

# Summary of the response to the 2022/23 fee scale consultation

## Background

Current regulations require PSAA to consult on and set the fee scale by 30 November 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, so the fee scale is effectively set significantly in advance of audit work being undertaken, and before the audit of the previous year is finished.

Consulting on changes to the fee scale 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 for six weeks in August and September 2022 on the proposed fee scale for 2022/23. We consulted a total of 527 organisations, including opted-in bodies, contracted firms and a broad range of national stakeholders. The regulations require us to consult:

- all opted-in bodies;
- those representative associations of principal bodies considered appropriate; and
- relevant bodies of accountants.

As a matter of course we also share the consultation with other key stakeholders, including the current firms, relevant government departments, stakeholders such as the NAO, FRC and CIPFA and members of the PSAA advisory panel.

The 2022/23 fee scale is the last in the current appointing period, under PSAA's current audit services contracts let in 2017. New contracts will apply from the 2023/24 audit, following a [procurement](#) completed in October 2022.

## The 2022/23 fee scale consultation

The proposals set out in the consultation were that the 2022/23 fee scale would comprise the following elements:

### 2022/23 fee scale: proposed elements

A. The fee scale set for 2021/22

Plus:

B. Fee variations for recurrent requirements in 2019/20 audits

C. Fee variations for recurrent requirements in 2020/21 audits

D. An adjustment of 5.2% for inflation required under our audit contracts, to be funded from the surplus which would otherwise be distributed to opted-in bodies (see below for a worked example)

Additional fees needed for work relating to additional changes in auditing and financial reporting requirements and to the VFM arrangements commentary will be determined using the fee variations process in 2022/23 audits and considered for consolidation into a future fee scale.

Illustration of the adjustment for inflation							
	2021/22 scale fee	Recurrent additional work	Subtotal	Inflation	Fee including inflation	Funded by PSAA	2022/23 scale fee
	A	B	A+B=C	Cx5.2%=D	C + D = E	- D	E + D
Example	100,000	20,000	120,000	6,240	126,240	-6,240	120,000

We also wrote to all opted-in bodies during the consultation period to set out the position on the approved recurrent fee variations which we proposed to consolidate into their individual 2022/23 scale fee, where approved fee variations were available.

### Consultation responses

We received a good response to the consultation, in terms of the number of responses and the comments provided on our proposals. This provides a helpful basis for the PSAA Board to consider the consultation feedback in setting the final fee scale.

There were 124 responses to the consultation (24% of consultees):

- 117 from opted-in bodies;
- 2 from contracted firms; and
- 5 from national stakeholders.

This is a good level of response for a fee scale consultation compared with previous years. For comparison, we received 70 responses to the 2021/22 fee scale consultation, and 54 responses to the 2020/21 consultation.

The majority of consultation responses (80%) broadly support the proposed approach to setting the 2022/23 fee scale, although more than half these positive responses also raised some concerns or issues. A relatively small proportion of consultees (18%) do not support the fee scale proposals, and 2% of responses did not comment specifically on the proposals.

### Summary of consultation outcome

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
43	35%	56	45%	99	80%	22	18%

Note: 3 replies (2%) did not express a view

### Themes in consultation responses

Although the level of broad support for the consultation proposals was high, there is a range of views reflected in individual responses, from those who consider the proposed approach to be a sensible way forward (some with reservations), 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. These responses highlight the view that the scale fee should be a realistic reflection of the work needed under current audit requirements. Opted-in bodies say they need more certainty about total audit fees, and many think the approach of consolidating ongoing additional requirements into the fee scale is helpful in this respect. However, there are also concerns about the increasing volume of audit work, the focus of some of that work, and the additional fees needed, particularly given the financial pressures bodies are experiencing themselves.

There are concerns raised in many responses, supportive and not supportive, about delays in audit completions. There are also concerns about the service some bodies report they have received from the firms, with comments about timeliness, staffing and resourcing, delivery of audit work and consistency of approach. The audit contracts with the firms reflect the requirements of the Local Audit and Accountability Act 2014 and the Appointing Person Regulations (2015) and are very different to a typical services contract in relation to any sanctions PSAA could apply. In addition, the FRC's Ethical Standard does not permit contingent fees so it is not possible to reduce supplier payment for not delivering an audit opinion by the target publishing date. However, the new audit contracts that will apply from 2023/24 contain a range of additional provisions designed to improve service delivery.

Consultation responses which do not support the scale fee proposals 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. These views are, however, in the minority. The local audit framework under which the contracts are 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 this. 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 national stakeholders who responded to the consultation largely support the fee scale proposals, with one exception. This stakeholder raised concerns about the reasonableness and consistency of the additional fees now needed for additional audit requirements, particularly as the additional fees have not prevented the delays experienced in completing audits in line with the target reporting date. They also raised concerns about funding and the ability of some opted-in bodies to pay higher audit fees.

The consultation responses we received from audit firms 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 to complete a Code of Audit Practice compliant audit. The view of the firms is that scale fees need to increase beyond the ongoing fee variations to be consolidated into the 2022/23 fee scale.

### **Consultation outcome**

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

We understand the concerns and issues raised in the consultation. Many are complex and typically extend beyond PSAA's own remit. PSAA has highlighted the need for urgent action to reform the local audit system in England, in response to the pressures and market fragility experienced in recent years. In our view radical changes are needed in the local audit system to achieve a more proportionate audit and a more sustainable audit system. We will continue in our determination to seek action on these issues with government and key stakeholders.

Following careful consideration, the Board has set the 2022/23 fee scale on the basis of the proposals set out in the consultation and the level of broad support in consultation responses.