

# 2021/22

# audit fee scale

Opted-in local government and police bodies

March 2021

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

**In July 2016, the Secretary of State specified PSAA as an appointing person for principal local government authorities for audits 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 scales of fees for relevant principal authorities that have chosen to opt into its national scheme.**

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## Summary

- 1 This document sets the 2021/22 scale of audit fees payable by local bodies that have opted into PSAA's appointing person scheme.
- 2 Our consultation on the fee scale explained the impact on audit fees of the significant tensions and pressures currently in the audit market and profession. It also set out the practical difficulties for PSAA in setting a realistic fee scale before the start of the relevant financial year, as required under current regulations, because fees must be set more than eighteen months before audit work is complete.
- 3 MHCLG is currently considering options for system leadership following the Redmond review of local government financial reporting and audit, and further announcements are expected in Spring 2021. The government response is also expected to other major reviews of audit by Sir John Kingman, the Competition and Markets Authority and Sir Donald Brydon. In the meantime, there remains significant uncertainty about the nature and extent of any resulting changes to be taken forward.
- 4 In the short term, further developments are also taking place. The coronavirus emergency continues to add complexity to the audit process for finance teams and auditors. The impact of new or updated requirements has still to be evaluated, including for example for the new Code of Audit Practice and possible changes to local government financial reporting requirements proposed by the Redmond review. Further change to the accounts and audit timetable may also be implemented.
- 5 These are unprecedented circumstances in which to set the fee scale. PSAA is carrying out a programme of research to provide a detailed and up-to-date understanding of the expected impact on audit fees of changes in audit requirements. Where it is appropriate to introduce national fee variations, for example where changes apply consistently across all or most opted-in bodies, we will consult on proposals once regulations allow. MHCLG has indicated its intention to update the regulations during 2021.
- 6 On the basis of the positive response to our consultation on the 2021/22 fee scale and the information on additional fees we are able to use at this point, PSAA has confirmed the fee scale will comprise the following elements:
  - the 2020/21 scale fees; and
  - relevant adjustments for ongoing additional audit work from 2018/19 approved fee variations (notified during the consultation period to individual opted-in bodies).
- 7 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 outcome and takes very seriously all the points made. The matters raised are complex, and possible solutions are considered on their merits and having taken into account all stakeholder views.

## Introduction to setting the 2021/22 fee scale

### PSAA's appointing person role

- 8 PSAA is specified by the Secretary of State for Housing, Communities and Local Government under the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015 as the appointing person for principal local government bodies in England.
- 9 PSAA is responsible for providing an auditor appointment scheme for eligible bodies which choose to opt in. Its role is to:
  - appoint an auditor to all authorities that have chosen to opt into the scheme rather than appoint their own auditor;
  - set a scale or scales of fees; and
  - monitor independence and contractual compliance of the audit firms it appoints to opted-in bodies.

### Scope of audit

- 10 The National Audit Office is responsible for publishing the statutory Code of Audit Practice for auditors of local public bodies. Further information on the Code and supporting guidance is available on the [NAO website](#).
- 11 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 and, from 2020/21, to provide a commentary on the arrangements for value for money (VFM).
- 12 The Code requires the auditor to:
  - use judgement to design an audit approach that meets their statutory responsibilities;
  - ensure their work is risk-based, proportionate and tailored to reflect local circumstances and their assessment of audit risk; and
  - 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.

### The fee scale consultation proposal

- 13 Our consultation explained that PSAA is setting the fee scale for the audit of 2021/22 financial statements and value for money arrangements in the context of significant continuing turbulence and uncertainty in the audit market.
- 14 Key developments include the possible reshaping of local audit following the [Redmond Review](#) and the Government's initial policy response to its findings and recommendations published in December. A further statement is expected in Spring, 2021. There could also be further implications arising from a series of other reviews of audit (the Kingman review of audit regulation, the Competition and Markets Authority review of the audit market, and the Brydon review of the quality and effectiveness of audit). A Government response to these developments is expected in the near future.

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- 15 A significant proportion of audit work is undertaken after the 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 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. In practice, we are having to consult on 2021/22 fees with incomplete information in relation to:
- audits of 2018/19 accounts for which a minority of audit opinions remain outstanding;
  - audits of 2019/20 accounts (a significant proportion of opinions remain outstanding)
  - audits of 2020/21 accounts (very limited if any audit work done).
- 16 Our consultation proposal for the 2021/22 fee scale therefore set out a proposal to construct fees 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 any** relevant adjustment for inflation arising from PSAA's contracts with audit suppliers.
- 17 Since the consultation, we have confirmed the following:
- We wrote to opted-in bodies during the consultation period to confirm the ongoing adjustments to be applied to their fee for 2021/22. The responses from opted-in bodies to these communications are summarised later in this document.
  - We were able to confirm the ongoing adjustments for 34% of individual audits. The adjustments we were able to make have increased the scale fees for the opted-in bodies concerned by 6.63%, or 2.7% across the whole fee scale. Ongoing adjustments where information was not available this time will be considered in the next phase of the exercise. It is important to note that baking in the ongoing elements of previous fee variations does not actually have the effect of increasing fees or changing the overall quantum of fee to be paid by each body, rather it alters the timing of payment for additional work that is required on an ongoing basis.
  - Our work on potential national fee variations involves a range of stakeholders. We will consult on proposed changes to the fee scale in due course. Although this work is progressing it has not been possible to conclude and consult on any proposed adjustments to the 2021/22 fee scale ahead of 31 March. We will therefore consult during 2021/22 on appropriate national fee variations, subject to expected changes in the regulations during 2021. Where it is not possible to determine a national fee variation that is applicable across all or most opted-in bodies, we will provide information on indicative fee ranges or key determinants for the fees for additional work.

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- Based on the CPI index for the rolling 12-month period to February 2021, the prevailing rate of inflation remains below 1%, so no adjustment for inflation is required under our contracts with audit suppliers (the formula specified in the contract is CPI minus 1%).
- 18** A summary of the responses to the consultation is set out in the Appendix to this fee scale document. We welcome all the feedback received to our consultation and thank those who responded. The PSAA Board has reflected on the consultation outcome and takes very seriously all the points made.

### 2021/22 fee scale

- 19 After careful consideration of the issues raised in the feedback to our consultation and the factors affecting auditors' work, PSAA has set the scale fee for 2020/21 on the basis of the following elements:
  - the 2020/21 scale fees as a baseline; plus
  - relevant adjustments for ongoing additional audit work from 2018/19 approved fee variations built into the fee scale.
- 20 Additional requirements that are identified or quantified following publication of the fee scale, or are not ongoing requirements, will continue to be subject to the fee variations process.
- 21 Ongoing elements of 2019/20 fee variations (together with any further ongoing elements relating to 2018/19 variations which have still to be agreed), once determined, will either be built into the next fee scale, or, if amended regulations allow, added into the 2021/22 fee scale in due course.
- 22 We recognise that this decision may disappoint some stakeholders, who would prefer PSAA to make 'across the board' increases in fees. However, we are clear that increases in fees must be based on evidence of the actual work required for any additional requirement.
- 23 In discussing the fee consequences of any factors, it is important that auditors and audited bodies consider both short- and longer-term implications. Some issues will have a one-off impact, affecting a single year and resulting in a fee variation proposal for a one-off adjustment. Others will have ongoing implications which may or may not be the same as the impact in the first year.
- 24 Individual 2021/22 scale fees for opted-in authorities are available on the scale of fees page of our website at <https://www.psa.co.uk/appointing-auditors-and-fees/list-of-auditor-appointments-and-scale-fees/>.

### Fee variations process

- 25 The nature of audit is such that it may be necessary for an auditor to carry out more audit work than has previously been required or planned. PSAA has the power to vary the audit fee payable by an opted-in authority where it considers substantially more or less audit work was required than envisaged by the scale fee (which is set based on the most recent audit year for which complete fee information is available). Where it becomes clear that audit risk or complexity is significantly different from the level identified and reflected in the scale fee, the auditor may request a fee variation.
- 26 Variation requests must be made to PSAA by the auditor using a standard process. PSAA encourages discussions between the auditor and the body to take place as early as possible in the audit cycle, and ideally for the auditor to obtain agreement from the authority to the proposed variation before seeking approval from PSAA. However, irrespective of whether the proposed variation has or has not been agreed by the body concerned, PSAA will scrutinise every proposal and is responsible for the ultimate determination of every variation. The auditor cannot invoice an audited body until PSAA has approved the request.



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- 27 PSAA regularly obtains updated fee information in relation to proposed variations from the scale fee from appointed auditors and considers the reasonableness of the explanations provided by auditors. For example, PSAA considers fee variations in relation to Code changes, regulatory changes and late or poor preparation of working papers are potentially valid (subject to individual circumstances and the body's observations).
- 28 Fees are chargeable when auditors carry out work in line with their other responsibilities, such as considering information provided by third parties, objections or carrying out other investigations.

## Statement of responsibilities

- 29 The [statement of responsibilities of auditors and audited bodies](#) sets out the expectations on which scale fees are based. The statement effectively represents the terms of engagement between appointed auditors and audited bodies and summarises their respective responsibilities.
- 30 Scale fees are based on the expectation that audited bodies can provide the auditor with complete and materially accurate financial statements and supporting working papers within agreed timeframes. Where an authority is unable to fulfil these requirements, local fee variations may be required.
- 31 The statement of responsibilities also applies to auditors. Additional audit costs that arise due to auditors not meeting expectations, for example where members of the audit team are inadequately prepared or where changes in audit teams lead to repeated questions, are ineligible for a fee variation.
- 32 The same expectations will apply to the expected work covered by national fee variations. If an audited body does not meet its responsibilities, creating a need for further additional audit work, an additional local fee variation could also apply, and auditors must also meet their responsibilities for the work that generates the additional fee.

## Value added tax

- 33 Individual audit fees under the 2021/22 fee scale do not include value added tax (VAT), which will be charged at the prevailing rate, currently 20 per cent, on all work done.

## Enquiries

- 34 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).

## Appendix: 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;
- 23 of those positive responses (32% of all responses), support the proposed approach but raised some concerns or caveats;

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- 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.

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

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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.