# **Questions and themes from** [**PSAA webinar held 1 October 2024**](https://www.psaa.co.uk/events/webinar-consultation-on-the-2024-25-scale-of-audit-fees/) **on the consultation on 2024/25 fee proposals**

## **What PSAA can/can’t do**

Why cannot some areas of audit work be reduced to offset some of the increase and to reduce the burden on local authority staff dealing with the audit?

We have long stated our view that the audit work for the sector needs to be more focused on the sector’s needs. That is a matter for the system to resolve in consultation with you as bodies and the suppliers so that there is a common understanding on the purpose of audit, and a scope to match it that adds value to you.

## **Inflation**

Why is inflation 3.4% if 2024-25 inflation is forecast to be 2% (and has been around this level since April)? Should it be based on the March 2024 rate of 3.2%?

The inflation rate applicable for 2024/25 is the CPI 12-month rate most recently published prior to the audit year commencing i.e. before 1 April 2024. The contractual rate is therefore the published rate at 31 March 2024 (CPI February 2024).

The contract has a set point for inflation – there has to be certainty at the outset how it will be dealt with. For information, the inflation rate in February 2021 meant that there was no increase in the remuneration rates for 2021/22 audits, but by the winter the rate had risen to 10.5%. For 2022/23 PSAA funded the inflation increase of 5.2% due to the suppliers from our reserves.

## **Impact of other standard changes in the future**

Is there a sense of scale for the additional fee uplifts that would arise from additional audit work associated with ISA 600 Groups and IFRS 16 Leases?

Not yet, we do not have sufficient information to calculate the impact on fees for ISA 600 Groups and IFRS 16 leases. The additional fees will be highly dependent on the individual body’s circumstances and size, for example the nature of group structure, complexity and number of leases.

## **Accounting standard impact**

What risks are being assessed under ISA 315 that are not already being assessed in the normal planning process that may lead to a material misstatement?

The ICAEW states that the number of requirements is broadly the same, but they are ‘much more granular’ – to illustrate this the application notes for the standard increased from 156 paragraphs to 241. We highlighted to the Public Accounts Committee in March 2023 that ISA 315 would generate additional work, and it adds to the urgency of reducing work in other areas that is not focused on what matters to the sector.

## **The real world**

How do you expect small authorities to absorb this level of increase in fees when authorities are effectively going bankrupt?

We are acutely aware of the financial pressures facing bodies, which is why we call for an audit that is focused on the issues that matter. We believe that this would reduce the audit work and fees overall but also be more useful to you as you deal with the challenges you face. We do not set the scope of audit work, but we reference your frustrations when feeding views into the local audit system.

The fee increase means the cost of auditing the accounts is higher than preparing them, how can this be right?

Our view is that the audit should be more proportionate and part of that is landing on financial statements that are more accessible and we welcome CIPFA’s commitment to work on this. The audit fee includes the additional responsibilities of the local auditor in relation to VFM arrangements, and the rate is driven by the market available, which at present is in a poor state with no meaningful competition. The FRC’s forthcoming workforce strategy is a welcome step in the right direction.

Has PSAA considered the balance between audit and the cost to the public sector? We are at the point where no-one appears to challenge the auditors and their approaches which are excessive and now onerous.

We do not set the scope of audit work. We consider every fee variation proposal and apply appropriate challenge. However, we can see from audit files that the level of work has increased significantly since 2018.

## **Focus of Audit**

Why are auditors still spending too much time investigating fixed asset values? Why can’t their time be reallocated to cover the additional work?

We have called for a more proportionate audit that is geared to the needs of the sector.

Has there been consideration of the overall increase in auditor requirements which have moved from a check and challenge audit process to taking months of additional work and unnecessary detail?

There is no doubt that the focus on audit quality needing to improve in the aftermath of high-profile corporate sector failures has resulted in a more intensive approach to auditing generally, and that is certainly the case for local audit. We think that there needs to be a more proportionate audit that focusses on what matters to the sector.

## **Individual fees/comparisons**

Does the 9.5% increase include funding towards other authorities with substantial delays?

The increase is to reflect work that is expected to be done to deliver a Code of Audit Practice (Code) compliant audit. PSAA is not funding bodies with substantial delays – any funds that we have are returned across all of our clients when we are clear that we can release them.

## **Challenge to suppliers**

Are PSAA robustly challenging auditors’ additional charges? What steps have PSAA taken to mitigate the increases? There does not seem to have been any push back to CIPFA nor FRC.

We consider every fee variation proposal and apply appropriate challenge. However, we can see from audit files that the level of work has increased significantly since 2018. We can assure you that we lobby intensively within the system for change and we will continue to do so. Our goal is a better local audit system and we use your feedback to help make our case. Our article for [Room 151](https://www.room151.co.uk/technical/bringing-local-audit-back-on-track/) in November 2022 called for a proportionate audit including clarity on the fundamental question of what local audit is for, a sustainable solution to the backlog to stop it recurring, clarity on audit reform in overall terms as well as in relation to local audit, action to grow the market including serious consideration of a public sector auditor.

Why are different audit suppliers taking different approaches in clearing the audit backlog? Why are bodies / taxpayers paying for problems created by suppliers / central government?

The suppliers are independent and allocated their resources in the way that they considered to be the most appropriate. The statutory position is that firms are paid for the work that they do. There are multiple causes for the current problems.

What can authorities do to reduce the time and cost in responding to auditors’ queries?

We annually publish an information paper which provides details on the expected impact on audit fees and it includes steps authorities can take to reduce the impact on fees. We published a draft of our latest paper in [September 2024 alongside the consultation](https://www.psaa.co.uk/appointing-auditors-and-fees/auditor-appointments-and-scale-fees-2023-24-2027-28/2023-24-auditor-appointments-and-audit-fee-scale/additional-information-for-2023-24-audit-fees/).

Why are authorities expected to train newly qualified inexperienced auditors particularly around the collection fund which has led to some of the delays?

The FRC is working on a workforce strategy to address a gap in the local audit system – the assumption that there would always be sufficient supply to create a competitive market has not worked. The position should be that audit teams collectively include sufficient knowledge and skills, with inexperienced staff receiving appropriate training and coaching both before being on site and on the job – and in practice there would be two-way learning for inexperienced audit and finance staff as they learn how their respective roles are delivered. There is no doubt that both sides are under significant pressure and both reference the need for better understanding.

Why do auditors receive fees if they fail to meet deadlines, perform badly, are nonresponsive etc? There should be some financial penalties set if the auditor fails to meet their side of the obligations. If an audit firm decides not to audit a year’s accounts - is that breach of contract with you?

PSAA has no power to impose financial penalties. Our contracts cannot override the statutory framework. Auditors must meet the requirements of the Code. Up until now the legal framework did not include a statutory audit completion date, however this will change with the introduction of the backstop dates.

## **A failed system**

Why does the consultation not include the reduction in scale fee for up to 2022/23 when an audit is disclaimed and additional fees for building back assurance in 2023/24 and 2024/25?

Because those are factors that we are not yet able to quantify. As far as we are aware the backlog solution involves modified opinions on a scale that is unprecedented globally.

We are providing information on time to our auditors, what is being done to address the lack of auditor resources?

The FRC is developing a local audit workforce strategy. From 2010 onwards the assumption has been that sufficient auditor resources would be available from the private sector audit suppliers. This worked until the increase in demand for local auditors following the corporate sector failures in 2018 onwards and the resulting focus on audit quality, and we are now in a position where demand outstrips supply.

CIPFA LASAAC does not enjoy the full support of many of my peers because they do little to genuinely listen to our concerns and views.

CIPFA has stated (including in the recent MHCLG webinar) that it is working on reforming the financial statements.

The amount of traffic we get when we publish our accounts attracts very little interest from taxpayers. Why can’t they be shorter, more understandable concentrating on value for money, best use of resources and outcomes rather than technical jargon, and complex statements?

We strongly support CIPFA’s commitment to review what Local Government bodies need to publish. The financial reporting Code needs a major overhaul which will take time, but it also needs active and urgent consideration as to what changes could be made now to help bodies and auditors to reduce work on areas that have no real-world impact on the accounts of local bodies and their users, and no difference to the services that local people receive.

Is it time for the reintroduction of a state entity akin to the audit commission to pick up this work?

We strongly welcome the announcement of an overhaul of the local audit system, but we are not wedded to any particular model. We want one that works well. However, it is important to stress that whatever the system design, there needs to be enough preparers and auditors with the appropriate skills and resources. We have called for some form of publicly owned audit resource to be considered as part of the solution to the supply shortage.

## **Smaller Authorities**

Is there a consideration for middle ground audit of smaller authorities? As in local authorities just over the threshold for a smaller body audit but have to undergo a full audit. Surely this would reduce the need for so many complex and expensive audits.

We have highlighted the challenges that come with moving from the SAAA regime straight to a full audit. We are hopeful that this will be reviewed as a part of the overhaul of the local audit system but note that a solution will require some form of legislative change.