

**12 October 2020****Agenda Item: 8****REPORT OF SERVICE DIRECTOR FOR FINANCE, INFRASTRUCTURE &  
IMPROVEMENT****INDEPENDENT REVIEW INTO THE OVERSIGHT OF LOCAL AUDIT AND THE  
TRANSPARENCY OF LOCAL AUTHORITY FINANCIAL REPORTING****Purpose of the Report**

1. 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.

**Background**

2. The responsibilities for the framework within which local authority audits are conducted is the Local Audit and Accountability Act 2014. When the Government abolished the Audit Commission and its centralised performance and inspection regimes it put in place a new localised audit regime, refocussing local accountability on improved transparency. Now the Act has been fully implemented, the Government had a commitment to review its effectiveness by undertaking a post implementation review of the audit framework and financial reporting elements of the Act.
3. 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. The Review did not look at the broader issues of local authority finances and sustainability.
4. 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.
5. 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>

## Summary of Key Findings

6. 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.
7. Governance arrangements – question on whether the Audit Committees understand the issues to question and challenge in an effective way?
  - a. There are relatively low number of independent Audit Committee members and little communication between Audit Committee and inspectors.
  - b. No formal exchange of views.
  - c. There seems to be no real relationship between Audit Committee and Full Council with very few reports go to Full Council.
  - d. Question on the role of the 3 statutory officers in relationship to Audit – do they engage with auditor together on informal or formal basis?
  - e. 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.
  - f. Not always the expertise in local authority finance departments in completing the accounts process.
8. Reporting - Current arrangements do not allow for public to understand the accounts. More can be done to improve transparency of what local authorities do.
9. The recommendations in the report centred on 3 aspects, namely: Local Audit arrangements, Governance and Financial Reporting.
10. 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 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.

#### 11. Governance –

- a. At least 1, suitably qualified, independent member will be required on each Audit Committee.
- b. There will be a requirement for the 3 statutory officers to meet with External Audit annually.
- c. All Audit Committee members will have a requirement to be trained.
- d. The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year.
- e. 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.
- f. Auditors must have skills and training but also needs to be in place for local authority finance staff.
- g. The need for an induction/training mechanism for new s151 Officers on Final Accounts.
- h. 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.

#### 12. Financial Reporting –

- a. A new standardised statement of services and costs will be required to enable a comparison of budget setting Council Tax information to outturn.
- b. 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.

#### **Other Options Considered**

- 13. The report presents members with an update on the recommendations from the Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting. No other options were considered.

#### **Reason/s for Recommendation/s**

- 14. 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.
- 15. The recommendations arising from this national review will now be considered by the Government. It is anticipated that any changes then forthcoming from the Government's response would be subject to further consultation.

## **Statutory and Policy Implications**

16. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

## **RECOMMENDATION/S**

1) 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.

**Nigel Stevenson**

**Service Director for Finance, Infrastructure & Improvement and Section 151 Officer**

**For any enquiries about this report please contact:**

Nigel Stevenson

### **Constitutional Comments (KK 9/9/2020)**

17. The proposal in this report is within the remit of the Governance and Ethics Committee.

### **Financial Comments (NS 9/9/2020)**

18. There are no specific financial implications arising from this report.

## **Background Papers and Published Documents**

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- None

## **Electoral Division(s) and Member(s) Affected**

- All