

Public Sector Audit Appointments Ltd (PSAA) Consultation on Audit Fee Scale 2021/22

(Consultation closed 19th February 2021)

1. Background Information

- 1.1 The consultation sets out the background as to why a change is required, and then sets out the PSAA's proposal to setting next year's audit fee scale.
- 1.2 The audit fee scale must be set before the start of the financial year to which the fees relate, by law, and is subject to consultation. The Redmond review made a recommendation that "the current fee structure for local audit be revised to ensure that adequate resources are deployed to meet the full extent of local audit requirements" and this recommendation was accepted by the government. This was one of the recommendations aiming at supporting market stability.
- 1.3 The PSAA points out that setting the fees in advance of the start of the financial year poses a challenge, as a significant proportion of audit work takes place after the fees for the work have been determined, and new issues may emerge during the course of the audit that lead to more work. Added to that is the issue that a significant number of audit opinions remain outstanding in respect of the 2019/20 accounts which means that not all information about the audits is available yet. These issues will be addressed in due course as this was acknowledged by the Redmond Review and the government has committed to review the Appointing Person Regulations which cover the setting of scale fees.

2. Proposals for Setting the 2021/22 Audit Fee Scale

- 2.1 The PSAA has reviewed all 2018/19 approved fee variations to establish which ones have an on-going impact e.g. on-going elements of additional work on property valuations and pensions valuations. This information will be used to update individual authority's fees and the PSAA will write to each local authority to confirm the impact on their 2021/22 fees.
- 2.2 The same process will be followed when determining the 2022/23 fees i.e. on-going elements of all 2019/20 approved fee variations will be built in, after excluding any fee variations relating to 2018/19 which will have already been taken into account.
- 2.3 There are other forthcoming developments in financial reporting requirements and auditing, but the PSAA feels that at this point in time there is insufficient information about these to be able to evaluate their potential impact on audit

fees, so the proposal is to deal with these through the recently revised in-year fee variation process (set out below).

- 2.4 An allowance for inflation will also need to be built into the fees in accordance with the contracts, although the PSAA believes that this is unlikely to be required for 2021/22 as the inflation rate is currently low.

3. Summary of Proposal

- 3.1 The fee scale for 2021/22 will be built up as follows:

- 2020/21 scale fees, plus
- relevant adjustments for on-going additional audit work arising from 2018/19 approved fee variations, plus
- any adjustments relating to changes in auditing and financial reporting requirements which are classified as national variations under PSAA's new arrangements for dealing with fee variations and which are determined before 31 March 2021, plus
- any relevant adjustment for inflation arising from PSAA's contracts with audit suppliers (although at this stage it appears unlikely that the relevant provision will result in additional fees payable by audited bodies in respect of 2021/22).

4. In Year Fee Variation Process

- 4.1 The PSAA has recently consulted on a proposed new system for fee variations. The consultation responses were positive so the proposed system will now be implemented.

- 4.2 The new approach will be to introduce national fee variations where changes in audit requirements relate to the conduct of all or most audits and where a standard cost can be reasonably estimated. The PSAA will embark on a piece of research into the expected changes in audit requirements, and will consult audited bodies on proposals where changes in audit approach are identified for which a national fee variation approach could be taken.

- 4.3 This new approach will first apply to audits of the 2020/21 financial statements. An increase in fee variation rates of 25% will also be applied, to address the fact that fee variation rates have been reducing over recent years as they are tied to the main audit fee which has reduced. Over the same period, rates for audit work in other sectors have risen, reflecting both pay inflation and the increasing complexities within accounts.

- 4.4 The process for local fee variations will continue, to cover additional audit work on aspects of accounts affecting individual authorities.

5. Financial Impact

- 5.1 Lincolnshire County Council's 2020/21 scale audit fee is £82,640. We received a fee variation charge this year of £750 for the additional work

carried out on the pension funds arising from the Guaranteed Minimum Pension issue and the McCloud legal case relating to the 2018/19 accounts.

- 5.2 We were notified in August 2020 by Mazars that there was likely to be a fee variation for their 2019/20 work. This has since been confirmed, and our total fee will be £101,934. This comprises £82,640 for the scale audit fee, £12,273 for additional work as a result of changes in regulatory expectations and £7,021 estimated for other work. This latter figure will be confirmed once the audit is complete for 2019/20. We regard the additional £12,273 as an on-going cost, and elements of the estimated £7,021 may also be on-going. This increase has not been built into our 2021/22 budget as in its response to the Redmond Review, the government said that £15 million will be provided for councils in 2021/22 to pay for additional costs arising from new reporting requirements recommended by the Redmond review and expected increases in audit fees driven by additional audit requirements arising from the new NAO code of practice. In addition to this, fee variations are set to increase by 25% (see section above on In Year Fee Variation Process). It remains to be seen whether longer term financial impacts will be covered by additional grant or are expected to be absorbed by local authorities.

6. Lincolnshire County Council's Response to the Consultation

- 6.1 We supported the proposals as they seemed reasonable and there were no other obvious alternatives. It also gives us more certainty over our audit fee each year as we would receive notification of the fee each March just before the start of the year. Although this is late for our budget process we would at least know if this will cause an overspend / underspend at the start of the year whereas now we get very late notifications of fee variations from Mazars after they have been agreed with the PSAA.
- 6.2 In the comments part of the consultation response, we said that whilst the government has pledged financial support to cover fee increases in 2021/22, there is clearly a longer term financial implication and it would be helpful to know that the government is committed to increasing the overall amount of funding for local authorities from 2022/23 onwards as part of its reforms to local government finance.

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