



### BUILDING THE FUTURE PROGRAMME

<b>Required for:</b>	Joint Audit Committee April 2021
<b>Security Classification:</b>	<b>Official</b>
<b>Handling information if required:</b>	
<b>Suitable for publication:</b>	Yes
<b>Title:</b>	DHCLG Consultation on: a) Amendments to Local Audit Setting Fee Arrangements and Methodology and b) Allocation Methodology of £15m Redmond Funding
<b>Version:</b>	1.0
<b>Purpose:</b>	For comment from JAC
<b>ACPO / Strategic Lead:</b>	Kelvin Menon
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**What are the Policing Principles?**

- |                |   |            |   |              |   |
|----------------|---|------------|---|--------------|---|
| Accountability | ✓ | Fairness   | ✓ | Honesty      | ✓ |
| Integrity      | ✓ | Leadership | ✓ | Objectivity  | ✓ |
| Openness       | ✓ | Respect    | ✓ | Selflessness | ✓ |

## Introduction

1. In 2020 Sir Tony Redmond was commissioned to conduct a review into local authority audit and reporting. The report was entitled [Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting](#). This made a number of recommendations and the Government published its [response](#) on the 17<sup>th</sup> December. In this it committed to take swift action to support market stability, and in particular to take action to improve the processes that audit firms need to follow when the cost of their work is greater than that allowed under their contracted fees and also to take steps to clarify what additional work fee variations are being claimed for.
2. In addition the review recognised that the current audit market was unsustainable at the current contracted rates and this was reflected in many public bodies being asked to pay additional fees. In order to offset these costs the Government made available an additional grant of £15m to be shared out amongst Councils, Police and Fire authorities to offset this cost

## Consultation

3. On the 20<sup>th</sup> April DHCLG (Appendix C) launched two consultations as follows:

- a) Changes to Local Audit (Appointing Persons) Regulations 2015

This can be accessed using the following link

<https://www.gov.uk/government/consultations/amendments-to-local-audit-fee-setting-arrangements>

It closes on the 1<sup>st</sup> June 2021

- b) Consultation on allocation of £15m to local bodies for Audit

This can be accessed using the following link

<https://www.gov.uk/government/consultations/consultation-on-allocation-of-15-million-to-local-bodies-for-audit>

It closes on the 18<sup>th</sup> May 2021

## Responses to the Consultation

4. Each consultation poses a number of questions and these are set out with suggested answers in Appendices A and B. DHCLG has suggested that audit committees are consulted as to their views

## Recommendation

5. The Committee is asked to review the suggested responses and comment as appropriate

## Appendix A

### **Response to Consultation on Changes to the audit fees methodology for allocating £15m to local bodies**

Q1. Do you agree with the above proposal to extend the regulatory deadline by which the scale fees need to be set to enable the appointing person (PSAA Ltd) to take into account more up-to-date information?

*Yes – I agree with the above proposal with the caveat that this will impact Bodies ability to budget for audit fee accurately in annual budget cycle*

Q2. Do you agree with the above proposal to enable the appointing person to consult on and agree standardised fee variations to be applied to all or groups of principal bodies?

*Yes – I agree with the proposal provided it only applies to new national factors, such as a new accounting standard, that were unknown at the time of tender*

Q3. National fee variations could only be implemented in prescribed circumstances, which would be defined in the regulations. Do you have any comments on the example circumstances outlined in paragraph 8, or any additional circumstances that should be considered?

*Yes - I agree with the proposal as set out in paragraph 8a*

Q4. Do you have any comments about the above proposals to enable r some fee variations for additional elements of work to be approved during the audit, noting that the appointing person's scrutiny processes to review the proposed additional fees would operate in all cases in the usual way?

*No – I disagree with this proposal. Local fee variations should only be discussed when the audit has been completed. Only then can the impact of any additional elements of work be properly judged against the conduct of the audit as a whole*

Q5. Do you agree with the above proposal that the appointing person is able to appoint auditors for the period that it considers to be the most appropriate, up to the maximum length of the appointing period subject to consultation with the relevant bodies?

*Yes – I agree with this proposal as long as the maximum period remains at 5 years*

Q6. Finally, we would also welcome any more general comments on the proposals, including any comments relating to equalities impact or any potential for unintended consequences of any of the above proposals.

*None*

**Appendix B****Response to Consultation on Changes to the audit fee methodology for allocating £15m to local bodies**

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 as this will make the allocation straightforward enabling the grant to be distributed quickly*

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

*No. Whilst some of these allocations may be deemed to be fairer the actual difference they will make to individual bodies will actually be quite small. In addition the cost of collecting the data and processing it as well as the delay in distributing the funding would outweigh any benefit.*

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?

*No – it is better to use a simple methodology for expediency*

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

*None*

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

*None on the proposal itself however it is not clear whether this funding is one off or recurrent? Clearly the costs that have given rise to this situation are recurrent and so clarity on this would be welcomed*

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

*None*

## Appendix C

### Copy of Letter from DHCLG in respect of the Consultation



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Communities &  
Local Government

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20 April 2021

By Email

Dear Sir/Madam

#### CONSULTATIONS ON AMENDMENTS TO LOCAL AUDIT FEE SETTING ARRANGEMENTS AND ON FEES METHODOLOGY

I am writing to inform you about the above consultation exercise which runs from **20 April** to **1 June** proposing changes to the fee setting and fee variation arrangements set out in the [Local Audit \(Appointing Person\) Regulations 2015](#) to provide additional flexibility to the appointing person for principal bodies (Public Sector Audit Appointments Ltd) to reflect the changing nature of the local audit market. The arrangements for smaller bodies are covered in separate regulations and are not affected by these proposals.

I would also like to draw your attention to the separate consultation, also starting on **20 April** and running to **18 May**, seeking views on the most appropriate methodology for allocating the £15 million announced at Spending Review 2020. This funding is to support affected local bodies to meet the rise in audit fees and new burdens resulting from the implementation of additional requirements.

Sir Tony Redmond, in his [Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting](#) recommended that the current fee structure for local audit be revised to ensure that adequate resources are deployed to meet the full extent of local audit requirements. The Government committed in its [response](#) of 17 December to take swift action to support market stability, and in particular to take action to improve the processes that audit firms need to follow when the cost of their work is greater than that allowed under their contracted fees and also to take steps to clarify what additional work fee variations are being claimed for.

I would be grateful if you could bring these consultation documents to the attention of your chief finance officers and audit committees for their considerations. All responses should be submitted via the following Citizen space links: [Appointing Person](#), [Fees Methodology](#). However if you have any queries about either consultation exercise please submit them to the following email address: [localaudit@communities.gov.uk](mailto:localaudit@communities.gov.uk).

Yours sincerely,  
Max Soule  
Deputy Director  
Local Government Stewardship