

# 2019/20

# audit fee scale

**Opted-in local government and police bodies**

**March 2019**

**Public Sector Audit Appointments Limited (PSAA) is an independent company limited by guarantee incorporated by the Local Government Association in August 2014.**

**In 2015 the Secretary of State for Communities and Local Government delegated a number of statutory functions (from the Audit Commission Act 1998) to PSAA on a transitional basis by way of a letter of delegation issued under powers contained in the Local Audit and Accountability Act 2014.**

**As a consequence of these delegations, for 2017/18 the company was responsible under transitional arrangements for appointing auditors to local government and police bodies and for setting audit fees.**

**In July 2016, the Secretary of State specified PSAA as an appointing person for principal local government authorities from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.**

**From 2018/19, PSAA is responsible for appointing an auditor and setting scale fees for relevant principal authorities that have chosen to opt into its national scheme.**

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## Introduction

- 1 This document sets out the scale of fees for the audit work to be undertaken by appointed auditors in respect of the 2019/20 financial statements at relevant principal authorities that have opted into Public Sector Audit Appointments' (PSAA) national auditor appointment arrangements.
- 2 The Local Audit (Appointing Person) Regulations 2015 (the Regulations) require PSAA to consult on and specify, before the start of the financial year to which the fees relate, the scale of fees for the audit of the accounts of opted-in authorities.
- 3 Audit work will be undertaken under the requirements of the [Code of Audit Practice](#) and supporting guidance published by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.
- 4 The [statement of responsibilities of auditors and audited bodies](#) applies to the work covered by the fee scale set out in this document. The statement effectively represents the terms of engagement between appointed auditors and audited bodies, and summarises their respective responsibilities.

## Background

- 5 PSAA is specified under the Local Audit and Accountability Act 2014 (the 2014 Act) and the Regulations as the appointing person for principal local government bodies in England, including local police bodies.
- 6 PSAA's responsibilities as an appointing person include appointing auditors to opted-in bodies, setting fees, and monitoring the quality of auditors' work provided under our contracts with audit firms. More information about [PSAA](#) is available on our website.
- 7 During 2017, PSAA made auditor appointments for the five years of the current appointing period, covering the audits of the financial statements of opted-in bodies for 2018/19 to 2022/23. A list of opted-in bodies and the audit firm PSAA has appointed as the auditor of each body is available on the [auditor appointments](#) page of our website.

## 2019/20 scale fees

- 8 PSAA has set the 2019/20 fee scale on the basis that individual scale audit fees for opted-in bodies are maintained at the same level as 2018/19 unless there are specific circumstances which require otherwise. This continues to give opted-in bodies the benefit of the cost savings achieved in the audit procurement, and continues the practice of averaging firms' costs so that all bodies benefit from the same proportionate savings, irrespective of the firm appointed to a particular audited body. It also passes on the benefit of economies which PSAA has made in its own operating costs.
- 9 Maintaining 2019/20 fees at the same level as 2018/19 follows the significant reductions in scale fees made by the Audit Commission between 2012/13 and 2015/16. In part those reductions were possible as a result of a significant reduction in the staffing and a contraction of the activities of the Audit Commission as it prepared for closure.

**10** We received 30 responses to our consultation on the 2019/20 fee scale. The vast majority of respondents supported the consultation proposals. There were however, a range of issues raised. We have thanked those who responded and replied individually where responses requested clarification or further information. We have published a [summary of the consultation](#) on our website.

**11** The PSAA Board has reflected on the consultation responses and takes very seriously the points made by opted-in bodies and our contracted audit firms. In light of the range of issues raised on the 2019/20 fee scale, the Board has decided to carry out further analysis and research to develop an in-depth understanding of the concerns raised.

**12** Individual 2019/20 scale fees for opted-in bodies together with further information on fees is available on the [2019/20 scale of fees](#) page of our website.

### Scale fees beyond 2019/20

**13** PSAA has previously stated its intention to maintain the 2018/19 reduction of 23 per cent in scale fees for a further year of the appointing period, based on current assumptions about inflation and the amount of work auditors are required to undertake. However, the uncertainties are such that we cannot guarantee this at this stage.

**14** We will review the position each year when we update our assumptions and estimates. The most significant variables which are likely to influence our decision-making are:

- **Inflation:** there is uncertainty about the expected level of inflation but a generally rising trend. Our contracts with audit firms include provision for inflation adjustments in the later years of the appointing period.
- **Code of Audit Practice:** the NAO is required to publish a new Code every five years. The next Code will be applicable from 2020/21, the third year of the appointing period. Any significant changes to the scope of auditors' work must be reflected in scale fees where appropriate.
- **Changes in financial reporting requirements:** current scale fees reflect the audit work needed based on current financial reporting requirements. Changes to those requirements may have an impact on scale fees. However, as the impact of standards may vary between bodies and periods, individual fee variations may be more appropriate.

**15** During the appointing period we will consult on scale fees each year, before publishing the fee scale for the following year.

**16** Scale fees must cover both the cost of auditors' work at individual opted-in bodies and PSAA's own costs. Last year PSAA reviewed of its own costs and staffing structure and implemented changes that reduced significantly the company's cost base for the appointing period.

### Distribution of surplus

**17** PSAA operates on a not-for-profit basis. Any surplus arising from the scale fees set following consultation will be distributed to opted-in bodies.

**18** By March 2019, we expect the majority of the audits undertaken under the transitional arrangements (the arrangements made by the Secretary of State on the closure of the Audit

Commission for audits of financial periods up to and including 2017/18) to be completed. The PSAA Board therefore anticipates making a distribution of surplus in relation to the transitional period during the financial year 2019/20.

## Enquiries

19 If you have questions about this fee scale document, please send them to us by email to: [workandfeesconsultation@psaa.co.uk](mailto:workandfeesconsultation@psaa.co.uk).

## 2019/20 work programme

20 Under the provisions of the 2014 Act, the NAO is responsible for publishing the statutory [Code of Audit Practice](#) (the Code) for auditors of local public bodies. Further information on the Code and supporting guidance is available on the [NAO website](#).

21 Audits of the accounts for 2019/20 will be undertaken in line with the Code published in April 2015.

22 PSAA has set the 2019/20 fee scale with the expectation that there will be no significant changes in NAO guidance for auditors or CIPFA/LASAAC financial reporting requirements that would affect materially the amount of audit work to be undertaken for 2019/20 audits. Any ongoing impact of IFRS 9 and 15 will vary dependent on each organisation's circumstances, and so a blanket variation to scale fees is not appropriate, and additional work will be subject to individual fee variations.

## Scope of audit

23 The Code sets the overall scope of the audit, requiring the auditor to give an opinion on the financial statements of a principal body subject to audit under the 2014 Act, and a conclusion on the arrangements for value for money.

24 Auditors are required to use judgement to design an audit approach that meets their statutory responsibilities under the Code and the 2014 Act. The Code requires auditors to carry out their work in compliance with the requirements of the relevant professional standards issued by the Financial Reporting Council and relevant quality control standards.

25 The Code requires that the auditor's work should be risk-based and proportionate. Auditors tailor their work to reflect local circumstances and their assessment of audit risk. They do this by assessing the significant financial and operational risks facing an audited body, and evaluating the arrangements it has put in place to manage those risks.

26 The audited body is responsible for putting in place appropriate arrangements to support the proper conduct of public business, and for ensuring that public money is safeguarded, properly accounted for and used with due regard to value for money.

## Other auditor responsibilities

27 Under the 2014 Act the auditor has powers in addition to the responsibilities in relation to an authority's financial statements and arrangements to secure value for money. These additional responsibilities and duties encompass giving electors the opportunity to raise questions about the accounts, and considering and deciding on objections received in relation to the accounts. The fee scale set out in this document does not cover work relating to auditors'

wider responsibilities such as dealing with objections or in relation to issuing statutory recommendations, for which additional fees are chargeable.

**28** Auditors have no responsibility under the 2014 Act for certifying claims or returns for grant paying government departments. Where such work is requested, a separate tripartite engagement between the relevant department, the audited body and a reporting accountant is needed. PSAA has no powers to make certification arrangements from 2018/19, and its audit contracts do not cover certification work.

**29** It is recognised that the auditor may be well placed to provide certain types of non-audit services work for the authorities subject to meeting the requirements of the FRC Ethical Standard and the NAO's General Guidance for Auditors (AGN01). The PSAA Terms of Appointment set out the process to be followed when considering such work recognising that this should not compromise a firm's independence nor be reasonably perceived to do so by an objective, reasonable and informed third party. The fees for such work is a matter for the auditor and contracting authority, including being subject to the restrictions set out above.

## Audit quality

**30** Assurance over audit quality was a fundamental part of the procurement. In order for an audit firm to be eligible to tender for an audit contract with PSAA it is required to fulfil the criteria determined by legislation as evaluated by the ICAEW (the Recognised Supervisory Body) and be listed on the ICAEW's register of Local Auditors. Contracts were awarded after a competitive tender which balanced audit quality with price. These pre-award processes help to ensure that the appointed firms meet the audit quality standards required for satisfactory performance of the contract.

**31** Post award we have developed our arrangements for monitoring firms' performance and reporting on audit quality, based on the International Auditing and Assurance Standards Board Framework for Audit Quality. We will publish reports on the [managing audit contracts](#) page of our website. We have also established the Local Audit Quality Forum, which is focused on supporting the effectiveness of local audit committees.

**32** Under the provisions of the 2014 Act, the Financial Reporting Council and the recognised supervisory bodies have regulatory responsibility for the quality of audit work produced by audit firms.

## National report

**33** In previous years PSAA has published a summary of the results of auditors' work. For 2018/19 PSAA will work with other organisations such as the NAO to determine the most appropriate reporting mechanism, recognising that PSAA no longer covers all principal local government bodies.

## 2019/20 fee scale

**34** The Regulations require PSAA to specify the scale of fees for the audit of the accounts of opted-in authorities before the start of the financial year to which the fees relate.

**35** The scale of fees for 2019/20 reflects the cost of the expected work programme based on the requirements of the Code of Audit Practice, and is based on the scale fees applicable for 2018/19. The 2018/19 scale fees represent the most accurate reflection available of the auditor's assessment of audit risk and complexity to complete an audit compliant with the Code of Audit Practice for each opted-in audited body.

**36** The scale fee for each opted-in local government and police audited body is [available on our website](#). Paragraphs 37 to 42 below explain the arrangements that apply to the variation of fees in certain circumstances.

### Fee variations

**37** PSAA has the power to determine the audit fee payable. It may vary from the prescribed scale fee where substantially more or less audit work was required than envisaged by the scale fee. Scale fees are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements with supporting working papers, and within agreed timeframes.

**38** Where it becomes clear that audit risk or complexity is significantly different from the level identified and reflected in the 2018/19 scale fee, the auditor may request a variation to the scale fee. We would expect such requests to arise only where risk and/or complexity are significantly different from assumptions reflected in the 2018/19 scale fee.

**39** PSAA recognises that the 2018/19 scale fee did not allow for the additional work that auditors were required to carry out at the relatively small number of local government bodies that were designated as Public Interest Entities (PIEs), a new concept for the sector. It is anticipated that auditors will apply for fee variations requests in respect of PIEs for 2018/19. This second year is likely in most cases to identify the cost of recurrent elements of the additional audit requirements (such as long form audit reporting), and so will provide a basis for PSAA to discuss with the PIE bodies and their auditors whether the scale fee should be amended for 2019/20 to avoid repeated fee variations.

**40** Variation requests must be made to PSAA by the auditor using a standard process and cannot be invoiced to an audited body by the auditor until they have been approved by PSAA.

**41** PSAA obtains updated fee information, and explanations for any proposed variations from the scale fee, from appointed auditors on a regular basis. We consider the reasonableness of the explanations provided by auditors, and require the auditor to confirm that they have had an appropriate discussion about the reasons for the additional fee with the audited body before we finalise our decision on any variation to the scale fee.

**42** Fees are chargeable for considering objections from the point at which auditors accept an objection as valid, or any special investigations, such as those arising from disclosures under the Public Interest Disclosure Act 1998, as a variation to the scale fee.

## **Value added tax**

**43** All the 2019/20 fee scales exclude value added tax (VAT), which will be charged at the prevailing rate of 20 per cent on all work done.