



**Sustainability of local  
authority financial  
reporting and external  
audit in England**

The Sir Tony Redmond  
independent review

**EY**

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# The Redmond review

## Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting

Published on the 8<sup>th</sup> September 2020, Sir Tony Redmond's findings and recommendations from his independent review provides a significant opportunity to shape the future sustainability of local government financial reporting and auditing.

The recommendations included:

- A new body, the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit.
- 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.
- Consideration being given to the appointment of at least one independent member, suitably qualified, to the Audit Committee.
- 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.
- 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 to have the scope to apply proportionate sanctions.
- The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year.
- MHCLG reviews its current framework for seeking assurance that financial sustainability in each local authority is maintained.
- 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.
- 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.
- 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

# The Redmond review

## MHCLG response

MHCLG believe the measures they are proposing to address the immediate concerns on market stability can be achieved within the existing local audit framework. As a result, MHCLG are planning to undertake a wide programme of stakeholder engagement in early 2021 in to the merits of a system leader and intend to provide a detailed response on the Redmond recommendations by the spring of 2021.

In the meantime, MHCLG are:

- Currently not minded to agree with the Redmond recommendations to create a single regulatory body, the Office for Local Audit and Regulation (OLAR). MHCLG believe creating OLAR would require significant structural reform and primary legislation which could take up to three years and that there needs to be a close alignment to other sectors that have audit regimes using the same pool of local audit specialists, e.g. Health.
- Of a view that a single regulatory body would not meet the spirit with and depart from the principles of the 2014 Local Audit and Accountability Act for a locally-led and accountable audit regime.
- Committing to explore the full range of options on how best to deliver a 'system leader', whether existing bodies could take on this function and weaknesses in the local audit system can be resolved without creating conflicts of interest.
- Mindful of the importance of close partnership working with BIES, a wish to ensure alignment with the Government's proposed response to the Brydon, Kingman and CMA reviews in to the audit profession.
- Reviewing whether their existing Local Audit Monitoring Board needs to be strengthened and how it interacts with other local audit forums, as an alternative way of addressing the recommendation for a Liaison Committee.
- Reviewing their expectations on the assurance framework and reporting of financial sustainability for each Local Authority.

# The Redmond review

## MHCLG response

MHCLG are taking the following actions to support the stability of the local audit market:

- Subject to consultation, there will be a review and reform of regulations by summer recess in 2021 to provide the appointing person (currently PSAA) with greater flexibility to ensure the costs to audit firms of additional work are met. This reform could include enabling the appointing person to allow a fee scale to be set or changed in-year, and/or enabling the appointing person to set additional fees across audited bodies in-year where there is clear evidence of additional work affecting those groupings.
- A decision will be made by spring of 2021 on the appointing person for the next round of procurement for Local Authority external audits which better balances quality and cost.
- Local Authorities will be provided with an additional £15million of funding in the 2021/2022 financial year to meet the anticipated increases in audit fees and the costs associated with implementing summarised accounts.
- MHCLG will be amending regulations to extend the deadline for publishing audited local authority accounts from 31 July to 30 September for a period of two years, i.e. covering the audit of the 2020/21 and 2021/22 accounting years. MHCLG will review at the end of this period whether there is a continued need to have an extended deadline.

MHCLG will work jointly with CIPFA, ICAEW, NAO and enable any legislative changes; covering the following areas:

- MHCLG will work with the DHSC, DfE, Home Office and the NAO to support the sharing of key information between inspectorates and external auditors.
- Introducing standardised and summarised financial statements for 2021/2022 financial reporting. This will follow joint work with CIPFA and further consultation with local government and audit stakeholders on any changes to the Code of Audit Practice. Regulations may be changed to mandate the inclusion of the summarised statement alongside the annual accounts.
- Working with CIPFA/LASAAC to consider whether there is scope to simplify the presentation of local authority financial statements by removing disclosures that may no longer be considered necessary.

# Reflections from the Redmond review

## Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting

Published on the 8<sup>th</sup> September 2020, Sir Tony Redmond's findings and recommendations from his independent review provides a significant opportunity to shape the future sustainability of local government financial reporting and auditing. We believe this will help ensure audit continues to meet the evolving needs of local authorities, the public, and the public interest.

### Guiding principles for reform

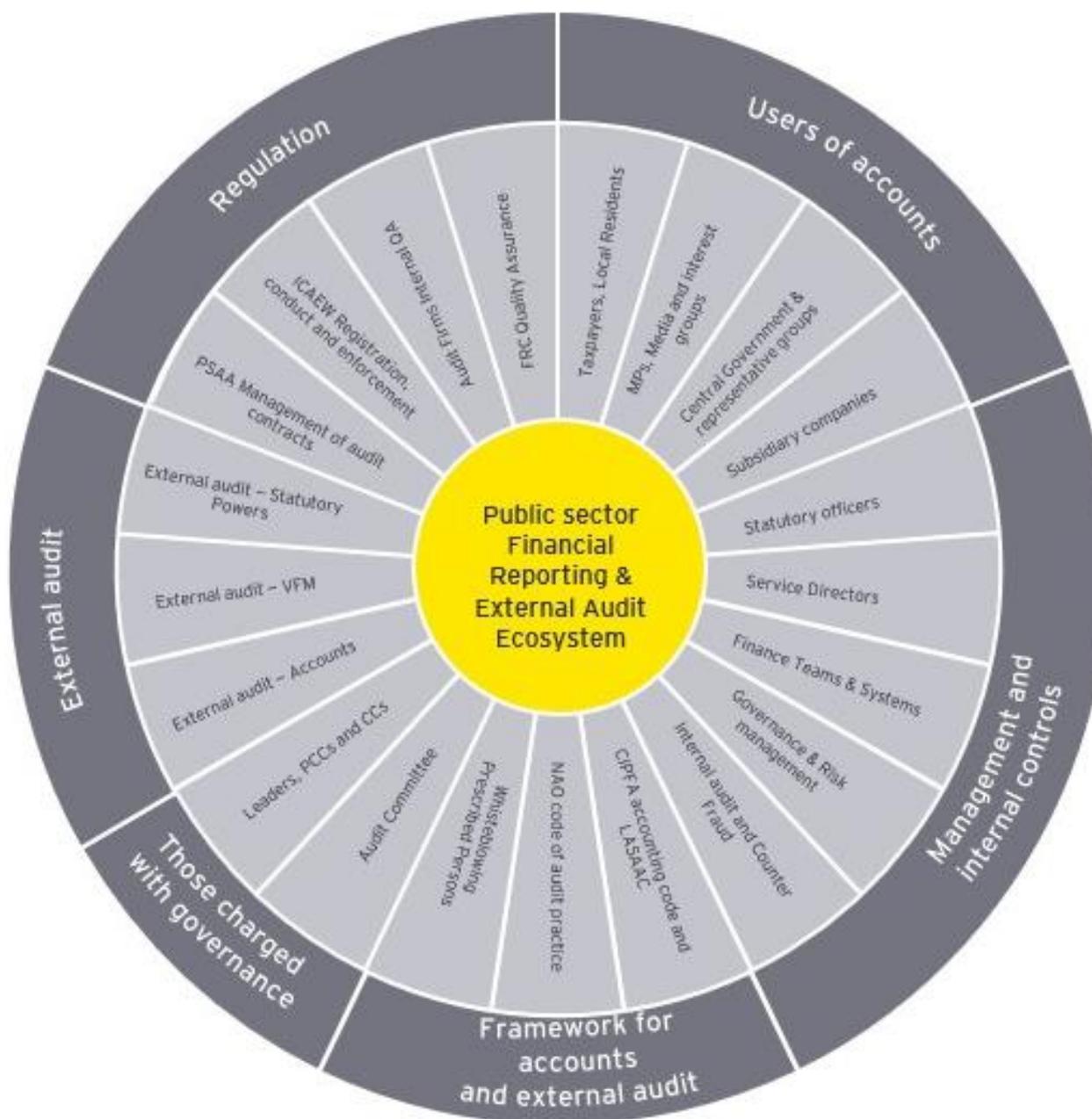
We believe reforms should be guided by the following principles:

- Reforms should enhance, or at least should not create risks to, the quality of financial reporting and external audit.
- The importance of the multidisciplinary audit firm model, to enable local auditors to respond efficiently and effectively to the increased reporting complexity, risks and financial resilience pressures we have seen facing the public sector pre and post Covid-19.
- There should not be a two-tier system of generally accepted accounting and auditing standards between the public and corporate sectors.
- To be effective and sustainable, reforms need to focus on the public sector financial reporting and external audit ecosystem as a whole.

### What impact will the Redmond review have on the Council?

- The publishing deadline for accounts is to be 30 September for 2020/21.
- All stakeholders in the ecosystem have a role to play to improve accountability, transparency and sustainability of financial reporting. In particular, improving the effectiveness of Audit Committees, strengthening the training skills, capacity, capability and the attractiveness of public sector finance and audit professions.
- The review highlights the importance of the auditors work to critically assess the financial resilience and viability of public sector bodies and has proposals on how this assessment could be enhanced within the NAO's code of audit practice. This may lead to a change to how auditors consider financial resilience.
- Changes to how you account for and report on your property, plant and equipment and pension liability will require CIPFA to change its Code and may take some time.
- You may be required to prepare a 'standardised statement of service information and costs' which can be compared with the budget agreed to support the council tax/precept/levy and presented alongside the accounts.

# Reflections from the Redmond review - a complicated eco-system



# Reflections from the Redmond review – our initial views

Taking our guiding principles, we broadly welcome the Redmond review and proposals, in particular:

## ***Quality of financial reporting and external audit***

- The recognition that all stakeholders in the ecosystem have a role to play to improve accountability, transparency and sustainability. This includes improving the effectiveness of Audit Committees, strengthening the training skills, capacity capability and attractiveness of the public sector finance and audit professions.
- His conclusion that the current procurement and fee structure does not support sustainable audit quality. We have provided you with our perspectives on how baseline audit fees need to change to take account of your risk profile, complexity as well as the regulatory and professional context which drive our audits.

## ***Reforming the public sector financial reporting and external audit ecosystem***

- A “system leader” and will bring clarity to the existing framework for local authority audit.
- The importance of MHCLG establishing a liaison committee of all key stakeholders to oversee reforms. To begin with MHCLG should take urgent action to implement primary legislation to, revise the timetable for financial reporting and revisit the procurement and fee structure for public sector audit.

## ***Multidisciplinary audit firm model***

- The importance of the auditors work to critically assess the financial resilience and viability of public sector bodies and his proposals on how this assessment could be enhanced within the NAOs code of audit practice.

## ***Safeguarding professional accounting and auditing standards***

- The need for CIPFA/LASAAC to revisit the accounting code and introduce summarised accounts. We agree that there is a need for more proportionality in the Code which also sets out the expectations of practitioners and auditors and how this could be applied in areas such as pensions and asset valuations. However, we believe that any future proposals on the accounting code should not create a two-tier system.

## ***What are we doing in the meantime?***

- Planning for a 30 September financial reporting target date for local government 2020/2021 accounts, integrated with our NHS work. We responded to the MHCLG consultation on the proposed timetable. Points raised by the profession and ourselves included: impact of Covid 19; capacity of audit profession and local authority finance teams; the need for additional funding; and Increasing complexity of local authority decision making (including commercialisation, group accounting and the need for the greater use of specialists).
- Implementing the new NAO code and changes to our VFM conclusion work and reporting for 2020/2021 audits. We will also work with the NAO and other audit suppliers on any refinements to how auditors assess financial resilience.
- Continuing to engage with and influence MHCLG, NAO, PSAA CIPFA/LASAAC, FRC and other key stakeholders on the actions required to implement the Redmond proposals as swiftly as possible and how these effectively align to the broader package of audit reforms which BIES will consult on later this year.