

Classification: Public

Key Decision: No

Gravesham Borough Council

Report to: Report for Finance & Audit Committee

Date: 15 February 2021

Reporting officer: Assistant Director (Corporate Services)

Subject: The Redmond Review

Purpose and summary of report:

For members to consider and note the key findings arising from an independent review by Sir Tony Redmond into the oversight of local audit and the transparency of local authority financial reporting.

Recommendations:

1. This report is for information only.

1. BACKGROUND

- 1.1 In June 2019, The Secretary of State for Housing, Communities and Local Government commissioned Sir Tony Redmond to undertake an independent review of the effectiveness of local audit arrangements as it had been recognised that improvements were needed to the current framework.
- 1.2 As a result, the Redmond Review examined the effectiveness of current external audit arrangements together with the transparency of financial reporting in local authorities.
- 1.3 The Local Audit and Accountability Act 2014 (the 2014 Act) introduced a new Audit regime for local government to replace previous arrangements. The 2014 Act split the responsibilities formerly carried out by the Audit Commission between a range of bodies.
- 1.4 The Public Sector Audit Appointments (PSAA) was formed and is currently the appointing body of 98% of local authority audits.
- 1.5 The Redmond Review was published on 8th September 2020 which was followed by an official response by the Ministry of Housing Communities and Local Government (MHCLG), in December 2020. Whilst some recommendations have been agreed, others are being considered.
- 1.6 For Members' information, this report sets out the recommendations of Sir Tony Redman's review along with the official response to the review provided by MHCLG.

2 Key Recommendations from The Redmond Review

2.1 The Redmond Review makes several recommendations for improvement to current practise. The key recommendations are as listed below.

- Raising of audit fees
- Moving the deadline for final accounts completion back to 30 September
- Making public sector accounts more meaningful to the general public
- The appointment of an official body to co-ordinate all stages of the audit process.
- Strengthening of governance arrangements

2.2 The Redmond Review concluded that the local audit market is fragile and that the current fee structure does not enable auditors to fulfil the role in an entirely satisfactory way. With 40% of audits failing to meet the required deadline for report in 2018/19 and with that percentage growing during 2019/20 there is a serious weakness in the ability of auditors to comply with their contractual obligations. The report therefore recommends an increase in fees. The report states that, local audit fees have reduced by 40% since 2015, compared to a rise of fees of 20% in central government and for FTSE 100 companies.

2.3 That the deadline for publishing audited local authority accounts be revisited with a view to extending it to 30th September, rather than 31 July.

2.2 The review recognises that current statutory accounts prepared by local authorities are on the whole difficult for the general public to understand. It is recommended that a simplified Statement of Service Information and Costs is prepared by each local authority to enable comparison with the annual budget and council tax setting for the year. This would enable council taxpayers and service users to judge the performance of the local authority for each year of account.

2.3 The report highlighted the need of an official body to co-ordinate all stages of the audit process 'The Office of Local Audit and Regulation' (OLAR) would take on 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);
- Financial Reporting Council (FRC) or its planned replacement: Audit, Reporting and Governance Authority (ARGA);
- The Comptroller and Auditor General (C&AG).

2.4 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 and Chief Financial Officer (CFO) to meet with the Key Audit Partner at least annually.

3 MHCLG Response

3.1 In response to the outcomes of the Redmond Review MHCLG will be taking the following action: -

- Providing relevant local authorities with £15m in additional funding in 2021/22 to meet the anticipated rise in audit fees driven by new requirements on auditors,

including the 2020 Code of Audit Practice, as well as enabling local authorities to develop standardised statements of service information and costs.

- Committing to work with all the key stakeholders to achieve practical outcomes to the recommendations.
- Reviewing and reforming regulations to provide the auditor appointing body with greater flexibility to ensure the costs to audit firms of additional work are met.
- Extending the deadline for publishing audited local authority accounts from 31 July to 30 September for the next two years - covering the audit of the 2020/21 and 2021/22 accounting periods.
- Working with the FRC to review entry requirements for Key Audit Partners within the scope of the existing regulatory framework, balancing quality and market sustainability.
- Working with BEIS on the development of an appropriate framework for the corporate auditing profession, ensuring that local audit practitioners have a voice in its development.
- Engaging local government to better understand council finance team resources and consider how they might be strengthened.
- Exploring other options for delivering system leadership, delaying the incorporation of a new regulator (OLAR) whilst the other actions are taken to see if they bring about change without the need for structural reform in regulation.

3.2 For Members' information, the full report can accessed via the following link:
[Local authority financial reporting and external audit: independent review - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/91222/local-authority-financial-reporting-and-external-audit-independent-review-2020-21.pdf)

3.3 The MHCLG response can be found:
[Local authority financial reporting and external audit: government response to the Redmond review - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/91222/local-authority-financial-reporting-and-external-audit-government-response-to-the-redmond-review-2020-21.pdf)

IMPLICATIONS	APPENDIX 1
Legal	There are no specific legal matters arising from this report.
Finance and Value for Money	There are no specific financial impacts arising from this report
Risk Assessment	N/A
Data Protection Impact Assessment	<p data-bbox="376 636 1430 734"><i>A data protection impact assessment (DPIA) should be carried out at the start of any major project involving the use of personal data or if you are making a significant change to an existing process.</i></p> <p data-bbox="376 775 1442 842">a. Does the project/change being recommended through this paper involve the processing of personal data or special category data or criminal offence data?</p> <p data-bbox="424 875 1264 938">A definition of each type of data can be found on the Information Commissioner's Office website via the above links.</p> <p data-bbox="424 956 475 987">N/A</p> <p data-bbox="376 1039 1430 1106">b. If yes to question a, have you completed and attached a DPIA including Data Protection Officer advice?</p> <p data-bbox="424 1140 475 1171">N/A</p> <p data-bbox="376 1223 1445 1290">c. If no to question b, please seek advice from your nominated DPIA assessor or the Information Governance Team at gdp@medway.gov.uk.</p> <p data-bbox="424 1323 475 1355">N/A</p>
Equality Impact Assessment	<p data-bbox="376 1404 1461 1507">a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the community? If yes, please explain answer.</p> <p data-bbox="424 1541 986 1572">No decision – paper is for information only.</p> <p data-bbox="376 1624 1407 1691">b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality? If yes, please explain answer.</p> <p data-bbox="424 1724 475 1756">N/A</p> <p data-bbox="376 1807 1461 1910"><i>In submitting this report, the Chief Officer doing so is confirming that they have given due regard to the equality impacts of the decision being considered, as noted in the table above</i></p>
Corporate Plan	Strategic Objective #3 Progress; Sound Financial Management & Successfully Managing Key Business Risks

Climate Change	No direct implications.
Crime and Disorder	No direct implications.
Digital and website implications	No direct implications.
Safeguarding children and vulnerable adults	No direct implications.