

AUDIT COMMITTEE

Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting (The Redmond Review)

25 November 2020

Report of Chief Finance Officer

PURPOSE OF REPORT

This report seeks to provide Members with information on the recently released Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting

This report is public.

RECOMMENDATIONS

The Audit Committee is recommended

(1) **To note the report**

1.0 INTRODUCTION

1.1 The Local Audit and Accountability Act 2014 (the 2014 Act) introduced a new Audit regime for local government to replace the previous arrangements, under which the Audit Commission performed that role. The Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting (the Review) undertaken by Sir Tony Redmond examined the effectiveness of local audit under the new regime.

2.0 BACKGROUND

2.1 The purpose of the Redmond Review was to examine the impact of External Audit activity in local government and how it helps to demonstrate public accountability, particularly to service users and council taxpayers. In addition, the Review covered the issues of transparency in financial reporting of local authorities, with attention being directed towards whether the annual accounts and associated published financial information can be readily understood by the public.

- 2.2 The current framework for local audit encompasses procurement, contract management and delivery, the code of audit practice and regulation and accountability for performance. All these aspects of local audit were examined.
- 2.3 Whilst the focus of the Review was on local audit and public accountability there are several related factors which have contributed to the shape and nature of the findings. These included:
- The breadth and complexity of International Financial Reporting Standards (IFRS).
 - The role of the sponsoring government department (MHCLG); and,
 - The current state of the local audit market as administered by Public Sector Audit Appointments Ltd (PSAA).

3.0 SUMMARY OF FINDINGS

- 3.1 The Review promises no immediate fixes for the local audit framework, apart from a push to increase audit fees to the levels that the audit firms ought to have bid at in order for a standards-compliant audit to be properly resourced. Most of the other proposals will take time to have any impact.
- 3.2 The main recommendations of the Review are:

External Audit Regulation

- 3.3 The establishment of a new Office of Local Audit and Regulation (OLAR) which will:
- Regulate the local audit sector
 - Draft the code of audit practice
 - Take over the responsibilities of PSAA for procuring and managing audit contracts
 - Monitor and review audit performance
 - Produce an annual report on the state of local audit
- 3.4 To this end the involvement of PSAA, ICAEW, FRC and the NAO in the framework will cease.
- 3.5 OLAR will not actually carry out audits and it unclear if there is a role public audit as previously undertaken by the Audit Commission's Audit Practice and so assumes work will be contracted out in its entirety to private firms.
- 3.5 Local authority governance arrangements to be reviewed with the purpose of:
- Full Council receiving an annual report from the External Auditor at the first meeting after 30 September, even if the audit is not certified as closed.
 - Appointment of a suitably qualified independent member to the Audit Committee.
 - Formalising meetings of the Chief Executive, Monitoring Officer and the Chief Finance Officer with the audit partner at least annually.
- 3.6 All auditors should have the requisite skills and training enable them to audit a local authority.
- 3.7 Audit quality to be consistent with the highest standards of audit within the revised fee structure. OLAR to have scope to apply proportionate sanctions to audit providers in the event of serious, or persistent breaches.

- 3.8 No audit firm with the requisite capacity, skills and experience will be excluded from bidding for contracts.
- 3.9 The role of Internal Audit to be recognised as a key area of support for External Audit. Although traditionally auditing standards regarding audit planning and risk identification and assessment (ISA UK 315) and using the work of internal audit (ISA UK 610) has involved a significant amount of work for both parties, this area has not been fully utilised in the past.
- 3.10 Consideration to be given to moving the date for publication of audited accounts back to 30 September.
- 3.11 Changes to the arrangements for VFM auditing made in the 2020 Code of Audit Practice to be endorsed. Members will recall these require the External Auditor to report on and making recommendations in relation to financial sustainability, governance and improving economy/efficiency/effectiveness.

Financial Resilience

- 3.12 MHCLG will review its framework for seeking assurance about the sustainability of individual authorities.
- 3.13 Auditors to share key concerns with other regulators such as Ofsted, Care Quality Commission, etc, before completing their annual report.

Transparency of Financial Reporting

- 3.14 An audited statement of service information and costs together with budget comparisons to be presented alongside the Statement of Accounts.
- 3.15 CIPFA/LASAAC to be required to review the requirements for the statutory accounts in the light of the information to be covered in the statement of service information.
- 3.16 A copy of the full review is provided at Appendix A of this report.

4.0 OPTIONS AND OPTIONS ANALYSIS

- 4.1 Not applicable – The report is for noting and so no decision is required

5.0 CONCLUSION

- 5.1 The overall conclusion of the Review (Section 9 Para 9.1) copied below provides a clear summary of the report's findings.
- 5.2 During the course of this Review it has become increasingly apparent that the current local audit arrangements fail to deliver, in full, policy objectives underpinning the 2014 Act. As a result, the overriding concern must be a lack of coherence and public accountability within the existing system. For local audit to be wholly effective it must provide a service which is robust, relevant, and timely; it must demonstrate the right balance between price and quality; and be transparent to public scrutiny. The evidence is compelling to suggest that the current audit service does not meet those standards.
- 5.3 Whether the recommendations put forward by the Review address the short comings and concerns identified will be seen over the forth coming years.

**CONCLUSION OF IMPACT ASSESSMENT
(including Health & Safety, Equality & Diversity, Human Rights, Community Safety,
Sustainability and Rural Proofing):**

No implications directly arising.

LEGAL IMPLICATIONS

There are no direct legal implications arising from this report

FINANCIAL IMPLICATIONS

There are no direct financial implications arising from this report

**OTHER RESOURCE IMPLICATIONS, such as Human Resources, Information Services,
Property, Open Spaces**

No implications directly arising.

SECTION 151 OFFICER'S COMMENTS

The s151 Officer has authored this report in his capacity as Chief Finance Officer

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments

BACKGROUND PAPERS

Appendix A – The Redmond Review

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