

Dear S151 Officer and Chair of the Audit Committee (or equivalent),

As you know, there is a great deal going on in the world of local audit currently. I therefore wanted to keep you informed from a PSAA perspective about a number of important current developments.

### **Sir Tony Redmond's review**

The review of local authority financial reporting and external audit led by Sir Tony Redmond has been delayed slightly by the coronavirus pandemic and is now expected to report in September 2020. PSAA continues to work closely with the review. As well as making a full submission in response to the review's call for evidence <https://www.psa.co.uk/2020/01/news-release-response-to-sir-tony-redmond-review/>, our contributions to the review have included an independent research study in relation to the sustainability of the local audit market <https://www.psa.co.uk/2020/03/news-item-independent-review-of-the-sustainability-of-the-local-government-audit-market/>. Looking ahead to the publication of the Redmond report we are planning to arrange a webinar following its publication to discuss Sir Tony's findings and recommendations. By then we hope that we will also have the Government's responses to the three reviews that it commissioned on auditing and related matters (Sir John Kingman, Sir Donald Brydon and the Competition and Markets Authority). Alongside Sir Tony's recommendations these responses are likely to have significant implications for local audit. Further details of our webinar will follow when arrangements are finalised.

### **Impact of COVID**

Covid and related "lockdown" restrictions are also raising a variety of challenges for audits of 2019/20 accounts (and for 2018/19 where opinions are still outstanding), including valuations of property assets and pensions, assessment of management's estimates, and going concern/financial resilience matters due to reduced income streams and additional expenditure. Additionally, although technology enables much of the audit to be conducted remotely, restrictions on access to audited bodies and availability of relevant staff are likely to present difficulties.

### **2019/20 Accounts timetable**

You will be aware that the Accounts and Audit Regulations have been amended to allow more time for the preparation, audit and publication of accounts <http://www.legislation.gov.uk/ukxi/2020/404/contents/made> in these very unusual circumstances. Auditors are contacting bodies to agree local timetables for individual audits. We are hopeful that where possible, and notwithstanding the challenges, bodies will plan to prepare accounts as early as possible in order to progress and conclude the audit during the summer months. Importantly, the ideal is that bodies and auditors will make every effort to adhere to agreed timetables to help ensure that audits progress as smoothly as possible.

### **Audit fees for 2019/20**

Auditors have also been discussing possible fee variations with audited bodies. This reflects a deliberate strategy to discuss and inform bodies about the potential impact on fees of additional audit work at the beginning of the audit process rather than the end of it.

Based on early feedback, we understand that the level of increased fees being discussed by auditors varies significantly. In that context it may be helpful to remind you that following local discussions PSAA thoroughly scrutinises all fee variation claims and determines them in accordance with *The Local Audit (Appointing Person) Regulations 2015*, which allow reimbursement for "the work involved in a particular audit [which] was substantially more or less

than that envisaged by the appropriate scale". The comparator benchmark is therefore always the level of work which has been carried out previously within the scale fee.

In our most recent consultation on scale fees a number of respondents questioned whether some systemwide variations such as the implementation of new auditing or accounting standards could be agreed by PSAA without the need for local auditor - audited body discussions. There are some challenges implicit in such a process, not least because local factors and characteristics often result in new standards having different impacts on individual audits. However, we are currently examining whether we can develop an approach which overcomes or at least contains these difficulties. Needless to say, if we succeed in developing a potentially better approach, we will share any proposals with you

### **Potential additional audit supply procurement**

Given the considerable pressures on local auditors at present, PSAA is also considering the option of undertaking a further procurement to try to bring additional audit supply capacity into the market. We are currently at the market engagement phase of this project and are consulting all nine firms that are authorised to carry out local audits. We will take a final decision as to whether we proceed with a further procurement after the market engagement has been completed and firms' responses have been carefully analysed and considered. Our existing contracts with audit firms will not be affected by this exercise.

### **PSAA Questions and Answers**

We realise that there is much uncertainty in the local audit environment and the wider audit world, and we will update you on these various matters as they evolve. In addition, within our recent 20/21 scale fee letter we included a link to our Q&As <https://www.psa.co.uk/wp-content/uploads/2020/04/Questions-and-Answers-Final-09-04-20.pdf> and we will be updating these over the summer. If you would like to contact PSAA please do so via [generalenquiries@psa.co.uk](mailto:generalenquiries@psa.co.uk)

Regards

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PSAA