

## **Outcome of Independent Review of Local Authority Financial Reporting and External Audit in England (the “Redmond Review”)**

### **Purpose of report**

To inform members about the report of the Independent Review of Local Authority Financial Reporting and External Audit in England (the “Redmond Review”) which was published on 8 September and to seek their initial views.

### **Summary**

This report outlines the main points in the report of the Independent Review of Local Authority Financial Reporting and External Audit in England, published on 8 September 2020. These include recommending the setting up a new body, the Office of Local Audit and Regulation (OLAR), to manage, oversee and regulate local audit. If approved, this body would take over all the functions currently exercised by Public Sector Audit Appointments Limited (PSAA) which is a wholly owned subsidiary of the LGA, as well as some functions currently carried out by other bodies such as the National Audit Office.

### **Recommendations**

That members discuss the contents of the report.

### **Action**

Officers to proceed as directed.

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### **Background**

2. The [Independent Review of Local Authority Financial Reporting and External Audit in England](#) was initially announced by the then Secretary of State at the LGA's conference in July 2019. The review has been led by Sir Tony Redmond. Sir Tony is a former Local Government Ombudsman and has also been President of CIPFA, a council Treasurer and Chief Executive and a Local Government Boundary Commissioner. The [report of the review](#) was published on 8 September.
3. Resources Board approved the LGA's [response](#) to the review's [call for evidence](#) at its meeting in November 2019. The response included the following points:
  - 3.1. any new organisational arrangements put in place by the Local Audit & Accountability Act should be given time to work before a new sector-wide body, as advocated by the Kingman Review, is considered;
  - 3.2. there is some evidence that current arrangements are not working as well as they should, but conflicting views about what is going wrong and why;
  - 3.3. major factor in so many deadlines not being met (in 2018/19) was additional quality criteria and due diligence that audit firms were required to apply as a result of the Financial Reporting Council (FRC) increasing its quality criteria;
  - 3.4. the most urgent issue is the market for local external audit;
  - 3.5. Better co-ordination of the new arrangements could be achieved by MHCLG convening an audit board;
  - 3.6. a call for the audit deadline to be put back to the end of September.
4. In addition, in 2019 Resources Board discussed problems with delays to finalising audits for 2018/19 and sent letters on concerns raised to Ministers in MHCLG and DWP as well to PSAA.
5. Sir Tony is due to attend [an LGA webinar](#) to discuss his report on 7 October.
6. The review is a post implementation review of the [2014 Local Audit and Accountability Act](#), the Act that abolished the Audit Commission and replaced it with a new audit regime for local authorities, local health bodies and other public bodies. The review covers local authorities, including councils and parish councils, Police and Crime commissioners, Fire and Rescue Authorities, Independent Drainage Boards and Parks Authorities, but the NHS is out of scope. Therefore, the review did not look directly at the audit and reporting of Clinical Commissioning Groups or NHS trusts, though they are covered by the 2014 Act, and the audit of such bodies is often undertaken by the same firms that audit local government.

7. This 2014 Act led to the creation, by the LGA, of Public Sector Audit Appointments Ltd (PSAA). Ninety-eight per cent of councils opted into the procurement by PSAA. PSAA subsequently procured external audit firms for these councils.

### **Main points in the published report**

8. The full recommendations from the review are appended to this report.
9. The main recommendations are:
  - 9.1. To set up a new body, the Office of Local Audit and Regulation (OLAR), to manage, oversee and regulate local audit. This body would take over all of the functions currently exercised by PSAA, as well as some functions currently carried out by other bodies such as the National Audit Office, the Financial Reporting Council (FRC) and the Institute of Chartered Accountants in England and Wales (ICAEW). The cost of this body is estimated to be £5 million per annum. Such a body would not be seen as having similar features to the Audit Commission, but it would have the power to hold auditors to account for their performance;
  - 9.2. The Regulator (the new OLAR) would be supported by a Liaison Committee comprising key stakeholders and chaired by the Ministry of Housing, Communities and Local Government (MHCLG);
  - 9.3. Ensure auditors have adequate skills and training and are properly resourced;
  - 9.4. Review the audit fee structure (Redmond suggested that fees are too low);
  - 9.5. Formalise links between external auditors and Inspectorates such as Ofsted, Care Quality Commission and HM Inspectorate of the Constabulary and Fire and Rescue Services (HMICFR);
  - 9.6. The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year and consider this in the light of deadlines for the audit of local NHS bodies outside the scope of the review but audited by the same auditors.
10. The report also included some recommendations on financial reporting, including a new standardised statement of service information and costs be prepared by each authority and be compared with the budget that was agreed to set the council tax/precept/levy and presented alongside the statutory accounts, and subject to audit.

### **Commentary**

11. There is a lot to digest and consider within the report for both local government generally and also for the LGA itself. As mentioned earlier, the report recommends that PSAA which was created and fully owned by the LGA/IDeA would be moved over to the new body.

12. It is not clear from the report that the creation of such a body would actually deal with the main problem within external audit at the moment which relates to the external audit market and that some of the audit firms consider this area of work far less attractive. The suggestion in the report that audit firms should have their fees increased by 25 per cent would of course have to be met by councils. The recommendation in the report is that this will be done through a review of the fee structure.
13. The suggestion that bringing a number of functions together into the new body but not including health bodies in the proposition would still leave a fragmented system.
14. There are some recommendations that are in line with proposals that the LGA has put forward including extending the deadline for publishing audited local authority accounts to 30 September from 31 July each year and the creation of a liaison committee led by MHCLG.
15. A response from government to the report is also awaited and the IDeA Board had an initial discussion about the Redmond report at its meeting on 9 September. The IDeA Board, which comprises the Chairman of the LGA, each of the Group Leaders or their nominated deputies together with the Chairman of the Improvement and Innovation Board raised serious concerns about the Redmond report. The Chairmen of both the IDeA Board and PSAA have been invited to the meeting.
16. It also highlighted that councils are faced with ongoing and significant funding pressures and need to be adequately funded to manage any potential increase in audit fees.
17. It is recommended that the Resources Board discuss the report and that any fuller response to the Review is developed based on that discussion and discussion with key stakeholders including PSAA itself, once it is clearer about the position that government itself intends to take to the report.

### **Next steps**

18. Member are asked to discuss the report.
19. Officers will proceed as directed.

### **Implications for Wales**

20. The review applies to arrangements in England only.

### **Financial Implications**

21. This is part of the LGA's core programme of work and as such has been budgeted for in 2020/21 core work programme budgets.



## **Appendix - Recommendations made in report of Redmond Review**

The full recommendations of this Review are as follows:

### **External Audit Regulation**

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.

3. 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 (SAAA)

14. SAAA considers whether the current level of external audit work commissioned for Parish Councils, Parish Meetings and Internal Drainage Boards (IDBs) and Other Smaller Authorities is proportionate to the nature and size of such organisations.
15. SAAA and OLAR examine the current arrangements for increasing audit activities and fees if a body's turnover exceeds £6.5m.
16. SAAA reviews the current arrangements, with auditors, for managing the resource implications for persistent and vexatious complaints against Parish Councils.

#### Financial Resilience of local authorities

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.

#### Transparency of Financial Reporting

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.

23. Joint Panel on Accountability and Governance (JPAG) be required to review the Annual Governance and Accountability Return (AGAR) prepared by smaller authorities to see if it can be made more transparent to readers. In doing so the following principles should be considered:

- Whether “Section 2 – the Accounting Statements” should be moved to the first page of the AGAR so that it is more prominent to readers;
- Whether budgetary information along with the variance between outturn and budget should be included in the Accounting Statements; and
- Whether the explanation of variances provided by the authority to the auditor should be disclosed in the AGAR as part of the Accounting Statements.