



Audit Panel

Redmond Review – key points to note

Date: 23 June 2021

Key decision: No.

Class: Part 1

Ward(s) affected: None specifically

Contributors: Director for Corporate Services

Outline and recommendations

The purpose of this report is to update the Audit Panel on the Redmond Review and its key recommendations as they may impact the work of the Council.

The Audit Panel are asked to note the report.

Timeline of engagement and decision-making

None specifically – report is to note

Lateness: This report was not available for the original dispatch as officers were late in compiling the report.

Urgency: It will be helpful for the Audit Panel to take the report now as it will inform them on the expected regulation and assurance changes in advance of the financial statement external audit work about to start.

Where a report is received less than 5 clear days before the date of the meeting at which the matter is being considered, then under the Local Government Act 1972 Section 100(b),(4) the Chair of the Committee can take the matter as a matter of urgency if he is satisfied that there are special circumstances requiring it to be treated as a matter of urgency. These special circumstances have to be specified in the minutes of the meeting.

1. Summary

- 1.1. The Redmond Review was commissioned to address concerns over the regulations and audit environment for local public bodies. This followed concerns with the framework arrangements following the abolition of the Audit Commission and quality of assurance from the work of the audit firms. The review reported in September 2020.
- 1.2. The report made 23 recommendations to which the Ministry for Housing, Communities and Local Government (MHCLG) responded in December 2021. This report reviews their response and comments on the key implications for the Council for the Audit Panel to note.

2. Recommendations

- 2.1. The Audit Panel are asked to note this report.

3. Policy Context

- 3.1. The work of the Audit Panel supports all of the Council's priorities through its review of the governance, risk, and compliance arrangements to ensure the effective operation of the Council's control frameworks.
- 3.2. The Council's strategy and priorities, launched in 2019, sets seven corporate priorities as stated below:
 - **Open Lewisham** - Lewisham will be a place where diversity and cultural heritage is recognised as a strength and is celebrated.
 - **Tackling the housing crisis** - Everyone has a decent home that is secure and affordable.
 - **Giving children and young people the best start in life** - Every child has access to an outstanding and inspiring education, and is given the support they need to keep them safe, well and able to achieve their full potential.
 - **Building and inclusive local economy** - Everyone can access high-quality job opportunities, with decent pay and security in our thriving and inclusive local economy.
 - **Delivering and defending health, social care and support** - Ensuring everyone receives the health, mental health, social care and support services they need.
 - **Making Lewisham greener** - Everyone enjoys our green spaces, and benefits from a healthy environment as we work to protect and improve our local environment.
 - **Building safer communities** - Every resident feels safe and secure living here as we work together towards a borough free from the fear of crime.

4. Background

- 4.1. The Redmond report was published on the 8 September 2020. The government, via the Ministry for Housing, Communities, and Local Government (MHCLG) responded on the 17 December 2020.

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- 4.2. The review was commissioned following the effectiveness of the Local Audit and Accountability 2014 framework being questioned by Sir John Kingman in his [2018 Review of the Financial Reporting Council \(FRC\)](#). His report recommended that the local audit regime be fundamentally rethought to improve scrutiny, quality and leadership. Further criticisms around audit quality, transparency and departmental oversight in terms of system assurance were made in the [March 2019 Public Accounts Committee Inquiry Auditing Local Government](#) which was based on an earlier report issued by the National Audit Office (NAO).
- 4.3. The objectives of the Review were to examine the existing purpose, scope and quality of external audits of local authorities in England and the supporting regulatory framework to:
- Determine whether the audit and related regulatory framework for local authorities in England is operating in line with the policy intent set out in the Act and the related impact assessment,
 - Determine whether the reforms have improved the effectiveness of the control and governance framework along with the transparency of financial information presented by local authorities,
 - Determine whether the current statutory framework for local authority financial reporting supports the transparent disclosure of financial performance and enables users of the accounts to hold local authorities to account, and
 - Make recommendations on how far the process, products and framework may need to improve and evolve to meet the needs of local residents and local taxpayers, and the wider public interest.
- 4.4. The Redmond Review took place against the backdrop of wider concerns about audit, including those highlighted in reviews of the Financial Reporting Council, competition in the audit of FTSE350 companies, and the quality and effectiveness of audit.

5. Redmond Review recommendations

- 5.1. The Redmond Review highlighted 3 key problems and made 23 recommendations:
1. **Current local audit arrangements do not meet the policy objectives underpinning the Local Audit and Accountability Act 2014.** In particular, Sir Tony identified weaknesses in the functioning and value of local audit, the timeliness of its findings and how these are considered and managed by local authorities
 2. **Market fragility.** Sir Tony highlighted how local audit is an unattractive market for audit firms and individual auditors to operate within. He indicated that “without prompt action... there is a significant risk that the firms currently holding local audit contracts will withdraw from the market” (‘Redmond Review’ (2020), p.1).
 3. **Absence of system leadership.** The introduction of the localised audit framework in the 2014 Act spread roles and responsibilities for local audit across multiple organisations. Sir Tony argues this has contributed to a lack of coherency and makes resolving the weaknesses in the system challenging.
- 5.2. In addition, the Redmond Review highlighted that the statutory accounts prepared by local authorities are widely agreed to be ‘impenetrable to the public’ (‘Redmond Review’ (2020), p.4), limiting how effectively taxpayers can judge the performance of their authority.

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- 5.3. The MHCLG response to the review's recommendations, grouped by five themes, are set out in appendix 1. The five themes are:
- Action to support immediate market stability;
 - Consideration of system leadership options;
 - Enhancing the functioning of local audit, and the governance for responding to its findings;
 - Improving transparency of local authorities' accounts to the public; and
 - Action to further consider the functioning of local audit for smaller bodies.
- 5.4. Officers view on the recommendations are set out alongside the MHCLG responses as comments in the appendix.
- 5.5. Many of the recommendations are not controversial and can be supported to improve the quality and accessibility of the Council's financial reporting. This will support the Council deliver on its accountability and transparency objectives as part of the Corporate Strategy.
- 5.6. Some are not for the Council to implement, such as decisions on the regulatory structures, while others are not applicable to the Council, in particular the theme of actions for smaller bodies. These are identified in the comments in the appendix to the report.
- 5.7. The key recommendations to draw the Panel's attention to are discussed below, paired where they cover the same areas for improvement. They are; 1 & 2, 4, 6 & 10, and 17 & 19. The full detail as noted above is in the attached appendix.
- 5.8. The key recommendations for the Audit Panel to note are:

Recommendation 1:

A new body, the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit with the following key responsibilities:

- procurement of local audit contracts
- producing annual reports summarising the state of local audit
- management of local audit contracts
- monitoring and review of local audit performance
- determining the code of local audit practice
- regulating the local audit sector

Recommendation 2:

The current roles and responsibilities relating to local audit discharged by the:

- Public Sector Audit Appointments (PSAA)
- Institute of Chartered Accountants in England and Wales (ICAEW)
- FRC/ARGA
- The Comptroller and Auditor General (C&AG) to be transferred to the OLAR

- 5.9. These first two recommendations are under review by MHCLG and lead to the most significant impacts if agreed. The challenge is the scale of the oversight body required to be effective, without the need to recreate the equivalent of the former Audit Commission. In principle, a single body providing clarity on the regulations and responsibilities to be complied with and the means to manage the market in procuring quality audits is to be welcomed. The balance recently has moved too much to price over quality and this needs to be redressed.

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Recommendation 4:

The governance arrangements within local authorities be reviewed by local councils with the purpose of:

- an annual report being submitted to Full Council by the external auditor
- consideration being given to the appointment of at least one independent member, suitably qualified, to the Audit Committee
- formalising the facility for the CEO, Monitoring Officer
- Chief Financial Officer (CFO) to meet with the Key Audit Partner at least annually.

- 5.10. Most of the above Lewisham already have in place. The new element to this recommendation is the requirement to prepare an annual report to be submitted to Full Council. This would help members, communities, businesses, partners and staff of the Council understand, be assured, and engage with the financial obligations on the Council as they impact its strategic objectives and plans. This would be a positive development.

Recommendation 6:

The current fee structure for local audit be revised to ensure that adequate resources are deployed to meet the full extent of local audit requirements.

Recommendation 10:

The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year.

- 5.11. These two recommendations, 6 and 10, are linked to provide the additional time at a cost to ensure the quality of financial and value for money audit work is of sufficient depth and effectively covers the Council's key risks. This also links to the procurement point noted in recommendation 1. In addition to the contracted audit costs there will also likely be additional demands on officer time and resources to respond to the more in depth assurance work.
- 5.12. For the past two years Lewisham has taken the time to conclude the audit and present the accounts later with the benefit of improved assurance from this work. This has resulted in some additional fee costs but the value recognised and agreed by the Audit Panel. That said the scale of fee rises has to be proportionate and covert to quality audit work.

Recommendation 17:

MHCLG reviews its current framework for seeking assurance that financial sustainability in each local authority in England is maintained.

Recommendation 19:

A standardised statement of service information and costs be prepared by each authority and be compared with the budget agreed to support the council tax/precept/levy and presented alongside the statutory accounts.

- 5.13. These two recommendations, 17 and 19, relate to making the accounts more accessible to users, more easily comparable to other authorities performance, and aligned to the activities of the Council. There are risks in doing this, as not all

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authorities have the same constituencies or challenges, the same service priorities, and they undertake multi-year plans to different cycles.

- 5.14. A standardised report to enable better accessibility to Council's financial data, linked to the annual report point noted above, would be valuable. Nonetheless any such reporting also has to allow for the local context and priorities to be positioned and explained to be relevant and meaningful.

6. Conclusion

- 6.1. Overall the Redmond review has been positively received and Lewisham is supportive of the direction of travel and ambition set through the recommendations. Recognising the expected additional costs to improve the quality of financial reporting and audit, the objective to provide more effective assurance over significant local public funds is the right one.
- 6.2. The key action in the response to recommendations 1 and 2 is for government and not yet agreed. Will a single body be created to better manage the market, set audit regulations and standards, and oversee delivery of local government external audits. This is the crux of the improvement journey.

7. Financial implications

- 7.1. There are no direct financial implications arising from this report

8. Legal implications

- 8.1. There are no specific legal implications arising from this report
- 8.2. The Accounts and Audit Regulations 2015, as amended in 2021, govern the Council's duties to prepare and assure financial statements annually and have these audited.

9. Equalities implications

- 9.1. There are no direct equalities implications arising from this report.

10. Climate change and environmental implications

- 10.1. There are no direct climate change or environmental implications arising from this report.

11. Crime and disorder implications

- 11.1. There are no direct crime and disorder implications arising from this report.

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12. Health and wellbeing implications

- 12.1. There are no direct health and wellbeing implications arising from this report.

13. Background papers

- 13.1. There are no background papers to this report.

14. Report author and contact

- 14.1. David Austin, Director of Corporate Services
david.austin@lewisham.gov.uk on 020 8314 9114

15. Appendices

- 15.1. Appendix 1 – Table of Redmond Review recommendations

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Appendix 1 – Table of Redmond Review recommendations

Action to support immediate market stability

Recommendation	MHCLG Response	Lewisham comment
5. All auditors engaged in local audit be provided with the requisite skills and training to audit a local authority irrespective of seniority.	Agree ; we will work with key stakeholders to deliver this recommendation	We support this action and would look to the firms to develop their staff accordingly.
6. The current fee structure for local audit be revised to ensure that adequate resources are deployed to meet the full extent of local audit requirements.	Agree ; we will look to revise regulations to enable PSAA to set fees that better reflect the cost to audit firms of undertaking additional work	We support this action within reason and accept that this will result in higher fees for better quality audit work. The proposed scale of increase to be monitored – currently expected to be in the region of 40%.
8. Statute be revised so that audit firms with the requisite capacity, skills and experience are not excluded from bidding for local audit work.	Part agree ; we will work with the FRC and ICAEW to deliver this recommendation, including whether changes to statute are required	We support this action as long as the competition element of the market remains within clear quality thresholds.
10. The deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year.	Part agree ; we will look to extend the deadline to 30 September for publishing audited local authority accounts for two years, and then review	We support this action and note the Accounts and Audit regulations 2011 set a September deadline.
11. The revised deadline for publication of audited local authority accounts be considered in consultation with NHSI(E) and DHSC, given that audit firms use the same auditors on both Local Government and Health final accounts work.	Agree	We note this constraint from our experience of audit availability in Lewisham.

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Appendix 1 – Table of Redmond Review recommendations

Consideration of system leadership options

Recommendation	MHCLG response	Lewisham comment
<p>1. A new body, the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit with the following key responsibilities:</p> <ul style="list-style-type: none">- procurement of local audit contracts- producing annual reports summarising the state of local audit- management of local audit contracts- monitoring and review of local audit performance- determining the code of local audit practice- regulating the local audit sector	<p>We are considering these recommendations further and will make a full response by spring 2021.</p>	<p>The Council supports the creation of a more centralised approach to these tasks and would value the clarity of expectations and quality of assurance that such a body would support.</p> <p>We also note that the government have declined to recreate a body similar to or of the scale of the Audit Commission previously and Redmond has confirmed this was not his intention in making this recommendation.</p>
<p>2. The current roles and responsibilities relating to local audit discharged by the:</p> <ul style="list-style-type: none">- Public Sector Audit Appointments (PSAA)- Institute of Chartered Accountants in England and Wales (ICAEW)- FRC/ARGA- The Comptroller and Auditor General (C&AG) <p>to be transferred to the OLAR</p>	<p>We are considering these recommendations further and will make a full response by spring 2021.</p>	<p>We support this action, noting the comments above.</p>
<p>3. A Liaison Committee be established comprising key stakeholders and chaired by MHCLG, to receive reports from the new regulator on the development of local audit.</p>	<p>We are considering these recommendations further and will make a full response by spring 2021.</p>	<p>We support this action, noting the comments above.</p>
<p>7. That quality be consistent with the highest standards of audit within the revised fee structure. In cases where there are serious or</p>	<p>We are considering these recommendations further and will make a full response by spring 2021.</p>	<p>We support this action, noting the comments above.</p>

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Appendix 1 – Table of Redmond Review recommendations

Recommendation	MHCLG response	Lewisham comment
<p>persistent breaches of expected quality standards, OLAR has the scope to apply proportionate sanctions.</p>		
<p>13. The changes implemented in the 2020 Audit Code of Practice are endorsed; OLAR to undertake a post implementation review to assess whether these changes have led to more effective external audit consideration of financial resilience and value for money matters.</p>	<p>We are considering these recommendations further and will make a full response by spring 2021.</p>	<p>We support this action as the local experience of the enhanced risk and testing assessments by external audit is valued as part of the Council's assurance arrangements.</p>
<p>17. MHCLG reviews its current framework for seeking assurance that financial sustainability in each local authority in England is maintained.</p>	<p>We are considering these recommendations further and will make a full response by spring 2021.</p>	<p>We support this action and would welcome; 1) more guidance and consistency in the manner budgets and outturn information is to be reported, and 2) more context as part of considerations of financial resilience and sustainability given the multi-year nature of Council commitments.</p>

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Appendix 1 – Table of Redmond Review recommendations

Enhancing the functioning of local audit, and the governance for responding to its findings

Recommendation	MHCLG response	Lewisham comment
<p>4. The governance arrangements within local authorities be reviewed by local councils with the purpose of:</p> <ul style="list-style-type: none"> - an annual report being submitted to Full Council by the external auditor - consideration being given to the appointment of at least one independent member, suitably qualified, to the Audit Committee - formalising the facility for the CEO, Monitoring Officer - Chief Financial Officer (CFO) to meet with the Key Audit Partner at least annually. 	<p>Agree; we will work with the LGA, NAO and CIPFA to deliver this recommendation</p>	<p>We support this action, noting that already in Lewisham:</p> <ul style="list-style-type: none"> - The accounts are submitted to Full Council annually - We have independent members on the Audit Panel - The s151 and CEO meeting with the auditors at least twice a year. The Monitoring Officer can join these - The s151 officer meets quarterly with the lead audit partner.
<p>9. External Audit recognises that Internal Audit work can be a key support in appropriate circumstances where consistent with the Code of Audit Practice.</p>	<p>Agree; we will work with the NAO and CIPFA to deliver this recommendation</p>	<p>We support this action, noting that already in Lewisham all internal audit work is shared with the external auditor as work is completed.</p>
<p>12. The external auditor be required to present an Annual Audit Report to the first Full Council meeting after 30 September each year, irrespective of whether the accounts have been certified; OLAR to decide the framework for this report.</p>	<p>Agree; we will work with the LGA, NAO and CIPFA and other key stakeholders to deliver this recommendation, including whether changes to statute are required</p>	<p>We support this action, noting the comments above.</p>
<p>18. Key concerns relating to service and financial viability be shared between local auditors and inspectorates including Ofsted, Care Quality Commission and HMICFRS prior to completion of the external auditor’s annual report.</p>	<p>Agree; we will work with other departments and the NAO to deliver this recommendation</p>	<p>We support this action.</p>

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Appendix 1 – Table of Redmond Review recommendations

Improving transparency of local authorities' accounts to the public

Recommendation	MHCLG response	Lewisham comment
19. A standardised statement of service information and costs be prepared by each authority and be compared with the budget agreed to support the council tax/precept/levy and presented alongside the statutory accounts.	Agree; we will look to CIPFA to develop a product through consultation with local government. We will work with CIPFA to deliver this recommendation	We support this action as part of the clarity of reporting, noting that the Council in its financial strategy modelling, budget, and outturn reporting monitors and reports on tax and income collection as well as service spend.
20. The standardised statement should be subject to external audit.	Agree; we will work with CIPFA, the LGA and the NAO to deliver this recommendation	We support this action, noting the current reporting set out above is public and take into consideration by external audit as part of their value for money assessment.
21. The optimum means of communicating such information to council taxpayers/service users be considered by each local authority to ensure access for all sections of the communities.	Agree; we will work with the LGA and CIPFA to deliver this recommendation	We support this action, whether it be through an annual report or other format.
22. CIPFA/LASAAC be required to review the statutory accounts, in the light of the new requirement to prepare the standardised statement, to determine whether there is scope to simplify the presentation of local authority accounts by removing disclosures that may no longer be considered to be necessary.	Agree; we will look to CIPFA to deliver this recommendation	We support this action, as clarity and simplification of the financial statements will enhance their value to users.

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Appendix 1 – Table of Redmond Review recommendations

Action to further consider the functioning of local audit for smaller bodies

Recommendation	MHCLG response	Lewisham comment
14. SAAA considers whether the current level of external audit work commissioned for Parish Councils, Parish Meetings and Internal Drainage Boards (IDBs) and Other Smaller Authorities is proportionate to the nature and size of such organisations.	Agree; we will look to SAAA to deliver this recommendation	Not applicable to a London Borough
15. SAAA and OLAR examine the current arrangements for increasing audit activities and fees if a body's turnover exceeds £6.5m.	We are considering this recommendation further and will make a full response by spring 2020	Not applicable to a London Borough
16. SAAA reviews the current arrangements, with auditors, for managing the resource implications for persistent and vexatious complaints against Parish Councils.	Agree; we will look to SAAA to deliver this recommendation	Not applicable to a London Borough
23. JPAG be required to review the Annual Governance and Accountability Return (AGAR) prepared by smaller authorities to see if it can be made more transparent to readers. In doing so the following principles should be considered: - whether "Section 2 – the Accounting Statements" should be moved to the first page of the AGAR so that it is more prominent to readers - whether budgetary information along with the variance between outturn and budget should be included in the Accounting Statements - whether the explanation of variances provided by the authority to the auditor should be disclosed in the AGAR as part of the Accounting Statements.	Agree; we will work to JPAG to deliver this recommendation	Not applicable to a London Borough

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