

# 2018/19 audit fee scale

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

**March 2018**

**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 is 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 2018/19 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 is available on the [auditor appointments](#) page of our website.

## 2018/19 scale fees

- 8 PSAA has set the fee scale for 2018/19 on the basis that individual scale fees for all opted-in bodies are the fees applicable for 2017/18 with a reduction of 23 per cent. This gives opted-in bodies the benefit of the cost savings achieved in the recent 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 opted-in body. It also passes on the benefit of economies which PSAA is making in its own operating costs.
- 9 The fee reduction for 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 activities of the Audit Commission as it prepared for closure.

**10** We received 32 responses to our consultation on the 2018/19 fee scale, with opted-in bodies in particular expressing support for our proposals. We have published a [summary of the consultation](#) on our website.

**11** Individual 2018/19 scale fees for opted-in bodies and further information on fees is available on the [2018/19 scale of fees](#) page of our website.

## Scale fees beyond 2018/19

**12** PSAA hopes to be able to maintain the 2018/19 reduction of 23 per cent in scale fees for the first three years 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.

**13** 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 changes to the scope of auditors' work, whether this increases or decreases the work required, must be reflected in scale fees.
- **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.

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

**15** Scale fees must cover both the cost of auditors' work at individual opted-in bodies and PSAA's own costs. PSAA is undertaking a review of its own costs and staffing structure and implementing changes that will reduce significantly the company's cost base for the appointing period.

## Distribution of surplus

**16** 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 during the appointing period.

**17** By March 2019, we expect all 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 final distribution of surplus in relation to the transitional period during the financial year 2019/20.

## Enquiries

**18** 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).

## 2018/19 work programme

**19** 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](#).

**20** Audits of the accounts for 2018/19 will be undertaken under the Code published in April 2015, on the basis of the fee scale fee set out in this document.

**21** PSAA has set the 2018/19 fee scale with the expectation that there will be no significant changes in NAO guidance for auditors, professional standards, or CIPFA/LASAAC financial reporting requirements that would affect materially the amount of audit work to be undertaken for 2018/19 audits.

### Scope of audit

**22** 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.

**23** 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.

**24** 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.

**25** 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

**26** 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 broadly relate to 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 on objections, for which additional fees are chargeable.

**27** 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.

## Audit quality

**28** PSAA is very aware of the need to maintain and, where possible, strive for improvements in audit quality. Our responsibilities in this area are emphasised in the contracts we have entered into with audit firms.

**29** We are developing new arrangements for monitoring and reporting on audit quality, based on the International Auditing and Assurance Standards Board Framework for Audit Quality. We will publish regular reports on the [managing audit contracts](#) page of our website. The company is also establishing the Local Audit Quality Forum, which will place particular emphasis on supporting the effectiveness of local audit committees.

**30** 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

**31** PSAA will publish a report in 2019 summarising the results of auditors' 2018/19 work on the financial statements and arrangements to secure value for money.

## 2018/19 fee scale

**32** The Regulations require PSAA to 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.

**33** The scale of fees for 2018/19 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 2017/18 with a reduction of 23 per cent. The 2017/18 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.

**34** The scale fee for each opted-in local government and police audited body is [available on our website](#). Paragraphs 35 to 39 below explain the arrangements that apply to the variation of fees in certain circumstances.

### Fee variations

**35** PSAA has the power to determine the audit fee payable, which may vary from the prescribed scale fee, where it concludes that 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, within agreed timeframes.

**36** Where it becomes clear that audit risk or complexity are significantly different from the level identified and reflected in the 2017/18 scale fee, the auditor may request a variation to the scale fee for 2018/19. We would expect such requests to arise only where risk and/or complexity are significantly different from assumptions reflected in the 2017/18 scale fee.

**37** 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.

**38** 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.

**39** PSAA will charge fees 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

**40** All the 2018/19 fee scales exclude value added tax (VAT), which will be charged at the prevailing rate of 20 per cent on all work done.