

Outcome of the 2024/25 fee scale consultation

Summary

PSAA has published the [fee scale for 2024/25 audits](#), following consultation with bodies and other stakeholders.

We are acutely aware of the financial pressures facing bodies and understand that increased audit fees are an unwelcome additional budgetary pressure. Our strong view is that work on reforming accounting and auditing frameworks must reduce the volume of local audit work needed to make it more proportionate and relevant for users. We welcome the Government's recognition that the local audit system is broken and their commitment to overhaul the system to provide better value for money for bodies and taxpayers. The absence of a proportionate local audit system and financial reporting framework has been a major contributor to the significant audit delays and the current audit opinion backlog. The Government and key system partners are now taking action which initially involves modified opinions on a scale that is unprecedented globally.

[Our consultation](#) took place during September-October 2024. It set out a proposed increase of 9.5% in total scale fees to cover additional audit work under revised standards and a contractual inflationary increase payable to audit firms.

Responses to the consultation understandably raise concerns about the need for an increase in audit fees given the financial pressures on opted-in bodies. We received 128 substantive responses to the consultation (25% of consultees), with 124 responses (97%) from opted-in bodies and four (3%) from other stakeholders. Of those who expressed a view, 53% agree with the proposed fee scale and 47% do not. Most responses also raise concerns about aspects of the proposed fee scale.

We thank all those who took the time to provide their views. The PSAA Board has reflected carefully on the consultation outcome and takes very seriously the views expressed. It has confirmed the final 2024/25 fee scale as proposed in the consultation but resolved to continue to press for change in local audit to address the issues raised. It noted that many of the issues raised in the consultation responses are complex and call for action that is outside our remit. For example, we cannot change the scope of local audits, direct auditors on the amount or timing of their work or commit additional funding for higher fees.

We will therefore continue to feed the concerns raised by bodies into the work MHCLG is leading on the forthcoming overhaul of the local audit system. We have long lobbied for change and bodies' feedback on the areas to address this is invaluable.

1 Introduction

Local audit regulations require us to set the 2024/25 fee scale before 1 December 2024, following consultation. The fee scale cannot be amended after this date.

Audit work under this fee scale is likely from March 2025 to February 2026 under the dates set out in the [statement on the local audit backlog](#) published by the Ministry of Housing, Communities and Local Government (MHCLG) in July 2024 and confirmed in the [Accounts and Audit \(Amendment\) Regulations 2024](#).

The Government has acknowledged that the local audit system is broken, evidenced by the current significant backlog of local audit opinions. MHCLG's July 2024 statement 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.

The backlog solution involves modified opinions on a scale that is unprecedented globally, but the scale fees do not cover the costs of building back assurance as we are not able to estimate what they will be. We are working on quantifying the fees and related costs of disclaimed audits and will provide further information as soon as we can. The MHCLG statement above sets out the broad principles on audit fees under the backlog arrangements.

2 The 2024/25 fee scale consultation

[Our consultation](#) explained the proposed elements of the 2024/25 fee scale, comprising:

- the scale fees set for 2023/24;

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- additional fees for changes in audit requirements (specifically revised ISA (UK) 315 and linked work on ISA (UK 240);
- adjustments for specific opted-in bodies (24% of total bodies), where updated information is now available; and
- a contractual adjustment of 3.4% for inflation.

The fee increase for work under specific revised standards reflects the work to deliver a Code of Audit Practice compliant audit. The additional fees are based on approved fee variations for previous years, the results of our research and discussions with public audit providers and audit firms. The inflation adjustment required for 2024/25 is set at a fixed point in time as specified in the contracts. The rate is based on the CPI 12-month rate most recently published prior to 1 April and for the 2024/25 audit year it is 3.4%.

During the consultation we ran a webinar for opted-in bodies to explain the elements of the proposed fee scale in more detail and the context in which we are setting it. We have published a set of questions and answers and the webinar slide pack [on our website](#).

3 Consultation outcome

We received 128 substantive responses to the consultation (25% of consultees), with 124 responses (97%) from opted-in bodies and 4 (3%) from national stakeholders. Of those who expressed a view, 53% confirm they agree on balance with our proposals and 47% do not agree.

Overall consultation response

Support the proposed fee scale without reservations		Support the proposed fee scale with reservations		Total YES Agree with proposals		Total NO Do not agree	
Number	% of total responses	Number	% of total responses	Number	% of responses	Number	% of responses
10	8%	56	44%	66	53%	58	47%

Most responses raise concerns about the proposed fee scale and the wider local audit framework. The issues most frequently identified are the financial impact of the fee increase for bodies and the disproportionate amount of local audit work now needed, which consultees do not think reflects the real needs or risks of the sector.

The PSAA Board takes very seriously the points made in the consultation and has considered the feedback carefully. We are particularly concerned about the impact of a fee increase on bodies. However, PSAA cannot disregard the drivers of the additional fees, which are a mandatory increase in audit work under auditing standards and a contractual requirement relating to inflation. Further information on the [2024/25 fee scale](#) and the [consultation](#) is available on our website.

Key themes in consultation responses

The positive responses to the consultation generally recognise that additional audit work requires additional fees, however unwelcome these are. There is a broad range of views reflected in individual responses. The most common are:

1. The impact of a fee increase is unwelcome, given the financial pressures on opted-in bodies.
2. A more proportionate and local government-focused audit is needed to reduce the amount of audit work and cost.
3. Audit costs must reduce to provide better value for money for local taxpayers.
4. The whole local audit framework should be reviewed.
5. The increase for inflation is higher than the current level and not reflected in bodies' funding levels.
6. PSAA must hold auditors to account for timely delivery.
7. Auditors should focus on areas of the accounts relevant to local government bodies.

Consultees are concerned that a 9.5% increase for 2024/25 is a significant financial pressure, coming after the uplift required for 2023/24 under new audit contracts. However, responses also recognise that greater certainty in the fee scale on additional fees is helpful for budgeting, rather than having to wait until the end of the audit for fee variations.

Those who do not support the fee scale proposals consider that a further increase in audit fees is unacceptable. They state that bodies cannot sustain the increase, which will require further cuts to services and staff reductions, with no corresponding increase in funding. This is particularly emphasised by smaller councils and other bodies, as well as police and fire bodies, who are concerned that fees are no longer consistent with bodies' size and complexity. Consultees are also concerned about lack of value for money for local taxpayers.

Many positive and negative responses highlight concerns about the increasing volume and cost of additional audit work, and the need for a more proportionate audit focusing on the areas of the accounts that are relevant to local government bodies.

This is a matter for the local audit system to resolve in consultation with bodies and suppliers, so that there is a common understanding on the purpose of audit and a scope to match it that adds value. We welcome CIPFA's commitment to work on more accessible financial statements and support the Government's commitment to overhaul the local audit system to give better value for money for bodies and taxpayers.

Some consultation responses state that additional requirements should be allowed for in the audit contracts. This has also been raised in previous consultations. The local audit framework requires us to set audit fees based on the requirements of the Code of Audit Practice. In the interests of safeguarding public funds, the contracts do not provide for potentially costly contingencies for changes in requirements that may or may not occur and for which the specific impact could not be

quantified at the time of contract award. So as audit requirements change, these must be reflected in changes to audit fees.

There is an expectation in some responses that higher fees must come with a more timely and efficient audit experience. While we wholeheartedly agree with the aim, our strong view is that higher fees cannot deliver this alone. Up until the recent confirmation of backstop dates the legal framework did not include a statutory audit completion date, and the backlog should now diminish almost entirely. Ensuring that it does not evolve into perpetual large scale modified opinions is critical. There needs to be a combination of a more proportionate audit focused on the needs of the sector, underpinned by more proportionate financial statements. There also needs to be sufficient preparers and auditors with the appropriate skills.