

AUDIT & ACCOUNTS COMMITTEE
25 NOVEMBER 2020

REDMOND REVIEW

1.0 Purpose of Report

1.1 This report summarises the review conducted by Sir Tony Redmond on the arrangements in place to support the transparency and quality of local authority financial reporting and external audit in England.

2.0 Background Information

2.1 The Local Audit and Accountability Act 2014 (the 2014 Act) abolished the Audit Commission and introduced a new audit regime for local government to replace the previous arrangements.

2.2 In June 2019, the Secretary of State for the Ministry of Housing, Communities and Local Government (MHCLG) invited Sir Tony Redmond, former President of the Chartered Institute of Public Finance (CIPFA) to conduct a review of the current arrangements. The review was to examine the arrangements in place to support the transparency and quality of local authority financial reporting and external audit.

2.3 Broader issues of local authority finances and sustainability were outside the scope of the review.

2.4 Between September and December 2019 stakeholder views were canvassed, including those representing the interests of local authorities, the accountancy profession, and local residents and taxpayers. A range of issues were raised in relation to the current regime.

2.5 Following consideration of the evidence gathered, Sir Tony published his findings and recommendations in the report “Independent review into the arrangements in place to support the transparency and quality of local authority financial reporting and external audit in England” published 8 September 2020.

2.6 Sir Tony has stated that “The outcome of this 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.”

3.0 Review Recommendations

3.1 The review recommended 23 recommendations across a range of areas which are set out below.

External Audit Regulation

3.2 In respect of External Audit Regulation the report recommended:

1. A new body, the Office of Local Audit and Regulation (OLAR), be created to

manage, oversee and regulate local audit with the following key responsibilities:

- procurement of local audit contracts;
 - producing annual reports summarising the state of local audit;
 - management of local audit contracts;
 - monitoring and review of local audit performance;
 - determining the code of local audit practice; and
 - regulating the local audit sector.
2. 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);
 - FRC/ARGA; and
 - The Comptroller and Auditor General (C&AG) to be transferred to the OLAR.
 3. A Liaison Committee be established comprising key stakeholders and chaired by MHCLG, to receive reports from the new regulator on the development of local audit.
 4. The governance arrangements within local authorities be reviewed by local councils with the purpose of:
 - 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; and
 - formalising the facility for the CEO, Monitoring Officer and Chief Financial Officer (CFO) to meet with the Key Audit Partner at least annually.
 5. All auditors engaged in local audit be provided with the requisite skills and training to audit a local authority irrespective of seniority.
 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.
 7. That quality be consistent with the highest standards of audit within the revised fee structure. In cases where there are serious or persistent breaches of expected quality standards, OLAR has the scope to apply proportionate sanctions.
 8. Statute be revised so that audit firms with the requisite capacity, skills and experience are not excluded from bidding for local audit work.
 9. External Audit recognises that Internal Audit work can be a key support in appropriate circumstances where consistent with the Code of Audit Practice.
 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.
 11. The revised deadline for publication of audited local authority accounts be considered in consultation with NHSI(E) and DHSC, given that audit firms use the same auditors on both Local Government and Health final accounts work.

12. 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; OLAR to decide the framework for this report.
13. 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.

Smaller Authorities Audit Regulation

- 3.3 In respect of recommendations 14-16 these relate to Smaller Authorities Audit Regulation for which this is not applicable to this Council.

Financial Resilience of local authorities

- 3.4 In respect of the financial resilience of local authorities the report recommended:

17. MHCLG reviews its current framework for seeking assurance that financial sustainability in each local authority in England is maintained.
18. 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.

3.5 Transparency of Financial Reporting

In respect of transparency of financial reporting the report recommended:

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.
20. The standardised statement should be subject to external audit.
21. The optimum means of communicating such information to council taxpayers/service users be considered by each local authority to ensure access for all sections of the communities.
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.

- 3.6 The 23rd recommendation was in respect of smaller authorities and hence is not applicable to this Council.

4.0 Response

- 4.1 Several bodies, including CIPFA, the LGA, ICAEW and audit firms have issued statements supportive of recommendations.
- 4.2 The resource implications of the OLAR, the proposed new oversight body to take charge of local authority audit, would amount to approximately £5m per annum after taking into account the amount related to staff subject to transfer under TUPE arrangements. Sir Tony has commented that there is “no comparison” between the new regulatory body and the defunct Audit Commission.
- 4.3 It has been noted that implementation of the recommendations would, in part, require regulatory or legislative change, and that many of the issues identified in this report require urgent attention, given the current concerns about local audit demonstrated in the review.

5.0 Conclusion

- 5.1 Based on the recommendations contained within the report, there is likely to be major changes to the financial reporting and external audit framework over the coming years. Officers will continue to monitor the external environment to ensure that if and when these recommendations are approved for use by the relevant organisations, the Council ensures the relevant provisions are in place to accommodate the change.

6.0 Equalities Implications

- 6.1 Through the many recommendations contained within the review, the heart of the report relates to transparency of financial reporting. It is therefore anticipated that should the recommendations be approved by the various different organisations, this will increase engagement with the stakeholders of the Council.

7.0 Financial Implications (FIN20-21/4589)

- 7.1 As the report concludes that that “the current [external audit] fee structure does not enable auditors to fulfil the role in an entirely satisfactory way. To address this concern an increase in fees must be a consideration”, there is a possibility that, where this recommendation is approved, an increase in the audit fee in future years may occur.

8.0 RECOMMENDATION

That Members note the review concluded by Sir Tony Redmond and discuss the recommendations raised.

Reason for Recommendation

In order to understand the potential changes to support the transparency and quality of local authority financial reporting and external audit in England.

Background Papers

<https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review> - Sir Tony Redmond Review together with the appendices to the main report.

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