

## **Introductory note to PSAA's submission to Sir Tony Redmond's review of local authority financial reporting and external audit**

We are pleased to have the opportunity to submit PSAA's views to the Redmond review. In addition to our submission we have also met with the review team on a number of occasions, and provided background information and material relevant to its work. We look forward to the review's conclusions and to working with other key players to implement any agreed recommendations which emerge from it.

Our response to the call for evidence is attached, with the key points set out below.

### **New Code of Audit Practice**

We also attach our response to the NAO's draft Code of Audit Practice (CoAP) as a number of the Redmond review questions are at least partially addressed by it. In our view the proposed move to a VFM arrangements commentary is a positive step. We envisage that this approach would provide a useful source of more informative audit views about the VFM arrangements in operation in local bodies providing the opportunity to focus in on specific themes which are acknowledged to be key to continuous improvement and sustained success.

### **A system leader for Local Audit**

A challenge for the current and future framework is to act as one coherent system with a clear system leader, providing stewardship, guidance (including dissemination of good practice), and strategic development and direction. The issue of system leadership needs to be addressed in order to ensure that all of the relevant parties are committed to the same overall aims and objectives and that mechanisms exist to resolve any differences of view which may arise. One option would be to establish an independently chaired Board to oversee the local audit system with a remit to ensure the smooth operation of the whole system, including providing leadership and coordination to the various bodies responsible for administering different aspects of the system. It would avoid the disruption, delay and uncertainty that the creation of a new body would be likely to engender. In our view it is critically important to safeguard against distracting attention from the live issue of shortage of available auditor resource.

### **A Regulatory framework for Local Audit**

In our view it would be helpful to decouple responsibility for local audit from that for company audit, recognising that local authorities and listed companies are fundamentally different and have their own distinctive needs and challenges. The solutions appropriate for a company are unlikely to be appropriate for a local authority and vice versa.

Local audit needs a regulatory framework which is able to be responsive to the needs of and unique challenges affecting local bodies, whilst at the same time sitting logically alongside any new arrangements that may be put in place for other sectors of the economy, recognising the desirability of a level of consistency across all sectors on some issues. This is an important issue because it is increasingly clear that local audits are being significantly impacted by the regulatory pressures arising from the audit industry's response to the controversial financial failures in the private sector.

It is also important to evaluate whether the benefits to the sector of the current methodology of licensing of local auditors is outweighed by the limitations/barriers to entry created for

existing firms and firms considering entering the market, recognising that similar burdens are not placed on other public and private audits.

### **Audit sustainability**

We are very aware of the issues facing the audit profession at present, and the potential changes that may flow from the high profile audit industry reviews by Sir John Kingman, the Competition and Markets Authority and Sir Donald Brydon. Although there is limited reference to local audit within the reviews' reports and recommendations, their impact on it has been and is likely to continue to be very significant. Our aim is to work with the other players in the local government world to achieve long-term audit sustainability. No-one should be in any doubt that this will be a difficult road to negotiate.

In our view the 31 July target for publication of audited accounts has exacerbated the audit resource challenges. Local government audit is a specialist area, and reducing the audit window means that those experienced in it are able to play a role in fewer local body audits.

### **Financial reporting in Local Government**

We are also aware of tensions and disagreements in relation to the extent of auditors' work and emphasis on valuation of Property, Plant and Equipment where the prioritisation and risk profile assigned by the auditor does not match many preparers' views of the value of assurance. The CIPFA strategic consultation on the Code of Practice on Local Authority Accounting is an important development, but any impact on the reporting framework will take time. CIPFA acknowledges that the current version Code produces 'accounts that are impenetrable to many'. If it is decided that summary financial information is to be produced then it would be preferable if it is within the narrative report rather than a separate document. A separate document would risk further undermining the importance of the financial statements, and this importance is already at a low point with many users paying far more attention to management accounts and budgetary information.