

| Report for: | Governance, Audit, Risk Management and Standards Committee |
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| Date of Meeting: | 1 December 2020 |
| Subject: | INFORMATION REPORT: Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting |
| Responsible Officer: | Dawn Calvert – Director of Finance and Assurance |
| Exempt: | No |
| Wards affected: | n/a  |
| Enclosures: | Appendix – Independent Review Report  |

| Section 1 – Summary  |
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| This report presents the Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting, known as the ‘Redmond Review’, to the committee for information and as notice of potential future action.  |

## Section 2 – Report

**Background**

2.1 Local Government in England is responsible for 22% of total UK public sector expenditure. It is essential that local authority financial reporting is of the highest level of transparency to allow taxpayers to understand how their money is being spent.

2.2 The responsibilities for the framework within which local authority audits are conducted is the Local Audit and Accountability Act 2014. It gave effect to the abolition of the Audit Commission and its centralised performance and inspection regimes and put in place a new localised audit regime, refocussing local accountability on improved transparency.

**The Review**

2.3 Once the Act was fully implemented, the Government was required to review its effectiveness. In June 2019 the Secretary of State for the Ministry of Housing, Communities and Local Government (MHCLG) invited Sir Tony Redmond to conduct a Review of 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 (the Act).

2.4 The Review has examined the effectiveness of local audit and its ability to demonstrate accountability for audit performance to the public. It has also considered whether the current means of reporting the Authority’s annual accounts enables the public to understand this financial information and receive the appropriate assurance that the finances of the authority are sound.

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

**Key Findings**

2.6 Serious concerns were expressed by respondents regarding the state of the local audit market and the ultimate effectiveness of the work undertaken by audit firms. This is not saying that the audits are carried out unprofessionally but there remains a question of whether such audit reports deliver full assurance on the financial sustainability and value for money of every authority subject to audit. A particular feature of the evidence submitted relates to concern about the balance of price and quality in the structure of audit contracts.

2.7 A regular occurrence in the responses to the calls for views suggested that the current fee structure does not enable auditors to fulfil the role in an entirely satisfactory way. With 40% of audits failing to meet the required deadline for report in 2018/19, this signals a serious weakness in the ability of auditors to comply with their contractual obligations.

2.8 The underlying feature of the existing framework is the absence of a body to coordinate all stages of the audit process. Although there is some scope to effect alterations to the individual roles, appropriately fulfilled with the existing framework, this would not achieve the overriding objective of providing a coherent local audit function which offers assurance to stakeholders and the public in terms of performance and accountability of the local authority and the auditor.

2.9 The report recognises that local audit is subject to less critical findings in respect of audit procurement and quality relating to smaller authorities.

2.10 Governance in respect of the consideration and management of audit reports by authorities has also been examined in considerable detail. Based on evidence presented, the required knowledge and expertise is not always present in Audit Committees when considering reports and an annual audit report to Full Council is currently lacking in many authorities.

2.11 The issue of transparency is of equal relevance to the current presentation and publication of the annual accounts as the feedback from practitioners and other key stakeholders revealed that current statutory accounts prepared by local authorities are considered to be impenetrable to the public.

**Recommendations**

2.12 The report makes 13 recommendations in relation to External Audit Regulation, 3 in relation to Smaller Authorities Audit Regulation (not relevant to Harrow), 2 in relation to Financial Resilience of Local Authorities, and 5 in relation to Transparency of Financial Reporting.

2.13 Implementation of the Review’s recommendations would, in part, require regulatory or legislative change.

**Next Steps**

2.14 The following recommendations made in the report, which do not require legislative change, will be considered by officers and a report brought back to the committee for consideration:

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.

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.

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.

## Legal Implications

#### There are currently no legal implications to the report however legislation may be introduced as a result of the report’s recommendations.

## Financial Implications

There are currently no financial implications to the report however there may be a cost to the implementation of some of the report’s recommendations.

## Risk Management Implications

There are currently no risk management implications.

## Equalities implications / Public Sector Equality Duty

None.

## Council Priorities

N/A as not a decision report.

## Section 3 - Statutory Officer Clearance

N/A as not a decision report

## Section 4 - Contact Details and Background Papers

**Contact:** Susan Dixson, Head of Internal Audit & Corporate Anti-Fraud, 02084241420

**Background Papers**: None.

If appropriate, does the report include the following considerations? N/A

1. Consultation N/A

2. Priorities N/A