

Local Government audit and financial reporting – the Redmond Review

Grant Thornton
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The Redmond Review – scope and purpose

Scope

- Launched September 2019. Views by December 2019
- Led by Sir Tony Redmond, former President of CIPFA

Purpose – to assess

- Effectiveness of audit in local authorities
- Transparency of financial reporting

Publication

- 8 September 2020

Context

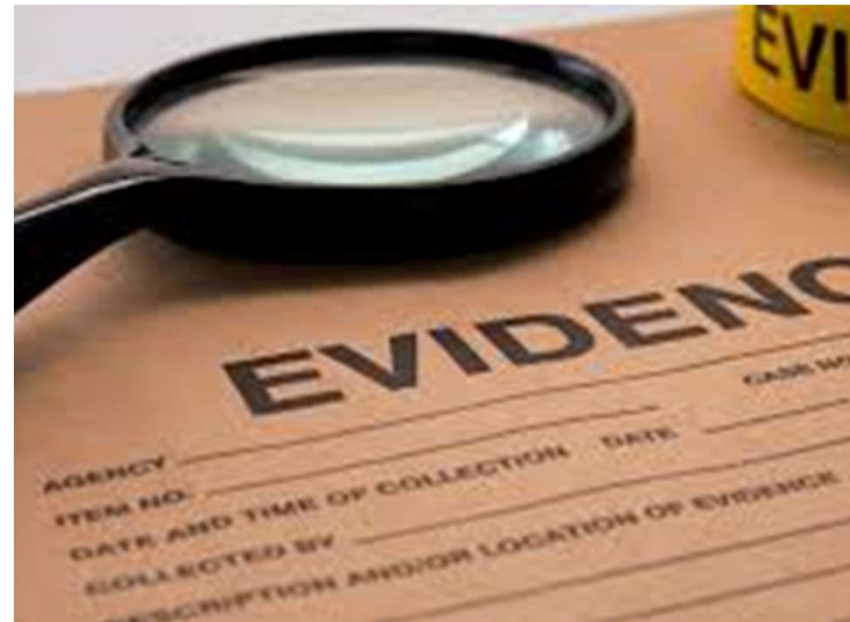
Why the need for a review?

- Local audit is facing an unprecedented set of challenges
 - Accounts have grown far more complex
 - Authorities are engaging in more innovative / unusual transactions
 - Austerity has reduced the ability of many authorities to prepare high quality accounts and working papers
 - Audit fees have fallen to an unsustainably low level
 - The sign off date of 31 July is too tight (even without Covid19 pressures)
 - Retention of audit staff is very difficult in this environment
 - Authorities are not getting the service they deserve
 - Radical and urgent reform is needed!

Areas of focus

A wide ranging review

- The Expectations Gap
 - Audit and Wider Assurance
 - Audit Quality
 - The Financial Reporting framework
 - Auditor Reporting
-
- 156 responses
 - Over 100 interviews
 - 83 pages
 - 23 recommendations



The system is not working



The current local audit arrangements fail to deliver, in full, policy objectives underpinning the 2014 Act.

As a result, the overriding concern must be a lack of coherence and public accountability within the existing system.

The local audit market is very fragile. The current fee structure does not enable auditors to fulfil the role in an entirely satisfactory way.

Without prompt action to implement the recommendations, there is a significant risk that the firms currently holding local audit contracts will withdraw from the market.

Covering letter to the Secretary of State

- 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.

Detailed findings

Systems leadership is lacking

- The structure is fragmented and piecemeal. Public sector specialist expertise is now dispersed around different bodies. No one body is looking for systemic problems, and there is no apparent co-ordination between parties to determine and act on emerging risks (Sir John Kingman)
- There is a need for a new organisation with the clarity of mission and purpose to act as the system leader for the local audit framework; and for a standardised statement of service information and costs, compared to the annual budget, that is aimed at taxpayers and service users.

Detailed findings

Procurement has resulted in fees which are too low

- PSAA adopted the same procurement framework in 2017 as the Audit Commission had done previously in 2014. No assessment of the amount it would cost to audit each local authority based on their level of audit risk has been made in the past ten years.
- Audit fees in the local authority sector have dropped significantly at the same time that audit fees in other sectors including other parts of the public sector have significantly risen
- Firms stated that the lack of profitability changes the way that local audit work is perceived within the firm. Specialising in this area is seen by many auditors as having a detrimental impact on career prospects.

Detailed findings

The audit timescale is unrealistic and unhelpful

- The compression of the audit timetable was mentioned as an issue by every audit firm. Firms raised concerns about the resulting peaks in workload, pressures on staff during the summer months, and knock-on effects when target dates are not met. These pressures contribute to making work unpopular with local audit staff

Detailed findings

Financial reporting is overly complex / not always relevant

- Local authority accounts are arguably more complex and more challenging for a service user to understand than accounts produced by other parts of the public sector.
- Scope identified to improve transparency and relevance of reporting e.g:
 - asset valuations: accounting is complex and the perception of many stakeholders is that it does not add value
 - going concern disclosures are perceived to be less relevant in a local authority context than financial resilience

Detailed findings

Governance and transparency of reporting needs improvement

- The ability of Audit Committees, which mostly lack independent, technically qualified members, to consider, effectively, audit reports has been challenged in responses to the call for views.
- Transparency and accountability of audit reports, from a public perspective is lacking.
- There needs to be a greater role for full council and a stronger interface between statutory officers and audit.

Detailed findings

There is too much focus on Property and Pension Valuations

- Authorities concerned that auditors are spending significant time on fixed asset and pension valuations, rather than on major areas of expenditure and usable reserves, Auditors coming through the system are not developing a wider understanding of LG context
- Firms would prefer to do less work on asset and pension valuations but explained that these areas are given more attention to secure a positive assessment from the FRC
- The FRC believes that if a focus on asset and pension valuations is inappropriate, this is the responsibility of CIPFA/ LASAAC

Sir Tony's Recommendations

A call for action

- **A new regulator** - the Office of Local Audit and Regulation to replace the FRC and PSAA
- **Scope to increase fees** - The current fee structure for local audit be revised (i.e. increased) to ensure that adequate resources are deployed to meet the full extent of local audit requirements
- **Move back to a September deadline** - The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year

Sir Tony's Recommendations

A call for action

- **Accounts simplification** - CIPFA/LASAAC be required to review the statutory accounts to determine whether there is scope to simplify the presentation of local authority accounts
- recognition of the **role of authorities in improving governance and reporting** and
- development of **audited and reconciled accounts summaries.**

Where next?

A call for action

- Consultation
- Legislation
- Immediate actions

Given the urgency, it is imperative to introduce change where possible now, even ahead of legislation

Grant Thornton's View

Sir Tony Redmond's report provides a clear road map to secure appropriate scrutiny and a sustainable future for local government audit. Reinforcing transparency and accountability is critical in protecting the interests of citizens who both fund and rely on the services delivered by local authorities. Introducing an Office of Local Audit and Regulation will help simplify and re-energise this vital public function at a time when local finances and governance are in need of effective oversight. We look forward to supporting Sir Tony and Government as this report progresses from recommendation to reality.



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