

Public Accounts Committee

Oral evidence: Timeliness of local auditor reporting on local government in England, HC 1292

Monday 17 May 2021

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Members present: Meg Hillier (Chair); Gareth Bacon; Sir Geoffrey Clifton-Brown; Peter Grant; James Wild.

Housing, Communities and Local Government Committee Member present: Mr Clive Betts, Chair.

Gareth Davies, Comptroller and Auditor General, Mike Newbury, Director, National Audit Office, and Marius Gallaher, Alternate Treasury Officer of Accounts, HM Treasury, were in attendance.

Questions 1-67

Witnesses

I: Janet Dawson, Partner, EY; Mark Stocks, Head of Public Sector Assurance, Grant Thornton; and Fiona Baldwin, Head of Audit, Grant Thornton.

II: Sir Tony Redmond, author of the “Independent review into the oversight of local audit and the transparency of local authority financial reporting”.



Examination of witnesses

Witnesses: Janet Dawson, Mark Stocks and Fiona Baldwin.

Chair: Welcome to the Public Accounts Committee on Monday 17 May 2021. This week, we are looking at the complex and vital issue of local audit reporting on local government in England.

Local councils and other bodies are responsible for £100 billion a year of net revenue spending, which is overseen by external auditors, including those represented on our first panel. Auditors assess whether a council's statements are a true and accurate representation of their financial position.

Covid and other issues have thrown up some of the challenges for local councils, which we are looking at in particular today, and the role of the auditors in their job of calling out any risky behaviour or threats to the stability of the council or public body. We have been concerned for longer than covid, however, about the sustainability of the local audit sector and of the ability of the councils to pay the right fees to get the right people to do the right work in short order.

We will hear from companies that work in the sector and, in our second panel, from Sir Tony Redmond, who is the author of the "Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting". On Thursday, we will have witnesses from the Departments.

I welcome Clive Betts MP as a guest at our Committee today. He is Chair of the Select Committee on Housing, Communities and Local Government.

I also welcome our first panel of witnesses: Fiona Baldwin, a partner and head of audit at Grant Thornton; Mark Stocks, a partner and head of public sector assurance practice at Grant Thornton; and Janet Dawson, a partner and head of the government and public service assurance team at EY. We are pleased to welcome you. Thank you for coming. We expect the session to last about an hour. Sir Geoffrey Clifton-Brown will kick off.

Q1 Sir Geoffrey Clifton-Brown: I wish you all a good afternoon. I come straight to you, Ms Baldwin. I gather that Grant Thornton has been active in the use of reporting powers for corporate governance. I am particularly concerned about the effect of the lateness of local government audits—no doubt we will get on to that later—on corporate governance decisions and, in particular, things like CIPFA's recommendations for the powers of section 151 officers so that we can actually get to grips with those councils that may be getting into financial difficulties. Would you like to comment on your role in local government?

Fiona Baldwin: Thank you very much. I will start and then pass to my colleague, Mark. First, thank you for the opportunity to be here this afternoon. We are very much committed to the local authority audit market. In fact, picking up one of the Chair's points, which Mark will talk about, in terms of potential tension between corporate and public sector



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audit, we actually run our audit teams totally separately, so the capacity we have within the public sector audit team remains within the public sector audit team, but you have raised some very good points. Mark, can I hand over to you to go through them in some more detail, please?

Mark Stocks: Thank you, Fiona. It is a good point. Clearly the audits are designed to be finished on time but, due to the pandemic and some of the issues we have seen in the audit market, that has not been delivered over of the past couple of years. My view is that council governance is strong across the board. There are issues that you referred to with regard to a few councils, but they are quite rare. What I see on a day-to-day basis is local government being well governed and reports being taken to council and cabinet on a regular basis to communicate to members what is happening. In general it is a well-governed sector.

There are some issues where we have issued public interest reports quite recently, but the lateness of the accounts does not impact on that. Where we identify an issue, we are very quick to raise that with members and with officers within the councils, and if we are not getting the response we want, we raise that with MHCLG. As a last resort, we move to a public interest report. We do need to improve the timeliness of accounts, but in terms of the overall governance of the sector, I do not think it is having a significant impact at the moment.

Sir Geoffrey Clifton-Brown: Thank you very much.

Q2 **Mr Betts:** I will begin with Janet Dawson. The delays in audit are growing, and it is concerning and worrying that authorities do not have their set of accounts up to date and audited by yourselves. Why is the delay happening? Why is it getting worse?

Janet Dawson: Good afternoon and thank you for the opportunity to provide evidence on this important issue. As you said, I lead our public sector audit practice, and I have been in the profession for 30 years. I am supported by a team of 250 specialists in assurance within the public sector market.

There are a number of different issues as to why these delays are occurring. It is a complex picture. Both Sir Tony Redmond and the NAO have pointed to the increasing complexity of the audit and the increased risk associated with reporting on the financial position of these local authorities. That is to do with the activities that they are increasingly getting involved in. They will have property valuations, investment properties and group structures, and covid has added an extra layer of complexity in terms of considering the recoverability of loans and debts and the uncertainty over their future funding. All of that requires quantification and evaluation for us to be able to provide an opinion on their financial statements at an appropriate level of quality.

Obviously, the authorities themselves have also struggled because, I think, of the pressures on their finance staff. There has been a period of low investment in finance professionals across local government, so they

found themselves particularly stretched over the 2019-20 audit period and reporting period. We have a finite amount of resource As Fiona mentioned, GT has its specialist team and we have a specialist team. Across the UK, there is a limited supply of government and public services audit professionals.

There are a number of reasons for that, partly to do with the amount of training that is required for specialist understanding of local public sector reporting. Clearly, there is also an increased burden from the regulatory side in terms of making sure that these audits are done to the right quality. At EY, we are keen that you understand that we will not provide an opinion to an arbitrary deadline if the quality and the evidence are not there to support the opinion. Therefore, all these factors have been combining to give us this delay over the 2019-20 period in particular.

- Q3 **Mr Betts:** If I may summarise, and then pass over Grant Thornton to respond, it is about local authorities getting involved in more complicated issues, a more complicated and challenging regulatory regime and the lack of sufficient resources within your organisations to respond to that? Is that the same for you at Grant Thornton?

Mark Stocks: I think it is. Janet has taken you through all the salient facts. It is an increasingly complex sector, particularly the group that we are seeing in some of the investments that councils are making and their use of PWLB borrowing, but also complex financial instruments. They need to be understood and audited before we can form our view.

That complexity comes at a time when the work we do on audits has rightly been challenged to improve by the Financial Reporting Council. We have taken that into account and that creates work.

The only additionality I would add to what Janet said, is that clearly during covid we have had to work remotely. That is an incredibly difficult thing to do. Just trying to work remotely, to get the evidence and to work through that with councils, who, at the same time, are being stretched trying to distribute Government grants, has in itself added a significant delay to the process.

- Q4 **Mr Betts:** But things were getting worse before covid, weren't they? That may have made things additionally worse during the last year, but the delays were getting worse before covid.

Mark Stocks: I think that is fair. A couple of years ago there was a move to a deadline of 31 July. That is not sustainable in the current environment with the complexity of councils and the work that we are required to do. Like Janet, I have been in this profession for 30 years, but it was not so long ago that the deadline for delivering an audit was December. Over time, it has been brought forward to September and then to July. In terms of what we are required to do now, I think the earliest we can deliver a quality local government audit is 30 September.

- Q5 **Mr Betts:** Okay, that is something we might want to reflect on. You mentioned the complications of the regulatory regime that now exists.



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That changed in 2014. Has that specifically caused problems for you? Would the recommendations in the Redmond review help alleviate those problems?

Mark Stocks: We agree with the recommendations of Redmond. We think that there is a need for a systems regulator to oversee local audit. We think that is important in terms of the co-ordination of our work and what we are asked to do. If you look at the markets at the moment and the different organisations that we have to answer to, there is the Financial Reporting Council, the PSAA on contracting, the NAO on the code that sits on the accounting framework and there is ICAEW in terms of being appointed as key account partners. That is a complex environment to try and negotiate. As times, it has felt as though there were different priorities for each of those organisations.

Q6 **Mr Betts:** Could simplifying that, as Redmond is proposing, assist?

Mark Stocks: It will assist greatly because we then get a single message in terms of what is expected of us and the purpose of local audit—I think that is important for the Committee to consider. A single regulator with a single voice is able to direct us, but also balance that against the cost of audit. That is very important.

Q7 **Mr Betts:** I will just come back to Janet Dawson, and then I will ask the same question of Grant Thornton. There are concerns that with the time period stretching and audits getting late, that puts pressure on you, as the auditors, and your staff. Is there a danger that that reduces the quality of the audit as a consequence?

Janet Dawson: Just to come back to the point about Redmond and the recommendation of oversight, I support what Mark is saying about being able to pull together one organisation that can see, across the supply and demand, what is required in terms of the scope of the audit, for what purpose and assurance, and which organisations are able to provide that to the appropriate quality.

On the point about the pressure that that puts on the teams, although we are being held to account by the local authorities we are auditing on whether we are going to meet the deadline that MHCLG has set, the message from within the firm is that we will not provide an audit opinion until we have sufficient evidence to support that at the appropriate quality. I am pleased that I am able to say that the FRC's latest report shows that EY has been 100% compliant on that quality for the last two years—the two years of this current contract. It does put immense pressure on the teams while they are trying to reconcile those competing demands from the organisations that we are reporting to, whether those are the local authorities, the FRC, the NAO on the code, or MHCLG.

Q8 **Mr Betts:** Auditors, I understand, are human like everyone else. You get a situation where you are not quite sure that something is going really wrong in an authority, and you are thinking, "Ought I to have intervened? Ought I to have gone with a stronger or a nuclear option— maybe a report in the public interest?" but you know that that is going to lengthen



things, complicate matters and delay the timing even further. Surely, the pressures you are under must sometimes make you think, “We’ll err on the side of caution and not issue a report in the public interest in the current circumstances.”

Janet Dawson: I would like to be able to say that my team are never put in that position because where they feel that they should be raising an issue or reporting it through the hierarchy of the audit team, they know that they should do the right thing in that situation and report it through to the audit partner, who will then take a view and report.

We are held to account by the FRC, and the personal risk for the audit engagement leaders who are signing those opinions and providing those reports is too great to take a shortcut or decide that it is actually not quite worth the effort. Professionally, that would be the end of our careers, and we are therefore not prepared to do that.

Q9 **Mr Betts:** And from Grant Thornton’s point of view? Do you ever come under pressure from councils saying, “Well, let’s get on with this; we don’t want to waste lots of time going down this road—let’s just get on and get this audit done”?

Mark Stocks: We take the same view as EY. It is more important for us to deliver the audit opinion to the right quality, because otherwise we are not giving the right level of assurance to councils in terms of what their financial statements are and, in particular, what their financial sustainability might be. We have this conversation with the team on a regular basis. All the directors and partners in the firm are very clear that we issue the audit opinion when we are ready to and when we think it is the right thing to do.

We do come under pressure—I think that is fair. There is a regular conversation between councils and us. Some of the work that we do is more valued by councils, and some of the councils value local audit, but not all of them do. Whatever their view, we make sure that we apply the standards for financial statements and the standards for the value-for-money conclusion to the best of our ability and in accordance with the code. Where we are not comfortable with what is happening, we are cleared to call that out either through the value-for-money conclusion or, as you will have seen, through a public interest report.

Q10 **Mr Betts:** So it is a change to the regulatory regime to make it simpler and easier for you to operate in, and then it is more money to pay you to do the audit, is it? Those are the two big things to do.

Mark Stocks: I think those are two of them, but I would add a third. I think we need clarity on what a local audit is. Over the past years, either the value-for-money conclusion or the financial statement audit has had pre-eminence. In reality, both of those parts of the code should be held in equal esteem. Both of them are needed to make sure that we can give the assurance to local authorities about what we do, and to councillors and the public, in terms of what is happening in their area.



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Q11 Mr Betts: You were talking about pressure from councils. Do you generally get full co-operation from councils—all the information? Councils would, I think, deny that the complications of their working have really changed that much so as to slow the whole process down in the way you describe.

Mark Stocks: I have spent 30 years in this profession. We have always had a great relationship with local bodies. Invariably, they have other pressures on their time, so they want the audit done in a particular period, but my experience is that they value the work that we do and want to hear what we have to say.

Q12 Mr Betts: As companies, you want more money to do the work, but have you fully invested in this in the past? Have you given it priority within your organisations? Have you trained people in the necessary skills? Have you put the IT systems in?

Mark Stocks: We have. We now run a team of around 340 people, an increase from 280 people last year. We continue to invest. We are a dedicated public sector team. The work that we do is either local government or NHS. We have specialists, in terms of financial reporting and in terms of quality. We continue to invest in that. To be candid, whatever I have asked of Fiona or the senior leadership team within Grant Thornton, they have come through with. At the moment, we are investing in new technology to enable us to do more data mining into accounts. We are completely committed to this sector. We really value the work that we do there and the benefit that we believe it brings to society, and we are committed into the long term.

Q13 Mr Betts: Coming back to EY, presumably you would argue the same—that you have invested—but in your private sector work you would not accept these delays, would you?

Janet Dawson: As a public sector specialist, I am afraid that I am not actually in a position to talk about the comparison with the corporate environment. As I have said, I have spent my career working on the public sector.

Q14 Mr Betts: But you have discussions between colleagues about what is happening in your different sectors, don't you? You do not live in completely isolated boxes.

Janet Dawson: No, we don't; you are right. The UK chair of EY, Hywel Ball, wrote 18 months ago to all our top corporate clients to explain that, in line with FRC commentary about the issues that were taking place in the market and to do with covid as that came into place, we would safeguard quality before deadlines. I have been telling you about the approach that we take to ensure that we provide appropriate assurance at the right quality. That is the firm's approach across all our audit practice and profession. You are right; I talk to my colleagues. That is the culture within our organisation: to do the right thing on the quality of the work we do.



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You mentioned whether a new oversight organisation would make things simpler for us. It certainly would. The way in which it would do so is by bringing all the requisite skills needed to consider the audit profession and the audit requirements for the public sector into one body and then to understand all those different competing demands as to setting the scope, the quality of assurance required and how to hold audit providers to account, as well as what the underlying cost of that would be—to consider that in one organisation and then to talk to and interact with audit providers, to arrive at an appropriate level of fee that reflects the work required.

You mentioned that in terms of increasing the amount of money to do the audit, but I would go back to the complexity point—having the right specialist to support the judgments that we make, and having the right data analytics capabilities to extract the data efficiently from the local authority's accounts and to use that to target our work, to make sure that we are addressing the risks across the audit. There are a number of reasons why that would allow us to continue to invest in our team.

We are also looking for MHCLG to signal what it will do with this market. To build a team of government and public services specialists, it takes three to five years to be recognised as such by our audited bodies. Therefore, at the moment, we have uncertainty about the future of the market, until MHCLG responds to the Redmond review. We need that certainty, and we are hopeful that it will give us that, so that we can get in place our plans to continue that investment, and to have the right shape of resources and the right specialist skills for when the next contract comes out, which we will be bidding for.

Q15 Mr Betts: Okay, so that is about having a clear way forward to bring about a range of things to improve auditing. As an immediate response, the Government announced an extra £15 million, I think, for audit fees. Does that provide sufficiency in the short term to get an improvement in the timeliness of audit?

Janet Dawson: We very much welcome that announcement. It will go some way to helping with the underlying imbalance between the actual cost of delivering the audits with the specialist skills required, as I described, and the fees. The issue that we have is that the fees have been set on a historical basis and now bear no relation to the underlying cost of the audit. We are responding to the consultation that is due in tomorrow about the basis on which that £15 million may be shared to make sure it is shared on a basis that is equitable to the organisations that perhaps face a higher cost of audit due to their increased complexity, in comparison with the smaller, more simple bodies.

Q16 Chair: While we are on the £15 million, you talk about knowing how it will be carved up—I will come back to you first, Janet Dawson. When you say “more complex”, I am assuming you mean more complex boroughs. Will you give a hierarchy of what you think are the most complex bodies? We have had good evidence in from some councils, saying that they recognise the complexity in their own accounts. Where would you like to



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see the focus of the investment?

Janet Dawson: It is important to understand what the actual fees associated with the audits have been. One proposal is that the sharing out of the money might be based on the indicative scale fees that PSAA has set, which do not really bear relation to the underlying risk profile of an organisation or the extent of specialist work required to complete the audit.

Typically, you will find that unitary authorities have more services and might well have entered into some more complex arrangements to support the funding stream for their local populations, and quite often the regeneration projects as well. You will see probably a mix of investment in shopping centres, housing development and subsidiary organisations to run services for the local community, as well as the core public sector services that the councils are delivering.

The difficulty with the sector, however, is that you cannot make one blanket statement, "This type falls into this bucket of simplicity," or, "This one is more complex," and so forth, because each is making its own decisions annually about how to spend its money, where to invest, what services to develop and what structure to adopt. You will find that some smaller district councils have highly geared positions, with high levels of borrowing, very complex group structures and some commercial investments where the auditors will be warning about the susceptibility to interest rates changes or sudden changes in the retail market, for example. It is quite difficult.

Q17 **Chair:** At the beginning of your comments, you hinted—perhaps you will expand—that Public Sector Audit Appointments, also known as PSAA, seems to be indicating that the £15 million will be allocated in line with current audit fees, but you were saying that some of those audit fees are already, in effect, out of whack with the complexity of the work that needs to be done. If that is the case—if you confirm that that is what you were trying to say—what would your preferred approach be? Grant Thornton can stand by to answer the same question. How would you carve up that £15 million differently so that it is focused on complexity? They cannot just take your word for it, I guess, but how do you think they should go about doing that, in short order, given that the money is there and ready to be allocated?

Janet Dawson: What we don't want to do is to make the process more onerous or more complex so that it is delayed. Our proposal—our response to the consultation—will be that MHCLG takes the actual '18-19 fees that were incurred, rather than PSAA's indicative fee rate that was set back in 2017 for those audits, which is what it is proposing at the moment. The proposal as it stands would lead to the amount being allocated on fees that are four or five years out of date.

Q18 **Chair:** That is very interesting. Grant Thornton—I am not sure which of you to go to on that.



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Mark Stocks: Speed is of the essence here, so simplicity is the best way. We are already part way through the '20-21 audits in terms of planning and so on, and we do not yet have surety on fees, which is quite an uncomfortable position to be in. We put in our consultation response, as Janet is proposing, the suggestion that the fees are uplifted on a percentage basis, because that will allow us to move on and to work with authorities.

An underlying issue with the scale fees needs to be resolved, because they do not address risk. In some parts of the local authorities, or some sections of local government, the fees are just not commensurate. In particular, perhaps, for fire, police and pensions, those fees are too low, given the work that we have to do.

Q19 **Chair:** It is interesting that you say that. You bid on a competitive basis. Some firms choose to pull out when it looks like it will not be worth it, so we have seen a diminution in the sector, and others bid at the level they thought was the right level, but lost out in the competition. Do you think that too much low-balling has gone on, which has driven that down perhaps, Mark Stocks? Then back to Fiona—well, both of you can answer this, so Ms Dawson as well. If you allocate on the basis of actual fees, are you sure that those actual fees were the right fees, because if there is low-balling, or low bidders are winning, that could mean that you are just embedding a problem?

Mark Stocks: Under the old regime, before the Local Audit and Accountability Act 2014 came in, there was a general acknowledgement that scale fees would reflect the work that was done. There was, I suppose, an element of cross-subsidisation between sectors. That was accepted and has always been carried forward with the scale fees.

I do not think that there was an element of low-balling in the contracts that went out in 2017. What has actually happened is that the market has changed significantly. If you look at the changes to auditing standards, what has happened in the audit world and the requirements on us, they have changed significantly. Recently, the NAO changed the audit code of practice. I hasten to add that I agree with that change; I think it is a really positive change, in terms of our value-for-money work. But the work that we are being asked to do doesn't look anything like how it looked back in 2017. One of the issues that we were talking about was in terms of systems regulation: there is no body to hold that ring in terms of saying, "The auditors have been asked to do this. What should it cost?"

Janet Dawson: In terms of the 2017 contract, I agree with Mark. It was set in a stable environment, with little change that had been effected through the scope of the audit and little of the regulatory increase that we have seen since then. Those were set in early 2017, for delivery in 2019—for the majority of the audit—by which time the world had significantly changed. Over that period, a number of the complexities that we have talked about within local authorities had increased significantly as well.



So I think we are in a position where the connection between the underlying cost of the audit and the fee, and the fee regime as it was set, is not fit for purpose now. It is operating on a fixed market basis, organised by an organisation that does not have the level of information required to understand the risk, complexity and scope at each organisation, yet it is being held to account to set the fee and determine the fee after we have delivered, on an organisation-by-organisation basis. I worry that PSAA does not have the capacity to do that, in such a changed environment, for the '19-20 fees and beyond.

Q20 Chair: So you think that that approach to variation—that they can do that—is a good one, but you are saying there is a capacity issue.

Janet Dawson: I am saying it is helpful. MHCLG has just proposed an extra flexibility, within PSAA's ability to flex the fees, which, again, will help. It can change the fees within the year rather than before the year under audit, which was adding a delay and also an out-of-date element to its setting of the fees before it had even set them, so that is helpful. MHCLG has moved in the right direction, but I do worry that PSAA has limited capacity to get across its 483 audited bodies—

Q21 Chair: We will have them in on Thursday, so we can put that to them. I just want to pick up on an issue raised by my own local authority, Hackney Council, which none of you audit. They are saying that they recognise the complexities—all those issues—and that the eight-week window for audit is very challenging and it has got more complex. This is the first time they have had a late audit opinion, and they are finding that challenging in terms of proving that they are—they have a long, good track record now of managing their finances well and they want to be able to prove that to the world and they can't, basically; I paraphrase massively. They are saying that the worry is that with audit fees going up, even a council as large as Hackney, with the budget they have, would find it hard to afford.

So there is going to be a real challenge there. Do you think there is enough money in the system—it is perhaps difficult for you to completely judge, but you do audit the accounts—to pay auditors more? We had Gary Porter, when he was chair of the Local Government Association, saying that he felt that in the past auditors were taking too much money and he was pleased that fees had been run down or reduced. Where do you think the balance is, and do you think Government need to put more money into councils to fund this? I will start with Janet Dawson and then go to whoever from Grant Thornton wants to answer that.

Janet Dawson: I think it comes back to this point: what assurance do Government and the local taxpayer want? What is the scope of that assurance? And then what are they prepared to pay for that assurance? That is what is out of kilter at the moment, so I have every sympathy for the view that you have expressed from Hackney. The question is this. We are required to cover an enormous amount of ground in the scope of the work that we do, and we are held to such a high quality bar—which is appropriate, in our view—that we need to put specialist teams in place; we



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need to have specialist trained individuals, and we need to have all the support around the risk and the management and the independence of the audit teams on the ground to do that work. That costs money, and we need to be able to invest to sustain that.

- Q22 **Chair:** It really goes back to the definition of what is needed. It is a fair point. I am going to cut you off there, if that is all right, because we have a lot of ground to cover. Who from Grant Thornton wants to pick up on that issue, if you have anything to add?

Fiona Baldwin: I think this is why we are so strongly advocating for a systems leader—for somebody to bring all of this together and look at what an audit is, what makes an audit important for local authorities and therefore how much work there should be and the costs involved in that, to look at that holistically. I think that if parties are making decisions with part of the information, that is never going to get to where we should be for a sector that we are all very passionate about. I think the call for a systems leader now is important in the run-up to that next tender, so that it might encourage more participants into the arena from different audit firms and provide a greater choice, which can only be in the best interests of the councils.

- Q23 **Chair:** I will come on to recruitment in a moment, but I just want to touch on something else. I am not sure if it was Fiona Baldwin or Janet Dawson—my notes are not clear—who talked about an arbitrary deadline. Was that you, Ms Dawson? Yes. You said that you would rather have quality than reach an arbitrary deadline. However, I would contend that it is not really an arbitrary deadline. I mean, you have just heard from Hackney—councils want the results by a certain point. The deadline fits in with the ecosystem of other bodies that councils have to report to, not least the Whole of Government Accounts. I am interested that you used the phrase "arbitrary deadline". You have other deadlines in the private sector and I wonder what you think should be done to make that deadline work better.

Janet Dawson: It is a really interesting point, because the NAO Report itself flagged that the impact of the late local government accounts and late pension funds within local government were having a knock-on impact into Government reporting and their own Whole of Government Accounts reporting. However, I think we are back to that supply and demand, in terms of the more assurance that you require delivered by a specialist team within a limited supply in the UK of those specialists, which angle do you want to play with—and you can play with the timeframe.

One of the things that Government have not considered, as far as I am aware, but they could have a look at it, is whether or not those organisations that do report into central Government and then on into the Whole of Government Accounts could have an earlier deadline, which lines up with that ecosystem, whereas those bodies that fall without that—the smaller local government bodies that are not rolled up into Whole of Government Accounts—could go later. And that would actually spread the peak of demand—



Q24 **Chair:** Could you give us an example of ones that are not rolled up in the Whole of Government Accounts, because if they are local government bodies ultimately they will feed into the local government sector, which then feeds into WGA?

Janet Dawson: Yes, but they are not subject to the same level of audit scrutiny and reporting into the NAO for the NAO to then perform their procedures on them. So, there is less required of the smaller ones.

Q25 **Chair:** So, not a long delay—just a slight delay. Prioritisation, really.

Janet Dawson: Absolutely.

Q26 **Chair:** Okay. I get that. I just want to go to Mark Stocks. You talked, Mr Stocks, about remote working and how that had an impact on the timeliness of accounts. I wondered if you could elaborate on that, because, as the NAO Report highlights, there were delays creeping in before remote working and covid came in place. If you look at figure 2, you see that it gives some figures on the delays from previous years. Can you perhaps identify how much remote working has caused a problem, and say why?

Mark Stocks: You are absolutely right. Some of these delays were coming in during 2018-2019, and that is to do with all the issues we have discussed, in terms of the increased standards that we are held to, so we need to make sure that whatever we deliver is of the right quality.

Just going back to your earlier question about the deadline, to try and deliver for the 31 July deadline is just not sustainable, in this current environment to these standards, whereas I think that 30 September is a deadline that we can all work to and meet. That is because I think there is a judgment to be made around specialism. To undertake an audit of a set of local government accounts, you need specialists. Local government accounts do not look anything like a set of commercial accounts. There is a change from a cash basis to the IRFS standards. That takes time to understand. And then there is statutory—

Q27 **Chair:** That is about the skills involved. Figure 3 on page 19 perhaps makes it clearer than figure 2 that we saw a steep drop. There was a 97% completion rate up to 2015-16. It dropped slightly in 2016-17, then a bit more in 2017-18, down to 87%, but then dropped very steeply in 2018-19, which was well before covid and remote working arrangements. What delay factor do you think remote working has built into that?

Mark Stocks: The delay in 18-19 was around the change in standards, so it was the focus on auditing to particular estimates, one around property and equipment and other around pensions. The increase in standards around those took a considerable amount of audit time. I would say we input somewhere between an additional 10% to 15% in those estimates, so that caused that delay.

In terms of covid and what happened this year, it is quite difficult to articulate. If we are on site and we have a set of local authority finance members around us, we are working on a regular basis and we can check



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the documentation while we are there, an audit happens much, much more quickly. Local government staff were working at home and they had other things to do, as I said earlier, around grant distribution and so on, so the accounts were not at the centre of what they were doing. Those two issues combined to add another 15% to 20% in terms of the lapsed time in the input into audit, just to get the required information.

Q28 Chair: Okay, I think this is a new way of working for everybody and it is probably going to become more regular. There can certainly be savings as well, in terms of fees and maybe in terms of time, if you are having remote working and automated systems. Rather than going into the details of remote working and audit systems, I will move on.

I want to touch on the issue, which a couple of you have mentioned, of the pipeline and how long it takes to train people. Brutally, in terms of the decisions that you, as companies, have to make, we have seen people exit the market and companies withdraw from particular bids because they do not want to go so low. What is your overall feeling about the future of local audit in a competitive market? Is the market working? How few firms need to be in the market? You might all say just you, perhaps, but what is the benefit of competitive tension? Can you lay that out in very simple terms, to make sure that we are getting the best quality standard and best priced audit that we can? I will go to Grant Thornton first and then to EY. Who from Grant Thornton wants to take the question?

Mark Stocks: I will start, then perhaps Fiona can add something, if she wishes. We need more suppliers in the market. I do not think anybody will deny that. The last contract saw the exit of KPMG from the local audit market, and that has not left enough supply to pick up on the additional work. It has sat mainly between us and EY, because we cover 70% of the market. That is not a particularly competitive market.

The issues now are how to get new suppliers in. There is a quite a heavy barrier to entry, because you need those specialist skills so you cannot necessarily go to some of the smaller firms. You are looking at the likes of KPMG and PWC picking up more, and they have quite a lot of work to do in the commercial world, so we need more supply, but how you recruit that is a difficult position to be in.

Fiona Baldwin: I thoroughly agree with Mark. It takes a long time to train people from when they join us to becoming public sector specialists. We are the largest trainer of students through CIPFA, because we believe that it is really important that our teams are real specialists, but it does take a number of years.

One thing that might encourage more firms back into the market is some clarity around how the structure might work with the systems leaders and what the next version of the contract might look like. Those are all things that firms looking to re-enter the market, or seeking or being keen to re-enter the market, will need to have some clarity on before they do that,



but I completely agree with Mark. There does need to be more suppliers within the market for it to be a truly effective market.

Janet Dawson: I agree that we need some clarity over what the future of the market will be, because what we have at the moment is, as we have already discussed, fragmented control of that market, and fragmented decisions being made. We also have a fixed-fee arrangement where one body is setting the fee. As I said before, they do not have access to the underlying information about what it actually costs to deliver the audit and where the specialist costs and investment need to go.

We need to look at that because if you want true market competition you need to take the control off the fixing of the fee that is going on, and let the market determine that. I think what you will find is that the price goes up because there is a shortage of supply. We need some clarity over what the structure of the market will be going forward, who will regulate and oversee that market, and how they will negotiate the fee with those organisations who will choose to play in there, those being the audit firms, in terms of what it costs and what would be an appropriate fee. Let's negotiate it rather than have it arbitrarily set—I am using my favourite word again, I'm afraid—setting that fee at a level not based on the underlying cost. We need a sophisticated buyer who can do that.

The other element, I would say, is that we need to look at the barriers to entry. Those firms that have left the market no longer have the specialist teams in place to the quantity that you need. We also have this requirement to be accredited as key audit partners with at least three years' experience of oversight of delivering audits within this market. If you have not been in the market, you do not have anybody who can sign those audits off. I know that the ICAEW are looking at that with some urgency, because I think that that is creating a restriction on the number of people who are actually able to qualify to be able to provide an audit opinion within this market.

Q29 **Chair:** A quick-fire to you all about how many senior people you have lost who are key audit partners in your firms.

Janet Dawson: I have 14. I am losing two: one to the FRC and one to a competitor, which is what typically happens—they move around the organisation—and I have a retirement issue coming, Chair. All of us are talking about having been in the market for 30 years or so, and Gareth is one of us as well, having been in the same cohort. When we retire, there is a risk that there aren't more people coming behind us. That is to do with a structural issue around recruitment, when the Audit Commission shut down. There is a whole generation missing.

Q30 **Chair:** I see Grant Thornton nodding. Is it similar for you, then?

Mark Stocks: It is. I cannot give you an exact number, but I suppose a different way to put it is, if you look at our key audit partners, the vast majority are over 50.

Q31 **Chair:** So the pyramid is a problem because you need those key audit



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partners to do the opinion. I want to go back briefly to Ms Dawson before I pass over to Peter Grant MP. In the conversation that we were having earlier about the late opinions and why they were late—that was particularly with Mr Stocks—it is noticeable that EY had more late opinions than other firms. You would think that the problems that have been outlined would be standard across the sector. Is there any particular reason EY had more late opinions?

Janet Dawson: We have a number of audits that have been late for a number of years—previous to covid and the regulatory requirements—and they are to do with structural issues within the organisations themselves. They have been relatively well publicised. Rather than calling them out, there are a number within our portfolio that are running several years late because of issues within the authorities themselves.

Then we suffered quite significantly from that pulling forward of the audit deadline in 2017-18 to 31 August. We met a significant proportion of those audits within that timeframe, but we then suffered significant attrition from our staff on the basis that the pressure was just too great to deliver at that rate to the quality that we required. I go back to my point that we will not sign something until we are ready and therefore have 100% compliance on our quality standards. We were later than most, so we have a higher proportion than most, but we hold true to our policy of—

Q32 **Chair:** So you basically took a risk assessment and decided to go later and be more accurate.

Janet Dawson: Yes.

Chair: Fine, I get that.

Q33 **Peter Grant:** Good afternoon to all our witnesses. Can I come to Ms Baldwin first? I know that your remit covers both public sector and private sector audit. I will come back to Ms Dawson on the same question later, although I am not sure whether she will be able to answer it. I am looking at comparisons between the demands on a firm that is carrying out a local authority audit, and the demands on a different part of the same firm that is carrying out a statutory Companies Act audit of a private business with a similar turnover. How would you compare the demands on the auditor once you have allowed for the different sizes of the two organisations being audited?

Fiona Baldwin: I think we have to look at that qualitatively. It is not so much about the size; it would be around the complexity. If you compare the complexity of a number of local government audits, they are as complex as a number of audits within the FTSE 350 market, yet the period of time that the market allows for preliminary, and then final, announcements around the FTSE 350 is undoubtedly longer than the 31 July deadline in respect of local government audits. They are different pressures, but they are equally pressured. The challenge, as I said, is to create a system whereby the pressure is manageable, so that across the entire public sector audit, we do not all suffer significantly high attrition levels, which I know Janet referred to. We have seen that as well—people



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just saying that this is too pressured work and that they don't want to do this—but the same factors arise: complexity within audits that need to be addressed through high quality.

Peter Grant: Ms Dawson, is there anything you can add? As I say, I am not sure how much of your remit covers your firm's private sector audit as well. Is there anything you want to add to what Ms Baldwin said?

Janet Dawson: I think Fiona has covered the points, actually.

Q34 **Peter Grant:** Thank you. It is quite an interesting comment, Ms Baldwin, because I remember when I did CIPFA there was a perception that everything about local authority finance, including audit, was so much easier and so much simpler than these clever people in the private sector. I am pleased to hear you say that we have certainly caught up and maybe made our own lives even more complicated than in the private sector.

I have a further question, hopefully for both of you. As well as the demands of getting the job done, regardless of whether it is a public sector or private sector audit, we often hear that the rewards to the firm, and the rewards to the people handing out the work, can be quite a bit higher if you are doing private sector audit work. How would you rate the relative risks, both to the firm and potentially to the individual auditor, and certainly to the audit partner who signs off the audit certificate? It seems to me that if you are involved in a major private sector audit and something goes badly wrong, the risks that are involved in that are certainly risks that I have never seen in reality in the public sector. Looking at the auditors of Enron, for example, the firm was effectively wiped out because of what went wrong. Are there risks to the audit firm that apply in private sector audit and that either do not apply, or do not apply to nearly the same extent, when you are doing the audit of local authority accounts?

Fiona Baldwin: We don't look at it that way, because in our view an audit opinion is an audit opinion. Although there are differences between them, it would be an unwelcome road to go down to say that one audit opinion matters more than another audit opinion. We are committed, like all the firms are, to continually improving audit quality. They are different. They sometimes require different skills; they sometimes require the same skills. I hope Mark would say that, within GT, both public sector auditors and commercial auditors are valued the same. There is no real discernible difference in terms of salaries and the benefits that go with that. They are auditors within Grant Thornton, but the public sector auditors have one set of skills, and the commercial auditors have a slightly different set of skills.

Q35 **Peter Grant:** Ms Dawson, do you agree with that comment?

Janet Dawson: My view on this from the perspective of EY is that we are all held to the same standards by the FRC, and all of their work applies across audit professionals and is no different, so all of the quality standards and all of the compliance with ISQM requirements apply to all of us. We are all held to the same training standards, and the personal risk

for me as an audit partner if I issued the wrong opinion is the same as it would be for one of my corporate partners, so there is no difference.

I think the difference in terms of value is how the public sector auditors feel valued in the market. Interestingly, they are watching where we take this debate, where this Committee takes its interest and what MHCLG does to signal the future of the market. They have often chosen to be in this market because they have a public sector ethos. They are interested in public policy and in improvements that they can make to the public sector, and they would like to see that valued. That is why this debate is so important to the future of the market.

- Q36 **Peter Grant:** A final question from me. There has been a lot of discussion about the adequacy or inadequacy of the fees that are on offer, but is it not the case that most if not all of these fees are determined competitively, and that firms have actually won the work by bidding? But it would appear that what you are receiving is not enough to recompense you for the work that has to be done. Why are you bidding at that level?

Janet Dawson: It is a more complex situation and a more complex management structure—a market structure rather than a simple direct bid to provide the audit opinion or the audit work for one local authority. On the structure of the market with the setting of the fee by PSAA, which are out of date and not commensurate with the level of the cost these days, we go back to that point about how they let the fee in 2017, and we are now in 2021 dealing with quite a different requirement in terms of regulatory requirement, compliance requirement, and the risks and issues faced by those organisations. So I would say that it is not a direct and simple competitive relationship that we are operating in, and that is why it is so important that we have MHCLG's view on what they intend to do to provide that oversight and structure for the market going forward so that we have clarity.

- Q37 **Sir Geoffrey Clifton-Brown:** This is a question for all three of you, or one of you. On the problems of this late reporting, you might have seen our Report on local government finance where we say that increasing numbers of local authorities are using allocated and general reserves to meet day to day budgets, and you might have even seen a more serious letter from the permanent secretary that shows that seven authorities are in financial difficulties this year, and nine potentially next year. So is there a problem with late accounts, where you would normally issue something as serious as a public interest report, taking much longer to be delivered, and therefore the Department and others take much longer to really concentrate on these local authorities that might be getting into trouble? Any of the three of you may answer.

Janet Dawson: We work with a number of those on that list, Sir Geoffrey. Rather than the late accounts holding up the issues, we have been late because we have been working with those organisations to understand exactly the financial position that they are in, what actions they are taking to resolve that, how they are working with MHCLG to gain that support, and how best to report that within the public arena. In those



situations you will see regular reporting from the firm, as the external auditors involved, to their public audit committee to set out the position and the issues that we are considering with them and the actions that they are taking, and whether or not we think that those are sufficient. In those situations, I am confident that there is more reporting rather than less. It is not a question of a wall of silence until the accounts with their opinion appear. There is a lot of reporting going on out into the public domain.

- Q38 Sir Geoffrey Clifton-Brown:** May we stick with you, Ms Dawson? You gave us some interesting answers earlier on the complexity of the audits—it is causing you difficulties—so I will ask you one or two questions about those complexities. The NAO Report makes it clear that more than half the section 151 officers from single-tier and county councils would want changes to the external audit—they particularly instance the valuation of capital assets—whereas the auditing quality review team of the FRC says that the “valuation of property” and the “valuation of assets supporting pension funds” are areas that need closer scrutiny. Is this one of the areas of complexity that is causing you more difficulty in your audits?

Janet Dawson: It is. It requires specialist real-estate valuation teams in a significant number of authority audits. It requires significant input by them, working with the audit team, to ensure that those valuations are appropriately reported. Councils have struggled in the past to produce accurate valuations, and the more investment properties they hold or the more regeneration developments they get involved in, the more difficult those valuations are to arrive at.

There is an argument as to whether that provides information for the local taxpayers—where their money is being spent and how it is being used in terms of the capital expenditure—and that is a debate that, again, we need some clarity on. Is this worth reporting? What value does it add to government and to the local taxpayer? If you do want it reported under our FRS, a significant amount of work is required in that area; if you do not see the value in it, CIPFA needs to consider that in its code of accounting and to determine whether it needs to come out. Again, we are back to one oversight organisation that can make that judgment call and decide how to take that point forward. In the meantime, I am pleased to say that our report on property valuations was clean from the FRC.

- Q39 Sir Geoffrey Clifton-Brown:** That question had a purpose to it. As a chartered surveyor, I take a particular interest in commercial property investment. How far are you able to call councils out when they are buying commercial property that does not have a proper return?

Janet Dawson: In the past couple of years, Government have addressed that issue by changing some of the regulations on borrowing in advance of need and by having a cap for the borrowing strategy and for the investment strategy. There are rules around that these days, so councils need to report on their approach to their capital investment, how they are financing it and for what purpose. We are now able to do that, but a number of those investments were entered into before the tightening of



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the rules took place, but we look at those valuations in the reporting and consider what the significance is of the risks associated with the valuations, and how that aligns with arrangements to achieve value for money—what commercial risks councils are taking. We should be reporting on that, where we see a risk that will undermine the financial resilience of that organisation.

- Q40 **Sir Geoffrey Clifton-Brown:** This is my last question on complexity. Some councils are getting into more and more exotic financial schemes—for example, securitisation on photovoltaic income streams—and there must come a point at which some of those are so exotic that they are illegal. Do you need further guidance from the Department on that, or do you feel that you have sufficient guidance?

Janet Dawson: I think we have sufficient guidance. I go back to the point that we are generally long-experienced auditors in this environment, with a lot of experience and knowledge of the arrangements that local authorities must comply with. Our approach is designed to identify the risk of non-compliance with the laws and regulations. Any further guidance is always welcome, however, because it makes the situation clear for all parties involved, and therefore allows us to point directly to Government's view on the approach that the local authority is taking. It makes reporting and communication of that easier.

- Q41 **Sir Geoffrey Clifton-Brown:** You were screwing up your face when I asked the question, Mr Stocks. Do you have any comments on this, because you obviously have long experience in this auditing field?

Mark Stocks: I agree with Janet. As I said earlier, most of local government is well governed. We do not see that many with these schemes, but where we do, they tend to go into it significantly. That obviously causes us concern; it raises the level of risk as we perceive it. It would be useful to be able to have a regular dialogue between ourselves and MHCLG about what is happening within the sector, what they think is permissible and what they are willing to actually see local government do, because at the moment that voice isn't there.

- Q42 **Sir Geoffrey Clifton-Brown:** I am sorry; if I caught your answer correctly, it would be useful to have a dialogue on these matters with MHCLG. Do you not, at least as a professional body, have continuing dialogue with the Department on these matters?

Mark Stocks: We have a regular dialogue on individual authorities. If we have a particular issue, we discuss that with MHCLG, but being able to look at this across the sector and at what is happening in the sector, to see various trends, would be a useful thing to be explore.

Sir Geoffrey Clifton-Brown: That is very helpful. Thank you.

Chair: Thank you very much, Sir Geoffrey. We thank our panel very much indeed for their comments and contributions. We will be able to play these to some of the bodies we have talked about, Public Sector Audit Appointments and the Ministry, on Thursday. We will pause for one



minute, and then immediately after you—you are very welcome to stay on and listen in—we have Sir Tony Redmond, of Redmond review fame, as well as many other things.

Examination of witness

Witness: Sir Tony Redmond

Q43 Chair: Welcome back to the Public Accounts Committee on 17 May 2021, where we are continuing our discussion about audit in local government, and particularly the severe delays we have seen in recent years. I am delighted to welcome as our final witness this afternoon Sir Tony Redmond, author of the Redmond review, which was provided to Government and looked at the problems in local government auditing and how to improve them.

Sir Tony, without further ado, I am keen to kick off with what your thoughts were when you put your review into Government and one of the main recommendations was not accepted; in fact, it has been rejected by the Government. Was that a surprise to you when it was rejected? Had you had any indication that you were pointing in the right direction before that?

Sir Tony Redmond: I think I would start by saying that I put forward 22 recommendations and the vast majority were viewed very positively by MHCLG. Inevitably, three or four recommendations are associated with the prospect of new legislation, so one has to recognise that that is perhaps not something that would be immediately considered and adopted. However, I remain of the view that although the recommendations that are supported are very, very important, the principal recommendation is the one that some of the previous speakers have talked about: the importance of a system leader and an overarching body that can actually put in place a coherent operation covering the whole of local audit. That, of course, it still to be considered by the Secretary of State. I cannot see, at this point in time, how a minor alteration to the existing configuration of providers within local audit would suffice.

Q44 Chair: We heard very clearly from our previous witnesses that the market has shrunk, Sir Tony. They were talking a lot about their fees. Do you have any comments about the fees, as I know you heard some of that discussion? They were saying—we have seen evidence of this—that fees have been screwed down in some areas, so that it is not competitive for some to enter the marketplace. Do you think that is just bleating from the sector wanting to get more money out of it, or is it a fair point?

Sir Tony Redmond: Interestingly, we had that sort of feedback from the firms when we talked to them during the course of the review, but a significant number of local authorities were pointing to the same point. They were actually saying that they were concerned about the impact of fees on the quality of the work being undertaken. I think there was—again, this was referred to earlier—a squeeze, perhaps, on the number of



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people who had the right expertise, skills, experience, knowledge and understanding of local government to be able to fulfil the role properly.

There was that, alongside the fact that if one had a difficulty in terms of managing the complexity of local government finance and accounting, carrying out an audit took time. That could have contributed to the delay issue that you have also addressed today.

- Q45 **Chair:** I am tempted to wind back a bit to the Local Audit and Accountability Act 2014. I remember sitting on a Committee—joint with the then CLG Committee chaired by my predecessor—where we looked at what the likely issues and concerns were. We flagged a number of those, which were then not taken up by Government. What do you think the main lessons have been? I am not asking you to get into the policy of that—it was a Government decision—but what do you think the issues were around implementing the framework that the Act led to? What lessons are there for any changes that will come out of your recommendations?

Sir Tony Redmond: The first thing to say is that there is a whole series of players within the audit framework at this point in time. We have PSAA fulfilling the procurement role; we have FRC and ICAEW involved in monitoring, regulation and professional standard; we have the Comptroller and Auditor General looking at code of practice; and of course we have CIPFA, with its profession standards insight into local government accounting and finance. Each of those has a role, and then of course MHCLG has oversight in terms of overall financing and financial sustainability.

My take on those, as I have said in the report, is that each of them fulfils the role within the parameters set, but I do not believe that that actually brings together in any coherent fashion the overall operation of local audit, and it is that that I have very much addressed in my report. I continue to believe that that is a fundamental issue for local government: they need greater oversight, collaboration and coherence in the way local audit is fulfilled.

I have one final point. I think it important to stress that I am not laying any criticism at the doors of those providers within the local audit operation now. They are operating within the parameters set, as I said earlier, and they are therefore fulfilling that. What is lacking is that oversight, and MHCLG will of course be conscious of that.

- Q46 **Chair:** We heard a lot about the FRC standards focusing on quality rather than speed, particularly firmly from Janet Dawson at EY, who gave that as one of the reasons for them being late. Do you think that the FRC standards are meeting what councils want from this? Is a local councillor worried about the same issues the FRC is demanding? Do you think the balance is right?

Sir Tony Redmond: In short, no. The councils will argue that far too much attention is paid to the valuations relating to property and pension funds, particularly since they reversed out under the statutory IFRS



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arrangements. They will argue that they don't have an impact on the financial resilience and overall financial stability of a council. Therefore, they believe the attention that is given to the valuation process is excessive and they would like to see that reconsidered.

Q47 **Chair:** They say that, but what do you think? Do you think that is a fair comment?

Sir Tony Redmond: I would agree. You might come to this later, but if one is looking at the assessment of the financial sustainability and resilience of a local authority, in accounting terms some of the areas that are given a lot of attention by the auditors probably don't warrant that attention, proportionate to the risk associated with the overall financial stability of the council.

There is one other thing, which was alluded to by one of the PAC members. I understand that the commercial environment in which a number of local authorities are now operating, and property development and the like, is a separate issue. A lot of the property that is used as a basis for delivering services is different.

Q48 **Chair:** The difference, say, between schools owned by a local authority and the offices that they use to deliver services?

Sir Tony Redmond: Exactly—the functional side of their operation.

Q49 **Sir Geoffrey Clifton-Brown:** Good afternoon, Sir Tony. Your central recommendation of some form of oversight body wasn't accepted by Government. Do you think that argument is now lost? I take what you say very seriously, when you say that you feel that the cohesion of this local auditing function is not serving the local authority sector as well as it should.

Sir Tony Redmond: It has been alluded to on a number of occasions this afternoon already. I think it is really important that there be a system leader for local audit. I have advocated the Office of Local Audit Regulation as that system leader, including the overall operation, the coherence and the cohesiveness that is attached to the way in which local audits should be undertaken. I stay firm in my view that that is still an important feature of any successful local audit operation, particularly in terms of making sure that one can assess the effectiveness and accountability of local audit.

Accountability of local audit to the residents—the council tax payers and service users—of a local authority is really important, and I don't see that being communicated to local people in the way it should be at this point in time. That is one of the reasons I advocated a report to full council every year by the key audit partner, so that they could highlight the issues of which local residents should be aware. So yes, I am still firmly of the view that a system leader is important.

Q50 **Sir Geoffrey Clifton-Brown:** Given your very firm views on that subject and the evidence that we heard earlier, are you able to tell us, from your discussions with Ministers and permanent secretaries—as far as you are



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able to without divulging private conversations—why the Government have been so resistant to this?

Sir Tony Redmond: I am not in a position to answer that question. I know that there is an acknowledgment that the current operation, in terms of the five or six players in local audit, needs some review. There is an acknowledgment that that has to be done, but perhaps there is a difference of opinion about how it is to be done.

Q51 **Sir Geoffrey Clifton-Brown:** Very diplomatic. I understand the sensitivity of your reply. Given your comments and the previous evidence about the plurality of the number of the firms that are auditing in the local government sector, how do you think this could be rectified?

Sir Tony Redmond: The first thing that should happen is some review of the accessibility of local audit to audit firms. Mention was made earlier about the problems associated with bringing new audit firms into the field. It is quite a step for them to move into providing the necessary standards and qualifications that that area expected of them under the current procurement arrangements. So I have suggested in my report that there needs to be a long hard look at that issue, to ensure that if there are providers in the audit field that are currently unable to access the local audit contracts, the matter should be looked at again, to ensure that if they have the ability, the skills, the knowledge and the awareness about how to conduct a local audit, they should be given the opportunity to do so.

Q52 **Sir Geoffrey Clifton-Brown:** A number of the big four have actually withdrawn from the sector, but they do have the infrastructure, so that if they were to have the will, they could—relatively easily, I would have thought—go back into the sector. So what needs to be done to encourage them to go back into the sector?

Sir Tony Redmond: One big area of concern is the balance between price and quality that is currently contained in the procurement process, and whether or not greater emphasis needs to be given to the price aspect of the tendering process. You heard earlier that audit fees in real terms have dropped significantly in recent years, and the consequence is that it has dissuaded a number of the big firms—indeed, a number of the big four, as you say—from wanting to bid. I think there is also the fact that some of the local audits still being undertaken are under-resourced, and that, too, is a challenge. So I think there is a strong argument for taking a long hard look at the way in which the criteria that are in place for procurement are improved to enable that access to improve.

Q53 **Sir Geoffrey Clifton-Brown:** I thought that some particularly worrying aspects of the response to the Chair's question, which were given by all three witnesses in our earlier panel, were: first, the number of retirements and skilled people going to alternative areas of auditing; and secondly, the lack of young people wanting to train to come into this particular profession. What should be done about that, because if we don't have the number of skilled people to do it, then we really are trouble, aren't we?

Sir Tony Redmond: One real challenge that emerged during the course of my review was the lack of career prospects and opportunities for trainee accountants to move into public sector accounting and auditing, because the resourcing of the local audit is now much less, and therefore the opportunity to train and induct people effectively, to enable them to do the job properly, has been compromised, I think.

Much more attention needs to be given, first of all, to the resourcing of the local audit and then, secondly, for the firms to give proper attention to the training schemes and career progression of people, so that there can be people now settling into that sort of career that they feel comfortable with.

I am sure it has been said before—what has gone, or is going, or is almost gone is the number of district auditors who used to be skilled and steeped in local government finance and accounting arrangements. I am not suggesting that we restore that by any means, but I think that is something to bear in mind, in terms of the specialist skills that they brought to bear in carrying out these audits.

- Q54 **Sir Geoffrey Clifton-Brown:** Is this something that should be solely the province of the auditing firms themselves, or do you think that the Department needs to get involved, for instance, with some sort of incentive for training schemes?

Sir Tony Redmond: I think there is an argument for the accountancy bodies to become involved here. I think MHCLG could endorse that approach and I think the firms themselves carry some responsibility, in light of that shift in emphasis, to find a training scheme that encourages people to pursue a career in this sector.

- Q55 **Sir Geoffrey Clifton-Brown:** As for lateness of the accounts, we had quite a lot of evidence earlier about it. Surely this is very worrying. In your view, what are the main reasons for it? Is it, as EY was saying in the previous evidence, that it is not prepared to do an audit until it is satisfied that it is complete, or is it that the local authorities themselves are not giving the auditors the information on a timely basis? What do you think is the real reason for this?

Sir Tony Redmond: I think there are a number of reasons. One reason, and the audit teams have talked to me about this, is that they sometimes believe that the information isn't supplied to them in a proper fashion or in a timely way. Sometimes the actual state of the accounts at the point at which they are in draft is not always as good as it should be, so that can impact the way in which they then have to pursue the information further.

The next question is about who is actually carrying out these audits of accounts. They are the same people who are dealing with audits of accounts in the health sector, and of course they have very similar timescales within which they must carry out the audits. There is something to be done there, and it may be a conversation between the MHCLG and the DHSC as well, to think about that implication from a departmental perspective. That is a factor to be borne in mind here. The same people are doing two very significant public-sector-type audits of accounts.



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The next question, as we have just touched on, is about the skills and knowledge of the individuals carrying out the audit. As I think you alluded to earlier, the complexity of local authority accounts is such that you do need to understand them. They are not the same as company accounts; they are different and they need to be seen to be different. So I think there is more work to be done in that respect too.

I suppose the final point—this one is quite contentious, but I am presenting it to you anyway—is how the key audit partner engages with the local authority during the course of the year, so they are not dealing with only year-end matters; they are actually looking at the council's performance, if I can put it that way, over the 12 months in financial terms. That brings me on to the point about, in terms of value for money, how well financial resilience is tested. If you bring all these things together and start to think about how to plan more effectively during the course of the year, and how to address these matters, I think that might have some impact on the danger of breaching the deadline.

Then of course the final point—again, it has already been referred to—is whether 31 July is realistic. Is 30 September or something like that better? Of course, I advocate in my report 30 September.

Q56 Sir Geoffrey Clifton-Brown: What effect would that have on other things, such as the Whole of Government Accounts and other departmental accounts, if you were to put that deadline back?

Sir Tony Redmond: Yes, it would, and it needs managing very carefully to enable the WGA to be still fulfilled in its proper way in the timescale set. There is a second point that has to be borne in mind. One of the things that local authorities were putting forward when there was a previous change to the deadline was that they want time to start thinking about draft budgets and financial plans in the early autumn. They do not want to be concentrating on the closure of accounts when it is too late. There is a challenge here, but I think that one has to take this head-on. Either you make the changes that I have just suggested, or you recognise that the deadline is unrealistic.

Q57 Sir Geoffrey Clifton-Brown: Of the remainder of your 22 recommendations, are there any that you still think are urgent that the Government are not really addressing?

Sir Tony Redmond: As I say, on the vast majority of the recommendations I have had positive responses from the Department. I think it does simply rest on that major one: Office of Local Audit Regulation. There is one other that I think is really important—I suspect the Department would recognise this—and that is the creation of a liaison committee that brings together all the different players in the local audit market. I think that they should preside over such a committee in a formal sense, and that they can therefore ensure that all the key stakeholders associated with local audits are brought together in a formal way, and any issues that may need to be addressed are addressed quickly rather than left too late.



Q58 Sir Geoffrey Clifton-Brown: Are you able to tell us what sort of reaction you have had from the Department to that suggestion?

Sir Tony Redmond: I think that there is a general recognition that liaison is a very important function, given the responsibilities that that Department carries anyway. It is already looking quite effectively at the importance of monitoring financial resilience and looking at the overall capital spend, revenue spend and borrowing requirements of local authorities. They do that effectively, so I think that this is another adjunct to the important responsibility that the Department carries in respect of the stewardship of local government finance as a whole.

Q59 Sir Geoffrey Clifton-Brown: Those are extremely helpful answers. That was going to be my last question, but I want to pick up on one thing that you said, going back to the complexity of local government auditing. I asked EY about Government guidelines on valuations and complex financial schemes. Is there anything that you could specifically suggest to the Department on how you would actually simplify local government accounts?

Sir Tony Redmond: I think there are two sides to this. One is the recognition that the accounts are IFRS based, they are statutory accounts and, by implication, they are complicated. I have suggested in one of my recommendations that CIPFA/LASAAC take a look at this to see whether there can be some simplifications. I do not think many can be achieved within the framework of statutory accounts. Given the adjustments that have to be made within them, I think they will remain complex.

What I have advocated—I feel really strongly about this—is that there has to be much greater transparency in the financial reporting of local authorities. That can be achieved only by a standardised statement—the simplified statement—pointing to the sorts of things that the individual members of the public want to know about. “Local authority, you set a budget and a council tax for this. What did you actually do? How did you get on? How did you perform? What was the outcome?” I think the simplified statement should be linked to that sort of undertaking, rather than expecting it to turn what are impenetrable accounts from a public perspective into something simpler, because that would be a huge challenge and one that is probably not realisable in the short term.

Sir Geoffrey Clifton-Brown: That is very helpful, Sir Tony. Thank you very much.

Q60 Chair: Thank you, Sir Tony. We are very clear on this Committee that transparency is vital. You talked earlier about transparency and a report to full council being important. One of the challenges, though—you have touched on it a bit—is the timeliness of all this. Obviously, audit is always retrospective, and if you then talk about an annual council meeting after that, that is the following May, so it gets quite out of date. How would you see the timing of the statements you outlined to Sir Geoffrey working in the rhythm of the audit process?



Sir Tony Redmond: For the report on the audits undertaken for the previous year, I have recommended that, immediately after 30 September, the next full council should receive a report from the auditor and a key audit partner should present to full council. It is as important as that. That report should embrace all the issues that need to be addressed and put in the public domain. Given that full council is in the public domain, that would be an important part of transparency. You are absolutely right about the problem of Whole of Government Accounts. That needs to be recognised. In my recommendation, I was conscious of that.

In terms of the closure of the accounts, one of the things that I did not touch on is that the draft accounts are completed by the end of May—that is the sort of deadline that is sought—and I do think that there is more to be done to ensure that the interaction between the accounting teams of local authorities and auditors is as intensive as it can be at the earliest possible stage, rather than waiting for the closure. I am not going to teach auditors how to do their work—they know how to do these things; of course they do—but attention on that would be helpful, too.

- Q61 **Chair:** One thing that the Committee looked at previously—a few incarnations ago—was local audit and the Local Audit and Accountability Act 2014. I know that, for instance, Lambeth People’s Audit raised queries with the accounts and there was a bit of a stand-off, which was seen as negative by some, but actually there was a genuine issue about the capacity within a local authority to deal with their queries. Similarly, there is a capacity issue for auditors who might have to deal with inquiries from the public. What would you recommend to square that circle and ensure that there is that real-time thing? When I was a councillor, I remember there was an elderly market stall holder who would visit the town hall every year and physically go through paper receipts, and he would always find something, but practically in the modern era that is not a very easy way to do it. Have you any thoughts on that to share with us?

Sir Tony Redmond: We spent some time looking at the concept of armchair auditors and the way that some people feel inclined to go into this in great depth. That is entirely their right, by the way; I am not arguing with that at all. The local authority and the auditors probably need to put in place some form of protocol to ensure that they can work together to look at issues like this that may arise, such as objections to the accounts or challenges to particular aspects of the accounts. Some of them can be managed more easily than others, as you suggested. I do think there need to be—“collaboration” is the wrong word—some sort of partnership engagement to try to ensure that all angles of the challenge are dealt with as quickly as possible. Otherwise, as you suggest, they can linger, get worse and become a real problem, and become exceptionally time-consuming as well.

- Q62 **Chair:** Do you think local councils have issues around software data management that need investment in order to achieve those aims, which I think we share with you, about timeliness, transparency and openness



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on accounts?

Sir Tony Redmond: I have not said an awful lot about the digital and IT dimensions associated with some of my recommendations, but what I have tried to do is recognise, first, that there is now an ability for data management, which is much more efficient than it used to be.

Secondly, there is a very important issue around confidentiality and transparency, and how one balances that—never mind the GDPR issues. It is a challenge. The sensitivity of information has to be balanced against the desire for transparency. There is quite a lot that local authorities are doing to try to address that. I would not quarrel with their initiatives.

In terms of the way in which data is managed, I ask myself, given the digital age in which we live, why there is not greater efficiency emerging from the process. I did not see a great deal of that when I was carrying out the review—that opportunity for technology to take us to another level of efficiency. There is probably more to be done there.

Q63 **Chair:** Do you think that is partly because councils have a lot on their plate, and elected councillors are probably less likely to vote for new IT systems for the finance department than social services or libraries?

Sir Tony Redmond: I am sure that is part of it.

Q64 **Chair:** I know you did not focus particularly on elected members but on the audit and the finance side of things, but there is a challenge that we have looked at in this Committee over many iterations. It is the challenge of having enough people of the right calibre to go on the audit committees.

We heard evidence from the then chief executive of Oxfordshire Council back in 2011-12—forgive me; I cannot remember the exact date. They could only get one external person in Oxfordshire, where you would think there would be a lot of people with the right qualifications. Do you have any thoughts about what can be done to improve elected members' ability and skill in identifying some of those issues and dealing with them?

Sir Tony Redmond: I spent quite a lot of time looking at this particular point. I was very concerned about the Government's arrangements underpinning the way in which audit was managed by the council. I looked at the audit committee, the chair and membership. You are absolutely right that the majority of local authorities still do not have independent members. One of my recommendations is that they should have at least one independent member.

The second point around governance is the capacity of the chair and the committee to absorb, understand and deal with the complex nature of many reports appearing before them. There, they need support. The interface between the CFO, the chief executive and the monitoring officer—particularly on resilience issues—is critical. I have strongly argued that they forge closer links to ensure that the membership of the committee feels confident enough to challenge and manage issues that are



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presented to them by the auditors. Without that, the good governance and accountability cannot be fulfilled. I am a believer in that.

There was a lot of positive response, I must say, from local government about the concept of independent members, so we may well see an improvement.

- Q65 **Chair:** Okay, so there are many barriers. You have your seminal work of 23 recommendations, which has gone to the Department. If you were with the Minister now and could say, "Look, this is one thing that you need to do to sort this out", what would that be?

Sir Tony Redmond: It is the system leader. We can talk about, if one wishes to, a body that is like the Office for Local Audit Regulation, which brings together all those different aspects of local audit under one umbrella. That would be my recommendation, but if that were not acceptable, what I would strongly argue for would be a leader who could actually bring together all the systemic elements of audit. That, I think, is the really crucial question.

I would say something about the financial resilience of local government. A small number of local authorities have got themselves into serious financial difficulty, and those authorities have got into financial difficulty for a whole series of reasons—I am not going to allude to any specifics here—but the auditors play an important role here in having sight of the development of any major issues that are causing financial resilience problems for local authorities, and the structure of the way in which auditors can conduct themselves under the code of practice that has recently been revised by the Comptroller and Auditor General, which is very, very supportive of that particular point, is really important.

They are so important, those points around financial resilience where the auditor can feel that they have it within their gift, within the parameters of what they can do, to challenge the local authority as and when things are going wrong—not to wait for them to go wrong, but to challenge as they are going wrong. So I think financial resilience comes into play here, and therefore, when I come back to my system leader, if you have a system leader that can get a grip of the totality of what local audit looks like, there is an opportunity to improve significantly.

- Q66 **Chair:** Fantastic. Just to be clear, your recommendations and your whole work were looking at local government, but as you highlighted and as our other witnesses highlighted, they are working across all the public sector. So some of the issues you have highlighted about deadlines and timetables clash with those other bodies.

Do you think it is time—there is an opportunity—for Redmond 2, to look at the other public bodies? If not, perhaps you could give us a potted view of what you think Redmond 2 might cover and what needs to be done in those sectors.



Sir Tony Redmond: Far be it from me to suggest Redmond 2! I think it is essential that there be close working between the Government Departments to deal with this question of public sector audit.

Although there are very good reasons why there are differences in legislation and differences in accounting arrangements between health and local government—of course there are—none the less the auditors, quite legitimately, are seeing public sector as public sector. They organise themselves that way; they manage themselves that way. Therefore, one has to be alive to that prospect rather than ignoring it. So I think there is something to be argued for the Departments putting their heads together to help sort that out.

Q67 **Sir Geoffrey Clifton-Brown:** Can I just ask one further question please, Sir Tony? You will have heard my question at the end to the other witnesses about the tightness of local government finance. You know that better than anybody and you have referred to the auditor's role in financial resilience. Therefore, do you think the local government auditors are strong enough generally in their statements where financial resilience is at risk, and should they consider issuing more public interest reports to highlight this aspect further?

You will be aware of the letter from the permanent secretary to this Committee saying that seven local authorities are in financial difficulties this year and possibly nine next year. In those sorts of audits, should the local government auditors be stronger in their financial resilience statements?

Sir Tony Redmond: I think there are two points here. The first is that there needs to be greater clarity about the role of an auditor in terms of financial resilience. As I mentioned earlier, the revised code of practice that the CAG has approved actually incorporates financial resilience as part of the value-for-money work that the auditor has to undertake, so that's a real plus. That is regularising, if you like, the things that auditors might have been doing anyway. So I think that's a very important point.

The second point is the one that is more difficult. If one starts by viewing the audit of accounts as an historical exercise, where the auditors are looking 12 months behind at what happened, how does one bring in the question of forward financial sustainability?

In other words, when looking at the accounts, they might be looking at things such as reserves policy and debt profile in respect of the historical situation, but what impact does that have on future years? Auditors will no doubt say to you, "Well, of course we'd highlight that if we saw it", but there needs to be greater specificity in the terms of reference that apply to auditors in the way they undertake financial resilience testing, so that those sorts of matters cannot be left until later. It might be argued that some of the local authorities that are currently anticipating problems might have had them managed better had that audit input been provided earlier.

Sir Geoffrey Clifton-Brown: Interesting. Thank you.



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Chair: Thank you very much, Sir Tony, for that very candid and clear evidence, and for your report, which was easy reading for anyone who is not massively experienced in local government audit. It is a clear read and something that I recommend and commend, particularly to people in local authorities, but also to the citizen more widely. I thank you very much indeed. I remind you that our transcript will be up on the website, uncorrected, in the next couple of days, and we will be hearing from officials at MHCLG and others in the system on Thursday.