

## LANCASHIRE COMBINED FIRE AUTHORITY

### AUDIT COMMITTEE

Meeting to be held on 28 July 2020

### SCALE OF AUDIT FEES 2020/21

Contact for further information:

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#### **Executive Summary**

Public Sector Audit Appointments Limited (the successor to the Audit Commission) has produced a consultation document on proposed scale of audit fees for 2020/21, where they propose to maintain base fees at their current level, £23.7k, with any variation to this being dealt with through local negotiations.

#### **Recommendation**

The Audit Committee is asked to note our response to the consultation document set out in the report and the subsequent confirmation that the fee remains at £23.7k, subject to local agreement on any variations.

#### **Information**

Public Sector Audit Appointments Limited (PSAA) is responsible under the Local Audit (Appointing Person) Regulations 2015 for setting the scale of fees for the audit of the accounts of principal local government and police bodies in England that have opted into the appointing person scheme.

PSAA consulted on the proposed scale of fees for 2020/21 audits commencing in January. The following summarises the consultation document and PSAAs approach to audit fees:-

*Setting the fee scale for audits of 2020/21 financial statements is challenging. It requires consideration and assessment of the impact of a range of factors, many of which are difficult to quantify at this stage. They include:-*

- issues which have given rise to additional audit work in relation to 2018/19 accounts, or are expected to arise and have implications for 2019/20 accounts' audits, and which may or may not have ongoing implications for subsequent years;*
- new auditing standards and regulatory requirements, including any decisions taken by Government in response to the reviews highlighted in para 7; and*
- the introduction of the new Code of Audit Practice and related Auditor Guidance Notes (AGNs), the implementation of which may have one-off and/or ongoing implications for the extent of auditors' work.*

*The nature of many of the factors highlighted is that their impact is likely to vary from one audited body to another. Even within classes of similar bodies impacts may vary significantly depending upon local characteristics which have implications for audit*

*risks. Importantly, although the new Code and the revised AGNs will clearly apply to all bodies, they may require different levels of audit work depending, for example, on the maturity of the body's value for money arrangements in respect of the specific themes/reporting criteria identified in relation to the new audit commentary, namely financial sustainability, governance and improving economy, efficiency and effectiveness.*

*In PSAA's view, discussions about the impact of the factors outlined needs to take place at local body level between the appointed auditor and an authorised representative of the audited body, such as the chief finance officer. This is the level at which each factor or variable can be considered in the distinctive context of the particular body, having regard to any implications for audit risk and the extent of any additional audit work which may be required to enable an appropriate level of assurance.*

*PSAA will consider the reasonableness of any proposed one-off fee variations and/or ongoing adjustments to scale fees arising from these discussions. Ideally the majority of such conclusions will reflect an agreed position which is supported by both the audited body and the auditor. However, even where agreement has been reached, PSAA will review proposals and advise the relevant parties if we have any significant concerns. In the event that authorised representatives and auditors are unable to reach an agreed position, PSAA will arrange a discussion with the parties with a view to determining a fair outcome in relation to any one-off variations or ongoing scale fee adjustments arising.*

*PSAA does not need to increase scale fees for any other pressures affecting the company's own costs including inflation. Accordingly, we propose that the base scale of fees for 2020/21 should remain unchanged from the scale agreed in respect of 2019/20 audits. However, as outlined above, we envisage that local discussions between audited bodies and auditors will lead in some cases to ongoing adjustments to individual scale fees as well as to one-off variations. For transparency, we will summarise the volume and extent of these adjustments and variations as part of our established quarterly audit contract monitoring reporting arrangements*

As a result they proposed that scale audit fees should remain the same as the fees applicable for 2019/20, £23.7k, with any variation from this being agreed locally.

We do not feel that this approach accurately reflects the audit requirements at the present time. Whilst PSAA state that the impact of some of the changes are likely to vary from one audited body to another, even within classes of similar bodies, we do not believe this is an accurate reflection of the situation. We readily acknowledge that fees will vary according to the complexity of organisation and this is already reflected in the base fee, however we do not believe that the fee for changes to asset valuations, or pension liability valuations or the extent of challenge required will vary significantly between one organisation and another, other than to reflect size and complexity which are already taken account of. As such we are firmly of the opinion that PSAA should do more to agree the impact of changes to auditing standards at a national level, as opposed to simply passing these discussions onto local negotiation. As such we submitted the following response after consultation with the Chair and Vice Chair:-

*The consultation document clearly acknowledges the difficulties that arose as part of the 18/19 audit and the additional work that auditors state they have undertaken as a result of changes to FRC requirements (Pension Liabilities and PPE valuations being the most cited). Furthermore the document acknowledges that fees will be affected by:-*

- issues which have given rise to additional audit work in relation to 2018/19 accounts, or are expected to arise and have implications for 2019/20 accounts' audits, and which may or may not have ongoing implications for subsequent years*
- new auditing standards and regulatory requirements, including any decisions taken by Government in response to the reviews highlighted in para 7*
- and the introduction of the new Code of Audit Practice and related AGNs, the implementation of which may have one-off and/or ongoing implications for the extent of auditors' work.*

*Despite this the consultation document does not address the impact of any of these changes, even though it is clear that they will continue to apply, instead suggesting that these should be subject to local negotiation. This seems wholly inappropriate, we as an Authority are looking to PSAA to provide guidance on what the correct 'base fee' should be, taking account of all known guidance that auditors are required to follow. We acknowledge that should local circumstances dictate that more audit work is required this should be negotiated at a local level, but we also feel that should more work be required across the whole sector due to changing audit requirements then PSAA should issue further fee guidance to take account of that.*

*The situation this year is extremely difficult, with auditors only raising the issue of increased fees after the audit has completed, as opposed to when additional work requirements were first introduced. We then get into a debate about the extent of changes, the additional work required and what constitutes a reasonable increase in fees for this. Surely that must be the role of PSAA to undertake fee negotiation at a national level, when it is not down to local circumstances but about changes in national guidance.*

*This consultation document doesn't take on board any of these issues, simply leaving fees as they are, despite our auditors telling us that isn't sustainable. As such we cannot endorse the consultation document and strongly recommend that you revisit this to agree a more realistic position with the appointed auditors on what is a 'base fee' for each authority taking account of known requirements at this stage, with a caveat that this will be revisited should auditing standards/requirements change.*

Subsequent to this PSAA confirmed the scale fee for 2020/21 would remain at £23.7k, with any variation from this being negotiated locally. At the same time PSAA Board confirmed that they had commissioned a review of the scale fees framework in 2019, and published the finding of this review. They highlighted that the current level of scale fees generated significant comment from audit firms, opted-in authorities and other stakeholders, and is a common theme for commentators on public audit. In most cases scale fees have reduced by 65% from the 2011/12 level. The reasons for these reductions include a significant reduction in Audit Commission activity from 2012/13, transfer of all the Commission's audit staff to firms, keen pricing from firms in successive procurements, improved audit efficiencies, and

reductions in PSAA's costs. There is now mounting pressure on fees as the scope of audit and the role of the auditor have come under renewed scrutiny. Recent high-profile corporate failures in the private sector, concerns about the financial resilience of some local government bodies and additional technical requirements have led to an increase in the amount of work auditors are undertaking to discharge their statutory responsibilities. PSAA state their fee setting process strives to take into account both the needs of opted-in bodies and the need for long-term sustainability of the local audit supply market. Their current review is exploring the arrangements for setting and varying scale fees. The results of this review will be reported to the Board during 2020, and hence should inform future consultations.

**Financial Implications**

The fee, and anticipated variations, is reflected in our budget for 2020/21.

**Human Resource Implications**

None

**Equality and Diversity Implications**

None

**Business Risk Implications**

None

**Environmental Impact**

None

**Local Government (Access to Information) Act 1985**

**List of Background Papers**

Paper	Date	Contact
Reason for inclusion in Part II, if appropriate:		