

Report To:	Audit Committee	Date:	19TH October 2020
Heading:	Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting.		
Portfolio Holder:	N/A		
Ward/s:	ALL		
Key Decision:	No		
Subject to Call-In:	No		

Purpose of Report

To provide members with an update on recommendations arising from the Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting.

Recommendation(s)

Members consider whether there are any actions they require in relation to the recommendations arising from the Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting.

Reasons for Recommendation(s)

To present members with the opportunity to consider the content of the Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting.

Alternative Options Considered

The independent review was unique. No other options were considered.

Detailed Information

1. Background

1.1 In June 2019, the Government commissioned Sir Tony Redmond to undertake an independent review of the effectiveness of local audit and the transparency of local authority financial reporting. The findings from Sir Redmond's report were published on 8 September 2020.

- 1.2 The guiding principles of the review were accountability and transparency. How are local authorities accountable to service users and taxpayers and how are auditors accountable for the quality of their work; and how easy is it for those same individuals to understand how their local authority has performed and what assurance they can take from external audit work.
- 1.3 In summary, it makes detailed proposals for a new organisation with the clarity of mission and purpose to act as the system leader for the local audit framework; and for a standardised statement of service information and costs, compared to the annual budget, that is aimed at taxpayers and service users. A link to the Report can be found here: :
<https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review>

2. Summary of Key Findings

- 2.1 Local External Audit arrangements - most significant finding is the lack of coherence in local audit arrangements.
 - a. There appeared to be no coherence in approach to procure audit and there were serious concerns regarding effectiveness of local audit.
 - b. Some of this is linked to the fee structure and a view that the cost is 25% less than it should be and as a result the quality of auditors has reduced.
 - c. There is concern auditors do not have the experience or knowledge of local authorities.
 - d. 40% of audits were not complete by the deadline for 2018/19.
- 2.2 Governance arrangements – question on whether the Audit Committees understand the issues to question and challenge in an effective way?
 - e. There are a relatively low number of independent Audit Committee members and little communication between Audit Committee and inspectors.
 - f. No formal exchange of views.
 - g. There seems to be no real relationship between Audit Committee and Full Council with very few reports going to Full Council.
 - h. Question on the role of the 3 statutory officers in relationship to Audit – do they engage with auditor together on informal or formal basis?
 - i. Internal Audit not used much by External Audit as code of practice does not require them to liaise with internal audit work although there is a feeling that they can assist.
 - j. Not always the expertise in local authority finance departments in completing the accounts process.
- 2.3 Reporting - Current arrangements do not allow for the public to understand the accounts. More can be done to improve transparency of what local authorities do.

3. Summary of Recommendations

- 3.1 The recommendations in the report centred on 3 aspects, namely: Local Audit arrangements, Governance and Financial Reporting.
- 3.2 Local Audits –
 - a. A new Office of Local Audit Regulation (OLAR) will be established and have responsibility for procuring, managing, overseeing and regulating local audits. This will include current responsibility fulfilled by Public Sector Audit Appointments (PSAA), National Audit Office (NAO) and Financial Reporting Council (FRC).

- b. There will be a Liaison Committee chaired by the Ministry for Housing, Communities and Local Government (MHCLG) comprising FRC, Institute of Chartered Accountants in England and Wales (ICAW), NAO, Chartered Institute for Public Finance and Accountancy (CIPFA), Local Government association (LGA) and authority representatives, as well as Probation, Home Office and Audit Partners. This would meet quarterly and provide a link to the regulator and would provide facility for feedback and commentary in how the local audits are done.
- c. The OLAR could impose sanctions where there are significant issues in a local authority, e.g. if financial resilience issues where MHCLG are needed to intervene.
- d. 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.
- e. 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.

3.3 Governance –

- f. At least 1, suitably qualified, independent member will be required on each Audit Committee.
- g. There will be a requirement for the 3 statutory officers to meet with External Audit annually.
- h. All Audit Committee members will have a requirement to be trained.
- i. The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year.
- j. An annual report to be presented to first Full Council meeting after 30 September from the External Auditor, irrespective of whether the accounts have been certified.
- k. Auditors must have skills and training but also needs to be in place for local authority finance staff.
- l. The need for an induction/training mechanism for new s151 Officers on Final Accounts.
- m. 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.

3.4 Financial Reporting –

- n. A new standardised statement of services and costs will be required to enable a comparison of budget setting Council Tax information to outturn.
- o. CIPFA/ Local Authority (Scotland) Accounts Advisory Committee (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.

Implications

Corporate Plan:

Effectiveness of local audit and transparency of local authority financial reporting contributes to ensuring we are providing good quality and value for money services as identified as our purpose in the Corporate Plan.

Legal:

There are no legal implications.

Finance:

Budget Area	Implication
General Fund – Revenue Budget	There are no specific financial implications arising from this report.
General Fund – Capital Programme	
Housing Revenue Account – Revenue Budget	
Housing Revenue Account – Capital Programme	

Risk:

Risk	Mitigation
Audit Committee members are not aware of the review and the findings.	The findings of the report are being reviewed by Audit Committee.

Human Resources:*None***Environmental/Sustainability***None***Equalities:***None***Other Implications:***None***Reason(s) for Urgency***N/A***Reason(s) for Exemption***N/A***Background Papers**

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

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