

Consultation on the 2024/25 audit fee scale

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

12 September 2024

Public Sector Audit Appointments Limited (PSAA) was incorporated by the Local Government Association (LGA) in August 2014. PSAA is a not-for-profit company limited by guarantee without share capital. The company's sole member and guarantor is the Improvement and Development Agency (IDeA), which is a subsidiary of the Local Government Association (LGA). PSAA is operationally independent of both organisations. PSAA's financial statements are not consolidated into the LGA's as neither the IDeA nor the LGA exercise control over PSAA or benefit from its results and financial performance.

In July 2016, the Secretary of State for Housing Communities and Local Government specified PSAA as an appointing person for principal local government and police 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](#).

Acting in accordance with this role 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.

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Summary

- 1 This consultation invites comments on PSAA's proposals for setting the fee scale for 2024/25 audits of opted-in bodies.
- 2 We are required under local audit regulations to consult on and set the 2024/25 fee scale by the end of November 2024. Audit work under this fee scale is likely from March 2025 to February 2026 under the dates proposed in a [statement on the local audit backlog](#) published by the Ministry of Housing, Communities and Local Government (MHCLG) in July 2024.
- 3 In summary, our 2024/25 fee scale proposals include a 9.5% increase on the 2023/24 scale fees to cover the additional audit work required under revised standards and a contractual inflationary increase payable to audit firms for 2024/25.
- 4 The new audit work relates to revised auditing standard ISA (UK) 315 (risks of material misstatement) and linked work on ISA (UK) 240 (fraud). We are also proposing to update the scale fees for 130 (24%) 2024/25 audits where there are confirmed changes in ongoing audit work since we set current scale fees. Incorporating fee increases into scale fees provides more certainty and without this consolidation such changes would be payable as fee variations.
- 5 Our strong view is that work on reforming accounting and auditing frameworks must reduce the volume of local audit work needed to deliver a more proportionate Code of Audit Practice (Code) compliant audit. We have welcomed the actions MHCLG is proposing to address the deeply concerning level of delayed local audit opinions and expressed our strong support for the Government's commitment to overhaul the local audit system to enable bodies and taxpayers to get better value for money.
- 6 We recognise the significant financial and wider pressures on opted-in bodies and understand that additional audit fees are an unwelcome additional budgetary pressure, but the specific changes in audit requirements in our fee scale proposal require substantial additional audit work. Our [information paper](#) for 2023/24 audits identifies the impact of changes in standards and provides information on how opted-in bodies and auditors can work together to mitigate the amount of additional audit work needed.
- 7 The Government has acknowledged that the local audit system is broken, evidenced by the backlog. MHCLG's statement above sets out the immediate action to be taken with the Financial Reporting Council (FRC), the National Audit Office (NAO) and the wider system to address the backlog and put local audit onto a more sustainable footing. A [letter to local government bodies](#) also emphasises the importance of the planned actions, which include a backstop to clear outstanding unaudited accounts up to and including financial year 2022/23 (with disclaimed audit opinions if necessary) and a series of further backstops to enable the system to recover. The actions needed to resolve the backlog require secondary legislation, expected to be in place soon.
- 8 The need to clear the backlog with widespread disclaimed audit opinions is a painful reminder of the consequences of the broken local audit system. We are also acutely aware of the fundamental need for a fully functioning supply market that will provide options for alternative auditor appointments when needed, and competition for future contracts.
- 9 More detail on the 2024/25 fee scale proposals is set out in the next section of this consultation. We are running a webinar for opted-in bodies on Tuesday 1 October from 1pm

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to 2.30pm to support the consultation (paragraph 38 provides more information).

- 10 Our Board will consider consultation responses carefully before publishing the final 2024/25 fee scale on our website by 30 November 2024.

Responding to the consultation

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

<https://www.surveymonkey.com/r/H7VQW38>

The consultation will close on **Thursday 10 October 2024 at 5pm.**

The 2024/25 fee scale

Introduction

- 11 The Local Audit (Appointing Person) Regulations 2015 and the Local Audit (Appointing Person) (Amendment) Regulations 2022 require that PSAA, as an appointing person, must specify the scale or scales of fees for the audit of the accounts of opted-in authorities before 1 December of the financial year to which the scale of fees relates.
- 12 We consult in September so that our fee proposals are based on the latest information available and to provide opted-in bodies with their proposed fees for budget planning.
- 13 We expect that our 2024/25 fee scale consultation will run in parallel with MHCLG's actions to implement measures to address the audit backlog. MHCLG's July statement sets out the Government's intention to lay secondary legislation to support the backlog measures. The Comptroller and Auditor General will publish a new Code of Audit Practice by April 2025 and may also issue separate guidance endorsed by the FRC on audit work under the backlog measures. Total 2024/25 audit fees for a body (scale fee plus fee variations) will depend on the audit work required under the backlog measures and the circumstances of each opted-in body.
- 14 We will assess the impact on audit fees when guidance is available and will provide further information as soon as we can. The MHCLG statement sets out the principles for audit fees:
 - 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 (and have reported on work that is no longer required), then they are due the appropriate fee for the work done, and the body is due to pay the applicable fee, including where there is a modified or disclaimed opinion; and

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- if an auditor has collected audit fees in part or in full, and the backstop date 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.
- 15 We set the fee scale each year based on the income we require to meet our own and the audit contract costs. Periodically we return any surplus to opted-in bodies by means of a distribution or reduction in future fees, once it is clear the surplus is no longer needed to discharge our responsibilities.

2024/25 fee scale elements

- 16 We propose that the 2024/25 fee scale should include the following elements:

A The scale fees set for 2023/24

PLUS:

- B Additional fees for changes in audit requirements (revised ISA 315 and linked work on ISA 240) using standard fees for differing body types
- C Adjustments for specific opted-in bodies, where updated information is now available
- D A contractual adjustment of 3.4% for inflation

- 17 Further information on each element is provided below.

A The scale fees set for 2023/24

- 18 We use the previous year's scale fees as the starting point for the next year and then consider any necessary adjustments.

B Changes in audit requirements (revised ISA 315 and linked work on ISA 240)

- 19 Audit requirements have grown in recent years due to increased regulatory challenge on audit quality, updated auditing and financial reporting standards, and the move to a VFM arrangements commentary, with an impact on audit fees. If a change is substantial and we can reliably estimate the additional fees, we will incorporate them into a fee scale.
- 20 We commission external independent technical research each year to contribute to our work on understanding the impact on audit fees of changes to the Code and financial reporting standards. From a complete list of expected changes, the research focuses detailed work on those requirements that have a significant impact on audit work and fees. The results of this work are included in the autumn [information paper](#) we publish each year to support fee discussions between opted-in bodies and auditors.
- 21 We have determined the additional fees to consolidate into the 2024/25 fee scale for revised ISA (UK) 315 (risks of material misstatement) and the related impact of ISA (UK) 240 (fraud). We are proposing standard fees for groups of bodies, as provided for in local audit regulations. The table below provides a list of the additional fees:

Additional standard fees to be consolidated for work on ISA 315 and 240

Body type	Standard fee
Metropolitan district council, London borough, unitary authority, county council	£15,690
District council	£9,410
Police and Crime Commissioner	£4,710

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Body type	Standard fee
Chief Constable	£4,710
Fire authority	£7,058
Pension fund audit	£7,840

- 22** The proposed additional standard fees are based on the extra work required, approved fee variations for the first year of application (2022/23), and discussions with our contracted firms and public audit providers. The standard fees are equivalent to an average increase of 5% in total 2024/25 scale fees for all opted-in bodies. We only include additional fees in the fee scale when we have reliable information on the actual impact of a change in audit requirements. The fee scale does not include a contingency element, as this would mean opted-in bodies paying more than is necessary for their auditor to deliver a Code-compliant audit in years when additional requirements do not apply.
- 23** In a small number of exceptional cases where there are significant elevated risks, we are proposing higher additional fees based on the estimated additional work needed. We will review these cases once 2024/25 audit work has been completed and may adjust where needed in the next fee scale.
- 24** We have proposed the additional fees for 2024/25 on the basis that we will only consider subsequent requests from auditors for further fee variations for this category of work in exceptional cases.
- 25** The research considered other changes in audit requirements applicable for the first time for 2024/25, including IFRS 16 (Leasing) and ISA (UK) 600 (group financial statements). We concluded that we are unable to consolidate additional fees into the fee scale at this point as the fees for individual bodies will be highly dependent on a body's arrangements and the level of work required. We will need to evaluate the viability of incorporating additional fees in a future fee scale once we have enough information.

C Adjustments for specific opted-in bodies

- 26** The impact of delayed audit completions has meant that information to set the fee scale has not been complete, and in some cases has been missing for multiple years. Where the need for additional or reduced recurrent work is now clear from approved fee variations, we need to update scale fees. This has the benefit of providing clarity on expected fees before audit work is undertaken and reduces the need for ongoing fee variations.
- 27** We have considered information available since we published the 2023/24 fee scale in November 2023 and have identified 130 audits (24%) where fee increases or reductions are required for recurrent audit work.
- 28** We have also reviewed the bodies we identified as special cases when we set the 2023/24 fee scale and considered whether the additional fee adjustment remains appropriate. We have identified a small number of additional special cases from 2024/25.

D Adjustment for inflation

- 29** Our audit contracts provide for a 3.4% inflationary increase for 2024/25 audits, based on the ONS annual CPI rate published prior to 1 April 2024. The increase applies to 2024/25 scale fees and the hourly rates for additional work submitted as fee variations.

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2024/25 additional fee hourly rates

	Partner/ Director	Senior Manager/ Manager	Senior Auditor	Other staff
2024/25 audits	£428	£236	£153	£117

Summary of Proposal

30 In summary, we propose that the fee scale for 2024/25 will be built up as follows:

2024/25 fee scale: proposed elements
A The scale fees for 2023/24
Plus:
B Fees for significant changes in audit requirements (ISA 315 and related ISA 240 requirements), using standard fees based on body type
C Adjustments for specific opted-in bodies
D Adjustment for inflation

31 We will write to each opted-in body during the consultation period setting out their expected scale fee based on these elements. The example below illustrates how the scale fee will be made up:

Calculation example – 2024/25 scale fees

Example (unitary council)	
1) 2023/24 scale fee	£313,800
2) Add: changes in audit requirements – new requirements of ISA (UK) 315 (risks of material misstatement) and related work on ISA (UK) 240 (fraud), not included in the fee scale	£15,690
3) Add/remove: changes in ongoing fee variations (specific bodies only, not applicable to all audits)	£3,452
4) Subtotal 2023/24 scale fees plus recurring additional fees	£332,942
5) Contractual indexation (3.4% of subtotal)	£11,320
Total scale fee for 2024/25	£344,262

Additional information

Statement of responsibilities

32 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 opted-in bodies and summarises their respective responsibilities.

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- 33 Scale fees are based on the expectation that opted-in bodies can provide the auditor with complete and materially accurate financial statements and supporting working papers within agreed timeframes. Local fee variations may be needed where a body is unable to fulfil these requirements.
- 34 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

- 35 Individual audit fees under the 2024/25 fee scale do not include value added tax (VAT), which will be charged at the prevailing rate, currently 20%, on all work done.

Next steps

- 36 We welcome comments from opted-in bodies and other stakeholders on the proposals outlined in this consultation. The closing date for comments is 5pm on Thursday 10 October 2024.
- 37 Please respond to the consultation using the survey provided:
<https://www.surveymonkey.com/r/H7VQW38>
- 38 We are running a webinar for opted-in bodies on Tuesday 1 October from 1pm to 2.30pm to support the consultation. If you are a s151 Officer or an Audit Committee Chair and have not received your invitation please [contact us](#) to find out how to register.
- 39 Information about this consultation and the 2024/25 fee scale is [available on our website](#).
- 40 If you have any questions about the consultation please send them to:
workandfeesconsultation@psaa.co.uk.
- 41 We will consider carefully the responses to this consultation in setting the 2024/25 fee scale, which we will publish by 30 November 2024.
- 42 If you have comments about the way the consultation has been conducted, these should be sent by email to generalenquiries@psaa.co.uk.