

Summary of responses to the fee consultation

Background to the consultation

Current regulations require PSAA to consult on and set the fee scale in advance of the financial year to which the scale applies. A significant proportion of audit work is undertaken after the end of relevant financial year by necessity. Consulting on changes to the fee scale in advance of the start of the relevant year (as the Appointing Person Regulations explicitly require) therefore presents us with significant challenges, particularly when audit is subject to as much change as it is currently. Ideally, we would be able to set fees with the benefit of relatively complete information about all preceding years' audits.

We consulted in January and February 2021 on the proposed fee scale for 2021/22, following a consultation in November 2020 on improvements to fee variations arrangements. We consulted a total of 526 organisations, including opted-in bodies, contracted firms and a broad range of national stakeholders. The regulations require us to consult:

- a) all opted in authorities;
- b) such representative associations of principal authorities as appear to the specified person to be concerned, and
- c) such bodies of accountants as appear to the appointing person to be appropriate.

Our consultation for the 2021/22 fee scale set out the proposal that fees would be set using the following information:

- [2020/21 scale fees](#)
- **plus** relevant adjustments for ongoing additional audit work arising from 2018/19 approved fee variations
- **plus** any adjustments relating to changes in auditing and financial reporting requirements which are classified as national variations under PSAA's new arrangements for dealing with fee variations and which could be determined before 31 March 2021.
- **plus** relevant adjustment for inflation arising from PSAA's contracts with audit suppliers.

Consultation responses

We received 70 responses to the consultation:

- 65 from opted-in bodies;
- 3 from contracted firms; and
- 2 from representative organisations of opted-in bodies.

Most consultation responses confirmed their support for the proposed approach to setting the 2021/22 fee scale:

- 53 responses (76%) confirmed they agree with the proposals;

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- 23 of those positive responses (32% of all responses), support the proposed approach but raised some concerns or caveats;
- 17 responses (24%) did not support the proposals.

Summary of consultation responses

Support without caveats		Support with caveats		Total who support the proposals		Do not support the proposals	
Number	% of responses	Number	% of responses	Number	% of responses	Number	% of responses
30	43%	23	33%	53	76%	17	24%

For comparison, we received 54 replies to last year's consultation on the 2020/21 fee scale.

Themes in the consultation responses

Although the level of support for the consultation proposals was high, there is a broad range of views reflected in individual responses, from those who consider the proposed approach to be a sensible way forward to those who think that fees should not change.

The positive responses generally welcome PSAA's proposed actions to build into scale fees the additional fees for ongoing audit requirements. Opted-in bodies welcome more certainty about audit fees, and many think the approach we have adopted in setting out our proposals for the 2021/22 fee scale is helpful and reasonable given current circumstances in local audit.

While confirming their support for the consultation proposals, some opted-in bodies have highlighted particular issues or caveats. Some are concerned that building into the fee scale the ongoing additional fees for 2018/19 alone at this stage will not produce a realistic indication of the audit fee payable for 2021/22. Their view is that the fee scale should cover all requirements and they would prefer that additional fees for 2019/20 are included in the fee scale as well. This is not straightforward because all additional fees required for 2019/20 audits cannot be confirmed yet by auditors and opted-in bodies, and then determined by PSAA. PSAA is required under current regulations to determine additional fees after audit work has been completed.

Responses from opted-in bodies also raise concerns about the size of some additional fees, particularly in the context of the financial pressures they are experiencing themselves. The additional fees under approved fee variations are required because audit requirements have increased as a result of changes in scope and regulatory oversight. PSAA's process for approving fee variation requests from auditors includes careful checks, balances and challenge before determination. Only the ongoing elements of fee variations will be included in the fee scale and will remain under review from year to year.

Consultation responses which do not support the proposal generally take the view that opted-in bodies should not be required to pay additional fees, and that any additional requirements should be allowed for in the audit contracts. The local audit framework under which the contracts were let requires the appointing person to set audit fees based on the requirements of the Code of Audit Practice. The legal framework recognises the potential need for additional audit work and includes a provision in the regulations for these. In the interests of safeguarding public funds, the contracts do not provide for potentially costly contingencies for changes in requirements that may or may not occur and for which the specific impact could not be quantified at the time of contract award.

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The consultation responses we received from audit firms consistently present a strong view that the challenges of increased regulation and additional technical requirements mean that scale fees are no longer aligned with the level of audit work now required. The view of the firms is that scale fees need to increase, and that some form of percentage increase in the 2021/22 fee scale would be appropriate. Firms are also concerned that using fee variations for additional work limits their ability to allocate the necessary audit resources appropriately. PSAA is working to incorporate additional requirements into scale fees within the constraints of current regulations.

Consultation outcome

We are very grateful for all the responses to our consultation on the fee scale, which have provided very helpful feedback on our proposals.

The PSAA Board has reflected on the consultation responses and takes very seriously all the points made. The matters raised are complex, and possible solutions must be considered in the context of the full range of views expressed by stakeholders, wider developments in local audit and the audit profession more generally, the local audit regulations, and the timetables within which fees must be set and audit work completed.

Following careful consideration, the Board has set the 2021/22 fee scale on the basis of the proposals set out in the consultation.