



Audit & Governance Committee
23 March 2021

Redmond Review – Local Audit and Local Authority Financial Reporting

Purpose of the report:

This report updates the Audit and Governance Committee on the recent Redmond Review into the oversight of local audit and the transparency of local authority financial reporting.

Recommendations:

1. It is recommended that the Committee notes the findings and recommendations of the Redmond Review.
2. The Committee considers recommending to Council the appointment of a suitably qualified, independent member of the Audit and Governance Committee to support elected representatives in scrutinising local authority finances.

Introduction:

3. In June 2019 Sir Tony Redmond was asked to undertake an independent review of the effectiveness of local audit and the transparency of local authority financial reporting. It considered whether the current means of reporting the 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. The review received 156 responses to the calls for views and carried out more than 100 interviews. Serious concerns have been expressed regarding the state of the local audit market and the ultimate effectiveness of the work undertaken by audit firms. and whether audit reports deliver full assurance on the financial sustainability and value for money of every authority subject to audit.
4. Governance in respect of the consideration and management of audit reports by authorities is included in the review in great detail. Redmond

concluded that (having looked at the evidence) there is merit in authorities examining the composition of Audit Committees in order to ensure that the required knowledge and expertise are always present when considering reports to demonstrate both transparency and accountability from a public prospective. This is discussed in more detail in the report, in paragraphs 8 and 20.

5. The review identified four key themes for change

- Local Audit arrangements
- Current Fee Structure for External Audit
- Governance Arrangements
- Transparency and Reporting

The review also highlighted a number of key issues with local audit, including:

- An ineffective balance between price and quality with 40% of audits failing to meet the required deadline for report in 2018-19.
- 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

6. The Review made 23 recommendations; the key ones applicable to Surrey County Council are shown below. Full implementation of the recommendations will require changes to primary legislation. Statutory guidance (including the Accounting Code of Practice) will also need to be amended.

Report Recommendations

7. External Audit Regulation and Oversight

- Create a new regulatory body responsible for procurement, contract management, regulation, and oversight of local audit -Office of Local Audit and Regulation (OLAR)
- Implement a new price/quality regime to ensure that audits were performed by auditors who possessed the skills, expertise and experience necessary to fulfil the audit of local authorities. These auditors would be held accountable for performance by the new regulator, underpinned by the updated code of local audit practice.
- All auditors engaged in local audit be provided with the requisite skills and training to audit a local authority irrespective of seniority.
- Revisit the deadline for publishing audited local authority accounts with a view to extending it to 30 September from 31 July. This looks very likely to be agreed. 265 audits did not meet the November deadline last year and MHCLG are worried about threat to the audit market.

8. Financial Reporting

- Improve the transparency of local authority accounts to the public. All authorities will be required to prepare an audited standard statement of service information and costs (1/2 pages) and communicated to all taxpayers and service users.

9. Governance

- Each local authority should review governance arrangements with the purpose of:
 - The external auditor be required to present an Annual Audit Report to full Council.
 - Consideration given to the appointment of at least one independent member, suitably qualified, to the Audit Committee. The review does not define the terms independent or suitably qualified however we take it to mean free from outside control and not subject to another's authority as well as having qualifications or experience in the relevant areas.
 - Formalising the facility for the CEO, Monitoring Officer and Chief Financial Officer (CFO) to meet with the Key Audit Partner at least annually

10. Financial Resilience and Sustainability

- Transfer current roles and responsibilities relating to local audit discharged by Public Sector Audit Appointments (PSAA), ICAEW and others to be transferred to OLAR.
- Set up a Liaison Committee comprising key stakeholders and chaired by the Ministry of Housing, Communities and Local Government (MHCLG) supported by the regulator. The new regulatory body would be small and focused and would not represent a body which has the same or similar features as the Audit Commission. The remit of the proposed body is not clear at this stage although it would replace the existing system with a new body to oversee, manage and regulate local audit.

Government Response to the Redmond Review
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11. On 17th December 2020 the Ministry of Housing, Communities and Local Government (MHCLG) published a response to the independent review.
12. The MHCLG split their response into 4 “themes”, which will have an impact on Surrey County Council
 - Action to support immediate market stability
 - Consideration of system leadership options
 - Enhancing the functioning of local audit and the governance for responding to its findings
 - Improving transparency of local authorities' accounts to the public

13. New Regulatory body

MHCLG are to consider this recommendation further and to consider alternative options. They are not persuaded that a new arms-length body/system leader is required and have stated that “We do not wish to recreate the costly, bureaucratic and over-centralised Audit Commission”

14. New Price regime

MHCLG agree with this recommendation and will look to revise regulations to enable PSAA to set fees that better reflect the cost to audit firms of undertaking additional work. Local Authorities are to receive £15m in additional funding in 2021/22 to meet rise in audit fees/new audit requirements. Allocations are to be confirmed in 2021

15. Transfer of roles to OLAR

MHCLG are to consider this recommendation further and will make a full response by Spring 2021.

16. Set up a Liaison Committee

MHCLG are to consider this recommendation further and will make a full response by Spring 2021. Public Sector Audit Appointments Limited (PSAA) is currently the appointing body and it seems that MHCLG will propose a solution that supports this setup rather than significantly move away from the 2014 Act. They state that they do not wish to create new arms-length bodies.

17. Review governance arrangements

MHCLG strongly agrees with the review that the external auditor should be required to present an Annual Report to a Full Council meeting. This is seen to be an important opportunity for potential risks or concerns to be escalated in a timely way. They will explore how this can be achieved and consider enshrining in statute.

MHCLG to work with Chartered Institute of Public Finance Accountants (CIPFA), National Audit Office (NAO) and Local Government Organisation (LGA) to provide new guidance to address Redmond recommendations re meeting between Chief Officers and external audit and appointment of independent member to Audit Committee.

MHCLG to support the sharing of information between inspectorates and external audit and strengthening engagement between external and internal audit.

18. Audit firms to be appropriately skilled

MHCLG will work with key stakeholders to consider training and development needs across audit sector and deliver this recommendation

19. Extend Accounts Deadline from 31 July to 30 September

MHCLG will look to extend the deadline to 30 September for publishing audited local authority accounts for two years, and then review. MHCLG acknowledge that the deadline is challenging at the moment and will be next year as well (especially with COVID-19). They do however appear determined to revisit the July deadline after that as they believe it to be viable and sustainable.

20. Improving transparency of local authorities' accounts to the public

MHCLG agrees that audited standardised statement of service information and costs is required. The response says that they should be short and accessible (1/2 pages) and should be communicated to all taxpayers and service users. It could be alongside council tax bills although the method of communicating is to be considered. Standardised statements to be required in 2021/22. Additional funding will be made available to enable LAs to prepare with allocations to be confirmed during 2021. MHCLG is to work with CIPFA/LASAAC to consider scope to simplify accounts by removing disclosures. The earliest this could be achieved is the 2022/33 accounts. The changes may need a phased approach.

Implications for Surrey County Council

21. Assuming that the recommendations are accepted and implemented by the Government the key implications for the Council are:

- A likely increase in audit fees. The report suggests that audit fees are 25% lower than required to fulfil local audit requirements effectively. The Government response indicates that additional funding may be made available for these costs.
- Formalisation of the need for the Chief Executive, the Monitoring Officer and the Chief Financial Officer to meet with the Key Audit Partner at least annually. Surrey County Council already facilitates this.
- The appointment of at least one suitably qualified Independent member to the Audit and Governance Committee.
- A revised timetable, with a change in the reporting deadline for published audited local authority accounts being extended to 30th September from 31 July each year. The preparation of the draft statement of accounts was not considered as part of the Redmond review. We will continue to plan to produce the draft statements by the end of May.
- The requirement for the external auditor to present an Annual Audit report to the first Full Council meeting after 30th September each year, irrespective of whether the accounts have been certified.
- A new standardised financial statement of service information and costs will form part of the audited statements in 2021/22 and this will be subjected to External Audit.
- MHCLG have indicated that funding may be available to offset the additional costs.

Conclusions:

22. The report is presented to this Committee for discussion and noting

Financial and value for money implications

23. There are no financial implications arising directly from the Redmond Review. As set out above, if the recommendations in the Redmond review are adopted by MHCLG and CIPFA there may be an impact on the costs of External Audit and workload in producing the accounts and resourcing an extended audit period.

Equalities and Diversity Implications

24. There are no direct equalities implications of this report.

Risk Management Implications

25. There are no direct risk management implications of this report.

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Sources/background papers:

Redmond Review:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/916217/Redmond_Review.pdf