

Additional information for 2023/24 audit fees

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

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 briefing provides information on the expected impact on audit fees of changes in local audit requirements for 2023/24 audits. We are making this information available to support local discussions between opted-in bodies and auditors about fee variations for 2023/24 audits.
- 2 We are publishing the briefing in draft at the same time as our [2024/25 fee scale consultation](#). The consultation includes proposed additional fees for new audit work on revised auditing standard ISA (UK) 315 (risks of material misstatement) and linked work on ISA (UK) 240 (fraud). This additional work is also relevant for 2023/24 audits. We were unable to factor additional fees into the [2023/24 fee scale](#) but we did signal that additional work would be needed. Fee variations will apply for 2023/24 audits, and the proposed 2024/25 fees provide a guideline, subject to the outcome of the fee scale consultation.
- 3 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.
- 4 This remains an uncertain time for the local audit system. The Ministry of Housing, Communities and Local Government (MHCLG) [published a statement](#) in July 2024 setting out the immediate action to be taken with the Financial Reporting Council (FRC), the National Audit Office (NAO) and in the wider system to address the unprecedented backlog of audit opinions and to put local audit onto a more sustainable footing. The actions require secondary legislation expected to be in place soon. They 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.
- 5 The backlog actions may have an impact on audit fees for 2023/24 audits. We will assess this when guidance is confirmed and will provide further information as soon as we can. The [MHCLG statement](#) sets out the broad principles on audit fees. In summary these are that fees for audit work undertaken in good faith must be paid by the body, including where there is a modified or disclaimed opinion, but that fees collected for work that has not been undertaken will be returned. PSAA will track and control all aspects of the fees process.
- 6 We will publish a final version of this briefing in November 2024 following our consultation on the 2024/25 fee scale.

Changes in audit requirements

- 7 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.
- 8 We can 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 bodies paying more than is necessary for their auditor to deliver a Code-compliant audit in years when additional requirements do not apply.
- 9 We commission external independent technical research each year to help us understand the fee impact 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 could have a significant impact on audit work and fees.
- 10 We use the results of the research to support our work on setting the fee scale each year and considering fee variations requested by auditors. There is a delay of more than one audit cycle between the introduction of a change in requirements and the point at which we can consolidate additional fees for ongoing work into the fee scale. This is because we need to wait for sufficient information on completed audits before we have evidence of the cost of the work to support any ongoing increase in fees.
- 11 For the period from introduction of a change in requirements to consolidation of fees into the fee scale, any additional fees needed are submitted to us as fee variations. The next section of this briefing provides information for 2023/24 audits on changes in local audit requirements where we have determined the need for additional fees.

2024 research scope

- 12 The 2024 research considered the potential impact of a range of revised local audit requirements, including:
 - the Revised Ethical Standard 2024;
 - the Code of Audit Practice 2020 (the Code);
 - International Standards on Quality Management (ISQM) 1 and 2;
 - revised International Standards on Auditing (UK) 200, 210, 220, 230, 240, 250, 260, 265, 300, 315, 320, 330, 402, 450, 500, 501, 505, 520, 530, 540, 550, 570, 580, 600, 610, 620, 700, 701, 720; and
 - changes to the Code of Practice on Local Authority Accounting in the UK, including IAS 1, 7, 8, 12, 16, 19, 21, 26, 28, 32, 36, 37, 38, 40 and IFRS 3, 5, 7, 8, 9, 15, 16, 17, 18.
- 13 The research identified 12 standards where there are confirmed or proposed changes which could have a significant impact on the amount of audit work required:

Additional information for 2023/24 audit fees

Fees research 2024: focus areas

Quality management	Planning	Law and Regulations	Groups	Leasing	Code of Practice
<ul style="list-style-type: none"> • ISQM (UK) 1 • ISQM (UK) 2 • ISA (UK) 220 	<ul style="list-style-type: none"> • ISA (UK) 240 • ISA (UK) 315 	<ul style="list-style-type: none"> • ISA (UK) 250 • ISA 2X0 (draft) 	<ul style="list-style-type: none"> • ISA (UK) 600 	<ul style="list-style-type: none"> • IFRS 16 	<ul style="list-style-type: none"> • Infrastructure • Indexation • Pension disclosures

Source: PSAA research

- 14 Subsequent work has focused on establishing whether the additional work required in these areas is substantial and considering whether it is possible to determine the additional fees needed.

Impact on 2023/24 audit work

- 15 The research has concluded that many of the changes in audit requirements are unlikely to result in a substantial increase in audit work, although some may have an impact for individual bodies where local circumstances require specific work.
- 16 However, some changes do require substantial additional audit work, and some of these also require a higher skill mix than previously because the revised standards specify more senior input.
- 17 The key changes in local audit requirements that have an impact on audit work for 2023/24 are:

Key areas of additional audit work for 2023/24 audits

Audit requirement	Summary of changes	Effective from	Expected impact
ISA (UK) 220 Quality management for an audit of financial statements	Revisions alongside ISQM 1 and 2. Changes relate to enhanced key audit partner responsibilities.	2023/24	<ul style="list-style-type: none"> • additional senior resources required reflecting enhanced documentation and team engagement; • impact variable based on local circumstances.
ISA (UK) 240 The auditor's responsibilities relating to fraud in an audit of financial statements	Series of new requirements for risk identification and assessment, including risks of material misstatement, increased focus on professional scepticism and obtaining sufficient appropriate audit evidence.	2023/24	<ul style="list-style-type: none"> • applies to all bodies - impact is variable and highly dependent on the body's inherent and control risks, audit findings and specific frauds; • auditors are required to determine whether specialist skills are needed which may lead to use of senior resources not previously deployed and an increase in cost; • can be difficult to identify the separate effect from that of ISA (UK) 315.
ISA (UK) 315 Identifying and assessing the risks of material misstatement	Significantly rewritten with additional requirements which increase the quantum and skill mix of work required. Requires auditors to assess inherent risk and control risk separately and introduces five new inherent risk factors. Requires a wider understanding of an entity's system of internal control and increased documentation.	2022/23	<ul style="list-style-type: none"> • applies to all audits; • volume of additional work influenced by the quality of arrangements and controls and the existence of elevated risks; • impact may be variable where specialist resources are required; • additional work at a high skill mix in the first year • consolidating additional standard fees into the fee scale is appropriate after the implementation year.

Additional information for 2023/24 audit fees

16 The research recommendations also highlight some key messages about the changes in local audit requirements that have a substantial impact on audit work and fees:

- for most new requirements, the impact in the first year of implementation is more significant than for subsequent years;
- the local arrangements and circumstances of individual opted-in bodies and the quality of the financial statements and supporting documentation and evidence they produce have a substantial impact on the amount of additional audit work needed;
- the preparedness of opted-in bodies to respond to the new requirements and provide the input auditors will need has a significant influence on the amount of work required; and
- increasing pressure on Key Audit Partner time for some revised standards creates further pressure on auditor resources to deliver the audit work required.

Future changes in local audit requirements

17 The research has identified some changes in local audit requirements for audit years beyond 2023/24 which will have an impact on fees:

Future changes in local audit requirements

Audit requirement	Summary of changes	Effective from	Expected impact
ISA (UK) 600 Specific considerations – audit of group financial statements	Greater focus on identifying and assessing the risks and planning an approach to obtaining sufficient appropriate evidence. Enhanced documentation requirements. Strengthened communication with component auditors.	2024/25	<ul style="list-style-type: none"> • the impact is for entities preparing group accounts; • additional fees will be highly dependent on audited body circumstances and size and nature of group structure; • may be possible to consolidate fees into the fee scale after the implementation year once there is more body-specific information.
IFRS 16 Leases	Fundamentally new right of use accounting model	2024/25	<ul style="list-style-type: none"> • overall view unchanged from previous research • additional fee will be highly dependent on audited body circumstances and level of work required • significant year 1 impact not applicable subsequently • may be possible to consolidate fees once there is more body-specific information

18 We will consider additional work for these changes under the fee variations process until it is possible to determine any appropriate additional fees to consolidate into a future fee scale.

2023/24 fee impact of additional audit requirements

- 19 This section of the briefing sets out the expected fee impact of additional work on ISA (UK) 315 (risks of material misstatement) and the related impact of ISA (UK) 240 (fraud) for 2023/24 audits. The additional fees are not included in 2023/24 scale fees, but we are consulting on including them in the 2024/25 fee scale.
- 20 We set the 2023/24 fee scale in November 2023, as required under local audit regulations. This statutory deadline and the volume of delayed opinions meant we did not have information on completed audit work for ISA (UK) 315 before we set the fee scale. We explained this in the published [2023/24 fee scale](#) and we also wrote to opted-in bodies.
- 21 Appendix 1 provides information on factors that may affect the level of additional fee required at an individual body for a range of audit requirements and the actions opted-in bodies can take to mitigate the amount of additional work needed.

ISA (UK) 315 and related work on ISA 240

- 22 We have determined the proposed fees required for the additional work on revised ISA (UK) 315 (and linked work on ISA (UK) 240) for **2024/25 audits**, as set out in our [consultation on the 2024/25 fee scale](#). These proposed fees also provide a guideline for fee variation discussions for 2023/24 audits. The proposed fees do not reflect any additional work needed in the initial year.
- 23 We are proposing standard fees for 2024/25 for groups of bodies:

Additional standard fees to be consolidated for work on ISA (UK) 315 and ISA (UK) 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
Chief Constable	£4,710
Fire authority	£7,058
Pension fund audit	£7,840

- 24 The proposed standard fees are based on the extra work required, approved fee variations for the first year of application (2022/23), and discussions with firms and other audit providers. The standard fees are equivalent to an average increase of 5% in total 2024/25 scale fees for all opted-in bodies.
- 25 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 adjust where needed in the next fee scale.
- 26 We have proposed the additional fees for 2024/25 on the basis that we will only consider subsequent requests from auditors for further fees for this category of work in exceptional cases.

The fee variations process

- 27 Local audit regulations set out the statutory framework for audit fees and variations. We set the fee scale annually and publish the individual scale fee for each opted-in body.
- 28 The regulations provide that if an auditor subsequently considers that substantially more or less work is required to deliver their responsibilities, they can submit a fee variation proposal to PSAA. We consider the reasonableness of the explanations provided by auditors before agreeing to any variation to the scale fee.
- 29 Information on PSAA's [fee variations process](#) is available on our website.

Next steps

- 30 We hope the information in this briefing is helpful to opted-in bodies and auditors to support discussion of fee variations for additional audit work requirements for 2023/24.
- 31 We consider appropriate adjustments to scale fees where there is a substantial change in the work required. PSAA's objective is to ensure that fee variations for ongoing audit requirements are included in the fee scale, so that individual scale fees reflect current audit needs.
- 32 We welcome questions or feedback on this document – please contact us at workandfeesconsultation@psaa.co.uk.

Appendix 1: Assumptions and mitigations that may affect the level of additional fee required at an individual body

ISA (UK) 240 - The auditor's responsibilities relating to fraud in an audit of financial statements

Fees will usually be within the proposed range/ at the proposed level if ...	Fees will usually be above the proposed range/ proposed level if ...	Bodies can reduce the impact on fees by ...
<ul style="list-style-type: none"> • No significant weaknesses have been identified in previous audits • Arrangements are stable • There are no major incidents in the year • The body has provided good documentation to support arrangements • The body has provided timely, relevant and comprehensive responses to audit queries 	<ul style="list-style-type: none"> • Significant weaknesses have been identified in previous audits • There have been significant changes in arrangements • There is a major incident in the year • There are weaknesses in internal control • Documentation to support arrangements is weak • Responses to audit queries are delayed and/or inadequate 	<ul style="list-style-type: none"> • Implementation of effective internal controls and in particular: <ul style="list-style-type: none"> ○ clear documentation of arrangements for prevention, detection and investigation of fraud ○ established arrangements for reporting of suspected frauds by employees and other parties ○ established arrangement for investigation of fraud ○ assurance over the operation of arrangements for prevention, detection and investigation of fraud • Effective engagement with the audit process through: <ul style="list-style-type: none"> ○ high quality risk assessment overseen by the Audit Committee ○ timely responses to auditor enquiries ○ prompt notification of actual or potential frauds to the auditor

ISA (UK) 250 – Consideration of laws and regulations in an audit of financial statements

Fees will usually be within the proposed range/ at the proposed level if ...	Fees will usually be above the proposed range/ proposed level if ...	Bodies can reduce the impact on fees by ...
<ul style="list-style-type: none"> • No significant weaknesses have been identified in previous audits • Arrangements are stable • The body has provided good documentation • The body ensures good communication with the auditor 	<ul style="list-style-type: none"> • Significant weaknesses have been identified in previous audits • There have been significant changes in arrangements • Documentation is unclear • Inadequate communication with the auditor 	<ul style="list-style-type: none"> • Effective leadership by the Monitoring Officer in: <ul style="list-style-type: none"> ○ identifying relevant law and regulations ○ documenting arrangements for compliance ○ advising the auditor on a timely basis of actual or potential breaches of law and regulations

ISA (UK) 315 - Identifying and assessing the risks of material misstatements

Fees will usually be within the proposed range/ at the proposed level if ...	Fees will usually be above the proposed range/ proposed level if ...	Bodies can reduce the impact on fees by ...
<ul style="list-style-type: none"> • The body has a well-documented assessment of inherent and control risks for assertions relating to transactions, balances and disclosures • The body does not have inherent risks for assertions relating to transactions, balances and disclosures that are unusual for the type of body in question • The body has clear documentation of the controls for assertions relating to transactions, balances and disclosures (including controls over journal entries, general IT controls and application-specific IT controls) • There are no significant changes in the controls for the assertions relating to transactions, balances and disclosures (including controls over journal entries, general IT controls and application-specific IT controls) 	<ul style="list-style-type: none"> • The body does not have a well-documented assessment of inherent and control risks for assertions relating to transactions, balances and disclosures or the assessment is incomplete and/or out of date • The body has inherent risks for assertions relating to transactions, balances and disclosures that are unusual for the type of body in question • The body does not have clear documentation of the controls for the assertions relating to transactions, balances and disclosures (including controls over journal entries, general IT controls and application-specific IT controls) or the documentation is incomplete and/or out of date • There are significant changes in the controls for the assertions relating to transactions, balances and disclosures (including controls over journal entries, general IT controls and application-specific IT controls) 	<ul style="list-style-type: none"> • Preparing and keeping up to date a well-documented assessment of inherent and control risks for assertions relating to transactions, balances and disclosures • Preparing and keeping up to date clear documentation of the controls for assertions relating to transactions, balances and disclosures (including controls over journal entries, general IT controls and application-specific IT controls) • Promptly responding to and addressing any weaknesses in internal controls relevant to assertions relating to transactions, balances and disclosures • Implementation of effective internal controls and in particular:

Fees will usually be within the proposed range/ at the proposed level if ...	Fees will usually be above the proposed range/ proposed level if ...	Bodies can reduce the impact on fees by ...
<ul style="list-style-type: none"> • The body does not have a history of weaknesses in internal controls relevant to assertions relating to transactions, balances and disclosures • No significant weaknesses in internal controls relevant to assertions relating to transactions, balances and disclosures are identified relevant to the year of audit 	<ul style="list-style-type: none"> • The body has a history of weaknesses in internal controls relevant to assertions relating to transactions, balances and disclosures • Significant weaknesses in internal controls relevant to assertions relating to transactions, balances and disclosure are identified relevant to the year of audit 	<ul style="list-style-type: none"> ○ comprehensive documentation of controls over transactions, account balances and disclosures ○ comprehensive documentation of IT controls, including general IT controls

ISA 540 (Accounting estimates)

Fees will usually be within the proposed range/ at the proposed level if ...	Fees will usually be above the proposed range/ proposed level if ...	Bodies can reduce the impact on fees by ...
<ul style="list-style-type: none"> • No significant weaknesses have been identified in previous audits • No material accounting estimates other than for property, plant and equipment, pension liabilities and local taxation revenue • Arrangements for preparation of material accounting estimates are stable • The body has appropriately instructed experts to support them in preparing accounting estimates • They have validated the information provided to experts • They have considered the advice of experts and documented clearly the reasons for the approach that they have adopted in respect of material estimates • Any weaknesses in internal control relevant to material accounting estimates are minor • The body has provided good documentation to support material accounting estimates 	<ul style="list-style-type: none"> • Significant weaknesses have been identified in previous audits • There are material accounting estimates other than for property, plant and equipment, pension liabilities and local taxation revenue • There have been significant changes in arrangements for preparing material accounting estimates • Experts have not been instructed or inadequately instructed in respect of material accounting estimates • Information provided to experts has not been validated • There is no documented consideration of the advice offered by experts and the reasons for the material estimates chosen • There are weaknesses in internal control relevant to material accounting estimates other than of a minor nature 	<ul style="list-style-type: none"> • Implementation and high-quality monitoring of implementation of agreed actions in response to previous audits • Early and open engagement on changes in arrangements for preparation of accounting estimates • Engagement and appropriate instruction of experts in respect of accounting estimates • Validation of information provided to experts in respect of accounting estimates • Documentation of their consideration of advice offered by experts in respect of accounting estimates and the reasons for material estimates chosen • Preparation of high-quality documentation to support material accounting estimates

Fees will usually be within the proposed range/ at the proposed level if ...	Fees will usually be above the proposed range/ proposed level if ...	Bodies can reduce the impact on fees by ...
<ul style="list-style-type: none"> • The body has provided timely, relevant and comprehensive responses to audit queries • Timely and effective responses to interim reporting 	<ul style="list-style-type: none"> • Documentation to support accounting estimates is weak • Responses to audit queries relating to accounting estimates are delayed and/or inadequate • There are circumstances that require consideration of non-standard reporting in respect of accounting estimates • Delayed and/or ineffective responses to interim reporting 	<ul style="list-style-type: none"> • Establishment of effective arrangements for responding to audit queries • Effective arrangements for timely and comprehensive consideration of interim reporting • Implementation of effective internal controls and in particular: <ul style="list-style-type: none"> ○ systematic documentation of estimates by reference to criteria in the auditing standard ○ early engagement of appropriate experts where in-house expertise is not available ○ preparation of appropriate, relevant instructions by reference to the financial reporting framework ○ demonstrable quality assurance of data used for preparing estimates ○ evidence review of estimates by senior officers and audit committee or equivalent

ISA (UK) 600 – Special considerations – audits of group financial statements

Fees will usually be within the proposed range/ at the proposed level if ...	Fees will usually be above the proposed range/ proposed level if ...	Bodies can reduce the impact on fees by ...
<ul style="list-style-type: none"> No significant issues have been identified in previous audits Arrangements are clear and stable There is good liaison with subsidiaries 	<ul style="list-style-type: none"> Significant issues have been identified in previous audits of group or subsidiaries There have been significant changes in group structure Liaison with subsidiaries is weak 	<ul style="list-style-type: none"> A documented assessment of the group boundary Clear leadership of the accounts preparation process, including timetable Liaison with subsidiaries so that there is: <ul style="list-style-type: none"> alignment of accounting policies and year ends where possible an understanding of the respective roles of the auditors of the parent and subsidiaries complete and timely responses to queries from the group auditor

VFM arrangements commentary

Fees will usually be within the proposed range/ at the proposed level if ...	Fees will usually be above the proposed range/ proposed level if ...	Bodies can reduce the impact on fees by ...
<ul style="list-style-type: none"> No significant weaknesses have been identified in previous audits or planning Arrangements for financial sustainability, governance and improving VFM are stable There are no major issues in the year The body has made only limited use of complex, unusual or innovative arrangements for service delivery (e.g. outsourcing, joint ventures, controlled companies, pooled budgets) 	<ul style="list-style-type: none"> Significant weaknesses have been identified in previous audits or planning There have been significant changes in arrangements for financial sustainability, governance or improving VFM There is a major issue in the year The body has entered into complex, unusual or innovative arrangements for service delivery There are weaknesses in internal control other than of a minor nature 	<ul style="list-style-type: none"> Implementation and high-quality monitoring of implementation of agreed actions in response to previous audits Early and open engagement on changes in arrangements and proposed complex, unusual or innovative arrangements for service delivery Preparation of high-quality, comprehensive and balanced

Fees will usually be within the proposed range/ at the proposed level if ...	Fees will usually be above the proposed range/ proposed level if ...	Bodies can reduce the impact on fees by ...
<ul style="list-style-type: none"> • Any weaknesses in internal control are minor • Comprehensive and balanced description of arrangements for financial sustainability, governance and improving VFM in Annual Governance Statement • The body has provided good documentation to support arrangements in most areas • The body has usually provided timely, relevant and comprehensive responses to audit queries • Timely and effective responses to interim reporting 	<ul style="list-style-type: none"> • Limited and/or balanced description of arrangements for financial sustainability, governance and improving VFM in Annual Governance Statement • Documentation to support arrangements is weak • Responses to audit queries are delayed and/or inadequate • There are circumstances that require consideration of interim reporting • There are circumstances that require consideration of statutory reporting • Delayed and/or ineffective responses to interim reporting 	<ul style="list-style-type: none"> description of arrangements for financial sustainability, governance and improving VFM in Annual Governance Statement • Preparation of high-quality documentation to support arrangements • Establishment of effective arrangements for responding to audit queries • Effective arrangements for timely and comprehensive consideration of interim reporting • Implementation of effective internal controls and in particular: <ul style="list-style-type: none"> ○ maintenance of high quality, up-to-date documentation of internal controls ○ appropriate documentation of support for, challenge in making, and reasons for major decisions ○ effective communication and dialogue with the external auditor • Implementation of an effective system of financial management and in particular: <ul style="list-style-type: none"> ○ maintenance of high quality, up-to-date documentation of risks and associated mitigation, including for risks relating to complex arrangements

Fees will usually be within the proposed range/ at the proposed level if ...	Fees will usually be above the proposed range/ proposed level if ...	Bodies can reduce the impact on fees by ...
		<ul style="list-style-type: none"> ○ clear documentation of the financial implications of other plans and initiatives ○ effective communication and dialogue with the external auditor ● Implementation of an effective performance management framework and in particular: <ul style="list-style-type: none"> ○ evidenced consideration of comprehensive performance management reports covering all relevant areas ○ effective communication and dialogue with the external auditor

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