

# Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting by Sir Tony Redmond

Response from the Chartered Institute of Public Finance and  
Accountancy

November 2020

CIPFA is pleased to comment on this review, which provides a number of recommendations that could significantly strengthen the sustainability of the local audit market, the effectiveness of governance over the financial reporting and audit process and the transparency of financial reporting in the local government sector.

The audit of local public bodies is an essential part of transparent and accountable public service. Several high-profile cases have been observed over recent years that have brought this into clear focus.

Local audit offers a critical check and essential source of assurance in our systems of local democracy and public accountability. Auditors provide an independent professional opinion on the financial statements of organisations responsible for spending billions in public money. Auditors also provide assurance around the arrangements these organisations have in place for achieving economy, efficiency and effectiveness in their use of resources. The current regulations allow auditors to bring forward matters of financial concern that should be brought to the attention of the sector. These reporting powers have not been frequently used until recently, but the recent public interest reports on Nottingham City Council and the London Borough of Croydon are strong examples of the importance of this role.

It is therefore important that we create a strong and sustainable local audit function using the recommendations from the review as a foundation.

CIPFA considers that it would be beneficial for the sector to take forward the audit recommendations from the Redmond Review in order to support and strengthen local audit and recognise the importance of this role in delivering good public finances.

CIPFA particularly welcomes the themes from the review around:

- providing clearer and stronger system leadership for local audit
- ensuring that financial resilience remains a key priority at the heart of the local audit process
- increasing transparency of and accountability for audit reporting and recommendations.

CIPFA is well-placed to support many aspects of the government's response to the Redmond Review and is acting to:

- liaise with the government and other key stakeholders to agree how to take forward recommendations around improving the wider accessibility of local authority financial reporting – particularly in relation to the production of the standardised statement of service costs
- explore, in conjunction with stakeholders, how to expand its training and CPD offering in relation to local audit to help support resilience in the sector
- build on existing work programmes around supporting the financial resilience of local authorities.

CIPFA acknowledges the current fragility of the local audit market, which has been further exacerbated by the impact of the current COVID-19 pandemic. CIPFA is seeking further engagement to better understand how it can assist with short-term priorities and support a firmer foundation for longer-term sector-wide developments.

We set out below our commentary against each of the recommendations identified in Sir Tony Redmond's report, including how CIPFA as an institute is planning to contribute to supporting the government's response.

Our commentary is set within the context that the resource implications and associated funding mechanisms for local authorities and other stakeholders have yet to be determined.

#	Recommendation	CIPFA position
1	<p>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:</p> <ul style="list-style-type: none"> <li>• procurement of local audit contracts;</li> <li>• producing annual reports summarising the state of local audit;</li> <li>• management of local audit contracts;</li> <li>• monitoring and review of local audit performance;</li> <li>• determining the code of local audit practice; and</li> <li>• regulating the local audit sector.</li> </ul>	<p>It is a matter of public record that CIPFA had significant concerns over the way in which the Audit Commission and associated frameworks for local public audit were replaced.</p> <p>CIPFA's view is that the optimal way to rectify this would be through the creation of a separate body, bringing together regulatory responsibilities around the appointment of auditors, maintaining the Code and guidance that supports high quality audit work, performance monitoring and review including, where necessary, enforcing sanctions in cases of failure.</p> <p>CIPFA has written to the Secretary of State expressing support for the creation of this new body.</p> <p>CIPFA considers that this new body must cover the requirements for the audits of local health bodies as well as local authorities, to mitigate the risk of further fragmentation within system leadership.</p> <p>This is particularly important in light of the fact that the NAO's Code of Audit Practice applies to both health bodies and local authorities; key audit partners are approved to sign audit reports on the financial statements in both sectors and audit firms will typically draw on the same pool of audit staff to undertake audits across both sectors. As such, alignment of regulatory expectations and technical knowledge among practitioners will be crucial.</p>
2	<p>The current roles and responsibilities relating to local audit discharged by the:</p> <ul style="list-style-type: none"> <li>• Public Sector Audit Appointments (PSAA);</li> <li>• Institute of Chartered Accountants in England and Wales (ICAEW);</li> <li>• FRC/ARGA; and</li> <li>• The Comptroller and Auditor General (C&amp;AG)</li> </ul> <p>to be transferred to the OLAR.</p>	<p>As outlined in the response to recommendation 1, CIPFA is supportive of the creation of a single body and is willing to contribute to further discussion on the arrangement where appropriate.</p> <p>It should be noted that CIPFA has also suggested as part of the response to the call for views that it may be beneficial for this body to report on the overall local authority sector, bringing together matters publicly reported in individual audits.</p> <p>CIPFA considers that bringing together these elements, system leadership of the local audit approach would be strengthened, accountability enhanced and overall assurance improved.</p>
3	<p>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.</p>	<p>Collaborative working and sector engagement will provide invaluable insight and sector support as OLAR is established. It will be essential that the liaison committee involves appropriate representatives from all key stakeholder groups including audit firms and audited bodies.</p> <p>CIPFA considers that MHCLG is well-placed to chair this committee, being the ultimate regulatory body to which local authorities are accountable and with the power to amend associated regulations. However the liaison committee must also include representation from the Department of Health and Social Care given that local audit covers both sectors.</p> <p>CIPFA's view is that reports produced by the regulator on the development of local audit should be forward looking, and focus on support to the sector and steps to improvement, to facilitate clear central guidance on direction of travel for local auditors.</p>

<p><b>4</b></p>	<p>The governance arrangements within local authorities be reviewed by local councils with the purpose of:</p> <ul style="list-style-type: none"> <li>• an annual report being submitted to full council by the external auditor;</li> <li>• consideration being given to the appointment of at least one independent member, suitably qualified, to the audit committee; and</li> <li>• formalising the facility for the CEO, monitoring officer and chief financial officer (CFO) to meet with the key audit partner at least annually.</li> </ul>	<p>CIPFA agrees that there should be greater transparency and visibility of the non-statutory recommendations made by external auditors, as well as a greater level of accountability for audited bodies to demonstrate actions taken in response and the impact of the actions taken.</p> <p>Implementation of this recommendation would help to encourage this.</p> <p>We agree with the appointment of an independent member to audit committees, and this is part of our published Position Statement on Audit Committees in Local Authorities and in Police.</p> <p>Our submission to the call for views for the Redmond Review suggested that this area of governance should be further strengthened, and we would have liked to have seen additional recommendations around the adequacy of audit committee arrangements.</p> <p>CIPFA is supportive of the need for independent members to have adequate skills and experience, and is exploring options for expanding its existing CPD offering to assist with strengthening sector-wide standards of good practice.</p> <p>Formalising an annual meeting of the CEO, monitoring officer and CFO with the external auditor would again add to transparency and accessibility of audit findings and alignment in approach to how these would be addressed throughout the organisation.</p> <p>In respect of formal meetings between external auditors and the CFO, CIPFA would suggest that this is part of principle 3 of the CIPFA Statement on the Role of the CFO in Public Service Organisations.</p>
<p><b>5</b></p>	<p>All auditors engaged in local audit be provided with the requisite skills and training to audit a local authority irrespective of seniority.</p>	<p>Requiring all public sector auditors to be adequately trained for the task of auditing local authorities will help to improve the assurance and stewardship of public money in the face of increased risks.</p> <p>CIPFA is exploring options for expanding its training and CPD offer in respect of local audit to support this agenda.</p> <p>Given the fragility of the local audit market, it is important that any skills or training requirements are not prohibitive to entry or to the existing resilience of the sector. However CIPFA supports the need to ensure there is a requisite level of skills and training in the medium term.</p>
<p><b>6</b></p>	<p>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.</p>	<p>CIPFA recognises that fees for local audit have become too low in comparison to the escalating financial resilience and regulatory risks faced by local authorities and local auditors respectively, and that a balance must be struck that reflects the need of the sector.</p> <p>Fee pressure may also have reduced the pool of expertise available to complete high-quality local audits in a timely manner.</p> <p>CIPFA therefore supports this recommendation to ensure that fee structures are reflective of the current environment and are reviewed on a periodic basis.</p> <p>In setting future fee structures, affordability for local authorities must be considered and appropriate funding mechanisms put in place to compensate audited bodies for the impact of increased audit fees.</p> <p>Over the last decade audit fees for local authorities have been cut by more than 65%, in the context of significant central funding cuts to local authorities which has led to higher risk financial transactions.</p> <p>Coupled with changes in the regulatory environment for auditors, this has meant that local audit has become more complex, but with</p>

		<p>significantly lower fees and local authorities less able to pay for higher costs.</p> <p>Therefore a sustainable system-wide solution for both auditors and audited bodies is needed.</p>
7	<p>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.</p>	<p>CIPFA supports the need for high quality provision of local audit as a means to increase the level of assurance over use public money. We are engaging with key stakeholders to understand how we might support this process through provision of training and CPD.</p> <p>Our understanding is that PSAA has no formal sanctions process and the sector has been critical of this lack of challenge.</p> <p>We currently have no further comment without knowledge of additional details with regard to the potential scope of any sanctions regime.</p>
8	<p>Statute be revised so that audit firms with the requisite capacity, skills and experience are not excluded from bidding for local audit work.</p>	<p>CIPFA supports this recommendation to the extent that it could increase capacity and resilience in the local audit market.</p> <p>CIPFA is exploring ways to increase its CPD offering for local audit which could assist in increasing capacity and skills.</p> <p>CIPFA would note that any expansion of the current local audit market would necessarily need to accord with appropriate ethical and professional standards.</p>
9	<p>External audit recognises that internal audit work can be a key support in appropriate circumstances where consistent with the Code of Audit Practice.</p>	<p>CIPFA supports this recommendation, although would note that it is primarily International Standards on Auditing as they apply in the UK, rather than the Code of Audit Practice, which prohibit extensive use of the work of internal auditors by external auditors.</p> <p>CIPFA would encourage constructive relationships between internal and external auditors to increase sharing of knowledge and added value for audited bodies, including alignment of reported recommendations for improvement.</p>
10	<p>The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year.</p>	<p>CIPFA's view remains that timely audit reporting is essential to encourage transparency and accountability, having supported the original move to 31 July.</p> <p>Recognising the pressure faced by the local audit sector, CIPFA would support a temporary extension to the 31 July deadline but would encourage that this be revisited periodically as resilience and capacity within the sector is rebuilt.</p>
11	<p>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.</p>	<p>CIPFA recognises that local audit encompasses the audits of both local authorities and health bodies, with audits in both sectors being conducted under the direction of the NAO Code of Audit Practice, Local Audit and Accountability Act 2014 and Accounts and Audit Regulations 2015.</p> <p>Therefore it is essential that any changes in timeframes are mutually agreeable between the relevant government departments and other key stakeholders.</p>
12	<p>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.</p>	<p>CIPFA's view is that this recommendation could reinforce the level of assurance provided by providing additional opportunity for scrutiny. Presentation of audit findings to full council also supports greater transparency and awareness.</p> <p>In considering the framework for this report, consideration should be given to how this would align with the 'Auditor's Annual Report' required by the NAO 2020 Code of Audit Practice.</p>

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.	<p>CIPFA has previously suggested that VfM audit work should be refocused and should explicitly address matters around financial sustainability and governance. CIPFA therefore supports the changes implemented in the 2020 Code of Audit Practice.</p> <p>CIPFA would support a post-implementation review undertaken on a system-wide level, coordinated by the system leader.</p>
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.	CIPFA maintains that SAAA is the most appropriate stakeholder to comment.
15	SAAA and OLAR examine the current arrangements for increasing audit activities and fees if a body's turnover exceeds £6.5m.	CIPFA maintains that SAAA is the most appropriate stakeholder to comment.
16	SAAA reviews the current arrangements with auditors for managing the resource implications for persistent and vexatious complaints against parish councils.	CIPFA maintains that SAAA is the most appropriate stakeholder to comment.
17	MHCLG reviews its current framework for seeking assurance that financial sustainability in each local authority in England is maintained.	<p>CIPFA continues to have concerns over the financial resilience of the local government sector and welcomes the proposed increased focus in this area.</p> <p>This message is reinforced through publications such as the Financial Management Code and products such as the Resilience Index, and our commitment to continuing to support this agenda has been reiterated through CIPFA's responses to the recent MHCLG Select Committee and Public Accounts Committee.</p> <p>This is also consistent with CIPFA's key message that local government must be funded adequately.</p> <p>With the increasing diversity in the financial positions of local authorities, monitoring and oversight arrangements by MHCLG are an important part of the assurance landscape.</p> <p>CIPFA therefore supports this recommendation.</p>
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.	<p>CIPFA considers that the work of other inspectorates could provide useful information relating to financial sustainability, governance and economy, efficiency and effectiveness in the use of resources, which represent required areas of focus for local auditors in accordance with the 2020 NAO Code of Audit Practice.</p> <p>Likewise findings from local audit, in particular around financial resilience and viability, could provide information that inspectorates would be able to use as context for their reviews.</p>

		<p>The recommendation to ensure engagement facilitating effective sharing of information between local auditors and inspectorates is therefore supported.</p> <p>This could also ensure consistency in reporting to audited bodies and alignment of recommendations for improvement.</p>
<b>19</b>	<p>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.</p>	<p>CIPFA supports the principle of improving understandability and accountability in financial reporting underpinning the recommendation for the standardised statement.</p> <p>A standardised statement should enable council taxpayers and other users to:</p> <ul style="list-style-type: none"> <li>• understand the financial position and financial performance of the authority and gain appropriate assurances over its financial sustainability and resilience</li> <li>• have confidence that public resources entrusted in the authority have been used effectively and in accordance with statutory requirements.</li> </ul> <p>It would be important that this standardised statement is accessible, particularly to lay users should this be the intended audience, adds value beyond current financial reporting requirements and is not onerous to produce.</p> <p>We would recommend that the standardised statement should be developed following appropriate consultative processes and particularly in consultation with the CIPFA/LASAAC Local Authority Accounting Code Board (CIPFA/LASAAC).</p> <p>Further clarity is required on the intended users for the standardised statement in order to inform the scope of associated consultative processes. The cost of carrying out the scoping consultation will need to be considered by MHCLG, especially if this incorporates a wider public process.</p> <p>CIPFA is engaging with MHCLG to better define the regulatory changes that would be required to initiate these consultations, and understand the likely resource implications and how these could be covered.</p>
<b>20</b>	<p>The standardised statement should be subject to external audit.</p>	<p>CIPFA is supportive of the need for the standardised statement to be subject to external auditor scrutiny, but clarification of what is meant by 'external audit' will need to be forthcoming with reference to relevant auditing standards and frameworks.</p> <p>This could form part of CIPFA's consultation with the sector once the underlying regulatory framework has been agreed.</p>
<b>21</b>	<p>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.</p>	<p>CIPFA supports the need for simplified and accessible financial information to users of the financial statements, including council taxpayers and service users.</p> <p>This could involve further exploration of digital means of communication including social media use, which is likely to result in further additional costs for local authorities.</p>

<p><b>22</b></p>	<p>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.</p>	<p>CIPFA is already supportive of the principle for streamlining and simplifying local authority financial statements and the relevant principles are already included in CIPFA/LASAAC's strategic plan. CIPFA/LASAAC will consider this as a part of its consultative processes including its current consultation on the Code. CIPFA supports CIPFA/LASAAC in its objectives for simplification and has a longstanding commitment to improving financial reporting, operating through CIPFA/LASAAC as the standard setter for local authority financial reporting across the United Kingdom.</p>
<p><b>23</b></p>	<p>Joint Panel on Accountability and Governance 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:</p> <ul style="list-style-type: none"> <li>• whether "Section 2 – the Accounting Statements" should be moved to the first page of the AGAR so that it is more prominent to readers;</li> <li>• whether budgetary information along with the variance between outturn and budget should be included in the accounting statements; and</li> <li>• whether the explanation of variances provided by the authority to the auditor should be disclosed in the AGAR as part of the accounting statements.</li> </ul>	<p>CIPFA is represented on JPAG and will therefore contribute through its membership of that body.</p>