

Redmond Review

Conclusions and Recommendations

Sept 2020

Redmond Review

- The **Local Audit and Accountability Act 2014** gave effect to the Government's commitment to abolish the **Audit Commission**. The functions of the **Audit Commission** were transferred to a range of bodies.
- In July 2019, the Secretary of State launched an **independent review** into the transparency and quality of local authority financial reporting and external audit and appointed **Sir Tony Redmond** to conduct this review.
- The conclusions and recommendations were published earlier this month, and were organised into six key themes:

Direction and
regulation of local
audit

Procurement of local
audit

Audit performance

Responding to audit
recommendations

Audit work on financial
resilience

Financial Reporting in
Local Government

Key conclusions

- The current local audit arrangements **fail to deliver** the policy objectives underpinning the 2014 Act.
- The **local audit market** is **vulnerable** and evidence suggests that **audit fees** are **at least 25% lower** than is required to fulfil the local audit requirements effectively.
- A weakness of the current arrangements is that there is **no coordination** and **regulation** of **local audit activity**.
- There is a **potential weakness** in the way in which audit outcomes are considered and presented to both the local authority and to the public.
- There is a compelling argument to extend the scope of audits to include a substantive test of **financial resilience** and **sustainability**.
- The **technical complexity** of the Accounts means that service users and council taxpayers are unable to understand them.

Recommendations - Direction and Regulation of local audit

An **Office of Local Audit and Regulation** (OLAR) should be established, with the following key responsibilities:

Procurement
of local audit
contracts

Reporting on
state of local
audit

Managing
local audit
contracts

Reviewing
local audit
performance

Producing the
Code of Audit
Practice

Regulating the
local audit
sector

The current roles and responsibilities discharged by the **PSAA**, **ICAEW**, **FRC** and **NAO** will be transferred to the **OLAR**.

A **liaison committee** will also be established, comprising key stakeholders and chaired by **MHCLG**, to receive reports from the new regulator on the development of local audit.

Recommendations - Procurement of local audit

- Both the audit firms and their **key audit partners** (KAPs) need to be **approved by the ICAEW** to undertake local authority audits.
- Although there has been a **7% increase** in the number of KAPs since 2016, the number has **declined** by **13%** once firms not currently holding contracts are excluded.
- Although **audit fees** in the local authority sector have dropped significantly since 2016, the fees have not been re-based since 2010. Consequently, there has been a marked increase in auditors requesting **fee variations**.

The current **fee structure** for local audit should be **revised**.

Audit firms with the requisite capacity, skills and experience must **not be excluded** from bidding for local audit work.

Recommendations - Audit performance

Audit quality is a key determinant of **audit performance**. The effectiveness of audit also depends on the usefulness, **impact** and **timeliness** of auditor **reporting**.

All auditors engaged in local audit to be provided with the requisite **skills** and **training** to audit a local authority.

Quality is to be consistent with the highest standards of audit within the **revised fee structure**.

OLAR has the scope to apply **proportionate sanctions** where there are breaches of expected quality standards.

External Audit recognises that Internal Audit work can be a key support in appropriate circumstances.

Deadline for **publishing audited accounts** to be revisited with a view to extending it from 31 July to 30 September.

Recommendations - Responding to audit recommendations

The effectiveness of audit is, in part, determined by the arrangements in place within each body for **considering** and **acting upon external audit reports**.

An **annual report** should be submitted to full Council by the external auditor after **30th September** each year, irrespective of whether the accounts have been certified.

Consideration should be given to the appointment of at least one **independent member**, suitably qualified, to the Audit Committee.

The facility for the **CEO, Monitoring Officer** and **Chief Financial Officer** to meet with the **Key Audit Partner** at least annually should be formalised.

Recommendations - Financial Resilience

External auditors do not currently have a specific responsibility to provide an opinion on whether a local authority is **financially sustainable**.

MHCLG to review its current **framework** for seeking assurance that financial sustainability in each local authority in England is maintained.

Key concerns relating to service and financial viability be shared between **Local Auditors** and **Inspectorates** prior to completion of the external auditor's Annual Report.

OLAR to undertake a **post implementation review** of the **2020 Audit Code of Practice** to assess whether these changes have led to more effective external audit consideration of financial resilience and value for money.

Recommendations - Financial Reporting

Local authorities accounts are lengthy and complex, due to the difference between the budget analysis for council tax purposes and the statutory basis of year end accounts.

A **standardised statement of service information and costs** should be prepared by each authority and be compared with the budget and presented alongside the statutory accounts.

The standardised statement should be subject to **external audit**.

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.

CIPFA / LASAAC to be required to **review the statutory accounts** to determine whether there is scope to simplify the presentation of local authority accounts.