

Open consultation

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

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Contents

1. [Scope of the consultation](#)
2. [Introduction](#)
3. [Allocation of £15 million](#)
4. [About this consultation](#)
5. [Annex A – Personal Data Rights](#)

Print this page

Scope of the consultation

Topic of this consultation: This consultation seeks views on the Audit Fees Methodology for Allocating £15 Million to Local Bodies.

Scope of this consultation: The Ministry of Housing, Communities and Local Government is consulting on the Audit Fees Methodology for Allocating £15 Million to Local Bodies

This includes all eligible principal local government body types listed in schedule 2 of the Local Audit and Accountability Act 2014 including:

- county councils
- district councils
- London borough councils
- unitary authorities
- metropolitan councils
- local police bodies
- fire and rescue authorities
- combined authorities (covering elected regional mayors), national park authorities
- conservation boards
- passenger transport executives
- waste authorities
- functional bodies and other specified bodies

Smaller authorities (such as parish councils) and NHS bodies, including accountable care bodies, are not eligible to opt in.

Geographical scope: The questions in this consultation paper apply to local government bodies in England, as defined above.

Impact assessment: We will produce a full Public Sector Equality Duty (PSED) assessment as the policy proposals develop further following this consultation.

Basic Information

To: This is an open consultation. We particularly seek the views of individual members of the public; prospective and current elected members/representatives; all relevant local government bodies defined above; and those bodies that represent the interests of local authority members/representatives at all levels.

Body/bodies responsible for the consultation: The Local Government Stewardship Division in the Ministry of Housing, Communities and Local Government is responsible for conducting this consultation.

Duration: This consultation will last for 4 weeks from 20 April 2021.

Enquiries: For any enquiries about the consultation please contact: localaudit@communities.gov.uk

How to respond: You can respond to this call for evidence through our online consultation platform, [Citizen Space](#).

Introduction

1. Sir Tony Redmond, in his review of the effectiveness of external audit and transparency of financial reporting in local authorities, 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. In the government's 17 December response, the government committed to take swift action to support market stability, and in particular to take action to review and reform regulations to provide the appointing person with greater flexibility to ensure the costs to audit firms of additional work are met, and reduce the need for time consuming case-by-base consideration.
2. To support the implementation of this, in the government response to the Review, ministers announced £15 million in additional funding in 2021/22. This is intended to support affected local bodies to meet the anticipated rise in audit fees in 2021/22, driven by new requirements on auditors including the 2020 Code of Audit Practice, and to enable local authorities to develop standardised statements of service information and costs,
3. This short consultation sets out a proposed simple methodology but also seeks views on whether this is the most equitable way in allocating the funding between principal bodies.
4. We are also consulting separately on the [implementation of changes to the fee setting process for principal bodies set out in the Local Audit \(Appointing Person\) Regulations 2015](#), as recommended in the Redmond review, to a 6 week timescale, seeking views on amending the timescale for setting the fee scales, enabling the appointing person to consult on and approve a standardised additional fee – subject to consultation – and for such payments to be made in year rather than at the completion of the audit the consultation also seeks to clarify some details around the appointment of auditors and the length of that appointment period as well as any more general comments.

Allocation of £15 million

5. As set out above, on 17 December, ministers announced £15 million to support principal local bodies to meet the anticipated rise in audit fees in 2021/22, driven by new requirements on auditors, including the 2020 Code of Audit Practice, and to enable local authorities to develop standardised statements of service information and costs. The response also stated that allocations would be publicised later in the spring.

6. To facilitate this, we are keen to seek views from stakeholders on how best to allocate this money to principal bodies. Our objective is to use a funding methodology that most accurately and fairly reflects the anticipated additional costs to individual local bodies.

7. To make the process as simple, clear and fair as possible we are considering the use of a methodology that, for opted-in bodies, bases 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. We would also include the relevant comparative fees for those bodies that are not opted-in to the appointing body arrangements to ensure that all bodies were treated fairly. We judge that this would be the method that most clearly delivers on our objective outlined above.

8. However, we recognise that there are potentially other approaches we could consider or factors that could also be taken into account. Other methodological approaches that we have considered, but are not currently minded to take forward include:

a. Allocating funding on the basis of a more standardised methodology that meant that all bodies of a specific 'type' received an equal allocation. This could be established using averages derived from the current individual fee scales. While this potentially represents a more consistent approach for bodies, we judge that it would be less likely to accurately reflect the costs faced by different bodies than using their current scale fees.

b. Taking into account past fee variations alongside base fee scales. This could potentially more accurately reflect the most up-to-date cost of audit paid by each audited body. However, given past fee variations can be paid for a range of different reasons, including issues that should be the responsibility of the audited body, there is a risk that this would unfairly penalise audited bodies who have not previously required fee variations, but are just as likely to see them in the future due to changes to the Code or other new costs.

c. Providing equal allocations to all bodies, or another methodology that was not derived from the current fee scales. This could be the right methodology to use if it was judged that the impact of new requirements on auditors or other causes of anticipated fee rises were likely to be shared equally between bodies, rather than those audited bodies whose audits are currently more expensive seeing larger increases in their costs. While we do not expect this to be the case, we would welcome evidence from respondents who disagree.

d. Allocating a proportion of the £15 million as a fixed sum to all bodies and the remainder on a proportionate basis derived from the scale fees. This could potentially represent a compromise between different approaches, and take account of where all bodies may expect to see commensurate increases in costs. We are currently minded to use the more straightforward methodology outlined in paragraph 7, but would welcome views on this one too.

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

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

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?

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

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

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

About this consultation

This consultation document and consultation process have been planned to adhere to the Consultation Principles issued by the Cabinet Office.

Representative groups are asked to give a summary of the people and organisations they represent, and where relevant who else they have consulted in reaching their conclusions when they respond.

Information provided in response to this consultation, including personal data, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 2018 (DPA), the UK General Data Protection Regulation, and the Environmental Information Regulations 2004).

If you want the information that you provide to be treated as confidential, please be aware that, as a public authority, the Department is bound by the Freedom of Information Act and may therefore be obliged to disclose all or some of the information you provide. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

The Ministry of Housing, Communities and Local Government will process your personal data in accordance with the law and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. A full privacy notice is included at Annex A.

Individual responses will not be acknowledged unless specifically requested.

Your opinions are valuable to us. Thank you for taking the time to read this document and respond.

Are you satisfied that this consultation has followed the Consultation Principles? If not or you have any other observations about how we can improve the process please contact us via the complaints procedure.

Annex A – Personal Data Rights

Personal data

The following is to explain your rights and give you the information you are be entitled to under the Data Protection Act 2018.

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the call for evidence.

1. The identity of the data controller and contact details of our Data Protection Officer

The Ministry of Housing, Communities and Local Government (MHCLG) is the data controller. The Data Protection Officer can be contacted at dataprotection@communities.gov.uk.

2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the call for evidence process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data

The Data Protection Act 2018 states that, as a government department, MHCLG may process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a call for evidence.

4. With whom we will be sharing your personal data

We use a third-party platform, Citizen Space, to collect consultation responses. In the first instance, your personal data will be stored on their secure UK-based servers.

5. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for two years from the closure of the call for evidence.

6. Your rights, e.g. access, rectification, erasure

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right:

- a. to see what data we have about you
- b. to ask us to stop using your data, but keep it on record
- c. to ask to have all or some of your data deleted or corrected
- d. to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at <https://ico.org.uk/>, or telephone 0303 123 1113.

7. Your personal data will not be sent overseas

8. Your personal data will not be used for any automated decision making.

9. Your personal data will be stored on a secure government IT system.

Your data will be transferred to our secure government IT system as soon as possible after the consultation has closed, and it will be stored there for the standard two years of retention before it is deleted.