Public Sector
Audit Appointments

Additional information for 2021/22 audit fees

Opted-in local government, fire and police bodies

September 2022

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.

Contents

Summary

1 This briefing sets out information for 2021/22 audits on the expected impact on audit fees of the requirement for a VFM commentary in the Code of Audit Practice 2020 and changes in auditing and accounting standards. PSAA is providing the information to support local discussions between opted-in bodies and auditors about fee variations for 2021/22 audits specifically.

2 PSAA sets fee scales based on the most accurate information available at the time of each annual fee consultation on audit requirements and the work needed to deliver them. Where sufficiently complete information is not available, or it is not possible to establish with reasonable certainty the level of any additional fees needed, additional requirements are assessed using the fee variations process.

3 Current local audit regulations allow PSAA to approve fee variation requests for additional audit requirements that become apparent during the course of an audit. Fee variations can be approved for individual opted-in bodies, or for groupings of bodies.

4 PSAA has commissioned external independent technical research to assess the expected impact on audit work programmes of a range of new or updated local audit requirements. The research was initially undertaken in 2021 and has been refreshed in 2022.

5 The research in 2021 concluded that where changes are relevant and require significant additional audit work, the impact during the initial implementation period will be variable depending on the local circumstances and arrangements of individual opted-in bodies. The updated findings in 2022 confirms that a further audit year is needed to assess the additional fees needed in the longer term.

6 This means that at this stage it would not be equitable to set a fixed additional fee across all or most bodies for these particular changes. However, the research has shown that the estimated minimum fee ranges developed for 2020/21 audits remain appropriate for 2021/22 audits and are a reliable benchmark.

7 We have therefore set out in this document the information we think will be helpful to opted-in bodies and auditors for 2021/22 audits on the factors and minimum additional fee ranges associated with specific additional audit work requirements. This information is indicative and cannot be prescriptive because of the potential impact of specific local circumstances or audit risks for individual opted-in bodies. The information is based on estimates and reflects the minimum additional core audit work required.

8 We expect to re-evaluate this position in setting the 2023/24 fee scale in twelve months' time, with the aim of consolidating the additional fees into the fee scale and removing the need for continuing local discussion of additional fees for these particular audit requirements.

Changes in audit requirements

9 PSAA has completed a programme of research to consider the likely audit work and fee impact of changes in local audit requirements. The objective was to consider whether it is possible to determine at a national level the additional audit work and fees needed for new audit requirements.

10 The starting point for the research was to review the potential impact of the following changes relevant to local audit requirements:

- the Code of Audit Practice 2020 (the Code);
- proposed International Standards on Quality Management 1 and 2;
- revised International Standards on Auditing (UK) 220, 230, 240, 250, 260, 315, 500, 540, 570, 580, 600, 620, 700, 701 and 720;
- amendments to IFRS 9, IAS 19, and IAS28; and
- IFRS 16.

11 The research was initially undertaken in 2021 and has been refreshed in 2022. The conclusions are that some of this list of changes are unlikely to result in an increase in audit work as a general rule, although there may be individual cases where local circumstances require specific work. However, some of the changes in audit requirements do require additional audit work. Some requirements, particularly the VFM commentary requirement of the new Code of Audit Practice, require a higher skill mix than some other audit work.

12 Key changes and their impact are as follows:

Key areas of additional audit work for 2021/22 audits

Audit requirement	Summary of change	Expected impact
Code of Audit Practice 2020	Auditors will no longer issue a single conclusion on arrangements to secure VFM. Instead, they will report significant weaknesses in arrangements when they identify them and make recommendations for improvement. Their main output on VFM will be a commentary contained in a new Auditor's Annual Report.	Significant additional work at a high skill mix required in the first year. In some circumstances a small reduction in the additional ongoing input may be possible in future years.
ISA 220 Quality control of an audit of financial statements	Extension in relation to public interest entities of role of engagement quality control review.	Applies to a small group of bodies only (those who are public interest entities). Variable impact depending on each relevant body's circumstances.
ISA 540 Auditing accounting estimates and related disclosures	Fundamental update with enhanced risk assessment requirements and increased focus on professional scepticism.	Applies to all audited bodies, but with variable impact for each audited body.
ISA 600 Specific considerations – audit of group financial statements	Enhanced approach to planning and performing a group audit.	Variable depending on number and nature of components involved.

16 There are also two requirements to note for future audit years:

- IFRS 16 (Leases): deferred for public sector implementation until 2023/24 audits. We expect to provide information on possible minimum additional fee ranges for this additional requirement, subject to local circumstance, in advance of the start of 2023/24 audits.
- ISA 315 (Identifying and assessing the risks of material misstatement), for implementation in 2022/23. It has not been possible at this stage for the research to propose minimum fee ranges, but we have provided information at Appendix 1 on the factors that might affect the level of additional fees required, to support any early local discussions in advance of the 2022/23 audits.

13 The research conclusions highlight several key points in relation to the impact of these particular changes in audit requirements:

- the new requirements of the Code of Audit Practice and ISA 540 have a significant impact, requiring a significant increase in audit time, seniority and expertise;
- for most new requirements, the impact in the first years of implementation are more significant than for subsequent years, but an ongoing increase will be required; and
- the local arrangements and circumstances of individual opted-in bodies have a significant impact on the amount of additional audit work needed – the minimum fee ranges are guidelines, how they apply specifically to individual bodies will be highly dependent on local factors.

14 The next section of this briefing sets out information on minimum fee ranges for the additional audit work needed for the new requirements, where there is enough information to establish these. It also provides information on the local factors that may influence the level of additional fees needed at individual opted-in bodies.

15 The increased work resulting from revised requirements strengthens audit quality, and the new VFM arrangements requirements have the potential to provide a welcome boost to the usefulness of local audit to all parties. However, PSAA continues to be very concerned about timeliness which has suffered as a result of the demands of additional regulatory requirements.

16 The research has noted that the ability of audit firms to deliver the additional work depends on:

- for each firm, access to sufficient numbers of individuals with the necessary expertise, skills and seniority to deliver the additional work;
- the capacity of each firm to commit the costs and development time needed for the work programmes, training and review arrangements for each new requirement;
- competing demands on limited auditor resources, including dealing with any outstanding audit completions; and
- the preparedness of opted-in bodies themselves to respond to the new requirements and provide the input auditors will need.

Impact of additional audit requirements on 2021/22 fees

17 For the changes in audit requirements where our research has indicated an additional audit fee is needed, we have set out below for each key change in requirements the:

- estimated minimum additional fee range for local fee variations; and
- potential factors that could influence the size of individual fee variations.

VFM arrangements commentary (Code of Audit Practice 2020)

18 The requirements in the Code of Audit Practice 2020 in relation to an audited body's arrangements to secure value for money have a significant impact on the auditor's work and require additional fees.

19 The new approach to this work requires an annual commentary on arrangements to secure VFM, published as part of the auditor's annual report. The commentary should enable the auditor to explain the work they have undertaken during the year, and to highlight any significant weaknesses they have identified and brought to the body's attention, along with their recommendations for improvement.

20 The expected additional minimum core fees for this work for 2021/22 are the same as for the 2020/21 audit year:

Minimum additional fees - new VFM arrangements requirements for 2021/22 audits[1]

District council	County council	London borough council	Met council	Unitary	Police (PCC + CC combined)	Fire	Other LG bodies
£6,000-£11,000	£10,000-£19,000	£10,000-£19,000	£10,000-£19,000	£10,000-£19,000	£6,000-£11,000	£5,000-£9,000	Variable based on individual characteristics

[1] To be considered on an individual basis, but the general ranges may provide a useful reference

21 These fee ranges cover the basic core work needed for the VFM commentary and represent the lowest minimum additional fee that may be needed. They do not cover any additional work an auditor will need to undertake where individual risks or specific weaknesses are identified in relation to a body's value for money arrangements, which need to be reviewed and reported.

22 Factors that may affect the level of additional fee required at an individual body are set out at Appendix 1.

23 Further discussion between an opted-body and the appointed auditor should establish the additional fee required for each body.

24 We will review the fee ranges and the fee variations requested by auditors following completion of the 2021/22 audits. We aim to consolidate the additional fees needed into a future fee scale once we have sufficiently reliable information to do so.

ISA (UK) 540 (Revised) – Auditing accounting estimates and related disclosures

25 The precise quantum of the impact of the new requirements of ISA 540 depends on the circumstances of each body. In the absence of elevated risks, the minimum fees below are considered appropriate:

Minimum additional fees – ISA 540

Overall minimum additional fees								
The additional fees below depend on body type and individual circumstances and the fee variation required may be higher than the suggested minimum								
Approximate minimum additional fee by body type:								
District council	**County council**	**London borough council**	**Met council**	**Unitary**	**Police (PCC + CC combined)**	**Fire**	**Pension fund**	**Other LG bodies**
£2,500	£3,800	£4,400	£4,400	£4,400	£2,500	£1,900	£600-£1,900	Too variable to estimate

26 The level of additional fee required is highly dependent on audited body activities and preparedness. Factors that may affect the level of additional fee are set out at Appendix 1.

27 Once the impact of local circumstances on ongoing additional fees is clear, we will consider consolidation of the additional fees into the fee scale.

Other new requirements

28 Our research has concluded that it is not appropriate to set an additional fee range for the following new requirements. The individual fees required need to be discussed locally between the opted-in body and the auditor as part of the fee variations process and approved by PSAA.

Requirements where is it not appropriate to set an additional fee range

New/updated requirement	Explanation
ISA 220: Quality control of an audit of financial statements	• Impact of additional work on the scale audit fee is likely to be low in most cases.
ISA 600: Specific considerations – audit of group financial statements	• The impact is for entities preparing group accounts. • In practice it is likely only to be significant where there are significant components, and the audit of the significant components is undertaken by other auditors.

The fee variations process

29 It is important that bodies are well informed about how our fee variations process works. We have therefore set out in this section a description of the process to help avoid any misunderstandings. The PSAA website also provides information.

30 PSAA sets the fee scale annually and publishes the scale fee for each individual audited body. If the auditor subsequently finds that substantial additional work is required that is not provided for in the scale fee for an individual body, the auditor can propose a fee variation to PSAA. This is set out in the statutory framework for audit fees and variations, in the Local Audit (Appointing Person) Regulations 2015. Regulation 17(2) provides for the auditor to propose to PSAA (as the Appointing Person) that fees should be varied where the work involved in a particular audit is substantially more than envisaged by the appropriate scale. The same applies if the required work reduces – for example if the body no longer needs to produce group accounts.

Fee variation submission

31 The reasons for submitting fee variation proposals vary, but typical examples include:

- increased regulator challenge on audit quality resulting in the need for additional work to provide greater assurance on areas such as property, plant and equipment valuations and pension valuations;
- technical accounting issues;
- group accounts;
- the auditor has received an objection from an elector; and
- the working papers to support the annual accounts were of a poorer quality than in previous years.

32 Auditors are obliged to have local discussions with individual opted-in bodies about any proposed fee variations. These discussions should take place at the earliest opportunity, and wherever possible the auditors should highlight at the planning stage any additional work which is likely to be required during the audit, including potential fee implications. While it may not be possible to quantify the proposed fee until the work is done, early discussion can help to avoid misunderstandings at a later stage.

33 PSAA provides standard fee variation forms for the audit firms to complete cyclically. Auditors are required to:

a) state the date the fee variation was agreed with the audited body (or record that it has not been agreed);

b) state the date the fee variation was reported to those charged with governance;

c) confirm whether a fee variation proposal includes recurring additional work;

d) provide narrative/documents to support and explain the fee variation proposal, including why the work was needed and what work was undertaken; and

e) provide the amount of auditor time required for the additional work undertaken.

Review process

34 PSAA reviews the fee variation proposals submitted, including some or all of the following as applicable:

a) confirming that the fee variation form has been completed correctly;

b) considering the value of the fee variation and its size relative to other similar fee variations;

c) comparing the size of the fee variation to the scale fee to consider whether it is proportionate;

d) reviewing the justification (including any supporting workings/documents) provided by the firm to support the fee variation proposal and assessing whether the complexity of the issue and the challenges described are in proportion to the fee variation submitted;

e) checking that the work performed meets the requirements as set down in regulations for a fee variation, for example, it is work required under the Code of Audit Practice;

f) confirming that the work detailed in the firm's justification is consistent with PSAA's other records, for example, a delay in the issue of an accounts opinion, statement of reasons issued;

g) exercising judgement when considering the grade mix used and hours taken (for example, do they appear reasonable);

h) considering any specific outputs resulting from the additional work undertaken;

i) checking whether the audited body has agreed the fee variation proposal. In the case of claims that are not agreed, we contact the audited body (where possible, the Section 151 Officer) to hear the body's concerns so that we can take them into consideration when we make the fee determination;

j) checking that the relevant issues raised in the firm's justification have been reported to those charged with governance (for example in the ISA260 report or Annual Audit Letter);

k) checking that the appropriate fee variation value is reported in the Audit Plan/ISA260/Annual Audit Letter;

l) for high value fee variations the following is also undertaken:

- a PSAA officer will contact the body (normally s151 officer or Director of Finance) to discuss the variation;
- PSAA officers may have a meeting with the firm's audit team and perform a review of the audit file to obtain a better understanding of the additional work; and

m) reviewing whether any approved fee variation is one-off or recurring, to assess whether it relates to additional audit work that will be repeated in future audits (for example, pension fund valuations, PPE valuations, group accounts, increased challenge on audit quality). Where we are satisfied that the fee variation is recurring we will aim to include it in the scale fee at the earliest opportunity, which is determined in accordance with the Appointing Person regulations.

Next steps

35 We hope the information in this briefing is helpful to opted-in bodies and auditors to support discussion of fee variations for additional audit work requirements for 2021/22.

36 Once the ongoing impact of each change in requirements is clear following the relevant implementation period, we will consider proposing national fee variations and, at the earliest opportunity, appropriate adjustments to scale fees. PSAA's objective is to ensure that fee variations for ongoing audit requirements are included in the fee scale, so that individual scale fees reflect current audit needs.

37 We welcome questions or feedback on this document – please contact us at feevariations@psaa.co.uk.

Appendix 1: Assumptions and mitigations that may affect the level of additional fee required at an individual body

Code of Audit Practice requirement for a VFM commentary

Fees will usually be within the proposed range/ at the proposed level if …	Fees will usually be above the proposed range/ proposed level if …	Bodies can reduce the impact on fees by …
• No significant weaknesses have been identified in previous audits • Arrangements for financial sustainability, governance and improving VFM are stable • There are no major incidents in the year • The body has made only limited use of complex, unusual or innovative arrangements for service delivery (e.g. outsourcing, joint ventures, controlled companies, pooled budgets) • Any weaknesses in internal control are minor • Comprehensive and balanced description of arrangements for financial sustainability, governance and improving VFM in Annual Governance Statement • The body has provided good documentation to support arrangements in most areas • The body has usually provided timely, relevant and comprehensive responses to audit queries • Timely and effective responses to interim reporting	• Significant weaknesses have been identified in previous audits • There have been significant changes in arrangements for financial sustainability, governance or improving VFM • There is a major incident in the year • The body has entered into complex, unusual or innovative arrangements for service delivery • There are weaknesses in internal control other than of a minor nature • Limited and/or balanced description of arrangements for financial sustainability, governance and improving VFM in Annual Governance Statement • Documentation to support arrangements is weak • Responses to audit queries are delayed and/or inadequate • There are circumstances that require consideration of interim reporting • There are circumstances that require consideration of statutory reporting • Delayed and/or ineffective responses to interim reporting	• Implementation and high-quality monitoring of implementation of agreed actions in response to previous audits • Early and open engagement on changes in arrangements and proposed complex, unusual or innovative arrangements for service delivery • Preparation of high-quality, comprehensive and balanced description of arrangements for financial sustainability, governance and improving VFM in Annual Governance Statement • Preparation of high-quality documentation to support arrangements • Establishment of effective arrangements for responding to audit queries • Effective arrangements for timely and comprehensive consideration of interim reporting

ISA 540 (Accounting estimates)

Fees will usually be within the proposed range/ at the proposed level if …	Fees will usually be above the proposed range/ proposed level if …	Bodies can reduce the impact on fees by …
• No significant weaknesses have been identified in previous audits • No material accounting estimates other than for property, plant and equipment, pension liabilities and local taxation revenue • Arrangements for preparation of material accounting estimates are stable • The body has appropriately instructed experts to support them in preparing accounting estimates • They have validated the information provided to experts • They have considered the advice of experts and documented clearly the reasons for the approach that they have adopted in respect of material estimates • Any weaknesses in internal control relevant to material accounting estimates are minor • The body has provided good documentation to support material accounting estimates • The body has provided timely, relevant and comprehensive responses to audit queries • Timely and effective responses to interim reporting	• Significant weaknesses have been identified in previous audits • There are material accounting estimates other than for property, plant and equipment, pension liabilities and local taxation revenue • There have been significant changes in arrangements for preparing material accounting estimates • Experts have not been instructed or inadequately instructed in respect of material accounting estimates • Information provided to experts has not been validated • There is no documented consideration of the advice offered by experts and the reasons for the material estimates chosen • There are weaknesses in internal control relevant to material accounting estimates other than of a minor nature • Documentation to support accounting estimates is weak • Responses to audit queries relating to accounting estimates are delayed and/or inadequate • There are circumstances that require consideration of non-standard reporting in respect of accounting estimates • Delayed and/or ineffective responses to interim reporting	• Implementation and high-quality monitoring of implementation of agreed actions in response to previous audits • Early and open engagement on changes in arrangements for preparation of accounting estimates • Engagement and appropriate instruction of experts in respect of accounting estimates • Validation of information provided to experts in respect of accounting estimates • Documentation of their consideration of advice offered by experts in respect of accounting estimates and the reasons for material estimates chosen • Preparation of high-quality documentation to support material accounting estimates • Establishment of effective arrangements for responding to audit queries • Effective arrangements for timely and comprehensive consideration of interim reporting

ISA 315 (Identifying and assessing the risks of material misstatements)

Note: this updated requirement applies from the 2022/23 audits, but we are providing information now to support early local discussions.

Fees will usually be within the proposed range/ at the proposed level if …	Fees will usually be above the proposed range/ proposed level if …	Bodies can reduce the impact on fees by …
• The body has a well-documented assessment of inherent and control risks for assertions relating to transactions, balances and disclosures • The body does not have inherent risks for assertions relating to transactions, balances and disclosures that are unusual for the type of body in question • The body has clear documentation of the controls for assertions relating to transactions, balances and disclosures (including controls over journal entries, general IT controls and application-specific IT controls) • There are no significant changes in the controls for the assertions relating to transactions, balances and disclosures (including controls over journal entries, general IT controls and application-specific IT controls) • The body does not have a history of weaknesses in internal controls relevant to assertions relating to transactions, balances and disclosures • No significant weaknesses in internal controls relevant to assertions relating to transactions, balances and disclosures are identified relevant to the year of audit	• The body does not have a well-documented assessment of inherent and control risks for assertions relating to transactions, balances and disclosures or the assessment is incomplete and/or out of date • The body has inherent risks for assertions relating to transactions, balances and disclosures that are unusual for the type of body in question • The body does not have clear documentation of the controls for the assertions relating to transactions, balances and disclosures (including controls over journal entries, general IT controls and application-specific IT controls) or the documentation is incomplete and/or out of date • There are significant changes in the controls for the assertions relating to transactions, balances and disclosures (including controls over journal entries, general IT controls and application-specific IT controls) • The body has a history of weaknesses in internal controls relevant to assertions relating to transactions, balances and disclosures • Significant weaknesses in internal controls relevant to assertions relating to transactions, balances and disclosure are identified relevant to the year of audit	• Preparing and keeping up to date a well-documented assessment of inherent and control risks for assertions relating to transactions, balances and disclosures • Preparing and keeping up to date clear documentation of the controls for assertions relating to transactions, balances and disclosures (including controls over journal entries, general IT controls and application-specific IT controls) • Promptly responding to and addressing any weaknesses in internal controls relevant to assertions relating to transactions, balances and disclosures