome. However, without attracting individuals to the local authority audit market, who will be adequately skilled and trained, it is difficult to see how good quality and timely audits will be delivered in the longer term, whilst maintain market sustainability.

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Background papers: [Redmond Review.pdf \(publishing.service.gov.uk\)](#)  
[Local authority financial reporting and external audit: government response to the independent review - GOV.UK \(www.gov.uk\)](#)