

2022/23

audit fee scale

Opted-in bodies

November 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 bodies 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 bodies that have chosen to opt into its national scheme.

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Summary

- 1 This document sets the 2022/23 scale of audit fees payable by local bodies that have opted into PSAA's appointing person scheme for the period 2018/19-2022/23. Most audit work under this fee scale will be undertaken from April 2023 onwards.
- 2 Our consultation on the fee scale explained the impact on audit fees of the significant tensions and pressures in the wider audit market and profession, and of evolving arrangements in the local audit system. It also set out the practical difficulties for PSAA in setting a realistic fee scale without full information on all audit requirements or any information on audits for the preceding year.
- 3 The Department for Levelling Up Housing and Communities (DLUHC) has announced [a range of measures](#) to address the significant challenges in the local audit framework. These measures include arrangements for a 'system leader', a role which is to be located within a new regulator, the Audit Reporting and Governance Authority (ARGA) when it is established. In preparation, the Financial Reporting Council (FRC) is implementing shadow arrangements and has appointed the first Director of Local Audit.
- 4 On the basis of the broadly positive response to our consultation on the proposed 2022/23 fee scale, PSAA is setting the fee scale as set out in it. The fee scale therefore uses the fee scale set for 2021/22 audits as a baseline, with adjustments for:
 - recurrent fee variations for 2019/20 and 2020/21 audits, for audited bodies where these have been submitted to PSAA and approved; and
 - the 5.2% inflationary increase required under PSAA's current audit contracts, although this will be funded from the surplus which would otherwise be distributed to opted-in bodies.
- 5 As set out in the consultation, we are not adjusting the 2022/23 fee scale for the additional work required for the VFM arrangements commentary or work on some updated technical standards because we do not yet have sufficiently reliable information on the ongoing impact of these changes. The local fee variations process will continue to apply until we are able to consolidate the additional requirements into a future fee scale or we are able to determine national fee variation levels.
- 6 We are grateful for all the responses to our fee scale consultation, which have provided very helpful feedback on our proposals and the concerns of stakeholders. The PSAA Board has reflected on the consultation outcome and takes very seriously all the points made.
- 7 Many of the issues raised in responses to the consultation are complex and typically extend beyond PSAA's 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 of recent years. We have publicly stated our view that 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.

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- 8 The 2022/23 fee scale is the last in the current appointing period which is under the 2017 audit contracts. New contracts will apply from the 2023/24 audit following a [procurement](#) during 2022, which was very challenging due to the current complexities and fragility of the local audit market. In announcing the procurement outcome, we advised of the likelihood of a major re-set of total fees for 2023/24, involving an increase of the order of 150% on the total fees for 2022/23. The actual total fees will depend on the amount of work required, which is still to be established. We will consult on the fee scale for the 2023/24 audit in early autumn 2023.

Introduction to the fee scale

PSAA's appointing person role

- 9 PSAA is specified by the Secretary of State for DLUHC 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.
- 10 PSAA is responsible for providing an auditor appointment scheme for eligible bodies which choose to opt in. This involves procuring and managing contracts with audit firms for the provision of audit services.
- 11 PSAA's specific remit under the regulations is to:
 - appoint an auditor to all bodies 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.

Scope of audit

- 12 PSAA is responsible for setting the fee scale for opted-in bodies but does not control the scope of the work auditors undertake:
 - the National Audit Office publishes the statutory Code of Audit Practice for auditors of local public bodies, setting the overall scope of the audit;
 - CIPFA/LASAAC sets financial reporting requirements for local government bodies in the Code of Practice on Local Authority Accounting; and
 - the Financial Reporting Council is responsible for regulating audit quality.
- 13 The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014.
- 14 In undertaking their work, the Code of Audit Practice requires the auditor to:
 - use their professional judgement to apply the principles and requirements set out in the Code to the particular circumstances that exist at different audited bodies;
 - ensure their work is designed to meet the auditor's statutory responsibilities, applying the auditor's professional judgement to tailor their work to the circumstances in place at the audited body and the audit risks to which they give rise; and
 - comply with auditing standards currently in force in the United Kingdom, as may be amended from time to time, having regard to any other guidance issued by a relevant regulatory body, and statutory guidance issued by the NAO.

The local audit framework

- 15 The 2020 [Redmond review](#) into local audit and the transparency of local authority financial reporting highlighted a lack of coherence in the current local audit framework, contributing to wider issues including audit delays and market instability. Delays are becoming more prevalent under the pressure of increasing expectations from professional regulators, shortages of experienced auditors, greater complexity of transactions and structures, and the challenges posed by the Covid pandemic.
- 16 The government has announced [a range of measures](#) to strengthen the local audit framework in response to the Redmond review. A 'system leader' role will be discharged by a new regulator, ARGA, when it is established under new legislation. In preparation, the FRC is implementing shadow arrangements and has appointed the first Director of Local Audit.
- 17 In the meantime, DLUHC has been acting as interim system leader to co-ordinate progress on changes in response to the Redmond review.

The fee scale set by PSAA

- 18 PSAA is required to set a fee scale by the end of November of the financial year to which the scale applies. The 2022/23 fee scale must therefore be set by the end of November 2022 for audit work which will largely be undertaken from autumn 2023 onwards.
- 19 A fee scale cannot be amended after 30 November of the financial year to which it applies. We therefore cannot take account of any changes in national requirements or local circumstances for the 2022/23 fee scale once it is published at the end of November 2022, and the impact of any such changes will need to be reflected in fee variations.
- 20 In setting the fee scale PSAA considers the existing scale fees of individual opted-in bodies at the time of the fee consultation, plus any known adjustments required at that point. The existing scale fees should represent the work required for a Code-compliant audit. In recent fee scales we have made adjustments to individual scale fees for approved fee variations where they relate to audit work which will be required on an ongoing basis.
- 21 Where it is not possible to adjust scale fees to reflect changing requirements, for example where audit completions are delayed; where we do not have sufficiently reliable evidence to make a permanent adjustment to the scale fee; or where we do not have information on changes in requirements, fee variations will be needed in addition to the scale fee. The total audit fee will therefore be higher than set out in the fee scale.
- 22 The total audit fee for an individual opted-in body is driven by the volume and nature of the work needed for an auditor to deliver a Code of Audit Practice compliant audit. This will be determined by a combination of local factors and the accounting, auditing and regulatory requirements which are determined nationally.
- 23 Total audit fees are a combination of:
 - **the scale fee**, which is based on the information available to PSAA at the time of setting the fee scale; and
 - **fee variations**, which are based on our assessment of the information provided by the auditor as to why they have had to do more/less work than expected.

The 2022/23 fee scale consultation

- 24 Our consultation explained that PSAA is setting the 2022/23 fee scale in the context of the significant tensions and pressures in the wider audit market and profession, and of evolving arrangements in the local audit system. These issues continue to have a significant impact on audit delivery and have led to increasing delays for auditors in completing some audits.
- 25 Audit requirements have increased in recent years as a result of increased regulatory expectations and changes to the audit work required under the Code of Audit Practice and updated auditing and financial reporting standards. PSAA has evaluated the impact on audit fees of these additional requirements using fee variations and independent technical research.
- 26 We aim to adjust the fee scale at the earliest opportunity to reflect changes in requirements, removing the need for discussion each year between audited bodies and auditors about additional fees for ongoing work. We received generally positive feedback on this proposed approach from opted-in bodies and stakeholders in previous consultations in November 2020 on fee variation arrangements and in 2021 on the 2021/22 fee scale.
- 27 Our consultation for the 2022/23 fee scale therefore set out a proposal to construct scale audit fees using 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 table 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

2022/23 audit fee scale

- 28** We wrote to all opted-in bodies during the consultation period to set out the position on the approved recurrent fee variations to be consolidated into their individual 2022/23 scale fee, where approved fee variations were available.
- 29** We received a good response to the consultation, in terms of the number of responses and the comments provided on our proposals. 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.
- 30** Many of the issues raised in consultation responses are complex and typically call for change that is beyond PSAA's 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 there need to be radical changes in the local audit system to achieve a more proportionate audit and a more sustainable audit system. We will continue in our determination to raise these issues with government and key stakeholders.
- 31** A summary of the responses to the consultation is set out in the Appendix to this fee scale document. We welcome 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.

The 2022/23 fee scale

32 After careful consideration of the issues raised in the feedback to our consultation and the anticipated scope of auditors' work, PSAA has set the scale fee for 2022/23 on the basis of the following elements:

- the 2021/22 scale fees as a baseline; plus
- relevant adjustments for ongoing additional audit work from 2019/20 and 2020/21 approved fee variations, to be consolidated into the fee scale; and
- an adjustment of 5.2% for inflation in auditors' remuneration required under the audit contracts, to be reflected in scale fees but funded for 2022/23 audits from the surplus available for distribution to opted-in bodies.

33 Additional requirements that are identified or quantified after publication of the fee scale or are not ongoing requirements will continue to be subject to the fee variations process.

34 Where we do not have approved fee variation information for individual bodies for prior year audits, we will need to consolidate those requirements into a future fee scale once the additional information is available. In these cases the local fee variations process will continue to apply in the interim.

35 We are not adjusting the 2022/23 fee scale for the additional work required for the VFM arrangements commentary or work on some updated technical standards. This is because we do not yet have sufficiently reliable information on the ongoing impact of these changes in requirements. The local fee variations process will continue to apply until we are able to consolidate the additional requirements into a fee scale or we are able to determine national fee variation levels. However, we have published indicative minimum additional fee ranges for 2020/21 audits to support discussions between opted-in bodies and auditors of the fees needed for this work, as follows:

Minimum additional fees: new VFM commentary work for 2020/21 and 2021/22 audits¹

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

Minimum additional fees: ISA 540 work for 2020/21 and 2021/22 audits

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

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- 36 The individual 2022/23 scale fees for opted-in bodies are available on the [scale of fees page](#) of our website.

Fee variations process

- 37 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 body where it considers substantially more or less audit work was required than envisaged by the scale fee. Where it becomes clear that audit risk or complexity is significantly different from the level identified and reflected in the scale fee, or audit requirements have increased, the auditor may request a fee variation.
- 38 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 body 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 variation is not due until PSAA has approved the request.
- 39 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 inadequate working papers are potentially valid (subject to individual circumstances and the body's observations).
- 40 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.
- 41 Further information on the [fee variations process](#) is available on our website.

Statement of responsibilities

- 42 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.
- 43 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 a body is unable to fulfil these requirements, local fee variations may be required.
- 44 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.

Value added tax

- 45 Individual audit fees under the 2022/23 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

- 46 If you have questions about this fee scale document, please send them to us by email to: workandfeesconsultation@psaa.co.uk.

Appendix: 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

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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.