

Public Sector Audit Appointments - Consultation on the 2022/23 audit fee scale

Opted-in local government, fire and police
bodies

Response from the Chartered Institute of Public Finance and
Accountancy

September 2022

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. CIPFA shows the way in public finance globally, standing up for sound public financial management and good governance around the world as the leading commentator on managing and accounting for public money.

Further information about CIPFA can be obtained at www.cipfa.org

Any questions arising from this submission should be directed to:

Khalid Hamid
Director
CIPFA
77 Mansell Street
London
E1 8AN
Tel: +44 (0)20 543 5613
Email: khalid.hamid@cipfa.org

Alison Bonathan
Technical Manager
CIPFA
77 Mansell Street,
London
E1 8AN
Tel: +44 (0)20 7543 5770
Email: alison.bonathan@cipfa.org

CIPFA is pleased to respond to this consultation on Public Sector Audit Appointments' (PSAA's) consultation on setting the fee scale for the audit of opted-in bodies' 2022/23 financial statements and value for money arrangements.

CIPFA's support for the use of the fee scale wherever possible, rather than fee variations, to determine the cost of an audit is a matter of [public record](#). Local government bodies must be able to plan, which requires certainty over audit fees. However, CIPFA acknowledges that a degree of pragmatism will always be required.

CIPFA is of the view that to improve the current complex and difficult position in the audit of local authorities, appropriately resourced audits are vital. High quality local audit should underpin effective public financial management, transparency and accountability.

The [Redmond Review](#) commented, for example, in paragraph 4.3.19 that the:

“decrease in fees [in local authority audit between 2014/15 and 2018/19] must be set against the potential impact on quality if audit is considered to be cost effective”

also highlighting the importance of adequate resourcing for local audit.

CIPFA is pleased therefore that the anticipated scale fees under the new contracts should allow for adequate resources. As such, CIPFA would expect that fee variations in the next appointing period should take place more on an exceptional basis.

As CIPFA is neither a local audited body (an opted in body) or a local auditor, CIPFA's response below does not express a view on the specifics of the fee ranges or minimum fees as set out in the consultation document. CIPFA does, however, have some comment on the discussions in the consultation which it hopes PSAA might find useful.

Our response below therefore focuses on three aspects of the consultation related to local government accounting, public financial management and the effectiveness of local audit, namely:

- accounting for infrastructure assets
- use of fee variations, and
- regulatory challenge.

Accounting for Infrastructure Assets

CIPFA notes paragraph 32 of the consultation document, which identifies the approach to accounting for infrastructure assets as a development that may affect the audit fees needed for 2022/23 audits. As stated in paragraph 32, CIPFA LASAAC has consulted on reporting of infrastructure assets, particularly relating to the derecognition of replaced assets or part thereof.

These issues arose from concerns raised by a local government auditor that some local authorities have not been applying component accounting requirements appropriately and came to light via audit network discussions convened by the National Audit Office though it is notable that the current accounting regime has been in place and subject to audit for many years. The issues were deemed more prevalent than originally identified and CIPFA would highlight that CIPFA and CIPFA LASAAC sought to provide support in this area to alleviate the reporting issues and provide accompanying guidance which might assist both accounts preparers and auditors with the resolution of the issues arising. While CIPFA would not anticipate that the consultation on the 2022/23 audit fee scale would include a complete rendition of the history or issues that arise it is concerned that the consultation does not provide any indication that CIPFA and CIPFA LASAAC has made significant efforts to support the sector for this issue and to do so in a way in which the benefits of any changes to the users of the accounts do not outweigh the cost of implementation.

CIPFA LASAAC's consultation was undertaken to explore possible solutions to the issues created by information deficits that have arisen because of historical reporting requirements. CIPFA LASAAC has considered whether an adaptation to the *Code of Practice on Local Authority Accounting in the United*

Kingdom (the Code) could be developed to resolve the issues being faced by local government bodies and their auditors. However, CIPFA and CIPFA LASAAC are both of the view that adaptations should not be made to the Code where this would undermine the production of high-quality financial reporting.

Throughout its work on the issue of infrastructure assets reporting, CIPFA has been committed to supporting the sector and facilitating the development both a temporary and longer-term solution. CIPFA LASAAC has proposed time-limited adaptations to the Code to remove the need to disclose gross cost and accumulated depreciation.

CIPFA and CIPFA LASAAC consider that a sector wide approach to resolution of the reporting of highways infrastructure assets should be sought. For example, CIPFA has worked with government and the devolved administrations on the possibility of statutory prescription regarding the transaction for the derecognition of parts of infrastructure assets that have been replaced or restored (though there are still discussions being subject to the Code's due processes for change to the Code in this area). Although statutory prescription is a matter for government and the legislative process, CIPFA has undertaken this work to achieve its aims of supporting the sector.

In this vein CIPFA's Chief Executive, Rob Whiteman, has written an [article](#) addressing progress on the issue of accounting for infrastructure assets and some of the myths associated with this topic, available on the Local Government Chronicle website.

An update statement from CIPFA LASAAC on infrastructure reporting was issued on 27 July 2022 and is available on the [Urgent Task and Finish Group: Local Authority Infrastructure Assets section of the CIPFA website](#), along with recent updates on work regarding a statutory prescription.

CIPFA is more than happy to discuss the potential impact of both the temporary and longer-term solutions on both local authority financial reporting and auditing with PSAA.

Use of Fee Variations

CIPFA notes paragraph 20 of the consultation, which indicates that fees needed for work on the Value for Money (VFM) commentary and ISA 540 *Auditing Accounting Estimates and Related Disclosures* will not be consolidated into 2022/23 fee scale, therefore fee variations are likely to be necessary for these aspects of audit work. CIPFA acknowledges the difficulties in obtaining sufficient information to 'bake' audit work on the VFM commentary and ISA 540 into the scale fee due to ongoing audit delays.

CIPFA is, however, concerned about the impact this might have on financial planning for local government bodies. In our [response](#) in May 2021 to the consultation on Changes to the Local Audit (Appointing Person) Regulations 2015, CIPFA agreed that it is preferable to delay the date by which fee scales are set in order to allow consideration of more information which was also more current when determining fee scales. However, CIPFA also noted the need for certainty over audit fees to allow local government bodies to plan and stressed the need to reduce the use of fee variations, which can lead to uncertainty for opted in bodies. As 2021/22 audits are completed and further information becomes available about the volume and magnitude of fee variations arising as a result of work on the VFM commentary and ISA 540, CIPFA would support efforts to factor these aspects of audit work into the 2023/24 fee scale.

While CIPFA would prefer the fee scale to reflect the total cost of delivering an audit, providing certainty to audited bodies, CIPFA also supports the use of evidence to ensure that fee scales are set at appropriate levels. CIPFA therefore understands why PSAA is not intending to consolidate audit work on the VFM commentary or ISA 540 into the 2022/23 fee scale. Similarly, CIPFA understands the need to use fee variations for audit work on ISA 315 *Identifying and Assessing the Risks of Material Misstatement*, given the lack of evidence on the additional audit work that the change in standard might require.

Regulatory Challenge

CIPFA notes paragraph 21 of the consultation document which identifies increased regulatory challenge as contributing to increased audit work. CIPFA supports high quality financial reporting and the strengthening of public financial management, transparency and accountability that is the result of effective regulation and audit. CIPFA is of the view that the effectiveness of audit in upholding a system of sound public financial management would be best supported if audit attention could be paid to higher-risk areas of the financial statements.

CIPFA would note that as raised in the Redmond Review report the audit of some of the areas of local authority financial statements have in recent years been subject to a significantly increased, perhaps disproportionate, audit burdens which add to the resource pressures for both accounts preparers and local auditors. For example, paragraph 7.4.2 of the Redmond Review report states that:

Local government practitioners argue that the extent and nature of asset valuations, very relevant in a commercial setting, undertaken by auditors, have limited significance in local government where assets are more often than not critical to service delivery and “market value” is not a consideration. Time allocated to the asset valuation process for property and pensions, it is agreed, is considerable and increases the cost of audit as well as, in some cases, leading to delays in the audit being finalised ...

Such views have since been repeated by accounts preparers in a survey undertaken by CIPFA, and by significant amounts of subsequent anecdotal evidence. There may therefore be a risk that disproportionate regulatory burdens lead to pressure for auditors to increase the attention paid to lower risk areas of the financial statements, leading to higher audit fees.

In its responses to the consultations on the Code of Audit Practice, CIPFA has agreed that the Code should continue to align its requirements with International Auditing and Assurance Standards Board (IAASB) International Standards on Auditing (ISAs). CIPFA recognises that these standards have been developed primarily for private sector, but the requirements are not unduly difficult to apply to audits of public sector entities. While they require interpretation and guidance, this is provided through Practice Note 10: *Audit of Financial Statements and Regularity of Public Sector Bodies in the United Kingdom* and supplementary material in Audit Guidance Notes.

In CIPFA's [response](#) to the Department of Levelling-up, Housing and Communities [Local Audit Framework Technical Consultation](#) CIPFA indicated that its view had not changed. What would be of interest to the users of local authority accounts is, however, very different from the private sector's users. The focus in local government bodies is quite rightly on how much is spent on services and the financial sustainability of the council.

CIPFA considers that the audit and assurance arrangements should reflect this. CIPFA would note that there may be scope for consideration of the application of these standards to the measurement of property, plant and equipment and pensions assets and liabilities¹ to ensure there is proportionality in the assurance of the measurement provisions as they would apply to the users of local government bodies. This should also be able to demonstrate that the resources inherent in the assets have supported services and the locality and meet the needs of accountability and stewardship. CIPFA is of the view therefore that there should be a focus on how these standards are applied and that additional guidance can be provided in Practice Note 10 on these issues.

[CIPFA's response to the recent Public Audit Forum consultation](#) on Practice Note 10 notes our support for proposals to provide greater clarity on how auditors can use gross assets as a materiality benchmark at the financial statement level, while applying a lower materiality threshold to items of income and expenditure, or to assets and liabilities in which users of the financial statements have greater interest. CIPFA is of the view that this guidance on materiality will support audit work that better aligns with the decision-relevance of the financial statements for the users of the information

¹ As prescribed by the Code of Practice on Local Authority Accounting in the United Kingdom.

and would support the development of guidance that ensures that this is reflected in auditing practices.

In the context of audit fees, CIPFA would support PSAA in ensuring that fee scales do not make permanent additional fees for audit work currently being undertaken due to interpretation of extant regulations, such as Practice Note 10, that might change in the near future leading to a rebalancing of audit focus and volume of work undertaken.