

Public Sector Audit and Appointments, Response to the consultation on 2019/20 scale of audit fees

6 March 2020

About the Local Government Association

1. The Local Government Association (LGA) is the national voice of local government. We are a politically-led, cross party membership organisation, representing councils from England and Wales.
2. Our role is to support, promote and improve local government, and raise national awareness of the work of councils. Our ultimate ambition is to support councils to deliver local solutions to national problems.
3. We welcome the opportunity to comment on the scale fee proposals.
4. This response has been cleared by the Lead Members of the LGA's Resources Board.

Proposed scale of audit fees for 2020/21

5. It is a statutory requirement for the scale of audit fees to be set before the start of the financial year to which they relate. This means that these fees need to be set by 31 March 2020. The consultation explains that the fees set cannot therefore reflect properly a number of factors that are likely to impact on the cost of delivering an audit in the future. This is explored in more detail below. However, the consultation also suggests that any discussions that are taking place regarding the 2019/20 audit plan could also be used to consider if a change to the scale fee is appropriate for 2020/21. The consultation also highlights the need for discussions to take place at the local level, as the factors which could potentially impact on audit costs are variable and depend on local circumstances.
6. It would be preferable if the scale of audit fees being set now could take account of these additional factors. A small across the board increase in fees would be better than a large number of separate negotiations. Where there are issues that affect all councils in broadly the same way, these should be reflected in the scale fee and not in fee variations. However, we accept that the right information may not currently be available to do this.
7. We therefore accept the core proposal, which is to freeze the scale of audit fees for 2020/21. But we are concerned that the burden of negotiating fee variations, some of which could be considered to be ongoing and therefore be viewed as a scale fee adjustment, will fall on councils, when they might have expected PSAA to play a more leading role and to provide more guidance on the potential impact

of some of the factors in due course. As the consultation highlights, the detail and the likely impact of these factors are currently uncertain. We therefore suggest that PSAA does not encourage requests for scale fee changes for 2020/21 and responds to any immediate requests for fee changes as in year fee variations.

Areas identified for variations (paragraphs 19 to 32 of consultation)

8. The consultation document rightly identifies that the local audit market has been going through unusually turbulent and challenging times. This has put pressure on both audit firms and on audited bodies. PSAA have a clear role in ensuring delivery of the current contract. The completion of the 2018/19 audits for many local authorities has been delayed and this has caused many councils problems. We raised concerns on this with the Local Government Minister and we made PSAA aware of our concerns as well. Our [published response](#) to the Redmond Review sets out these concerns in more detail. The LGA has called for the current statutory deadlines for the publication of accounts to be amended in light of the pressures on auditors.
9. In our [response](#) to the previous consultation on the scale for audit fees (for 2019/20) we highlighted concerns within the sector about the link between fee levels and audit quality and scope, and further concerns about fee variation requests from audit firms. Dealing with audit fee variations continues to be an issue for many councils. PSAA will need to play a leading role in dealing with the variations to fees that will arise for both the 2019/20 and 2020/21 audits.
10. The consultation document identifies four areas already known where further variations can be expected for the 2020/21 audit fee. The consultation document then proposes that these will have to be dealt with by local negotiation between the audited body and the auditor.
11. The four areas are:
 - 11.1. The new National Audit Office (NAO) Local Audit Code of Practice and associated Audit Guidance Notes.
 - 11.2. New financial reporting requirements (eg IFRS 16).
 - 11.3. Changes to professional standards for auditors' work (following criticism of the audit profession based on perceived weaknesses in the audit of private sector organisations, eg post Carillion).
 - 11.4. The quality of local working papers.
12. As outlined above, we accept that it is not at present possible to calculate the impact of these on audit fees for 2020/21.

13. The consultation recommends that any negotiation on these will have to be conducted locally, as the impact will vary between audited bodies and that the role of PSAA will be to act as adjudicator when local agreement cannot be reached.
14. This approach makes sense, but PSAA will need to provide guidance to audited bodies and auditors in order to support local discussions, and to defer any decisions on changes to scale fees until the consequences of the above factors are clearer. Many councils have reported that local negotiations over the 2018/19 fees have been difficult. Further communication with audited bodies on the role of PSAA and on what they can expect from PSAA in this process is needed, as well as further dialogue about how the processes involved can be improved.

Problems with regulation

15. In setting the scale of audit fees for 2020/21 it has become apparent that there are some areas where the current regulations are not helpful.
16. The first area relates to setting the fees itself. The requirement to set the scale of audit fee before the financial year starts is designed to give local authorities financial certainty. But this year it has meant the opposite as the fee set will be widely viewed as a holding fee and the actual fee will be agreed much later.
17. We would welcome your views as to whether the process would be improved if the timetable for setting the fee were changed and whether this is something that the sector should call for.
18. The second area where regulation is affecting the process is with the expectations placed on auditors from the FRC relating to the financial reporting and professional practice requirements, including the new requirements referenced above. Our members are reporting that in many cases this is leading to additional audit work that is not material or relevant to the work of the council, being more suited to (and inspired by problems identified in) organisations in other sectors, most notably the private sector. Auditors are obliged to follow the directions from the FRC, but the audit regulator should take a more proportionate, measured and relevant approach in their consideration of how financial reporting and professional practice should operate within the local authority sector and the consequent impact on audit work and fees.

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