

Redmond Review

Cabinet Member for Finance, Procurement, Customer Services and Revenues & Benefits

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Agenda Item: 5
Contact Officer: Anthony Thomas
Tel Number: 01543 308012
Email: Anthony.thomas@lichfielddc.gov.uk
Key Decision? No
Local Ward Full Council
Members

Lichfield
district council
www.lichfielddc.gov.uk

**Audit and
Member
Standards
Committee**

1. Executive Summary

- 1.1 The 'Redmond Review' (an Independent Review of Local Authority Financial Reporting and External Audit) has now been published.
- 1.2 This Review *"examined the effectiveness of local audit and its ability to demonstrate accountability for audit performance to the public. It has also 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."*

2. Recommendations

- 2.1 The Committee:
 - Notes the contents of this report.

3. Background

- 3.1 The Council's s151 Officer responded to the review's call for evidence through the Staffordshire Chief Finance Officer Group (SCFOG). The main points of this collective response can be summarised as follows:
 - Audit standards have generally reduced due to:
 - reduced audit fees and poorly resourced audit teams
 - earlier deadlines and shorter audit timetable (which are squeezing limited auditor resources)
 - a disconnect between what audit are currently focusing on and what the sector needs.
 - There is an expectation gap between what the public/council wants from audit and what the FRC/audit firms want. Auditing resource should be prioritised on areas that impact on reserves and the financial standing of the council rather than technical balance sheet issues (driven by the FRC and private sector inspired audit and accounting standards).
 - Accounting standards for local government should be simplified and streamlined.
 - Auditors need to better plan their audit work and more could be done to use data analytics within the audit process.
 - The earlier timetable in many ways works for the sector as it enables accounting teams to shift their attention to other important areas of work earlier than was previously the case.

However, the arrangements to deliver a successful audit to these earlier milestones need to be robust – and currently they are not. The current direction of travel of audit (because of the issues raised above re inflexibility of approach, materiality and skills and resource gaps) is leading the sector away from using estimates in the accounts – which is critical to becoming more efficient and closing down earlier.

REDMOND REVIEW FINDINGS

3.2. The findings can be summarized as follows:

- **Unsustainable audit arrangements:** *“As I conducted my work, it became clear that the local audit market is very fragile. The current fee structure does not enable auditors to fulfil the role in an entirely satisfactory way. With 40% of audits failing to meet the required deadline for report in 2018/19, this signals a serious weakness in the ability of auditors to comply with their contractual obligations. In addition, the ambition of attracting new audit firms to the local authority market has not been realised. Without prompt action to implement my recommendations, there is a significant risk that the firms currently holding local audit contracts will withdraw from the market.”*
- **Ineffective arrangements:** *“Serious concerns have been expressed regarding the state of the local audit market and the ultimate effectiveness of the work undertaken by audit firms....there remains a question of whether such audit reports deliver full assurance on the financial sustainability and value for money of every authority subject to audit.”*
- **(In) balance of price and quality:** *“A particular feature of the evidence submitted relates to concern about the balance of price and quality in the structure of audit contracts....To address this concern an increase in fees must be a consideration.”*
- **Revisit Deadlines:** *“With 40% of audits failing to meet the required deadline for report in 2018/19....The current deadline should be reviewed.”*
- **Strategic sector coordination:** *“The underlying feature of the existing framework is the absence of a body to coordinate all stages of the audit process...(and a) coherent local audit function which offers assurance to stakeholders and the public in terms of performance and accountability of the local authority and the auditor.”*
- **Audit Committee make up:** *“there is merit in authorities examining the composition of Audit Committees in order to ensure that the required knowledge and expertise are always present”*
- **Overly complex accounts:** *“current statutory accounts prepared by local authorities are considered to be “impenetrable to the public....it is recommended that 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.”*

REDMOND REVIEW RECOMMENDATIONS

3.3. The recommendations are as follows:

External Audit Regulation

- A new office (OLAR) which will:
 - regulate the local audit sector
 - draft the code of audit practice
 - take over the responsibilities of the PSAA for procuring and managing audit contracts
 - monitor and review audit performance

- produce an annual report on the state of local audit
- (A key role that OLAR will not have is to actually carry out audits – the Review does not appear to have addressed the question whether there is a role for public audit and assumes work will be contracted out in its entirety to private firms.)
- The involvement of PSAA, ICAEW) FRC and the NAO in the framework will end.
- Local authority governance arrangements to be reviewed with the purpose of:
 - full council receiving an annual report from the external auditor – to the first meeting after 30 September, even if the audit is not certified closed
 - appointment of a suitably qualified independent member to the Audit Committee
 - formalising meetings of the Chief Exec, Monitoring Officer and the CFO with the audit partner at least annually.
- All auditors to be provided with the requisite skills and training to audit a local authority.
- Audit quality to be consistent with the highest standards of audit within the revised fee structure – OLAR to have scope to apply proportionate sanctions in the event of serious or persistent breaches.
- No firm with the requisite capacity, skills and experience to be excluded from bidding for contracts.
- Internal audit to be recognised as a key support for external audit.
- Consideration to be given to moving the date for publication of audited accounts back to 30 September.
- Changes to the arrangements for VFM auditing made in the 2020 Code of Audit Practice to be endorsed (reporting on and making recommendations in relation to financial sustainability, governance and improving VFM).

Financial Resilience

- MHCLG to review its framework for seeking assurance about the sustainability of individual authorities.
- Auditors to share key concerns with Ofsted, Care Quality Commission, etc., before completing their annual report.

Transparency of Financial Reporting

- An audited statement of service information and costs (with budget comparisons) to be presented alongside the statement of accounts (illustrations included in supporting documents).
- CIPFA/LASAAC to be required to review the requirements for the statutory accounts in the light of the information to be covered in the statement of service information.

REDMOND REVIEW – THE GOVERNMENT’S RESPONSE

3.4. The response by MHCLG was published on 17 December 2020. The main points are set out below:

- The date for publication of audited accounts is to be 30 September for 2020/21 and 2021/22 but could then return to 31 July if MHCLG decides that other improvements following the Review have made this a viable and sustainable option. There is no mention of the deadline for publication of unaudited accounts moving from 31 May.
- MHCLG will engage with local government to better understand the **barriers to timely completion of accounts** attributable to capacity and capability of finance teams and consider how they might be addressed.
- MHCLG will explore how **standardised statements of service information** should be

communicated to all tax payers and service users, and will explain how this can be done, for example, alongside or with Council Tax bills from 2022. The wish is that statements should be short and accessible (two pages) and subject to audit.

- MHCLG is to work with CIPFA/LASAAC to **remove accounts disclosures** that may no longer be necessary, with a target of making a start in the 2022/23 Accounting Code.
- There will be **£15 million** additional funding for authorities in 2021/22 to meet **higher audit fees and costs of preparing for the standardised statement of service costs**.
- There will be **no Office of Local Audit** until the Government understands in more detail how a system leader could resolve the weaknesses in the local audit system, and can ensure that any consequences of its establishment, such as potential conflicts of interest within the organisation, are identified and can be mitigated. A boost to OLAR’s prospects would be if the regular production of **analysis highlighting trends in local audit findings** could inform and strengthen MHCLG’s framework for seeking assurance that financial sustainability in each local authority is maintained.
- A decision is to be made by spring 2021 as to whether PSAA will be the **future appointing body for local authority audit**, and (whoever it may be) how the appointing body can most effectively carry out its functions.
- MHCLG will work with CIPFA, ICAEW and the FRC to help improve the update of **local audit training**.
- MHCLG to work with the FRC and ICAEW to review whether **entry requirements for Key Audit Partners** are too high, with the objective of making it easier for new firms to enter the market.
- The Government will consider whether and how **a new corporate auditing profession** (recommended for the commercial sector by the Brydon Report) could continue to generate auditors with skills that are transferable to public sector audit.
- MHCLG will look for an opportunity to legislate for the Redmond Review’s recommendation that the external auditor be required to present an **annual audit report to a Full Council meeting**.

REDMOND REVIEW – IMPLICATIONS FOR LICHFIELD DISTRICT COUNCIL

3.5. A number of these proposals will need further development in consultation with CIPFA and the relevant bodies. It is therefore difficult to identify the impact on the Council at this stage.

Alternative Options	There are no alternative options.
Consultation	Leadership Team were consulted on the Redmond Review.
Financial Implications	A budget growth item is included in the draft MTFS from 2021/22 for £8k per annum to reflect a projected cost increase in External Audit fees. However, further increases may be necessary when the further information is provided on the Government’s response to the recommendations included in the Redmond Review.
Contribution to the Delivery of the Strategic Plan	The Redmond Review findings will form part of the Medium Term Financial Strategy enabling Members to monitor progress against the plan in a timely manner to ensure resources are allocated in line with priorities and ambitions of the Council.

Equality, Diversity and Human Rights Implications	There are no Equality, Diversity or Human Rights issues.
Crime & Safety Issues	There are no Crime and Community Safety Issues.
Environmental Impact	These areas are addressed as part of the specific areas of activity prior to being included in Lichfield District Council's Strategic Plan. In addition, remote working has reduced the need for External Audit to travel to the Council's offices.
GDPR/Privacy Impact Assessment	There are no specific implications.

	Risk Description	How We Manage It	Severity of Risk (RYG)
A	<p>If it is implemented: The extension of the deadline to 30 September means the audit process overlaps with the MTFS process causing capacity issues in the Finance Team.</p> <p>The cost of the External Audit increases.</p>	<p>The Finance Team contains experienced qualified Accountants, Part Qualified Accountants and Accounting Technicians who undertake regular Continuing Professional Development in line with the requirements of their qualifications. The Team is experienced in regularly meeting conflicting deadlines. 2021 will see the implementation of a new IT Finance System and it is hoped that this will create additional staffing capacity.</p> <p>We have a detailed project plan for year end and tasks are accelerated each year and alternative approaches are adopted to ensure the unaudited Statement of Accounts are certified and available for inspection by the statutory deadline. Working papers are of a high standard. There is also an additional budget growth item for External Audit fees proposed within the draft MTFS in line with the current fee increase consultation being undertaken by the PSAA.</p>	<p>Likelihood : Amber Impact : Amber Severity of Risk : Amber</p>
B	<p>If it is not implemented: External Audit becomes unviable and private firms withdraw from the market.</p> <p>The lack of strategic co-ordination means the External Audit process continues to lose credibility and relevance, and the assurance to stakeholders and the public in terms of performance and accountability reduces. Internal and External Audit resources are not used effectively.</p>	<p>External Audit is a statutory requirement and as such Government would have to intervene. There are a number of options that would be available, for example, direct delivery as with the old District Audit. Government could also look at not following the International Financial Reporting Standards (IFRS), increasing the number of providers and further increasing External Audit fees.</p> <p>Implementing the options above would help to mitigate the loss of credibility, assurance and the use of Audit resources.</p>	<p>Likelihood : Green Impact : Amber Severity of Risk : Amber</p>

Background documents

Relevant web links

GLOSSARY OF TERMS

CFO

Chief Finance Officer

CIPFA

Chartered Institute of Public Finance and Accountancy

FRC

Financial Reporting Council

ICAEW

Institute of Chartered Accountants in England and Wales

LASAAC

Local Accounts (Scotland) Accounts Advisory Committee

MHCLG

Ministry of Housing, Communities and Local Government

NAO

National Audit Office

OLAR

Office of Local Audit and Regulation

PSAA

Public Sector Audit Appointments

VFM

Value for Money