

2023/24

audit fee scale

Opted-in bodies

November 2023

Public Sector Audit Appointments Limited (PSAA) is an independent company limited by guarantee incorporated by the Local Government Association in August 2014.

The Secretary of State has specified PSAA as an appointing person for eligible 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.

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 and managing the contracts with audit firms to provide the audit services required.

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Summary

- 1 This publication sets out the 2023/24 scale of audit fees payable by local bodies that have opted into PSAA's appointing person scheme. Our statutory consultation on the fee scale took place between September and October 2023.
- 2 There is currently a local audit system-wide discussion taking place about the timetable for the audit work for 2023/24 and earlier years for which audit opinions are currently outstanding, but there has been no announcement on the way forward at the time of writing.
- 3 The 2023/24 audits are the first in the second five-year appointing period specified by PSAA, covering 2023/24 to 2027/28. PSAA awarded new contracts for this period in 2022 to six audit firms, following a challenging and protracted procurement. The procurement demonstrated clearly the limited audit capacity available to meet the demands of the local government audit market. The procurement outcome is an increase of 151% on total fees for local audit work.
- 4 Our consultation explained the difficulties of setting the fee scale at a time of significant change in the local audit system. These included that the audit profession has been subject to high levels of scrutiny in recent years following several widely reported financial failures in the private sector, and that there is a major backlog in completing local audits. In July 2023 the Department for Levelling Up, Housing and Communities (DLUHC) announced [proposals to address the backlog](#), and is working with all stakeholders to tackle the complex issues involved.
- 5 PSAA is required under the local audit regulations to consult on and set the 2023/24 fee scale before 1 December 2023. As proposals to address the audit backlog are still under consideration, we cannot reflect the impact of potential changes on the fee scale. We therefore consulted on the basis of existing audit requirements. Once any changes are confirmed, we will assess the impact on fees and provide updated information to opted-in bodies.
- 6 Our consultation on the fee scale set out the proposed approach to calculating the fees for 2023/24 audits, ensuring that scale fees are as fully and consistently updated as possible. The calculation is based on:
 - a) the scale fee for the previous year (2022/23), as the starting point;
 - b) adding in fees for any changes in the audit work now needed, replacing the need for fee variations where possible; and
 - c) taking the total of the previous scale fee plus the additional work needed (a plus b) and applying the procurement adjustment of 151% for the new contract rates for audit firms.
- 7 PSAA is very much aware of the significant financial pressures on all local government bodies and understands that any further cost pressure is unwelcome. The level at which we are setting the 2023/24 fee scale is largely determined by two factors which PSAA does not control: the volume of audit work required to deliver audits compliant with the requirements of the Code of Audit Practice, and audit supply market rates.

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- 8 Responses to the consultation were mostly supportive of the proposed approach to setting the 2023/24 fee scale, with 70% (89 replies) confirming they agree with our proposals and 30% (39 replies) who do not. Most responses do raise issues or concerns, particularly about the financial impact of the fee increase on opted-in bodies and the audit service bodies feel they are receiving.
- 9 We are grateful for all the responses to the 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.
- 10 The PSAA Board has decided to set the 2023/24 fee scale as proposed in the consultation, having taken into account all feedback.
- 11 We understand the concerns raised in consultation responses. Many of the issues are complex and PSAA does not control the factors involved, for example the scope of local audit work. We have published a set of [questions and answers](#) about the fee scale consultation on our website which provide more information.
- 12 We have 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 to achieve a more proportionate and timely audit and a more sustainable audit system. We will continue in our determination to seek action on these issues with government and key stakeholders and to highlight the concerns expressed in the consultation.

Introduction to the fee scale

PSAA's appointing person role

- 13 PSAA is specified by the Secretary of State for the Department for Levelling Up, Housing and Communities 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.
- 14 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.
- 15 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

- 16 PSAA is responsible for setting the fee scale for opted-in bodies but does not control the scope or the timescale of the work auditors undertake:
 - the National Audit Office publishes the statutory Code of Audit Practice for auditors of local public bodies, which sets out what local auditors are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014;
 - 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.
- 17 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.
- 18 PSAA's contracts with audit firms require auditors to undertake audits that are compliant with the requirements of the Code of Audit Practice.
- 19 Once appointed auditors exercise their statutory and professional responsibilities independently of PSAA, by design of the local audit framework.

The local audit framework

- 20 The [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 have become more prevalent under the collective strain of increasing expectations from professional regulators and more demanding professional standards, shortages of experienced auditors, pressures on finance staff and greater complexity of transactions and structures.
- 21 The government 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 the Audit Reporting and Governance Authority, a new statutory regulator to be established to replace the Financial Reporting Council (FRC). In preparation, the FRC is building shadow arrangements. In the meantime, DLUHC has been acting as interim shadow system leader.
- 22 In July 2023 the Department for Levelling Up, Housing and Communities (DLUHC) announced [proposals to address the audit backlog](#), and is working with all stakeholders to tackle the complex issues involved.

The fee scale set by PSAA

- 23 PSAA is required to set a fee scale before 1 December of the financial year to which the scale applies. A fee scale cannot be amended after this statutory date. The 2023/24 fee scale must therefore be set by the end of November.
- 24 In setting the fee scale we consider the existing scale fees of individual opted-in bodies at the time of the fee consultation, plus any known adjustments required at that point. In theory the existing scale fees should represent the work required for a Code-compliant audit, but because we have to set them at a point in time and cannot change them, in practice they do not do so in times of change. In recent fee scales, where we have reliable information we have made adjustments to individual scale fees for additional audit work which will be required on an ongoing basis.
- 25 Where we are not able to determine the impact of changes in audit requirements at the time we set the fee scale, the fee variations process provides the mechanism to adjust fees for increases or decreases in the audit work required. Where more work is needed, the total audit fee will be higher, where less work is needed a negative fee variation is appropriate. If these adjustments are expected to be permanent, we will consolidate them into a future fee scale.
- 26 The total audit fee for an individual opted-in body is driven by the circumstances and audit risks of the body and 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.
- 27 The total audit fee for an opted-in body is 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 and challenge of the information

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provided by an auditor as to why they have had to do more/less work than expected.

The 2023/24 fee scale consultation

- 28 [Our consultation](#) explained that PSAA's proposal is to set the 2023/24 fee scale on the basis of updating individual scale fees to reflect current audit requirements for all opted-in bodies. This updating is particularly important for the 2023/24 fee scale, to ensure fees are set on a consistent and equitable basis at the start of the new contract period.
- 29 The consultation proposed that the 2023/24 fee scale should include the following elements:
- a) the scale fee for the previous year (2022/23), as the starting point;
 - b) adding in fees for any changes in the audit work now needed, replacing the need for fee variations wherever possible; and
 - c) taking the total of the previous scale fee plus the additional work needed (a plus b) and applying the procurement adjustment for the new contract rates for audit firms.
- 30 We also wrote to each opted-in body during the consultation period to set out the calculation of their expected scale fee based on these elements.
- 31 We received a good response to the consultation, in terms of the number of responses and the comments provided on our proposals. We received 128 responses in total (25% of all consultees), with 126 responses (98%) from opted-in bodies and two from other stakeholders.
- 32 The majority of consultation responses (70%) broadly support the proposed approach to setting the 2023/24 fee scale, although more than three quarters of these supportive responses also raised some significant concerns or issues. 30% of consultees do not support the fee scale proposals and also raise significant concerns.
- 33 A summary of the responses to the consultation is [available on our website](#) . We welcome the feedback received on our consultation and thank those who responded. The PSAA Board has reflected on the consultation outcome and takes very seriously all the points made.
- 34 Many of the issues raised in consultation responses are complex and typically call for change that is beyond PSAA's statutory role. PSAA's remit does not include being able to:
- change the scope of local audits;
 - direct auditors as to the amount or timing of their work; or
 - secure additional funding for higher audit fees.
- 35 We have 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.
- 36 We will continue to raise these issues with government and key stakeholders and highlight the concerns set out in consultation responses.

The 2023/24 fee scale

- 38 PSAA has set the 2023/24 fee scale on the basis of the work required under the [Code of Audit Practice 2020](#) published by the National Audit Office, and associated auditor guidance.
- 39 After careful consideration of the issues raised in the feedback to our consultation, we have set the fee scale for 2023/24 based on the following elements:

2023/24 fee scale elements
A The scale fees for 2022/23
Plus:
B Approved fee variations for recurrent additional audit work in prior years not yet included in scale fees, or estimates where audits have been delayed ¹
C Changes in local audit requirements ²
D Adjustments at specific bodies for local circumstances
E Adjustment for the procurement outcome

Notes:

- 1 The categories of recurrent additional work consolidated into the fee scale cover: group accounts, pension valuation, PPE valuation, enhanced audit requirements in relation to public interest entities and major local audits, increased FRC challenge, PFI, and investment valuation (pension funds only).
- 2 The categories of work consolidated into the fee scale include: the VFM arrangements commentary and ISA 540 revised, but not ISA 315 revised (because we do not have a consistent basis yet for estimating the additional fees needed).
- 40 We will review any estimated figures consolidated into scale fees and the adjustments for special cases to ensure they remain appropriate.
- 41 We have written to each opted-in body to set out the calculation of their scale fee based on these elements. The 2023/24 scale fees for each opted-in body is available from the [scale of fees page](#) of our website.
- 42 Changes in audit work or audit requirements that are identified or quantified after publication of this fee scale or are not ongoing requirements will continue to be subject to the fee variations process.
- 43 Under DLUHC proposals on the audit backlog, we anticipate that we will need to review and determine on a case-by-case basis the final fees for accounting periods covered by any backlog solution. The guiding principle in this assessment will remain that if auditors have worked in good faith to meet the requirements of the Code of Audit Practice in place at the time the work was conducted, then they are due the appropriate fee for the work done, and the body is due to pay the applicable fee. Conversely, if an auditor has collected audit fees in part or in full, and a change in requirements means that the total work done represents less than the fee already collected, then the auditor must return the balance and refund the body the appropriate amount. We will write to opted-in bodies individually when we have information on confirmed backlog measures and their impact on fees.

Additional information

Fee variations process

- 44 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 was 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.
- 45 Fee variation requests must be made to PSAA by the auditor using a standard process. We encourage 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. However, irrespective of whether the proposed variation has or has not been agreed by the body concerned, we scrutinise every proposal and are responsible for the ultimate determination of every variation. The fee variation is not payable by the opted-in body until PSAA has approved the request.
- 46 We regularly obtain updated fee information on proposed variations from the scale fee from appointed auditors and consider the reasonableness of the explanations provided. For example, fee variations relating to Code changes, regulatory changes or inadequate working papers are potentially valid (subject to individual circumstances and the body's observations).
- 47 Fees are also 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.
- 48 Further information on the [fee variations process](#) is available on our website.

Statement of responsibilities

- 49 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.
- 50 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.
- 51 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.

New contract management arrangements

- 52 Once appointed, auditors exercise their responsibilities independently under local audit legislation and the professional framework, and PSAA does not have the ability to penalise audit firms or direct the way they work. The audit contracts with the firms reflect the

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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.

- 53** However, where possible we have made some positive changes to contract management provisions in the audit services contracts applicable from 2023/24 to reflect the changed local audit market and in view of feedback from opted-in bodies.
- 54** Our audit firms are contractually obliged to deliver the audits in accordance with the method statements outlined in their tender responses. Where this does not occur, we have mechanisms we can use to support performance improvement. These measures include:
- firms will be paid when they deliver on four predefined audit milestones (each attracting 25% of the scale fee), rather than on the basis of four quarterly payments as previously;
 - we have introduced KPIs linked to the audit delivery cycle and a quarterly contract monitoring review process;
 - there is a review procedure through which we can require a supplier at their own cost to amend its method statement, if it becomes clear that the current one does not satisfy its obligations under the contract; and
 - there is a rectification plan process which we may invoke if the supplier fails to comply with its obligations under the contract.
- 55** We will revisit the milestones and KPIs if a backlog solution changes the framework.
- 56** We also recognise that while we have strengthened the contract provisions to reflect changes in local audit, the ultimate sanction of being able to remove auditors from appointments remains largely theoretical as there is no surplus capacity in the local audit market.

Invoicing

- 57** Under the audit contracts applicable from 2023/24 audits, we have introduced payment milestones linked to audit delivery. In contrast to the previous contracts, where the auditor invoiced the body each quarter irrespective of delivery progress, the new contracts have four predefined audit milestones, (each attracting 25% of the scale fee), at which point it is permissible for an audit firm to invoice an audited body. The four milestones are:
- production of the final auditor's annual report for the previous audit year (exception for new clients in 2023/24 only, where the auditor can invoice the body no earlier than 1 October 2023);
 - production of the draft audit planning report to the audited body;
 - 50% of planned hours of an audit have been completed; and
 - 75% of planned hours of an audit have been completed.
- 58** The reason for the difference in the first instalment in some cases is to avoid penalising a newly appointed firm because of a delayed audit from a predecessor firm. The second, third and fourth instalment milestones are all directly linked to the delivery of the audit.

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59 Contracted audit firms collect fees from opted-in bodies as agents of PSAA.

Value added tax

60 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

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