



COTSWOLD DISTRICT COUNCIL

Council name	COTSWOLD DISTRICT COUNCIL
Name and date of Committee	AUDIT COMMITTEE – 29 OCTOBER 2020
Report Number	AGENDA ITEM 12
Subject	UPDATE ON SIR TONY REDMOND REPORT
Wards affected	All
Accountable member	Cllr Mike Every Deputy Leader and Cabinet Member for Finance Email: Mike.Every@cotswold.gov.uk
Accountable officer	Jenny Poole – Chief Finance Officer Email: Jenny.Poole@cotswold.gov.uk
Summary/Purpose	The report provides the Audit Committee with an update on the recent report published by Sir Tony Redmond “ <i>Independent Review into the Oversight of Local Audit and the Transparency of Local Audit Financial Reporting</i> ”. Sir Tony Redmond’s report may lead to changes to the format and content of the Council’s statement of accounts, to the membership of the Council’s Audit Committee and to the fees charged for the audit of Council’s financial statements. In the event of recommendations from Sir Tony Redmond’s report being implemented further reports will be presented to the Audit Committee, Cabinet and Council as appropriate.
Annexes	None
Recommendation	<i>To note the report.</i>
Corporate priorities	<ul style="list-style-type: none"> • delivering our services to the highest standards • responding to the challenges presented by the climate crisis • providing good quality social rented homes • presenting a local plan that’s green to the core • helping residents and communities access the support they need for good health and wellbeing • supporting businesses to grow in a green, sustainable manner, and to provide high value jobs
Key Decision	No
Exempt	No
Consultees/ Consultation	None

1. Background

- 1.1. In June 2019, Sir Tony Redmond was asked to undertake an independent review of the effectiveness of local audit and the transparency of local authority financial reporting. Having completed the review, Sir Tony Redmond's report (the Review) was published in September 2020. The full report is available on the Government website, Gov.uk, the link to the relevant webpage is shown below:

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

- 1.2. This report provides an update to the Audit Committee of the Review's conclusions and recommendations. The report also sets out actions which will now be taken by various stakeholders in response to the Review. The outcome of these actions may have an impact upon the Council and may require the Council to revise elements of its Constitution. Further reports will therefore be presented to the Audit Committee, Cabinet and Council as appropriate and necessary.

2. Main Points

- 2.1. The Review examined the following points:
- Effectiveness of local audit and its ability to demonstrate accountability for audit performance to the public;
 - 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.
- 2.2. The review received 156 responses to the Calls for Views and carried out more than 100 interviews.
- 2.3. The outcomes of the Review were summarised in the Executive Summary, which is set out below:

"Executive Summary

- *Serious concerns have been expressed regarding the state of the local audit market and the ultimate effectiveness of the work undertaken by audit firms. This is not to say 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.*
- *A regular occurrence in the responses to the calls for views suggests that the current fee structure does not enable auditors to fulfil the role in an entirely satisfactory way. To address this concern an increase in fees must be a consideration. 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. The current deadline should be reviewed. A revised date of 30 September gathered considerable support amongst respondents who expressed concern about this current problem. This only in part addresses the quality problem. 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.

- *Consequently, a key recommendation is to create a new regulatory body responsible for procurement, contract management, regulation, and oversight of local audit. It is recognised that the new body will liaise with the Financial Reporting Council (FRC) with regard to its role in setting auditing standards. The engagement of audit firms to perform the local audit role would be accompanied by a new price/quality regime to ensure that audits were performed by auditors who possessed the skills, expertise and experience necessary to fulfil the audit of local authorities. These auditors would be held accountable for performance by the new regulator, underpinned by the updated code of local audit practice. A further recommendation is to formalise the engagement between local audit and Inspectorates to share findings which might have relevance to the bodies concerned.*
- *The Regulator would be supported by a Liaison Committee comprising key stakeholders and chaired by the Ministry of Housing, Communities and Local Government (MHCLG). The new regulatory body would be small and focused and would not represent a body which has the same or similar features as the Audit Commission.*
- *The report recognises that local audit is subject to less critical findings in respect of audit procurement and quality relating to smaller authorities. However, the recommendations include a review by Smaller Authorities' Audit Appointments (SAAA) of current arrangements relating to the proportionality of small authority audits together with the process for managing vexatious complaints where issues have been raised by those bodies which have experienced such challenges.*
- *Governance in respect of the consideration and management of audit reports by authorities has also been examined in considerable detail. Based on evidence presented, there is merit in authorities examining the composition of Audit Committees in order to ensure that the required knowledge and expertise are always present when considering reports, together with the requirement that at least an annual audit report to be submitted to Full Council. This demonstrates transparency and accountability from a public perspective which is currently lacking in many authorities.*
- *The issue of transparency is of equal relevance to the current presentation and publication of the annual accounts. Given that 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, it is recommended that a simplified statement of service information and costs is prepared by each local authority in such a way as to enable comparison with the annual budget and council tax set for the year. This would enable Council taxpayers and service users to judge the performance of the local authority for each year of account. The new statement would be prepared in addition to the statutory accounts, which could be simplified. All means of communicating such information should be explored to achieve access to all communities.*
- *The outcome of this Review is designed to deliver a new framework for effective local audit and an annual financial statement which enables all stakeholders to*

hold local authorities to account for their performance together with a robust and effective audit reporting regime.

- *Aside from the additional costs arising from a fee increase, the resource implications of the new regulatory body would amount to approximately £5m per annum after taking into account the amount related to staff subject to transfer under the TUPE arrangements.*
- *Implementation of recommendations contained in this Review would, in part, require regulatory or legislative change but it is important to note that many of the issues identified in this report require urgent attention, given the current concerns about local audit demonstrated in this Review.”*

2.4. The recommendations from the Review are as follows:

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 Chief Executive Officer (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 7 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.

Next Steps by Stakeholders

- 2.5. Since the publication of his report, Sir Tony Redmond has presented the finding of his review to various stakeholder groups. In those presentations he has set out his view of the actions which need to be action in response to his report. Those actions can be summarised as follows:
 - The Ministry for Housing, Communities and Local Government (MHCLG) will need to consider the recommendations.
 - Should MHCLG agree with the recommendation to establish a new Office of Local Audit and Regulation this will require primary legislation.
 - The proposed Liaison Committee could be established early to co-ordinate across the Local Audit market
 - A consultation on the revised presentation of local authority accounts to be carried out by the end of December 2020;
 - The use of the new standardised statement of service information and costs to be used on a trial basis for the 2020/21 financial statements and for the statement to be audited from the 2021/22 statements;
 - CIPFA to consider how it can assist with support for new Chief Finance Officers before taking on the role;
 - Training requirements for both accountants preparing the financial statements and auditors carrying out local audits to be addressed by audit firms and local Chief Finance Officers;
 - PSAA Ltd to consider the Review recommendations and plan next steps;
 - CIPFA to consider the Review recommendations and in particular to consider Property, Plant and Equipment and pension fund and reporting requirements and potential simplification of the accounts; and

- Local Councils to review their governance arrangements with regard to Full Council consideration of an Annual Report from the external auditor, appointment of one independent member (suitably qualified) to the Audit Committee and formalising the facility for the Chief Executive Officer, Monitoring Officer and the Chief Finance Officer to meet with the Key Audit Partner at least annually.

Potential Impact upon Cotswold District Council

- 2.6. If the Review recommendations are accepted the impacts for this Council can be summarised as follows:
- There will be changes to the format and content of the statement of accounts, potentially with effect from the 2020/21 financial statements;
 - External audit fees will increase;
 - The Council will need to consider the impact upon its Constitution with regard to Full Council receiving an Annual Report from the external auditor and the Audit Committee including one independent member; and
 - The Chief Finance Officer will need to consider the adequacy of training provided to accountants preparing the Council's financial statements.
- 2.7. Should the Council be required to revise its Constitution, further reports will be considered by this Committee and Council.

3. Financial Implication

- 3.1. There are no financial implications as a direct result of this report. However, any increase in external audit fees as a result of the Redmond Review will require the Council to increase the external audit fee budget accordingly.

4. Legal Implications

- 4.1. There are no legal implications arising from this report.

5. Risk Assessment

- 5.1. Any increase in external audit fees as a result of the Redmond Review will require the Council to increase the external audit fee budget accordingly.

6. Equalities Impact

- 6.1. There are no equalities implications arising from this report.

7. Climate and Ecological Implications

- 7.1. There are no climate and ecological implications arising from this report.

8. Background Papers

- 8.1. None.