

Redmond Review of Local Authority Financial Reporting and Audit

Overview

On 8 September 2020 the Government published the results of an independent review, led by Sir Tony Redmond, into the effectiveness of local authority financial reporting and audit. Local authority accounts are complex and the Review highlights a number of potential weaknesses with the current local audit framework and makes recommendations to address these. This briefing note summarises the key findings and recommendations within the report, as well as implications for the Council.

Key Findings:

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 the local authority and public
- The technical complexity of statutory accounts limiting public understanding and scrutiny

Recommendation

To note that, as a result of these findings, 23 recommendations were made, with the key ones outlined below. The implementation of some of these recommendations would require changes to primary legislation however, many could be implemented without.

External Audit Regulation and Oversight

- The creation of an Office of Local Audit Regulation to procure, manage and regulate external audits. **Implemented by Government.**
- Revisions to the current fee structure for external audits to ensure adequate resources are deployed. **Implemented for 2023/24 accounts. Prices increasing by circa 150%.**
- 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. **Pending.**
- The deadline for publication of audited local authority accounts be considered in consultation with the NHS, with a view to extending the deadline from 31 July to 30 September. **Under constant review the deadline for 22/23 is the 30th September.**

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. **Policy in process.**

- 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. **Policy in process.**

Governance

- The composition of audit committees be examined to ensure they have the required knowledge and expertise. Consideration should be given to the appointment of at least one suitably qualified, independent member to support elected representatives in scrutinising local authority finances. **Although not yet set in statute, it is considered best practice. Recommendation is for DBC to recruit at least one independent AC member in 2023.**
- To demonstrate transparency and accountability, external audit would be required to submit an annual report to the first full council meeting after 30 September each year, irrespective of whether the financial accounts have been certified. **Policy in process.**
- A formal requirement for statutory officers (Chief Executive (CEX), Monitoring Officer (MO) and Section 151 Officer) to meet, at least annually, with the Key Audit Partner. **DBC stat officers (S151 and CEX) meet with the key audit partner quarterly, we will look to include the MO going forward.**

Financial Resilience and Sustainability (The new Annual Auditors Report on the June agenda)

- The current framework for seeking assurance on financial sustainability is reviewed by 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 auditor's 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.

Conclusions and implications for the Council

As you will see above some of these Recommendations have been implemented, are still under discussion or no further action has been taken to date. A number of the outstanding recommendations require primary legislation to be in place, after which the timescale for implementation will be clearer.

Assuming that some of the outstanding recommendations are implemented, key implications for Dacorum will include:

- A likely increase in audit fees of circa 150% in 2023/24.
- The requirement for the auditor to present an annual report to Full Council.
- The appointment of at least one suitably qualified independent member to the Audit Committee.
- An additional requirement to produce a standardised statement of service information and costs.

- A revised timetable, with a change in the reporting deadline to 30th September, as in the current year.

Some of the recommendations made by other reviews on audit reform, e.g. Kingman and Brydon reviews, may also be relevant to the future of local audit and legislation to implement these is pending.