

# RIBBLE VALLEY BOROUGH COUNCIL

## REPORT TO ACCOUNTS AND AUDIT COMMITTEE

Agenda Item No 13

meeting date: 25 NOVEMBER 2020  
title: INDEPENDENT REVIEW OF LOCAL AUTHORITY FINANCIAL REPORTING AND EXTERNAL AUDIT IN ENGLAND (REDMOND REVIEW)  
submitted by: DIRECTOR OF RESOURCES  
principal author: LAWSON ODDIE

### 1. PURPOSE

- 1.1. To inform members of the outcome of the Independent Review of Local Authority Financial Reporting and External Audit in England – otherwise known as the Redmond Review.
- 1.2. Relevance to the Council's ambitions and priorities:
  - Community Objectives – none identified.
  - Corporate Priorities – a well-managed Council.
  - Other Considerations – none identified.

### 2. BACKGROUND

- 2.1. At your meeting on 12 February 2020, members were provided with details of the Council's response to the call for views on the independent review into the arrangements in place to support the transparency and quality of local authority financial reporting and external audit in England. The review is also commonly referred to as the Redmond Review.
- 2.2. On 8 September 2020 the Government published the results of an independent review, led by Sir Tony Redmond. Local authority accounts are complex and the Review highlights a number of potential weaknesses with the current local audit framework and makes recommendations to address these. This report summarises the key findings and recommendations within the report, as well as implications for the Council.
- 2.3. Also attached at annex 1 to the report is a copy of the Local Government Association response to the outcome of the review, the comments of which officer's fully support and agree with.

### 3. KEY FINDINGS OF THE REDMOND REVIEW

- 3.1. The review identified a number of key issues with local audit, including:
  - An ineffective balance between price and quality with 40% of audits in 2018-19 failing to meet required reporting deadlines in part due to under-resourcing and lack of experienced staff
  - A lack of coordination and regulation of audit activity
  - Outcomes not always being effectively considered and presented to the local authority and public
  - The technical complexity of statutory accounts limiting public understanding and scrutiny
- 3.2. As result of the above findings 23 recommendations were made, with the key ones outlined below. The implementation of some of these recommendations would require changes to primary legislation however, many could be implemented without.

#### **External Audit Regulation and Oversight**

- The creation of an Office of Local Audit Regulation to procure, manage and regulate external audits. Some of the existing regulatory responsibilities, which currently sit with other bodies, to transfer to the new body.

- Revisions to the current fee structure for external audits to ensure adequate resources are deployed.
- Additional skills training for those involved in local audits and the amendment of statute to allow audit firms with the requisite capacity, skills and experience to bid for local audit work.
- The deadline for publication of audited local authority accounts to be considered in consultation with the NHS, with a view to extending the deadline from 31 July to 30 September.

### **Financial Reporting**

- A simplified and standardised financial statement of service information and costs be made available to the public to allow comparison with the annual budget and council tax. This new statement would be prepared in addition to the statutory accounts and would be subject to audit.
- CIPFA/LASAAC to look again at the composition of the statutory accounts to see if improvements can be made to simplify their presentation and enhance their usefulness and understandability.

### **Governance**

- The composition of audit committees be examined to ensure they have the required knowledge and expertise. Consideration should be given to the appointment of at least one suitably qualified, independent member to support elected representatives in scrutinising local authority finances.
- To demonstrate transparency and accountability, external audit would be required to submit an annual report to the first full council meeting after 30 September each year, irrespective of whether the financial accounts have been certified.
- A formal requirement for statutory officers (Chief Executive, Monitoring Officer and Section 151 Officer) to meet, at least annually, with the Key Audit Partner.

### **Financial Resilience and Sustainability**

- The current framework for seeking assurance on financial sustainability is reviewed by MHCLG to help address the gap between stakeholder expectations and what the auditor is required to do.
- The sharing of key concerns relating to service and financial viability, between local auditors and inspectorates, prior to completion of the external auditor's report.
- In addition, an update to the NAO's Code of Audit Practice that will be applicable from 2020-21 will require auditors to provide a narrative statement on the arrangements an authority has in place to secure value for money.

3.3. Recommendations will now be considered by relevant bodies. A number of recommendations require primary legislation to be in place, after which the timescale for implementation will be clearer.

3.4. It is expected that a number of recommendations will be in place for the audit of the 2021/22 accounts, at least in part. For instance, it is proposed that for 2020/21 the new standardised financial statement of service information and costs is produced on a trial basis, with full implementation as an audited statement in 2021/22.

3.5. Assuming that the recommendations are implemented, key implications for the Council will include:

- A likely increase in audit fees; with evidence suggesting audit fees collectively are at least 25% lower than required to fulfil current local audit requirements effectively.

- The requirement for the auditor to present an annual report to Full Council.
  - The appointment of at least one suitably qualified independent member to Audit Committee.
  - An additional requirement to produce a standardised statement of service information and costs.
  - A revised timetable, with a change in the reporting deadline from 31 July to 30 September.
- 3.6. Some of the recommendations made by other reviews on audit reform such as the Kingman and Brydon reviews, may also be relevant to the future of local audit and legislation to implement these is pending.
- Kingman Review: The independent review recommends that the FRC be replaced with an independent statutory regulator called the Audit, Reporting and Governance Authority.
  - Brydon Review: The review considered how the audit process and product could be developed to better serve the needs of users and the wider public interest
4. CONCLUSION
- 4.1 Recommendations will now be considered by relevant bodies. A number of recommendations require primary legislation to be in place, after which the timescale for implementation will be clearer.
- 4.2 Some of the recommendations made by other reviews on audit reform such as the Kingman and Brydon reviews, may also be relevant to the future of local audit and legislation to implement these is pending.

HEAD OF FINANCIAL SERVICES

DIRECTOR OF RESOURCES

AA13-20/LO/AC

16 November 2020

BACKGROUND PAPERS

None

For further information please ask for Lawson Oddie.

**LGA RESPONSE TO THE REDMOND REVIEW****Response to the report of the Independent Review of Local Authority Financial Reporting and External Audit in England (the “Redmond Review”)**

Letter to Rt Hon Robert Jenrick MP from Cllr Richard Watts, Chair LGA Resources Board, 9 November 2020

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Rt Hon Robert Jenrick MP,  
Secretary of State for Housing Communities and Local Government  
Ministry of Housing Communities and Local Government  
Marsham Street  
London  
SW1P 4DF

9 November 2020

Dear Mr Jenrick,

**Report of the Independent Review of Local Authority Financial Reporting and External Audit in England (the “Redmond Review”): Response from the Local Government Association**

I am writing to you in my role as Chair of the Local Government Association’s Resources Board. The Local Government Association has been considering the Sir Tony Redmond’s report that was published in September and would like to respond to it and make some suggestions for a way forward. The content of this response was discussed and agreed by the LGA’s Executive Advisory Board on 22 October.

Local government is one of the best regulated and most transparent parts of the public sector in this country. As democratically elected bodies, councils understand the need for good governance, of doing the right things at the right time and to be seen to be spending public money well and wisely. The system is a complex web of checks and balances, ensuring that decisions are made in public by default and the outcomes of those decisions are also made plain. Despite escalating pressures, examples of councils failing in their responsibilities remain rare. Councils are complex organisations, and the LGA together with the sector is committed to ensuring that the way public money is spent, and local decisions are made is as clear and relevant to local residents as possible. External audit is an important part of this system.

In our response to the call for views we identified that while the basic external audit arrangements are still relevant and appropriate, there is a need for some changes. We pointed out that there is evidence that current arrangements are not working as well as they should, but that there are conflicting views about what is going wrong and why and what should be done. In our opinion the main issue is the robustness of the audit market. In particular, there are too few firms engaged in the market and too few suitably

qualified auditors employed by firms. These problems have been shown by the delays in finalising audited accounts which have been due to a shortage of suitably qualified senior staff. In addition, many councils have reported that the lack of skills and knowledge of staff undertaking audits impact on the time of council staff supporting the audit process. This is a complex and difficult problem which we do not believe will be resolved by the measures in the Redmond report, as outlined below. In particular, we think that the proposal to create a new regulatory body is not the right answer and it will require a lot more work across a whole range of bodies and stakeholders to resolve, not least the audit firms and the audit profession itself. It would not be within the power of the proposed new body to resolve this.

The case against the proposed new body is a strong one.

Bringing together auditor procurement and audit regulation in one body will create problems. This combination of functions does not occur in other industry regulating bodies. There could be a conflict of interest, for example, if auditors defend poor performance by criticising the contract. Procurement and contract management remain crucial, but this is separate from regulation and should be carried out by a separate body.

The Redmond report raises the issue of the current prices in the audit contract. It is worth reflecting that these are the prices that the market produced, again reflecting that the solution is not simple. To some extent the current pressure on prices arises from changes that have arisen since the contract award- new standards of quality for example imposed after several company failures in the private sector. If changes to regulation result in applications from audit firms to vary contracts, then the responsibility for the change occurring needs to be clear and is an additional cost on councils.

Sir Tony's recommendation that audit fees should be increased because the audit firms' margins have reduced cuts across the contracting process and could raise legal challenges by firms that weren't awarded contracts at the time of the original procurement exercise. Should the recommendation to raise fees be followed, or changes in regulation lead to higher costs of audit, councils will need to be recompensed through the new burdens process.

Since the 2014 Act only came fully into effect in 2019 (when the current round of audit contracts started), in our view it is too early to be contemplating major change. Under the current arrangements Councils are given the opportunity to opt into the Public Sector Audit and Appointments (PSAA) procurement arrangements and 98% of them have done so. The principle of local choice is something that the government invested a lot of time and effort into when introducing the current system and it is one that we continue to support. If procurement were moved to a centralised regulatory body, it could centralise the function under Government control with no sense that councils can opt in or out and retain local control.

PSAA has undertaken a wider role than just audit procurement. It has carried out improvement related activity to support councils and audit committee members in developing skills in managing local relationships with auditors, for example through initiatives such as the Local Audit Quality Forum. This work would be hard to reconcile with a regulator's remit and would likely be lost if PSAA were subsumed within a regulatory body.

Financial resilience is a major issue for councils made much more acute by the advent of COVID19, and Sir Tony recognises this, but we do have concerns over the recommendations on auditor reporting of financial resilience. The main factor affecting financial resilience is about government funding not keeping pace with the growing financial pressures on councils, not lack of control. The response to resilience should not be about auditors anticipating local democratic decision-making (for example by extrapolating from past decisions about use of reserves) or heaping controls on top of controls (for example by requiring auditors to sign off the Chief Finance Officer's sign off of the budget).

We believe that auditors have enough powers to exercise their responsibilities and provide assurance to local residents and other stakeholders. What is needed is more capacity in the market to enable these powers to be exercised.

There are many of Sir Tony's other recommendations that we do agree with. Changes to the timetable for the completion of audits would be welcome, as it has been shown that over-tightening the deadlines too much has simply put too much pressure on auditors and council finance staff at a time when capacity is lacking. We see the benefits of introducing more independent expertise onto audit committees, while preserving the important role of elected members as those responsible for governance. We welcome the proposal for an MHCLG stakeholder group and we welcome proposals to simplify the form of accounts, which have become complex to the point where even local government insiders often find them impenetrable.

We also think that the local audit market for local government cannot be considered in isolation from the local audit market for health as local NHS audit is currently undertaken by the same audit teams as local authority audit, so a solution for one affects the other. We understand that consideration of health was beyond Sir Tony's remit, but the answer has to consider both. We welcome Sir Tony's call for coordination between MHCLG and DHSC.

We propose the following as a way ahead.

1. The current procurement arrangements with PSAA should be given more time to bed in before any (externally imposed) changes are considered. 2019 is effectively the first year that the new arrangements have operated in full. There is scope for PSAA to strengthen its current role and opportunities to improve the current arrangements without the need for merging procurement and regulation in a new body, and we will press for this to happen. For example, PSAA is reviewing the fee variation process and aims to publish proposals for consultation soon.
2. As recommended by Redmond, a Liaison Committee should be established comprising key stakeholders and chaired by MHCLG. This should be as outlined in the LGA's [original submission to the review](#).
3. Market fragmentation should be reduced by incorporating the audit of local NHS (which was not included in Redmond's terms of reference) within current local procurement arrangements and adding other public bodies as well. This would help build market capacity by taking advantage of the synergy created by the two audit processes being carried out by the same firms.
4. Promote Redmond's call for coordination between MHCLG and DHSC.

5. The deadline for completion of audits should be moved back to 30 September, as recommended by Redmond.
6. Any increase in audit fees following the recommendation by Redmond should be funded through the new burdens process.
7. Proposals on simpler more transparent forms of accounts should be pursued, while ensuring that simplification does not create extra work for councils and auditors.
8. Extend the use of independent members on Audit Committees while ensuring that committees remain member led, and that Full Council retains its role as having ultimate responsibility for governance

The above outlines a practical way forward that can be implemented quickly without the need for primary legislation. I would be happy to discuss these proposals further. If you require further details or clarification of our proposals please contact the LGA via [bevis.ingram@local.gov.uk](mailto:bevis.ingram@local.gov.uk).

Yours sincerely,

Cllr Richard Watts  
Chair Resources Board