

Consultation on scale of audit fees for 2019/20

Opted-in local government and police bodies

October 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. These responsibilities draw to a conclusion in 2018/19 with completion of the 2017/18 audits of relevant authorities.

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

Consultation on 2019/20 scale of fees	2
Introduction	2
Background	2
Scale fees	2
Responding to this consultation	3
Proposed fee scale for 2019/20	4
Work programme	4
Audit quality	4
Fee variations	5
Value added tax	5
Scale fees during the appointing period 2018/19 to 2022/23	6
Next steps	7

Consultation on 2019/20 scale of fees

Introduction

- 1 This consultation sets out the proposed scale of fees for the work to be undertaken by appointed auditors in respect of the 2019/20 financial statements at authorities that have opted into Public Sector Audit Appointments' (PSAA) national auditor appointment scheme.
- 2 The consultation also provides an indication of the outlook for scale fees for the five years of the current appointing period, covering the audits of accounts from 2018/19 to 2022/23. We review and update our estimates each year, and consult opted-in authorities and other stakeholders annually on our proposals before publishing the confirmed fee scale on our website.
- 3 Scale fees are based on the expected work auditors will undertake under the Code of Audit Practice and supporting guidance published by the National Audit Office, 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 We hope the information set out in this consultation is helpful to opted-in authorities and other stakeholders in considering our proposals for the 2019/20 fee scale, as well as supporting longer-term financial planning.

Background

- 5 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, including local police bodies.
- 6 PSAA's responsibilities include appointing auditors to opted-in bodies, setting fees, and monitoring the performance of auditors and the quality of their work. More [information about PSAA](#) is available on our website.
- 7 At the time of issuing this consultation, there are 495 bodies eligible to opt into PSAA's national scheme, of which 485 (98%) have opted in for the current appointing period, covering the accounts for five years, from 2018/19 to 2022/23.

Scale fees

- 8 PSAA's approach to setting scale fees for the appointing period, and the specific proposals for scale fees for 2019/20, are set out in the remainder of this document.
- 9 PSAA averages firms' costs, so that all bodies benefit from the same proportionate savings, irrespective of the firm appointed to a particular opted-in body.
- 10 PSAA operates on a not-for-profit basis. Fees are therefore set with a view to covering the amounts we need to pay to audit firms and the expected operating costs of PSAA. Any surplus arising from the scale fees set following this consultation will be distributed back to opted-in bodies during the appointing period.

Responding to this consultation

We welcome comments on the proposals contained in this document. Please send comments by email to:

workandfeesconsultation@psaa.co.uk

The consultation will close on **Monday 17 December 2018**.

Proposed fee scale for 2019/20

11 The Local Audit (Appointing Person) Regulations 2015 (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.

12 We propose that the scale of fees for 2019/20 should be the same as the scale of fees applicable for 2018/19. PSAA was able to reduce scale fees for 2018/19 by 23 per cent compared to the fees applicable for 2017/18 as a result of the favourable prices secured from firms in our audit services procurement and having regard to planned savings in PSAA's own operating costs. We have reviewed our costs in preparation for this consultation and are pleased to confirm that we are able to sustain 2018/19 fees for a second year.

13 The proposed scale of fees for 2019/20 reflects the cost of the expected work programme outlined below.

14 The proposed scale fee for each opted-in local government and police audited body is [available on our website](#). Paragraphs 21 to 25 below explain the arrangements that apply to the variation of fees in certain circumstances.

Work programme

15 Under the provisions of the Local Audit and Accountability Act 2014 (the 2014 Act), the National Audit Office (NAO) is responsible for publishing the statutory [Code of Audit Practice](#) and supporting guidance for auditors. Audits of the accounts for 2019/20 will be undertaken in accordance with the requirements of the Code.

16 The Code requires the auditor to give an opinion on the financial statements of a body subject to audit under the 2014 Act, and a conclusion on the arrangements for value for money. Further information on the Code and supporting guidance is available on the [NAO website](#).

17 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 the arrangements it has put in place to manage those risks.

18 The scale of fees set out in this consultation is based on the assumption of 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 2019/20 audits. A previous example of such a material change in audit work was the implementation of international financial reporting standards (IFRS) for local government bodies for 2010/11.

Audit quality

19 PSAA is very aware of the need to maintain and, where possible, strive for improvements in, audit quality. Our responsibilities in this area were a major driver in our audit services procurement and are emphasised in the contracts we have entered into with successful firms.

20 We have developed new arrangements for monitoring and reporting on auditor performance and audit quality under the contracts for the appointing period 2018/19 to 2022/23. The new arrangements will be implemented to coincide with the start of the audits of 2018/19 accounts. Further information is available on the [audit quality](#) pages of our website.

Fee variations

21 PSAA has the power to determine the fee above or below the scale fee, where it considers that substantially more or less 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.

22 The proposed scale of fees for 2019/20 is based on the individual scale fees applicable for 2018/19 because these represent the most accurate reflection available of auditors' current assessments of audit risk and complexity for each opted-in body. Where it becomes clear that audit risk or complexity have changed, the auditor may request a variation to the scale fee. We would only expect variations to occur for 2019/20 where these factors are significantly different from those identified and reflected in the 2018/19 scale fee.

23 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.

24 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 discussed the reasons for the additional fee with the audited body before we finalise our decision on any variation to the scale fee.

25 PSAA will charge fees for considering objections as a variation to the scale fee, from the point at which auditors accept an objection as valid, or for any special investigations, such as those arising from disclosures under the Public Interest Disclosure Act 1998.

Value added tax

26 All the 2019/20 fee scales exclude value added tax (VAT), which will be charged at the prevailing rate of 20 per cent on all work done.

Scale fees during the appointing period 2018/19 to 2022/23

27 We published the fee scale for opted-in bodies for 2018/19, the first year of the current five-year appointing period, in March 2018. We were able to reduce scale fees for 2018/19 by 23 per cent, compared to the fees applicable for the previous year, as a result of the favourable prices secured from firms in our audit services procurement and planned reductions in PSAA's own operating costs.

28 When we published the 2018/19 fee scale, we explained that PSAA hopes to be able to maintain the 23 per cent reduction for the first three years of the appointing period, based on assumptions at that time about inflation and the amount of work auditors are required to undertake.

29 In advance of consulting on the fee scale for 2019/20, the second year of the appointing period, we have reviewed our assumptions and estimates. Our review has confirmed that we are able to sustain the 23 per cent reduction for the 2019/20 audits.

30 We currently expect to maintain the 23 per cent reduction for the third year of the appointing period (for audits of the 2020/21 accounts), and may be able to maintain the same level for all five years of the appointing period, but it is not possible to be certain at this early stage. At present we are making cautious assumptions about the likely level of inflation during the appointing period, having regard to the clear uncertainties and potential risks in the longer-term economic outlook.

31 Scale fees must cover both the cost of auditors' work at individual opted-in bodies and PSAA's own costs. PSAA has undertaken a significant review of its own costs and staffing structure, and has implemented changes to reduce its cost base for the appointing period.

32 The most significant factors that could have an impact on the level of scale fees required during the appointing period relate to:

- **Inflation:** there is uncertainty about the expected level of inflation but a generally rising trend. The contracts with audit firms include an increase for inflation in the later years of the appointing period.
- **Code of Audit Practice:** the National Audit Office 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 these requirements may have an impact on scale fees.

33 It is not PSAA's intention to generate or retain any surplus from scale fees. If any surplus arises, it will be distributed back to opted-in bodies. The most recent distribution of this type was made in December 2017. The scale of any future distribution is likely to be modest at individual authority level.

Next steps

34 PSAA has a statutory duty to prescribe a scale of fees for the audit of accounts of bodies that have opted into its national auditor appointment arrangements. Before prescribing scale fees, we are required to consult opted-in authorities, representative associations of relevant authorities and bodies of accountants.

35 We welcome comments from audited bodies and stakeholders on the proposals contained in this document. The consultation will close on **Monday 17 December 2018**.

Please send comments or questions by email to:

workandfeesconsultation@psaa.co.uk

36 Following responses to this consultation, the PSAA Board will approve the final 2019/20 scale of fees for publication in March 2019.

37 If you have complaints about the way this consultation has been conducted, these should be sent by email to generalenquiries@psaa.co.uk.