

**AUDIT COMMITTEE
27 JANUARY 2021**

**INDEPENDENT REVIEW INTO THE OVERSIGHT OF LOCAL AUDIT AND THE
TRANSPARENCY OF LOCAL AUTHORITY FINANCIAL REPORTING**

**Responsible Cabinet Member –
Councillor Charles Johnson, Resources Portfolio**

**Responsible Director –
Paul Wildsmith, Managing Director**

SUMMARY REPORT

Purpose of the Report

1. To update Members on the outcome of the Independent Review into the Oversight of Local audit and the Transparency of Local Authority Financial Reporting.

Summary

2. In June 2019, the Secretary of State for the Ministry of Housing, Communities and Local Government (MHCLG) asked 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.
3. This report summarises the findings and recommendations of the review and the subsequent Government response.

Recommendation

4. It is recommended that members note the contents of the report.

Reasons

5. To inform Members of the potential changes to the regulations.

**Paul Wildsmith
Managing Director**

Background Papers:

Independent Review into the Oversight of Local audit and the Transparency of Local Authority Financial Reporting.
MHCLG response

S17 Crime and Disorder	This report has no implications for crime and disorder
Health and Wellbeing	No direct impacts
Carbon Impact and Climate Change	No direct Impacts
Diversity	No direct impacts
Wards Affected	No direct impacts
Groups Affected	No direct impacts
Budget and Policy Framework	This decision does not represent a change to the budget and policy framework.
Key Decision	This is not an executive decision
Urgent Decision	This is not an executive decision
One Darlington: Perfectly Placed	The proposals in the report support delivery of the Community Strategy through appropriate and effective deployment of the Council's resources.
Efficiency	There is no specific efficiency impact.
Impact on Looked After Children and Care Leavers	This report has no impact on Looked After Children or Care Leavers

MAIN REPORT

Information and Analysis

Terms of Reference for the Review

6. 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).

Review Objectives

7. The Review was to examine the existing purpose, scope and quality of statutory audits of local authorities in England and the supporting regulatory framework in order to determine:
 - (a) Whether the audit and related regulatory framework for local authorities in England is operating in line with the policy intent set out in the Act and the related impact assessment,
 - (b) Whether the reforms have improved the effectiveness of the control and governance framework along with the transparency of financial information presented by councils;
 - (c) Whether the current statutory framework for local authority financial reporting supports the transparent disclosure of financial performance and enables users of the accounts to hold local authorities to account; and

- (d) To make recommendations on how far the process, products and framework may need to improve and evolve to meet the needs of local residents and local taxpayers, and the wider public interest

Scope of the Review

- 8. The review's scope was taken to include the objectives and context included in the terms of reference.
- 9. In practice, this meant that the review was likely to focus on the following questions:
 - (a) Have the financial savings from local audit reforms been realised?
 - (b) Is there a more accessible audit market and has there been an increase in audit providers?
 - (c) Have audit standards been maintained or improved, and not been compromised?
 - (d) Is there an 'expectation gap' in what external audit provides? What is the nature of the gap and how can it be filled?
 - (e) Are auditors properly responding to questions or objections by local taxpayers?
 - (f) Are auditors using their reporting powers in an appropriate way?
 - (g) Are audit recommendations effective in helping local authorities to improve their financial management?
 - (h) Are councils responding to auditor recommendations in an appropriate manner?
 - (i) Whether local authority accounts report financial performance including use of resources against budget in a manner that is transparent and comprehensible to council tax payers and the general public?
 - (j) Does the financial information provided in local authority accounts facilitate scrutiny by local taxpayers and by the local press?

Results of the Review

- 10. The Review examined the effectiveness of local audit and its ability to demonstrate accountability for audit performance to the public. It also considered whether the current means of reporting the Council's annual accounts enabled the public to understand the financial information and receive the appropriate assurance that the finances of the authority are sound.
- 11. There are 23 recommendations coming from the report and the full review and recommendations are shown in **Appendix 1**, with the MHCLG response to these in **Appendix 2**.
- 12. MHCLG have already agreed to some of the recommendations and they are considering the rest and will make a full response by Spring 2021.
- 13. Although all of the recommendations in the report are important the ones most pertinent to this Committee are reviewed below:
 - (a) **Recommendation No.4** - The governance arrangements within local authorities be reviewed by local councils with the purpose of:
 - (i) an annual report being submitted to Full Council by the external auditor;
 - (ii) consideration being given to the appointment of at least one independent member, suitably qualified, to the Audit Committee; and

- (iii) formalising the facility for the CEO, Monitoring Officer and Chief Financial Officer (CFO) to meet with the Key Audit Partner at least annually.
 - (b) **Recommendation No.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.
 - (c) **Recommendation No. 9** - External Audit recognises that Internal Audit work can be a key support in appropriate circumstances where consistent with the Code of Audit Practice
 - (d) **Recommendation No.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.
 - (e) **Recommendation No. 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.
 - (f) **Recommendation No.20** - The standardised statement should be subject to external audit.
 - (g) **Recommendation No.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 to simplify the presentation of local authority accounts by removing disclosures that may no longer be considered to be necessary.
14. With respect to Recommendation No.4, The MHCLG have agreed to work with the Local Government Association (LGA), National Audit Office (NAO) and the Chartered Institute of Public Finance and Accountancy (CIPFA) to deliver the recommendation. It is not yet known in what format the annual report to Full Council will take as the external auditor already submits the Annual Audit Letter via Audit Committee to Cabinet but Members will be briefed as soon as the report is formalised.
15. Members will need to be updated as to how the recommendation of the appointment of a suitably qualified independent member affects this Committee and be involved in the process as soon as possible. As far as formalising the facility for the Managing Director, Chief Finance Officer and Monitoring Office to meet with the Audit Partner is concerned, this is already happening to a certain extent as the Managing Director and Chief Financial Officer already meet with the external auditor on a quarterly basis.
16. Recommendation No.6 requests that the current fee structure is revised as it has acknowledged that external audit is underfunded which will mean increased fees for Local Government, although MHCLG have made a commitment in the December 20 Settlement to put an additional £15m into the system. At present the Council doesn't know what its allocation from this money will be but Members will be updated as and when the information is available.

17. Recommendation No. 9 is welcomed as this Committee receives regular updates on Internal Audit work and recognises the benefit it could add to the process and MHCLG have agreed to work with the NAO and CIPFA to deliver this recommendation.
18. Recommendation No. 10 is important as it is extending the deadline for the approval of the Statement of Accounts from 31 July to 30 September each year (initially for 2 years and then to be reviewed by MHCLG) which will mean that the Audit Committee dates will need to be reviewed accordingly and to cause as least disruption as possible it is recommended that the October meeting is rescheduled to end of September to enable the approval of the Statement of Accounts by the statutory deadline. In practice this won't have much effect on the Final Accounts timetable as the Council now has procedures in place to ensure that the accounts are closed and finalised by the end of May and it is proposed to adhere to this timescale to ensure that there is no knock-on effect on other Council processes, although this is reliant on External Audit being able to complete the audit in the timeframe.
19. With Recommendations No.19 & No.20, no further information is known as MHCLG have agreed that CIPFA will develop a product that will need to go alongside the Statement of Accounts and be audited by external audit and will therefore have to be approved by this Committee and Members will be updated on progress as soon as possible.
20. Recommendation No.22 is about reviewing the statutory Accounts with a view to removing any disclosure notes that don't add any value to the understanding of the accounts and MHCLG have agreed that CIPFA can deliver this and is to be welcomed to cut down on unnecessary notes.

Conclusion

21. The Review has highlighted a potential weakness in the way in which audit outcomes are considered and presented to both the local authority and the public. In addition, the Review also states that transparency and accountability of audit reports, from a public perspective is lacking and there is considerable scope for the Key Audit Partner to present a report on the principal issues arising from the audit to Full Council at least annually.

Outcome of Consultation

22. No formal consultation has been undertaken regarding this report