

HAMPSHIRE COUNTY COUNCIL

Decision Maker	Audit Committee
Date:	30 September 2020
Title:	Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting by Sir Tony Redmond
Report From:	Deputy Chief Executive and Director of Corporate Resources

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Purpose of this Report

1. The purpose of this report is to highlight some of the key findings of the [independent review](#) by Sir Tony Redmond into the effectiveness of external audit and transparency of financial reporting in local authorities.

Recommendation

2. To note the contents of the review and that officers will bring an update on action required to the next Council Audit Committee.

Executive Summary

3. In June 2019, The Secretary of State for Housing, Communities and Local Government asked Sir Tony Redmond to undertake an independent review of the effectiveness of local audit and the transparency of local authority financial reporting. The resulting report was published on 8 September 2020.
4. The review makes 23 recommendations and its findings can be summarised into three main topics:
 - Local audit arrangements
 - Governance arrangements
 - Financial reporting

The key elements of each are summarised below.

Local Audit arrangements

5. The report makes detailed proposals for a new regulatory body responsible for procurement, contract management, regulation, and oversight of local audit. The new body, The Office of Local Audit and Regulation (OLAR) will take on 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);
 - Financial Reporting Council (FRC) or its planned replacement: Audit, Reporting and Governance Authority (ARGA);
 - The Comptroller and Auditor General (C&AG).

It is envisaged that 30 – 35 staff will transfer from these organisations.

6. The OLAR will be supported by a Liaison Committee chaired by MHCLG comprising key stakeholders including FRC/ARGA, ICAEW, NAO, CIPFA, LGA and authority representatives, as well as Probation, HO and Audit Partners. Meeting quarterly, it will provide a link to the regulator and provide a facility for feedback and commentary in how the local audits are carried out. The OLAR could impose sanctions where there are significant issues in a local authority e.g. financial resilience issues where MHCLG are needed to intervene.
7. The report concludes that the local audit market is very fragile. The current fee structure does not enable auditors to fulfil the role in an entirely satisfactory way. 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 report therefore recommends an increase in fees must be considered and a 30 September deadline for the audit completion, rather than 31 July.

Governance arrangements

8. The review questions whether Audit Committees understand the issues to question and challenge in an effective way? There are relatively low number of independent Audit Committee members and little communication between Audit Committee Members, external auditors and other inspectors and no formal exchange of views. The report comments that there seems to be no real relationship between Audit Committee and Full Council as very few reports go to Council.
9. The report recommends:
 - 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;

- formalising the facility for the CEO, Monitoring Officer and Chief Financial Officer (CFO) to meet with the Key Audit Partner at least annually;
- 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.

Financial Reporting

10. The report concludes that current statutory accounts prepared by local authorities are 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. All means of communicating such information should be explored to achieve access to all communities.
11. The new statement would be prepared in addition to the statutory accounts and would be audited to give it credibility. An example statement is contained in an annex to the report. CIPFA LASSC will also be tasked with reviewing and simplifying the current accounting requirements. For example, the technical accounting adjustments for Property, Plant & Equipment and Pension Fund issues need to be reviewed.

Conclusions

12. The outcome of the Redmond 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. Implementation of recommendations contained in the Review would, in part, require regulatory or legislative change.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because:

It relates to the effective Governance of the County Council.

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

Document

Location

EQUALITIES IMPACT ASSESSMENT:

1. Equality Duty

The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

2. Equalities Impact Assessment:

There are no new proposals in this report requiring an assessment.