

<b>Report of:</b>	Director of Finance – Ian Wright
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<b>Submitted to:</b>	Corporate Affairs & Audit Committee – 4 March 2021
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<b>Subject:</b>	Redmond Review
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**Summary**

<b>Proposed decision(s)</b>
For Members of the Committee to note the key points of the Redmond Review & discuss next steps for compliance at the Council

<b>Report for:</b>	<b>Key decision:</b>	<b>Confidential:</b>	<b>Is the report urgent?<sup>1</sup></b>
Information & Discussion	No	No	No

<b>Contribution to delivery of the 2020-23 Strategic Plan</b>		
<b>People</b>	<b>Place</b>	<b>Business</b>
Not Applicable	Not Applicable	The Redmond Review makes recommendations around the Council’s relationship with external audit and the framework for financial reporting going forwards.

<b>Ward(s) affected</b>
No direct impact on any wards.

**What is the purpose of this report?**

1. To update Members on the findings & recommendations of the Redmond Review and subsequent progress since its release in September 2020.
2. This Review has implications for the Committee, due to its responsibility for considering the findings of the external auditor in relation to the Statement of Accounts and then approving those audited accounts for publication each year.

## Why does this report require a Member decision?

3. The report is for information and discussion.

## Report Background

4. On 8 September 2020, the Government published the results of an independent review, commissioned by MHCLG and led by Sir Tony Redmond (an ex-local authority chief executive and chief finance officer) into the effectiveness of local authority financial reporting and external audit. Local authority accounts are complex and the Review highlights a number of potential weaknesses with the current local audit framework and makes recommendations to address these. The review was conducted before the current Covid-19 pandemic and the audits of the 2019-20 accounts for local authorities.
5. The key findings of the report are as follows:
  - An ineffective balance between price and quality with 40% of external audits relating to the 2018-19 financial year failing to meet required reporting deadlines, in part due to under-resourcing and lack of experienced staff.
  - A lack of co-ordination and regulation of audit activity across the sector.
  - Outcomes from statutory accounts and external audit work not always being effectively communicated and presented to the local authority and public.
  - The technical complexity of statutory accounts limiting public understanding of the financial position of local authorities and reducing the effectiveness of any scrutiny processes.
6. Members will be aware from previous discussions that the findings from the Review have a direct bearing and relevance to the audit of the Council's 2019/20 accounts. In summary:
  - The statutory deadline of the end of November for the audit has not been met and is now only just complete towards the end of February.
  - There is an ongoing dialogue with the external auditors over a large increase in the level of fees payable for this work.
  - The timeliness of the Council's ability to publish the audited results of the 2019/20 audit means that they will be quickly superseded by the 2020/21 accounts.
  - The accounts are very complex and are not understood by the public or other stakeholders. This has been demonstrated by no questions during the public inspection of accounts period over the last two years and Members needing specific training and direction when reviewing and scrutinising the accounts.
  - Due to the regulatory demands on local authority accounts, most of the additional audit work has been on areas of material value that involve technical complexity and professional judgement when preparing. These areas do not have immediate or even medium term bearing on the Council's financial position.
7. The external audit for 2019/20 (started late June 2020, finished late February 2021) has had a significant drain on capacity for both the local authority finance team and for the local audit team. This is in the middle of a public health pandemic with staff working predominantly from home and at a time when the Council does not have a Chief Accountant in post. The preparations for the 2020/21 closure of accounts are behind normal and all staff involved in the year-end accounts, including auditors,

have had little break and time to recover from this process. As a result, the Review is very welcome in its attempt to tackle and take forward many of these issues.

8. 23 recommendations were made as part of the Review, with the key ones outlined below. The implementation of some of these requires changes to primary legislation. However, many of them can be implemented without.
9. The recommendations can be considered in four main themes as summarised below:

### **External Audit Regulation and Oversight**

- The creation of an Office of Local Audit Regulation to procure, manage and regulate external audits. Some of the existing regulatory responsibilities, which currently sit with various other bodies including the Public Sector Audit Appointments Committee (PSAA), to transfer to the new body.
- Revisions to the current fee structure for external audits to ensure adequate funding is available and resources are deployed accordingly.
- Additional skills training for those involved in local audits and the amendment of statute to allow audit firms with the requisite capacity, skills and experience to bid for local audit work.
- Consider the deadline for publication of audited local authority accounts in consultation with the NHS, with a view to extending the deadline from 31 July to 30 September.

### **Financial Reporting**

- A simplified and standardised financial statement of service information and costs be made available to the public to allow comparison with the annual budget and council tax. This new statement would be prepared in addition to the statutory accounts and would be subject to audit.
- CIPFA/LASAAC to look again at the composition of the statutory accounts to see if improvements can be made to simplify their presentation and enhance their usefulness and understandability.

### **Governance**

- The composition of audit committees be examined to ensure they have the required knowledge and expertise. Consideration should be given to the appointment of at least one suitably qualified, independent, financially literate member to support the Chair and other elected representatives in scrutinising local authority finances.
- To demonstrate transparency and accountability, external audit would be required to submit an annual report to the first full council meeting after 30 September each year, irrespective of whether the financial accounts have been certified.
- A formal requirement for statutory officers (Chief Executive, Monitoring Officer and Section 151 Officer) to meet, at least annually, with the Key Audit Partner.

### **Financial Resilience and Sustainability**

- The current framework for seeking assurance on financial sustainability is reviewed by MHCLG to help address the gap between stakeholder expectations and what the auditor is required to do.
- The sharing of key concerns relating to service and financial viability, between local auditors and inspectorates, prior to completion of the external auditor's report.
- In addition, an update to the NAO's Code of Audit Practice that will be applicable from 2020-21 will require auditors to provide a narrative statement on the arrangements an authority has in place to secure value for money.

10. It is expected that a number of recommendations will be in place for the audit of the 2021-22 accounts, at least in part. For instance, it is proposed that for 2020-21's accounts the new standardised financial statement of service information and costs is produced on a trial basis, with full implementation as an audited statement in the following financial year.
11. Assuming that the recommendations are implemented, the key implications for the Council and the Committee will include:
  - A likely increase in audit fees; with evidence suggesting audit fees collectively are at least 25% lower than required to fulfil current local audit requirements effectively.
  - The requirement for the auditor to present an annual report to Full Council.
  - The appointment of at least one suitably qualified independent member to Audit Committee to assist with scrutinising the accounts.
  - An additional requirement to produce a standardised statement of service information and costs.
  - A revised timetable for the statutory accounts process, with a change in the reporting deadline for local audit from 31 July to 30 September.
12. A copy of the Redmond Review, which includes an executive summary and more details on the findings reached and recommendations made, can be found at the following: <https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review>
13. One recommendation that has been initially rejected by MHCLG when considering the Review is the creation of an independent regulator (OLAR). The view from Government is that further time is needed for the role of the PSAA to become embedded and that this organisation could take the lead on some of the other regulatory functions suggested by Sir Tony Redmond.
14. A consultation has also recently been released by MHCLG on proposed legislation to move the statutory date for local authority committee approval of the 2020/21 audited accounts from 31 July each year to 30 September. This is on a trial basis for the next two years to see if this has any impact on the level of local authority audits that are not meeting the required deadline for external financial reporting. The closing date for comments on this is 1<sup>st</sup> March.
15. MHCLG and the National Audit Office are currently in the process of establishing a sector led working party to take forward the other recommendations. Progress on this will be reported to Members at regular intervals going forward.

**What decision(s) are being asked for?**

16. The report is for information and discussion purposes only.

**Why is this being recommended?**

17. No recommendations are being proposed.

**Other potential decisions and why these have not been recommended**

18. Not Applicable.

## **Impact(s) of recommended decision(s)**

19. Although the report does not contain any recommendations, it will affect the workload and potentially the constitution of the Committee in the future. As a result, the update is mainly for information at this stage with Members to monitor the position and any actions and legislative requirements that may arise.

## ***Legal***

20. The Local Audit & Accountability Act 2014 and the Audit and Accounts Regulations 2015 are the main legal provisions outlining external audit and local authority financial reporting currently. These regulations will be updated as required to facilitate the implementation of specific elements of the Review.

## ***Financial***

21. Additional funding for the implications of the Redmond Review was announced by Government as part of the draft Local Government Financial Settlement in December. Details of allocation to individual local authorities for this have yet to be announced.

## ***Policy Framework***

22. There are no implications at this stage for the policy framework of the Council.

## ***Equality and Diversity***

23. There are no equality and diversity issues as part of this report.

## ***Risk***

24. There are no immediate risk related issues as part of this report.

## **Actions to be taken to implement the decision(s)**

25. Not applicable to this report. Further updates will be provided to Members as and when decisions are required by the Committee.

## **Appendices**

No appendices are attached to this report.

## **Background papers**

No background papers were used in the preparation of this report.

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