

Appendix 2

PSAA Response to the Redmond Report

Dear Mr Savage,

As I am sure you are already aware, Sir Tony Redmond's report reviewing financial reporting and auditing in local government bodies was published on 8 September. You may also have been able to attend our Local Audit Quality Forum webinar on 1 October at which Sir Tony outlined his key findings and recommendations and took questions from an audience of 200 delegates. If you were unable to make the webinar or you want to hear it again, a recording of the session is available on our [website](#).

Our overriding view of the report is that it helpfully draws attention to many of the significant challenges and the unprecedented turbulence which exist in the current local audit system. The term "perfect storm" is often over-used, but reflecting on the events of the past two years, it feels like a very fitting description in this case. The audit world has had a torrid time and has had to adapt to much more challenging regulatory requirements, significant recruitment and retention difficulties, and now, of course, Covid-19.

As the sector-led body responsible for the vast majority of auditor appointments in local government bodies, our perspective is that we want to help fix the local audit system so that it is viable and robust for the future. In our view, it is helpful that Sir Tony has recognised that at present local government audit is under-resourced and under-valued, and is not having sufficient impact. We cannot resolve these problems single-handedly but by working with partners across the system we believe we can make an important contribution to helping to find the right solutions.

A number of Sir Tony's recommendations mirror our own response to his call for evidence. We are encouraged that he:

- Endorses the need for clear system leadership to help resolve and mitigate the current framework's fragmentation and complexity, and to clarify and assign responsibility for ongoing issues, such as appropriate regulation, and for planning and developing improvements to the system going forward;
- Recognises that bringing the statutory publishing date forward to 31 July is not sustainable and that audit timetables need to be considered holistically across the public sector;
- Acknowledges that the local public audit market is itself fragile, vulnerable and lacking resilience as a result of the limited number of suppliers and the wider pressures on those firms, and that further investment in public audit is needed to ensure that there are sufficient auditors with the appropriate knowledge and skills to deliver the audit service that public bodies and the public at large have the right to expect;
- Recognises that current fee levels are low compared to other sectors (driven down by suppliers bidding keenly to win contracts in the very different audit environment in 2017);
- Welcomes the NAO's new Code of Audit Practice and the greater and more informative insights which the new VFM arrangements commentary has the potential to provide;
- Recognises the limitations which the Appointing Person Regulations place on fee setting arrangements;
- Calls for improvement in the clarity and relevance of local audit reporting; and
- Recognises the importance of strengthening capacity and skills in depth throughout the financial reporting supply chain.

Perhaps inevitably in a long report that tackles such a complex range of problems, PSAA has a different perspective in some areas. In terms of our role, we provide robust challenge to all fee variation proposals, considering each one in line with our responsibilities. Our website also sets out our methodology for monitoring contracts, overseeing independence matters and dealing with complaints. Our annual report on professional standards, contractual requirements and relationship management and on overall audit quality will be published later in the year, following the results of the 2018/19 professional regulatory audit reviews which are currently awaited.

Sir Tony's central recommendation is the creation of the Office of Local Audit Regulation (OLAR) that brings together within a single entity a wide range of functions. These include procurement, regulation and the new system leader role. Whilst we can understand some of the arguments for a structural reorganisation, we are apprehensive about the time which it may take to legislate and bring a new body fully on stream. In our view part of the work to test this proposal must be to confirm whether it can be delivered as a timely response to the current urgent challenges.

The Redmond Report focuses on the bodies covered by the local government accounting code, but some of OLAR's proposed duties would also logically cover audit in the NHS. It will therefore be crucial for the Government's response to clarify how OLAR would relate to local audit in the NHS, and with the awaited responses to the Kingman, Competition and Markets Authority and Brydon Reports.

Sir Tony has called for increased audit fees as the first step to achieving sustainable local audit. To an extent additional fees are generated through PSAA's fee variations process though we acknowledge that the system for claiming and

approving variations takes time and makes demands on both auditors and audited bodies. In part this is a reflection of the requirements of the relevant regulations. However, it also reflects the fact that the system was designed when fees were higher, the market was more stable, and fee variation claims were far less common. We have recently completed a project evaluating ways to evolve the fee variation process to make it more straightforward for all parties, and aim to publish proposals for consultation in the near future.

To achieve audit sustainability in the long term there also needs to be a consensus about where the additional resources will come from, and how more money in the system will enrich the value that audit adds by attracting and developing skilled people. We also need to address the challenge of ensuring that audit is more highly valued by local bodies - hopefully the new Audit Code, and in particular the new VFM arrangements commentary, will be a major step in the right direction.

Sir Tony has emphasised that not everything in his report requires legislation. PSAA is keen to continue to work with others in the sector on developing solutions and resolving some of the urgent challenges highlighted so that progress can be made as rapidly as possible. PSAA has already [published reports with detailed evidence](#) of the fragility of the audit supply market and continues to regard this as the critical risk to be addressed.

We look forward to continuing to hear the views of audited bodies and to ensuring that your frontline experiences are given appropriate weight in the work to develop a more stable local audit system.

Yours sincerely

Steve Freer, Chair and Tony Crawley, Chief Executive
Public Sector Audit Appointments Limited