

# Summary of the 2023/24 fee scale consultation

## Background

PSAA has published the fee scale for 2023/24 audits, following consultation with opted-in bodies and stakeholders.

Local audit regulations require PSAA to set the fee scale before 1 December of the financial year to which the scale applies.

A significant proportion of audit work is undertaken after the end of the relevant financial year by necessity. 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.

Our consultation explained the difficulties of setting the fee scale at a time of significant change in the local audit system. The audit profession has been subject to high levels of scrutiny in recent years following several widely reported financial failures in the private sector. Over this period there have been growing delays 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. We will write to opted-in bodies individually when we have more information on confirmed changes and their impact on audit fees.

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 and resulted in an increase of 151% on total fees for local audit work.

## The 2023/24 fee scale

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, and the regulatory expectations of the Financial Reporting Council (FRC). The 2023/24 scale fees for all bodies have been updated as far as possible to reflect expected audit requirements. The aim is to make expected fees clearer for opted-in bodies much earlier in the audit cycle and reduce where possible the volume of ongoing fee variations.

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 we set out in the consultation:

## 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<sup>1</sup>

C Changes in local audit requirements<sup>2</sup>

D Adjustments at specific bodies for local circumstances

E Adjustment for the procurement outcome (151%, applicable to total fees)

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).

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

We are very much aware of the significant financial pressures on all local government bodies and understand 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, neither of which PSAA can control: the audit work required to deliver audits compliant with the requirements of the Code of Audit Practice; and the market rates received in our public procurement.

### The fee scale consultation

[Our consultation](#) explained that PSAA's proposal was 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.

The consultation on the fee scale took place between September and October 2023. 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 invite consultation responses from other key stakeholders, including the firms, relevant government departments, DLUHC, stakeholders such as the NAO, the FRC, the LGA, and members of the PSAA Advisory Panel and their treasurers' societies.

We also wrote to each opted-in body during the consultation period to set out the calculation of their expected scale fee based on the consultation proposals.

### Consultation responses

We received a good response to the fee scale consultation, in terms of the number of responses and the comments provided. We received 128 responses in total (25% of all consultees), with 126 responses (98%) from opted-in bodies and two from other stakeholders.

The majority of consultation responses (70%) broadly support the proposed approach to setting the 2023/24 fee scale and 30% of consultees do not support the proposals.

### Summary of consultation outcome

Support without caveats		Support with caveats		Total YES Agree with proposals		Total NO Do not agree	
Number	% of total responses	Number	% of total responses	Number	% of responses	Number	% of responses
16	13%	73	57%	89	70%	39	30%

Many responses reflect a pragmatic acceptance of the fee increase, but also highlight concerns. Of those who support the fee scale proposals, 82% (73 replies) raised some issues or concerns, as did all those who do not support the proposals.

The issues raised in responses to the consultation are complex and PSAA does not control many of the factors involved. For example, 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.

### Themes in consultation responses

There is a very broad range of views reflected in individual responses to the consultation. The most common themes were:

1. Concern about the fee increase for 2023/24, given the financial pressures on bodies.
2. The expectation that PSAA must hold auditors to account for delivery.
3. The increase in fees must entail a better service from the firms.
4. Criticism about the efficiency/performance of the firms.
5. The level of the fee increase is not acceptable.
6. There should be additional funding for the increase.

7. Audit costs should be reduced to provide better value for money for taxpayers.
8. Auditors should focus on areas of the accounts that are relevant to local government bodies.

Many of the responses supporting the consultation proposals are clear that an overall increase of 151% on total fees for 2023/24 is very unwelcome. However, there is recognition of the circumstances that have led to the increase, specifically more extensive audit requirements. The increase is also the outcome of our public procurement drawing on the entirety of the market available to us within the current framework. The procurement was extremely challenging, and we only secured the required audit supply after several procurement rounds. In England, as opposed to the other parts of the UK, there is no auditor of last resort. We are entirely dependent on the market to supply and so determine the price of audit work. No firm is obliged to undertake this work and firms make commercial decisions taking into account the other opportunities to deploy their limited staff resources.

The positive responses mostly welcome PSAA's proposed actions to build into scale fees the additional fees for ongoing audit requirements. Opted-in bodies say they welcome greater certainty about total audit fees, having also raised this concern in previous fee scale consultations. Our approach in setting the 2023/24 fee scale has been to ensure that fees are set as realistically as is possible, updating fees to reflect the changes in recent years in audit requirements under the Code of Audit Practice and the regulatory expectations of the FRC. Updating the fee scale in this way is intended to make expected fees clearer for opted-in bodies much earlier in the audit cycle and reduce the volume of ongoing fee variations.

Consultation responses which do not support the fee scale 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 changes in the level of audit work required to deliver a Code-compliant audit 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.

There is an expectation in consultation responses that the higher fees must come with a more timely and efficient audit experience. 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 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. However, where possible we have made some positive changes to contract monitoring and 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. The new contract measures include a milestone-based payment mechanism and monitoring using performance indicators. 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. It

remains the case that PSAA's new contract arrangements need a functioning and robust supply market to be fully effective.

A [set of questions and answers](#) on the issues raised in responses to the fee scale consultation is available on our website.

### **Consultation outcome**

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.

We understand the concerns and issues raised in the consultation. Many are complex and typically extend beyond PSAA's own remit. 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 radical changes are needed in the local audit system to achieve a more proportionate audit and a more sustainable audit system. We will continue to seek action on these issues with government and key stakeholders.