

**COPY OF EMAIL SENT ON 12 DECEMBER 2019 TO ALL S151 OFFICERS OF OPTED IN BODIES, PROVIDED BY PSAA TO AUDIT TEAMS**

Dear Section 151 Officer

Normally at this time PSAA is consulting on the following year's audit scale fees. However, this year is unusual in that the National Audit Office is itself consulting on the new Code of Audit Practice that will apply to all local government and NHS audits from 2020/2021. The NAO's second and final consultation stage has now completed, and we understand that it is expecting to present the new Code for Parliamentary approval in the near future. PSAA commissions audits that are Code compliant, and so we need to see the final version before we are able to consult on the scale fees for 2020/2021. Our current plan is to consult with bodies from 27 January to 6 March 2020.

Please note that the NAO intends to consult on and then update the Auditor Guidance Notes (AGNs) that support the Code following its approval. Those AGNs will provide more detail on the auditor's responsibilities, which will be an important factor in ultimately determining the impact on any individual body. We will need to take this further consultation into account when constructing our fee proposals. We will notify you when our consultation paper is issued and look forward to your contribution.

We also want to take this opportunity to update you on the current challenges facing audit. You will no doubt be aware, either directly or indirectly, of the significant numbers of delayed 2018/19 audit opinions in local bodies. This is a much more prevalent problem than in previous years and, needless to say, we are very sorry that it has arisen. The causes of delay vary from body to body. However, the most frequent explanations appear to be an increasing shortage of audit resources suitable for local government work (including significant recruitment and retention challenges), and/or concerns about the quality of draft accounts and working papers (it is acknowledged by CIPFA that producing IFRS-based, code-compliant accounts is a time-consuming annual task, placing considerable strain on what are now leaner finance teams), and/or challenges resolving technical issues within increasingly complex accounts.

It is also apparent that the well publicised challenges facing the auditing profession following a number of significant financial failures in the private sector have played a part. As you know, these high profile events have led the Government to commission three separate reviews - Sir John Kingman has reviewed audit regulation, the Competition and Markets Authority has reviewed the audit market, and Sir Donald Brydon is currently looking at the audit product.

It is not yet clear what the long term implications of these reviews will be. However, the immediate impact is clear - significantly greater pressure on firms to deliver higher quality audits by requiring auditors to demonstrate greater professional scepticism when carrying out their work across all sectors – and this includes local audit. This has resulted in auditors needing to exercise greater challenge to the areas where management makes judgements or relies upon advisers, for example, in relation to estimates and related assumptions within the accounts. As a result, audit firms have updated their work programmes and reinforced their internal processes and will continue to do so to enable them to meet the current expectations.

We are aware that there is a wide-ranging debate about the areas of focus for local government audit work, including concerns that there is too much focus on figures that are not necessarily priorities for audited bodies and electors. CIPFA has recently consulted on the strategy for the Accounting Code, including possible ways that it may evolve in the future. MHCLG has also commissioned Sir Tony Redmond to review financial reporting and audit in local government. Until such time as changes are made, however, the position is that auditors are required to ensure that they have sufficient assurance to meet the professional requirements in the current framework before they can issue their opinions.

We have spoken to many finance officers and members about their audits, and have just carried out a survey of all opted-in bodies to gather views more formally. One issue that arises regularly is the timing and clarity of auditors' communication. Too frequently bodies do not receive information about additional work which the auditor may need to undertake (as well as related fee implications) until very near to the end of the audit process. We have stressed that bodies need this information at the earliest possible opportunity (accepting that that unforeseen issues arise during the audit process, and that this may be towards the end – the aim is though that they are highlighted as soon as is practicable). This includes that wherever possible auditors should highlight at the planning stage any additional work which is likely to be required during the audit, including potential fee implications. Whilst it may not be possible to quantify the proposed fee until the work is done, early discussion can help to avoid misunderstandings at a later stage. Please note that any proposed variation to the fee remains subject to PSAA approval, and cannot be charged unless we agree to it. There is a description of our process for considering fee variations, and through which we independently review every proposed fee variation, on our website.

The precise impact of professional requirements will vary with the unique circumstances of individual bodies. However, your audit lead will be able to update you on how your audit is evolving including any resource, fee or timetable implications. This local dialogue is a vital part of the audit process, and is there to ensure that at any given stage you are well informed about what is happening and why.

I hope this information is helpful to you. Please do not hesitate to contact PSAA if we can be of assistance in any way.

Yours sincerely

**Tony Crawley**

**Chief Executive**

Public Sector Audit Appointments Limited