

Redmond Review response - changes to the audit fees methodology for allocating £15 million to local bodies

A Submission by:
The Chartered Institute of Public Finance and Accountancy

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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.

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Introduction

CIPFA is pleased to respond to this consultation which looks at the potential changes to the audit fees methodology of allocation for an additional £15million to local audit bodies. CIPFA welcomes the prospective additional funding to be allocated in 2021/22. CIPFA understands that this is intended to support affected local bodies to meet the anticipated rise in audit fees in 2021/22, driven by new requirements for auditors including the 2020 Code of Audit Practice, and to enable local authorities to implement standardised statements of service information and costs.

Local audit offers a critical check and essential source of assurance in our systems of local democracy and public accountability. Auditors provide an independent professional opinion on the financial statements of organisations responsible for spending billions in public money. Auditors also provide assurance around the arrangements these organisations have in place for achieving economy, efficiency and effectiveness in their use of resources.

CIPFA notes that there is frequent commentary that fees for local audit have become too low in comparison to the escalating financial resilience and regulatory risks faced by local authorities and local auditors respectively, and that a balance must be struck that reflects the need of the sector. The Redmond Review also refers to this drop in fees and comments that it has fallen as a percentage of net current expenditure of local authorities. Fee pressure may also have contributed to the resource and skills shortage which is also commented on by the Review. This also reduces the pool of expertise available to complete high-quality local audits in a timely manner.

CIPFA would note that this £15million will have to be spread quite widely over the numbers of audited bodies. It is also not yet clear how Government will decide to take forward the Redmond Review recommendation with regards to the Standardised Statement of Service Information and Costs and what resource implications this might have for local authorities. Spreading the £15million using a methodology that, for opted-in bodies will be based on individual allocations on each body's scale fee as a proportion of the total fee scale that each body currently pays as part of the current contracts may not reflect the full resource implications for local authorities. It is also not yet clear what the impact of the changes to the 2020 Code of Audit Practice might have on audit fees and costs. For example, will the move from the binary opinion on value for money to an enhanced audit report be substantially more costly than the current approach?

Please see below CIPFA's responses to the individual questions in the consultation.

QUESTION

Q1 With regard to the allocation of the £15 million to affected bodies, do you agree with the proposal at paragraph 7 that is to base individual allocations on each body's scale fee as a proportion of the total fee scale that each body currently pays.

- **Yes – I agree with the above proposal**
- **No – I disagree with the above proposal**
- **Unsure**

RESPONSE

No CIPFA disagrees with the above proposal.

CIPFA disagrees with the proposals set out in paragraph 7 of the consultation paper for the reasons set out in the introduction ie that without knowing what the resource implications are for the introduction of the standardised statement a more general resource allocation methodology may be necessary. For example, the scale fee for an authority might have been uplifted in previous years to allow for the risks inherent in complex financial instruments held by some local authorities but this increase in scale fees will not be related to any increased need for audit work in 2021/22. CIPFA is also not clear that a body's current scale fees are representative of the changes that £15million is intended to fund and particularly the needs which arise from any changes in auditing including the 2020 Code of Audit Practice. CIPFA would therefore recommend an alternative solution (see below our response to question 3).

QUESTION

Q2. Alternatively, do you think that one of the methodologies proposed in paragraph 8 would be more equitable? What are your reasons for this?

- **Yes**
- **No**
- **Unsure**

RESPONSE

No CIPFA disagrees with the alternatives outlined in paragraph 8 of the consultation documents.

CIPFA notes that the consultation paper indicates that Government has considered the alternative proposals and is not currently minded to take them forward. CIPFA also disagrees with the alternatives outlined in paragraph 8 of the consultation documents for the reasons outlined in our response to question 1 CIPFA considers that a more general approach to resource allocation ought to be used.

QUESTION

Q3 If you do think that we should consider a different methodological approach, what factors in your view should be used to determine the proportionate element of the funding? For example, might regulatory standards that only apply to certain bodies be a suitable contributory factor?

RESPONSE

For the reasons outlined in the introduction and in CIPFA's responses to both questions 1 and 2 ie that it is not clear what the resource implications of the standardised statement of service information and cost or the changes to the 2020 Code of Audit Practice will have and that the current scale fees will not be an appropriate methodology to allocate funding. CIPFA would recommend that the allocation of the budget be based on Gross Revenue Expenditure. However, CIPFA would recommend testing the implications of the resource allocation methodology suggested by government with CIPFA's (and potentially other) proposals for a sample of authorities. This test might mean that there is not a material difference between allocation methods for the £15million and therefore the simplest methodology should be used.

QUESTION

Q4 We would also welcome views if you have an alternative proposal to those described above – please provide details below.

RESPONSE

Please see response to question 3.

Q5. We would also welcome any more general comments on the proposals and any unintended consequences that might arise from their implementation.

RESPONSE

CIPFA would comment that although it welcomes the additional resource allocated to local authorities it would be important to understand the relationship between this allocation and the resource requirements for audit fees across the country.

The Redmond Review highlighted that audit fees had dropped while they had significantly increased in other sectors. As stated in our introductory comments recent market instability indicates that the audit of local authorities is challenged substantially by resource issues. Our understanding of issues raised by the Redmond Review and the sector indicate that external auditing (for example, for corporate entities) is not seen as an attractive option and local audit is perceived to be an even lesser attractive option. There are numerous reasons for this including the lack of resource in the sector. It is recommended that a review be undertaken following Government's full response anticipated in spring and whether further resources need to be introduced into the system.

Q6 Finally any comments relating to the equalities impact of the above proposals would be welcomed.

RESPONSE

CIPFA is of the view that local authorities are best placed to respond to this question.