

APPENDIX 1 - Redmond Review Briefing Report

1. Introduction

- 1.1 The purpose of this report is to outline the Redmond review into external audit and governance and to detail its significant findings, conclusions and recommendations.

1 Background

- 2.1 In June 2019, Sir Anthony Redmond was tasked by government to undertake an independent review of the effectiveness of local audit and its ability to demonstrate accountability for audit performance to the public. It also considered whether the current means of reporting an Authority's annual accounts enables the public to understand this financial information and receive the appropriate assurance that the finances of the authority are sound.

- 2.2 His findings were published in September 2020 - "Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting".

The review gathered evidence, drew conclusions and made recommendations around three key areas across the public sector;

- **Audit Performance** – are outcomes adequate?
- **Governance Arrangements** – is the quality of consideration and management of audit reports by authorities sufficient to ensure overall accountability?
- **Financial Reporting** – Do current practices relating to the annual publication of financial information support accountability.

3 Evidence / Findings

- 3.1 The review gathered evidence from both the audited and the auditors as well as those bodies responsible for coordination across the public domain. Its most significant findings in each key area being;

Audit Performance

- 40% 18/19 audits did not complete by due date.
- A patchwork of organisations currently regulate external audit across the public sector. This can lead to auditors facing different expectations and conflicting resource demands across their client base.
- Price v quality – As currently configured the local audit market is vulnerable, due in no small part to the under-resourcing of audit work required to be undertaken within the contract sum. There was a

consensus that fees were some 25% too low to ensure appropriate resourcing of audits.

- While defensive of their own staff both the auditors and the audited raised concerns about levels of knowledge and experience in the other team.
- In England, neither the financial nor the value for money audit includes a specific responsibility to provide an opinion on whether a local authority is financially sustainable. The current emphasis on auditing past actions and existing measures falls short of providing the assurance many stakeholders reasonably expected from the audit process relating to the financial stability and resilience of local authorities over the medium and longer term.
- A new Code of Local Audit Practice published in 2020 by the Comptroller & Auditor General and effective from the 2020-21 financial year was seen as addressing many of the concerns around providing assurance on financial sustainability. It mandates moving from a binary audit opinion on whether appropriate arrangements are in place to ensure value for money, to a commentary on:
 - *Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;*
 - *Governance: how the body ensures that it makes informed decisions and properly manages its risks; and*
 - *Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.*

In addition, the updated Code will explicitly require auditors to document clearly the work that they have done to support their findings.

Governance

- The constitution and standing of Audit committees varied across the public domain. Often their membership lacked the necessary skill sets to understand and question the financial reports presented to them.
- There was a lack of independent members with relevant expertise on audit committees.
- Mixed experience in the level and adequacy of dialogue with auditors with scope for better engagement with other stakeholders outside of the confines of audit committee. Often the Key Audit Partner (KAP), charged with signing the audit opinion, had limited contact and interaction with those charged with governance and control within the organisation.
- Public access and understanding of audit reports limited.

Financial Reporting

- Existing reports (Financial Statements) are so technical as to be a barrier to public engagement and understanding.
- Quality of narrative reports variable and often lacking any informative link to performance against budget.
- There were concerns that auditors lacked understanding of the body being audited and focused their resources on areas that added no value to the audit opinion. Owing to International Financial Reporting Standards (IFRS) applying to public sector statements auditors spend a significant amount of time focusing on Property and Pension Fund valuations whereas a fuller understanding of the business would lead to more of a focus on major areas of expenditure and the level of usable non-ringfenced revenue reserves.

4. Review Conclusions

4.1 The reviews significant conclusions were;

Audit Performance

- The lack of a coordinating body at the national level means that there is no clarity of purpose for auditors and no consistent mechanism for ensuring their performance and accountability across the local audit framework.
- The current fee structure for local audit does not ensure that adequate resources are deployed to meet the full extent of local audit requirements.
- There is a compelling argument to extend the scope of audit to include a substantive test of financial resilience and sustainability.
- The update to the Audit Code, effective from 2020-21, will go some way to expand the focus of audit beyond simple value for money to financial resilience and sustainability. It will require auditors to provide a narrative statement on the arrangements in place. This move away from a simpler binary opinion should encourage auditors to provide more useful and timely information to stakeholders and to be bolder in highlighting concerns.
- The 31st July deadline for publishing audited local authority accounts places too much demand on the resources of both auditors and audited over a limited timeframe.
- It is important that the auditing and accounting staff at all levels have the requisite skills, training and experience to fulfil their roles.

Governance

- Audit committees often lack the necessary structure, knowledge and expertise to provide an independent challenge on behalf of the authority in respect of accountability and risk management arrangements.

- Independent members with relevant skill sets often provide an audit committees with an essential perspective and expertise.
- There needs to be greater engagement with the auditors across all stakeholders if true accountability is to be ensured. Dialogue should not be restricted to a certain committee or set of officers.

Financial Reporting

- The technical nature of existing reports (Financial Statement), as dictated by statutory requirements, makes them a barrier to public engagement and understanding.
- While narrative reports, as part of the Statements or in addition thereto, often seek to present the financial information in a more user friendly manner they vary in both content and success in this endeavour.
- There is a need for a standardised statement of service information and costs, compared to the annual budget, that is aimed at taxpayers and service users.
- A disproportionate amount of audit resources are absorbed checking Property and Pension Fund valuations to ensure compliance with IFRS requirements better suited to the private sector. The reason for this argument is that most changes to fixed asset and pension values are 'reversed out' of the accounts by a range of statutory adjustments. As a result, in those circumstances, these valuations have no immediate impact on the cost of delivering services or on the financial resilience of a local authority.

5. Review Recommendations

5.1 The review's key recommendations were;

Audit Performance

- Creation of a new body, the Office for Local Audit Regulation (OLAR), to provide overall coordination at the national level, with the following key responsibilities:
 - *procurement of local audit contracts* (with a more realistic fee structure to maintain a buoyant market of appropriately resourced auditing firms);
 - *producing annual reports summarising the state of local audit;*
 - *management of local audit contracts;*
 - *monitoring and review of local audit performance (with the power to sanction underperforming Auditors);*
 - *determining the code of local audit practice; and*
 - *regulating the local audit sector.*
- Better training for Auditors to ensure they possess the correct skill set for public sector audit.

- Support for the National Audit Office's revised code of practice and its emphasis on improving the audit of financial sustainability and Value for Money
- Moving the deadline to the end of September from the end of July to allow adequate time for audits to be completed with the resources available.

Governance

- The external auditor in the person of the Key Audit Partner 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.
- That Authorities examine the composition of Audit Committees to ensure that the required knowledge and expertise are always present when considering reports.
- All audit committee members to be given appropriate training
- All audit committees to have an independent member with relevant expertise
- That as a minimum an annual audit report be submitted to Full Council demonstrating transparency and accountability from a public perspective.
- External Audit to recognise Internal Audit as a valuable source of assurance
- The authority's statutory officers (Head of Paid Service, Monitoring Officer and S151) to routinely meet with the Key Audit Partner
- Chief Finance Officer to ensure that the authority's accountancy staff is adequately resourced and trained
- All new S151 officers to receive induction training into the role.

Financial Reporting

- A simplified statement of service information and costs is prepared by each local authority in such a way as to enable comparison with the annual budget and council tax set for the year. These Summarised Accounts would enable Council taxpayers and service users to judge the performance of the local authority for each year of account. The new statement would be subject to audit and prepared in addition to the statutory accounts, which could be simplified. All means of communicating such information should be explored to achieve access to all communities.
- Cipfa to consult on this proposal with a view to having it in place and subject to audit for 2021/22.
- Cipfa/LAPSAAC to look further at the interpretation of International Financial Reporting Statements as applied to valuations.

6. Next Steps

6.1 While some of the recommendations can be considered now for local implementation others will require action by third parties including Central Government:

- Creation of the OLAR requires primary legislation by Government.

- While it is proposed that OLAR takes responsibility for setting audit fees there has already been some movement in addressing pricing issues in local authority audit. Public Sector Audit Appointments (PSAA) is currently consulting on proposals for a new approach that recognises two distinct categories of fee variations, from audits of 2020/21 accounts onwards.
 - *national variations*; required for changes that relate to the conduct of all or most audits, such as changes to the auditing and accounting codes, standards and regulatory requirements, where a standard cost can be reasonably estimated; and
 - *local variations*; required for issues that relate to local factors arising from the conduct of a particular audit, such as the additional audit work required if accounts reflect complex transactions that are not built into the scale fee, or where working papers are poorly prepared, or for work relating to an auditor's statutory responsibilities such as objections, statutory recommendations or public interest reports.

Comments on the proposals are welcome from all stakeholders. The consultation will close on Tuesday 1 December 2020.

- The Redmond report included examples of how the new Summarised Accounts could look. Statutory Guidance however will need to be developed to set out the final form and content. The CIPFA/LASAAC review of the statutory accounts, in the light of the new requirement to prepare the standardised statement, will 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. It is suggested that these processes could be completed in time to be applied to the 2021/22 statements.
- While the council already has in place many examples of good practice, existing audit governance arrangements should now be reviewed in light of the Review's recommendations and the benefit of adopting some new practices explored.