

REDMOND REVIEW INTO
LOCAL GOVERNMENT AUDIT

INDEPENDENT AUDIT COMMITTEE MEMBERS

SEPTEMBER 2021



INDEPENDENT AUDIT COMMITTEE MEMBERS

A closer look at the Redmond Review Recommendation No.4

Ensuring audit committees have the skills they need to provide appropriate scrutiny and challenge is an ongoing issue in the local government arena. Appointing independent members may be the solution.

BACKGROUND TO THE REDMOND REVIEW

Six years ago, the Government abolished the Audit Commission in England, transferring its local audit work to the private sector and its oversight responsibilities to a range of public sector organisations. The changes were expected to provide for a “more robust, accountable and efficient way of holding local councils to account”.¹

In 2020, Sir Tony Redmond conducted an independent review of the effectiveness of local audit and financial reporting. A key question guiding the review was: “How are local authorities accountable to service users and taxpayers and how are auditors accountable for the quality of their work?”² We believe that this question is key to the work we do in the public sector. Establishing effective accountability is essential to delivering high quality and independent audit services.

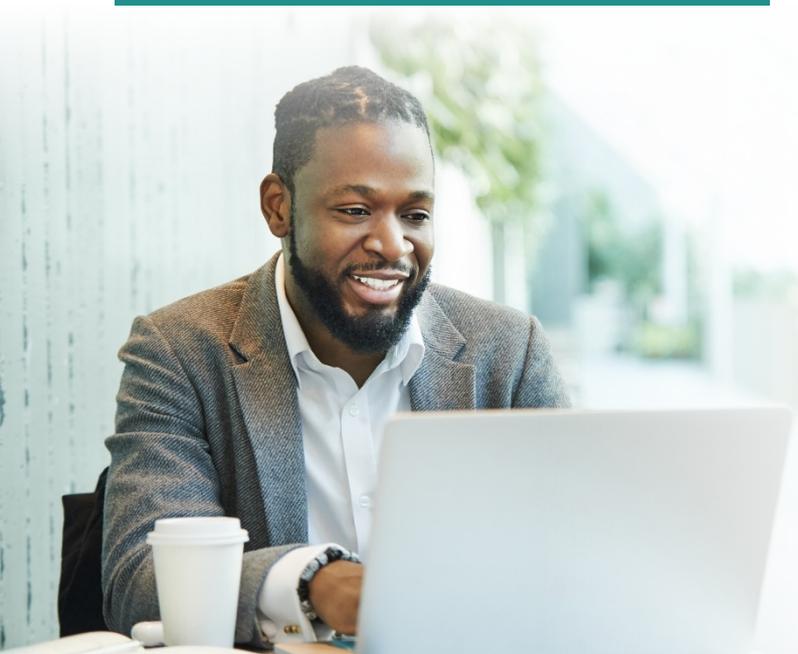
RECOMMENDATION NO.4

Of the 23 recommendations that the Redmond review presented, No.4 calls for a review of local authority governance arrangements. This includes a recommendation of “consideration being given to the appointment of at least one independent member, suitably qualified, to the Audit Committee”.²

This recommendation was made to address the finding that 56% of local authority audit committees had no independent members.² The Government has agreed to this recommendation and acknowledged that there are instances where current governance arrangements “fail to appropriately escalate concerns identified by external audits.”³ Furthermore, the Government has announced that it will work with key stakeholders such as CIPFA, the National Audit Office (NAO) and the Local Government Association (LGA) to issue guidance on the appointment of independent members to audit committees.³

The audit committee deals with complex accounts, as well as governance issues arising from internal audit work on specialist areas such as cyber security and environmental performance. A skills gap within the audit committee could weaken the audit process, resulting in insufficient scrutiny and challenge of officers and inadequate mitigation of the risks facing local authorities.

In the local government arena, the elected members who receive audit reports and accounts may lack the skills and expertise required to sufficiently understand and critique the audit findings and recommendations. This is in contrast to other sectors, where audit committee members are usually chosen based on specific skills, such as accounting and governance. Hence, we believe that addressing the local authority audit committee skills gap is key to improving actions required as a result of external and internal audits.



1. <https://www.gov.uk/government/news/audit-commission-abolition-on-course-to-save-taxpayers-over-1-billion>
 2. <https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review>
 3. <https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-government-response-to-the-redmond-review/local-authority-financial-reporting-and-external-audit-government-response-to-the-independent-review>

ADDRESSING THE SKILLS GAP

An essential first step is for audit committees to conduct a thorough skills assessment of their members. Some key issues facing local government bodies require subject matter expertise and experience - ranging from finance and risk management, to fraud, IT and environmental issues. It is essential to identify the strengths and weaknesses of the committee's skills as a collective.

A NUMBER OF ACTIONS CAN THEN BE TAKEN TO CLOSE ANY SKILLS GAP THAT HAS BEEN IDENTIFIED:



PROVIDE TRAINING

Audit committee members can be given training in key knowledge areas and technical skills. This is something that many local authorities already do. However, the Redmond Review highlighted that this is unlikely to be sufficient. Although training can increase awareness of some topics, it is unlikely that it can comprehensively address the skills gap. This is especially true for certain technical skills such as accounting.



INCREASE MANAGEMENT ATTENDANCE

The Redmond Review found that chief financial officers attended only 67% of audit committee meetings, and chief executives attended 23%. By encouraging more senior managers to attend meetings, audit committees can benefit from their expertise during discussions. As best practice, committees should aim to invite management executives based on the agenda items, eg the diversity officer when discussing equality, diversity and inclusion.



RESTRUCTURE

In some instances, it may be that the audit committee members' skills are concentrated in certain areas, while lacking in others. For example, a committee may have several finance experts, but no members with knowledge of cyber security threats. In such a case, the committee could consider replacing current members with other elected officials in order to achieve a more holistic skill set.



RECRUIT INDEPENDENT MEMBERS

Audit committees should consider recruiting one or more independent members to provide additional expertise. Such members should be appropriately qualified to address the skills gap and help elected members to scrutinise audit outputs effectively.

BENEFITS AND CHALLENGES OF RECRUITING AN INDEPENDENT MEMBER

There are several potential benefits of recruiting an independent member to the audit committee:



INCREASED EXPERTISE

The right committee composition is vital to an effective audit committee. Members with a range of expertise and experience can delve deeper into the audit findings. An independent member who brings needed skills to address a skills gap will make the committee more efficient and increase the accountability of auditors.



ENHANCING THE SCRUTINY FUNCTION

Scrutinising audit outputs is at the heart of the audit committee's purpose. Recent financial issues in local authorities have been linked to inadequate understanding and challenge by members in relation to issues such as investment strategies and use of companies. Appropriately qualified independent members will be able to better understand subject-specific reports and therefore better challenge officers over the audit findings.



KNOWLEDGE SHARING

Having independent members with strong specialist knowledge can help improve the knowledge and experience of the whole audit committee. Independent members can coach the elected members and encourage them to ask questions on areas they may not otherwise have considered.



BENEFITS AND CHALLENGES OF RECRUITING AN INDEPENDENT MEMBER (CONTINUED)

However, recruiting independent members also poses some challenges:

INCREASED COSTS

The recruitment is an added cost to the local authority. It is therefore essential to ensure that the new independent member really does bring the desired skills and experiences in order to add real value to the committee.

ATTRACTING QUALIFIED PERSONS

Given the budgetary constraints of local authorities, it is often difficult to attract the right talent. Audit committees can try to overcome this by writing clear and specific job descriptions, offering fair compensation and highlighting the intrinsic benefits of working in the public sector. The Council will also need to consider whether it wants more than one independent member. This would allow for additional expertise and reduce the risk of a single independent member feeling isolated. However, it requires additional recruitment effort and may upset the balance of the committee. Our advice would be to trial one member first before deciding whether additional independence is required.

ENSURING INDEPENDENCE

It is essential to ensure the independence of the member. The recruitment process should include consideration of any conflicts of interest, such as past political involvement, that may hinder independence.

EFFECTIVE WORKING

Given that independent members will only sit on the audit committee while the elected members are more heavily involved with the local authority, independent members may not be aware of all of the relevant issues facing the Council and the important role that members play in democratic accountability. This, however, can be managed by clarifying roles and responsibilities, issuing guidelines and providing effective monitoring. The role of the independent member should be confined to the audit committee only, and not interfere with the democratic workings of the authority.

The public sector audit function is vital in ensuring the accountability of our government bodies and in mitigating risks that they face. Adding independent members to audit committees could greatly enhance the effectiveness of the audit function and, in turn, the accountability of local authorities to their citizens. We recommend that the option of recruiting independent members to local authority audit committees is seriously considered by every Council, following a thorough skills assessment of the audit committee currently in place.

If you require further advice and assistance we would be happy to help. We can support you in undertaking a skills assessment of the audit committee to identify any skills gaps and can also provide training to address these gaps. Should you decide to appoint an independent member, we can provide role descriptions and advise on potential recruitment.



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