

Agenda Item 6

TO: Overview and Scrutiny Committee

FROM: Deputy Chief Executive Officer – Matthew Warren

PRESENTING OFFICER(S): Deputy Chief Executive Officer Matthew Warren

Telephone **01480 444615**
matthew.warren@cambsfire.gov.uk

DATE: 7 January 2021

Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting

1. Purpose

1.1 The purpose of this report is to bring to the attention of Members the above report by Sir Tony Redmond, published on 8 September 2020 and highlight the key points to keep Members up to date with sector developments. This report also comments on the response to the review by the Ministry of Housing, Communities and Local Government (MCHLG) released on 17 December 2020 and the impact on this Authority.

2. Recommendation

2.1 The Overview and Scrutiny Committee is asked to note the contents of this report and in particular the elements that will directly affect the Authority (Paragraph 7 refers).

3. Risk Assessment

3.1 **Political** - external audit is a key assurance mechanism. If the Authority does not provide audited accounts within the prevailing framework, it will not provide the necessary assurance that it is acting with regularity, propriety and value for money in the use of its resources.

3.2 **Economic** – there is a risk that if the Authority does not have a robust audit system and transparent financial reporting it will not be able to demonstrate it is delivering value for money for taxpayers who, as a consequence, will lose confidence in local democracy systems.

3.3 **Social** – statutory accounts are the only information provided by the Authority that are independently verified through external audit. For users of the accounts to trust and rely on this information, they must have confidence the audit process is robust and be able to understand what the financial reports are telling them. Failure to provide and present such information in

this way places the Authority at risk of losing public confidence and being seen as bureaucratic.

3.4 Technological - external auditors have a duty to inform stakeholders of matters of importance and can play a crucial role in bringing concerns into the public domain. It is equally important that the Authority has robust governance mechanisms in place to review and, if necessary, act on audit findings.

3.5 Legal - audit ensures transparency and accountability and, when done well, encourages audited bodies to have strong governance and financial records. The Authority must ensure it follows the relevant financial and regulatory frameworks.

4. Equality Impact Assessment – not applicable.

5. Background

5.1 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. The guiding principles of the review were accountability and transparency;

- How are local authorities accountable to service users and taxpayers?
- How are auditors accountable for the quality of their work?
- 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?

5.2 The review not only encompassed principal local authorities but Police and Crime Commissioners, Fire and Rescue Authorities, Parish Councils and Meetings and Drainage Boards.

5.3 Consultation ran from 17 September to 20 December 2019 and attracted 156 responses. The review made 23 recommendations and the main themes from the consultation are given at paragraphs 5.4 to 5.10 below.

5.4 Action to support immediate market stability - serious concerns were expressed regarding the state of the local audit market and the ultimate effectiveness of the work undertaken by audit firms. The review found that new audit firms had not been attracted to the local authority market and there is significant risk that the firms currently holding local audit contracts could withdraw from it. Respondents did not necessarily question the professionalism of how audits are conducted but more if they delivered full assurance on the financial sustainability and offered value for money; the evidence submitted related to concern about the balance of price and quality in the structure of audit contracts detailing how the current fee structure did not enable auditors to satisfactorily fulfil the role. It is known that 40% of audits failed to meet their contractual deadline in 2018/19 suggesting a

serious weakness in the ability of auditors to comply with their contractual obligations.

5.5 A revised date of 30 September (currently 31 July) to publish audited local authority accounts was widely supported by respondents. However the review suggests that this would only address part of the quality problem. It suggests the underlying feature of the existing framework is the absence of a body to coordinate all stages of the audit process; there is an overriding need to provide 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.

5.6 **Consideration of system leadership options** – a key recommendation of the review is to create a new regulatory body (the Office of Local Audit and Regulation) responsible for procurement, contract management, regulation and oversight of local audit. It would liaise with the Financial Reporting Council with regard to its role in setting audit standards and 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. In our case this would be Her Majesty's Inspectorate of Constabulary and Fire and Rescue Services.

5.7 The Regulator would be supported by a Liaison Committee comprising key stakeholders and chaired by the MCHLG; it would be small and focused and would not represent a body which has the same or similar features as the Audit Commission.

5.8 **Enhancing the functioning of local audit and the governance for responding to its findings** – the review examined how authorities considered audit reports. It made recommendations on Committee composition, knowledge and experience to ensure robust scrutiny of reporting and that to demonstrate transparency and accountability to the public at least an annual audit report is submitted, in our case, to the Fire Authority for approval.

5.9 **Improving transparency of local authorities' accounts to the public** - transparency of annual accounts (presentation and publication) was also raised by the review. It states that current statutory accounts prepared by local authorities are considered impenetrable to the public and recommends that a simplified statement of service information and costs is prepared by each local authority that enables comparison with the annual budget and the council tax set for the year. The new statement would be prepared in addition to the statutory accounts, which could be simplified. Consideration of ways in which to communicate this information should be explored to enable access for all.

5.10 Action to further consider the functioning of local audit for smaller bodies – this part of the review applies only to Parish Councils, Parish Meetings and Internal Drainage Boards and other smaller authorities.

5.11 In summary, the outcome of the 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. There are cost and resource implications of a new regulatory body that the review suggest would amount to approximately £5 million per annum. Whilst the changes would require some regulatory and legislative change Sir Redmond suggests the concerns raised are urgent. The full review report can be found via;

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/916217/Redmond_Review.pdf

6. Response to the Review by the Ministry of Housing, Communities and Local Government (MCHLG)

6.1 The MCHLG has a statutory role in regulating and monitoring the financial and service delivery of local government. It responded to the review on 17 December 2020 with the following covering statement;

- *This response to the Redmond Review, prepared by the Ministry of Housing, Communities and Local Government, forms part of the department's post-legislative scrutiny assessment of parts 1 to 5 of the Local Audit and Accountability Act 2014 which received Royal Assent on 30 January 2014.*
- *The department's review of the non-audit related elements of the 2014 Act will be published separately.*

6.2 In its response the MCHLG agreed to 14 of the 23 recommendations, partially agreed to two and deferred seven until Spring 2021. The main area for deferral related to system leadership options. The full response can be found via;

<https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-government-response-to-the-redmond-review>

7. Impact on Cambridgeshire and Peterborough Fire Authority

7.1 The recommendations agreed by the MCHLG that will affect the Authority in the short to medium term are as follows;

Action to support immediate market stability - MCHLG agreed to look to revise regulations to enable PSAA to set fees that better reflect the cost to audit firms of undertaking additional work. If the current **fee structure** for local audit is revised to ensure that adequate resources are deployed to meet the full extent of local audit requirements this cost will be passed on to the Authority. MCHLG also agreed to look to extend the **deadline for publishing**

audited accounts from 31 July to 30 September for the next two financial years (20/21 and 21/22) then review.

Improving transparency of local authorities' accounts to the public – MCHLG agreed that 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. An illustrative **simplified financial statement** for a fire and rescue authority was provided. The Treasurer to the Authority will ensure compliance as appropriate.

7.2 Consideration of system leadership options – the MCHLG stated it would respond to the recommendations made regarding system leadership in Spring 2021. The Treasurer to the Authority will monitor any communications, review and report back to the Authority as appropriate.

7.3 In summary, the review by Sir Redmond and the MCHLG response signal change in how external audit is delivered in the public sector. Whilst it is widely recognised that governance in the context of external audit is more transparent in fire and rescue authorities, the Treasurer to the Authority will monitor and review the direction of travel to ensure compliance with any legislative changes and best practice is adopted by this Authority.

BIBLIOGRAPHY

Source Document	Location	Contact Officer
Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting	Hinchingbrooke Cottage Brampton Road Huntingdon PE29 2NA	Deb Thompson Scrutiny and Assurance Manager deb.thompson@cambsfire.gov.uk