

Consultation on the 2023/24 audit fee scale

**Opted-in local government, fire, police and
other bodies**

September 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.

Contents

Summary	2
Responding to the consultation	3
The 2023/24 fee scale	4
Introduction	4
The 2023/24 fee scale	4
Summary of Proposal	10
Additional information.....	11
Statement of responsibilities	11
Value added tax	11
New contract management arrangements	11
Next steps	12

Summary

- 1 This consultation invites audited bodies and other stakeholders to submit views on PSAA's proposals for setting the fee scale for the 2023/24 audits. At this stage, it is expected that audit work under this fee scale will largely be undertaken from autumn 2024 onwards. However, there is currently a local audit system-wide discussion taking place about the possible timetable for the audit work for 2023/24 and earlier years for which audit opinions are currently outstanding.
- 2 The 2023/24 audits are the first in the second five-year appointing period. PSAA awarded new contracts for this appointing 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 audit market.
- 3 This consultation on the 2023/24 fee scale is taking place at a time of change in the local audit system. Consultees will be aware 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. 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. The proposals include the possibility of a time-limited revision to the Code of Audit Practice, which may reduce the amount of audit work needed while the backlogs are resolved. System leadership arrangements are also evolving, with the expected transfer of shadow system leadership from DLUHC to the Financial Reporting Council (FRC) in the near future.
- 4 PSAA is required under the local audit regulations to consult on and set the 2023/24 fee scale by 1 December 2023. Proposals to address the audit backlog are still under consideration and any changes affecting fees are still to be confirmed, so we cannot reflect them in the proposed fee scale yet. We are therefore consulting on the basis of existing audit requirements. We will need to assess the impact on audit fees once changes are confirmed, and at that point we will write to opted-in bodies to set out how we will update fees. Where 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. This ensures that bodies pay only for work that has been done.
- 5 Our fee scale proposals for 2023/24 audits are set out in more detail in the body of this consultation. In summary, they involve ensuring that scale fees are fully and consistently updated for the start of the new appointing period. This means that the scale fee for each opted-in body better reflects the audit work required under the current Code of Audit Practice published by the National Audit Office and the regulatory expectations of the FRC. Updating the fee scale in this way will have the benefit of making expected fees clearer for opted-in bodies much earlier in the audit cycle and reducing the volume of ongoing fee variations.
- 6 The consultation explains how PSAA proposes to calculate the audit fees which will make up the 2023/24 fee scale. The proposals involve managing the impact of a range of elements, including the additional fees now required for recurrent additional work; changes in local audit requirements (for example updated technical standards); and

Consultation on 2023/24 audit fee scale

adjustments at individual bodies where local circumstances now require more audit work than previously. The 2023/24 scale fee calculation involves:

- 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.
- 7 When we announced the outcome of the procurement in October 2022, we advised opted-in bodies to anticipate a major re-set of total fees for 2023/24 involving an increase estimated in the order of 150% on total fees (that is, scale fees plus additional fees) for 2022/23. We are now able to confirm the increase required is 151%.
- 8 We recognise the significant financial pressures on all types of local government bodies and understand that any further cost pressure is unwelcome. However, the level at which we are proposing to set the 2023/24 fee scale is determined by the audit work needed to deliver audits compliant with the requirements of the Code of Audit Practice, and market rates.
- 9 The PSAA Board will consider consultation responses carefully in determining the final fee scale for 2023/24. We will publish the final fee scale on our website by 30 November 2023.

Responding to the consultation

We welcome comments on the proposals contained in this document. Please provide your feedback at:

<https://www.surveymonkey.co.uk/r/ZS8YK3K>

The consultation will close at **noon** on **Tuesday 10 October 2023**.

The 2023/24 fee scale

Introduction

- 10 PSAA is required under the Local Audit (Appointing Person) Regulations 2015 to consult on and prescribe a scale or scales of fees for bodies that have opted into its national auditor appointment scheme.
- 11 A scale of fees must relate to a particular financial year and must be set by 1 December of the relevant year. A published fee scale cannot be amended after the statutory publication date.
- 12 The 2023/24 fee scale consultation is taking place in the context of considerable turbulence and uncertainty in the local audit system. Following a number of widely reported financial failures in the private sector the government commissioned a series of reviews of audit and has subsequently consulted on proposals for change. The 2020 [Redmond review](#) focused specifically on the local audit system and the transparency of local authority financial reporting. It highlighted a lack of coherence and leadership in the current local audit framework, contributing to wider issues including audit delays and market instability.
- 13 Audit delays have become more prevalent in the local audit system under the pressure of additional audit requirements, increasing expectations from professional regulators, shortages of experienced auditors and greater complexity of transactions and structures at opted-in bodies. In July 2023 DLUHC announced [proposals to address the backlog](#), and is working in tandem with the FRC and all other stakeholders to find a sustainable solution.
- 14 System leadership arrangements are also evolving, with the expected transfer of shadow system leadership from DLUHC to the FRC ahead of the creation of a new regulator, the Audit, Reporting and Governance Authority, which will become the system leader for local audit.
- 15 The 2023/24 fee scale is the first in the second five-year appointing period specified by PSAA, covering 2023/24 to 2027/28 audits. Auditors will undertake their work under new contracts. The bid prices we received in the procurement involve a significant increase compared to our previous procurement in 2017, reflecting the major challenges in the wider audit market and in the local audit system.

The 2023/24 fee scale

- 16 In setting the 2023/24 fee scale, PSAA is proposing to update individual scale fees to ensure they 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.
- 17 We propose that the 2023/24 fee scale should include the following elements:
 - a) the scale fees set for 2022/23;

PLUS:

Consultation on 2023/24 audit fee scale

- b) approved fee variations for recurrent additional work in prior years that have not yet been included in the fee scale, or estimates where fee variations are yet to be determined (for example where audit completions have been delayed);
- c) fees where changes in audit requirement for prior years have required additional work and these fees have not yet been consolidated into the fee scale (for example the requirement for the VFM arrangements commentary);
- d) fees for new changes in audit requirements, where there is appropriate evidence to support consolidation at this point;
- e) adjustments at specific bodies where there are special circumstances; and
- f) the adjustment required for the procurement outcome.

18 Further information on each element is provided in the following paragraphs.

The scale fees set for 2022/23

- 19** In setting the fee scale each year, we use the scale fees for the previous year as the starting point before taking into account any necessary adjustments, for example in respect of any recurring approved fee variations. This should provide the most up-to-date information available about the work required to deliver an audit compliant with the Code of Audit Practice and regulatory requirements at each opted-in body.
- 20** However, the impact of delayed audit completions meant that when we consulted on and set the last fee scale in autumn 2022, we did not have complete data on the total fees needed for all audits. We were therefore not able to update the scale fees for ongoing additional work at all opted-in bodies when we set the 2022/23 fee scale.

Fee variations for recurrent requirements not yet included in the fee scale

- 21** Auditors may find it necessary to carry out additional audit work to give their audit opinion. This may be because requirements have changed, or it may be due to local circumstances. The local audit regulations allow for additional fees to be payable where substantial additional work is required. Additional fees are evaluated under our fee variations process and are subject to PSAA approval.
- 22** Where the additional audit work is of an ongoing nature we consolidate the additional fee into the fee scale fee at the earliest opportunity, to reflect the need for that work in future years and reduce the need for fee variations. In contrast, non-recurrent additional work continues to be dealt with through one-off fee variations each year.
- 23** For the 2023/24 fee scale we are proposing to update the scale fees for individual opted-in bodies where additional recurrent audit work is needed. We will use information on approved fee variations for prior years or estimated figures where audits have been delayed. This updating process will put the scale fees for all 2023/24 audits onto an equal basis.
- 24** The categories of additional work where we have reviewed approved fee variations or proposed estimates for consolidation 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).

Consultation on 2023/24 audit fee scale

- 25 We have considered the applicability of each category to each opted-in body to ensure we are consolidating the proposed additional fees consistently and equitably. In some cases, for example bodies with long-standing group accounts requirements, if we have not previously consolidated a fee variation into the scale fee but are aware that group accounts are required, we have updated the proposed 2023/24 scale fee to include this.
- 26 While most PFI schemes will be long-standing schemes, an incoming audit firm will not be familiar with the details of each scheme and will need to undertake additional work to understand the scheme and model. This additional work will require a fee variation.
- 27 It is important to stress that consolidating additional fees for recurrent requirements identified in prior years does not change the total fee to be charged. It introduces greater certainty on fees and will help to address the current imbalance where fee variations have become a significant proportion of the total audit fee required.

Changes in local audit requirements

- 28 Audit requirements have increased in recent years as a result of increased regulatory challenge, changes to the audit work required under the Code of Audit Practice and updated auditing and financial reporting standards.
- 29 Where local audit requirements change or are updated PSAA must consider the potential impact of each development on the fee scale. We need to consider whether additional fees are appropriate, whether we can estimate the additional fees based on reliable evidence, and at what point it is appropriate to incorporate the fees into the proposed fee scale. When consolidating fees into the fee scale it is particularly important to avoid the risk of over-estimating the additional audit work needed in the longer term.
- 30 Over the last three years we have commissioned external independent technical research to provide information, analysis and recommendations to support our work on updating the fee scale. This work has also provided input to our fee variations reviews. The results of this work support the [information paper](#) we publish each year in relation to audit fees.
- 31 Based on the research this year we are now able to determine the level at which it is reasonable to consolidate additional work into the 2023/24 fee scale for:
 - the VFM arrangements commentary that replaced the previous binary conclusion in the 2020 Code of Audit Practice, effective from 2020/21 audits; and
 - additional requirements in ISA (UK) 540 (revised) Auditing Accounting Estimates, effective from 2020/21 audits.
- 32 We have previously [published indicative minimum](#) additional fee ranges for work in these areas from 2020/21 onwards, and will publish an [update for 2022/23 audits](#) in September 2023. The level at which we propose to consolidate additional fees for the work into the 2023/24 fee scale assumes there is nothing unusual about the circumstances of an individual body and that good arrangements and internal controls are in place.

VFM arrangements commentary – fees for consolidation

Body type	Minimum core range published for 2020/21 and 2021/22 audits	Benchmark level for inclusion in 2023/24 fee scale
District councils	£6,000-£11,000	£8,500
County councils	£10,000-£19,000	£14,500
Unitary authorities London borough councils Metropolitan district councils	£10,000-£19,000	£14,500
Police and crime commissioners and chief constables	£6,000-£11,000 Split between PCC and CC not specified	£8,500 in total, split as: £5,700 PCC £2,800 Chief constable
Fire authorities	£5,000-£9,000	£5,250
Other local government bodies (such as combined authorities, national park authorities)	Not specified, as the number of bodies by body type is too small and arrangements are variable	Based on average of approved fee variations by body type

ISA 540 revised – fees for consolidation

Body type	Minimum core fee published for 2020/21 and 2021/22 audits	Benchmark level for inclusion in 2023/24 fee scale
District councils	£2,500	£2,000
County councils	£3,800	£3,000
Unitary authorities London borough councils Metropolitan district councils	£4,400	£3,500
Police and crime commissioners and chief constables	£2,500 Covers both	£2,000 in total, split as: £1,300 PCC £700 Chief constable
Fire authorities	£1,900	£1,500
Pension fund audits	£1,600	£2,000
Other local government bodies (such as combined authorities, national park authorities)	Not specified, as the number of bodies by body type is too small and arrangements are variable	Based on average of approved fee variations by body type

33 For work on the VFM arrangements commentary it is important to note that:

- the NAO guidance requires the auditor to make a judgement on the work required at each body based on a risk assessment. Where previously approved fee variations for the core work are higher than the proposed benchmark, we expect to consolidate the higher figure recognising that additional work is required;
- where we have not yet received fee variations for individual bodies, or where the audit is moving to a new appointed audit firm from 2023/24, we expect to use the benchmark figure for fee scale consolidation; and
- any work required in addition to the core work on the commentary, for example on specific risks, would continue to be subject to one-off fee variations because the

Consultation on 2023/24 audit fee scale

work will vary from year to year and the additional fees should not therefore be consolidated into the fee scale.

Other changes in local audit requirements

- 34** Our fees research has also considered whether it would be appropriate to determine suggested fee ranges or consolidate additional fees into the fee scale for other new requirements, including:
- ISA 315 revised (risks of material misstatement), applicable from 2022/23;
 - ISA 240 revised (auditor's responsibilities relating to fraud), applicable from 2021/22; and
 - IFRS 16 (leasing), applicable from 2024/25.
- 35** The research has concluded that it is premature at this stage to consolidate additional fees into the fee scale for these requirements because:
- the research could not identify a consistent basis for estimating the additional fees needed at this stage in the application of the new requirements;
 - there is expected to be a significant first year effect which it would not be appropriate to consolidate into the fee scale; and
 - the level at which consolidation will be appropriate is likely to be variable depending on the circumstances of individual bodies.
- 36** We therefore propose using the fee variations process to establish a realistic fee level for consolidation into a future fee scale.
- 37** We have also considered the expectation in [NAO auditor guidance](#) that auditors of pension funds should provide IAS 19 assurances under the scope of the Code of Audit Practice to auditors of admitted bodies that are relevant local audit bodies. We propose including an additional fee for this work into the 2023/24 scale fee for each pension fund audit, calculated based on the number of assurances expected for local audit bodies.

Adjustments for specific opted-in bodies

- 38** As part of our work to update the fee scale we have considered whether there are opted-in bodies which have experienced significant changes in size or complexity or other factors, and assessed whether it is appropriate to make adjustments to the 2023/24 scale fee.
- 39** We propose making a temporary scale fee adjustment in less than 20 cases, but subject to detailed review after the first audit year in order to compare to the actual outcome. We will then determine if the adjustment is correct or requires further refinement for subsequent years.
- 40** Our aim in amending the 2023/24 scale fee in this way is to provide a more realistic scale fee for opted-in bodies.

Adjustment for the procurement outcome

- 41** PSAA announced the outcome of the procurement for the appointing period 2023/24-2027/28 in October 2022. We advised opted-in bodies to anticipate a major re-set of

Consultation on 2023/24 audit fee scale

total fees for 2023/24, involving an increase of the order of 150% on the total expected fees for 2022/23, based on the information available at the time, some of which had to be estimated.

- 42 The finalised adjustment required is 151%, reflecting latest information on approved fee variations and confirmed auditor appointments for each firm.
- 43 Calculation of the procurement uplift of 151% also applies to the hourly rates used to calculate fees for additional work, as set out below.

Additional fee hourly rates

Grade	Hourly rates for audit year 2022/23	Audit fee adjustment to reflect the procurement outcome (uplift by 151%)	Hourly rates for audit year 2023/24 (rounded)
Partner or Director	£165	£249	£414
Senior Manager or Manager	£91	£137	£228
Senior Auditor	£59	£89	£148
Other	£45	£68	£113

For example, an additional fee of £10,000 for audit year 2022/23 would generate a fee of £25,100 for comparable work in audit year 2023/24.

- 44 PSAA sets the fee scale each year based on the income it needs from audit fees to meet the costs of the audit contracts, and its own costs (1.4% of the total). Periodically we return any surplus to opted-in bodies by means of a distribution, once it is clear the surplus is no longer needed to discharge our responsibilities.

Summary of Proposal

45 In summary, we propose that the fee scale for 2023/24 will be built up as follows:

2023/24 fee scale: proposed elements	
A	The scale fees for 2022/23
Plus:	
B	Fee variations for recurrent additional audit work in prior years not yet included in scale fees
C	Changes in local audit requirements
D	Adjustments at specific bodies for local circumstances
E	Adjustment for the procurement outcome

46 We will write to each individual opted-in body during the consultation period to set out their expected scale fee based on these elements. We have set out below an example of how the scale fee will be made up:

Example		
1)	2022/23 scale fee	£52,140
2)	Add: approved fee variations or estimates for recurring work* not already included	£10,500
3)	Add: changes in audit requirements (VFM arrangements, ISA 540)	£10,000
4)	Add: adjustment for special circumstances (where applicable)	0
5)	2022/23 scale fees plus recurring fees	£72,640
6)	Audit fee adjustment to reflect the procurement outcome (uplift by 151%)	£109,686
Total scale fee for 2023/24		£182,326

* The categories of work we have included in our review of approved fee variations are: 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).

Additional information

Statement of responsibilities

- 47 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.
- 48 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. Local fee variations may be required where a body is unable to fulfil these requirements.
- 49 The statement of responsibilities also applies to auditors. Additional audit costs that arise due to auditors not meeting expectations in relation to their responsibilities are ineligible for a fee variation.

Value added tax

- 50 Individual audit fees under the 2023/24 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.

New contract management arrangements

- 51 We have strengthened contract management provisions in the 2022 audit services contracts to reflect the changed local audit market and to address feedback from opted-in bodies about audit delivery. It remains the case that, once appointed, auditors exercise their responsibilities independently under local audit legislation and the professional framework.
- 52 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 lifecycle 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.
- 53 We will revisit the actual milestones and KPIs if the expected backlog solution changes the framework. 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

Consultation on 2023/24 audit fee scale

auditors from appointments remains largely moot as there is no surplus capacity in the local audit market. PSAA is committed to working with all stakeholders to support the changes needed in the local audit system.

Next steps

- 54 We welcome comments from opted-in bodies and other stakeholders on the proposals outlined in this document. The closing date for comments is noon on Tuesday 10 October 2023.
- 55 Please respond to the consultation using the survey provided:
<https://www.surveymonkey.co.uk/r/ZS8YK3K>
- 56 Information about this consultation and the 2023/24 fee scale is [available on our website](#).
- 57 If you have any questions about the consultation please send them to:
workandfeesconsultation@psaa.co.uk.
- 58 We will consider carefully the responses to this consultation in setting the 2023/24 fee scale, which we will publish by 30 November 2023.
- 59 If you have comments about the way the consultation has been conducted, these should be sent by email to generalenquiries@psaa.co.uk.