

PSAA 2020/21 fee scale consultation and other current matters - Questions and Answers

We have set out below the questions raised in the 54 responses to our recent consultation on the 2020/21 fee scale and provided answers in each case. The fee scale for 2020/21 has been published on the 'setting fees' pages of the PSAA website at [2020/21 audit fee scale](#). To assist local bodies we have expanded the list of Q&As to address other issues and developments such as the impact of COVID19, and MHCLG's decision to extend the accounts timetable. Whilst we were finalising this document there was a debate about potential changes to the Code of accounting practice for 2019/20, but it has now been confirmed that it will not be changing and so we have reflected that final position where relevant.

In some cases, we have opted to give a composite answer to a cluster of related questions. We hope that is helpful. There is, of course, a significant amount of change and uncertainty at present which seems likely to continue for an extended period. We therefore plan to update this document as and when appropriate in order to keep interested parties as well informed as possible.

2020/21 fee scale

	Question	Answer
1	<p>If PSAA knows fees will be going up why is PSAA not proposing a blanket increase for 2020/21 scale fees across all audited bodies?</p> <p>Isn't PSAA's role to negotiate at a national level when it is not down to local circumstances but about changes in national guidance?</p> <p>Why is PSAA not increasing scale fees for auditing and accounting standards, such as ISA 540 and IFRS 16, where bodies can do very little to mitigate the requirements? This is not dependant on local circumstances.</p> <p>Why is PSAA not proposing an overall increase in relation to the new Code as it is clearly an area which will be in place annually, not a one-off piece of audit review?</p> <p>Why is PSAA not updating scale fees for systematic issues such as increase regulatory requirements?</p>	<p>PSAA is required under the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015 to set the fee scale for 2020/21 by the end of March 2020 at the latest. The timetable is challenging because the relevant audit work under the fee scale will not begin until late 2020 at the earliest, whereas the outcomes of 2019/20 planning discussions are not finalised before the end of March. This timeframe has not been an issue previously as the audit framework has been relatively stable, and it has therefore been possible to assess the appropriate level of fees ahead of the financial year. However, as we set out in a letter to all S151 officers on 12 December 2019, local audit and audit more widely is currently subject to a great deal of turbulence with significant pressures on fees.</p> <p>PSAA has considered the possible option of one-off blanket increases to scale fees in response to these pressures, but there are two main arguments against this being satisfactory or fair. First such an approach might work in a set of circumstances in which a clear consensus existed in relation to the scale of an appropriate</p>

Question	Answer
	<p>increase in fees. However, the vast range of stakeholder views on whether audit fees should increase – from ‘not at all’ to ‘yes by a very large amount’ highlights the absence of consensus at the present time. Secondly, the impact of different change factors varies from one local body to the next, in part because bodies are taking very varied approaches to matters such as regeneration, commercialisation and financial resilience resulting in different risk profiles. To estimate an equitable change in the fee scale before the end of March 2020 that addresses the additional audit work which will be required in 2020/21, PSAA would need detailed information on:</p> <ul style="list-style-type: none"> • the supporting guidance for the new Code of Audit Practice (‘the Code’) – this is due to be issued in Autumn 2020 following a consultation which has not yet been published; • the impact at an individual authority level of the changes to accounting and auditing standards, because the amount of additional work will be determined by each authority’s local circumstances – for example the number of estimates, the number of leases, the quality of the records available and the body’s own processes; and • the need for ongoing changes to individual bodies’ fees to reflect changes in circumstances. <p>Any fee changes made in the absence of this information are likely to be subject to a significant and unacceptable margin of error.</p> <p>The starting point for establishing the correct position is to encourage auditors to discuss potential additional fees at the planning stage for 2019/20, and for this earlier discussion to happen each year. This has the advantage of ensuring that auditors and audited bodies are informed about significant change factors and are able to discuss possible mitigating actions which will limit additional costs and/or disruption to the audit process.</p>

	Question	Answer
		<p>PSAA will publish more detailed information on the value of and reason for fee variations that have been approved, and if possible when Auditor Guidance Notes have been published on the impact of the new Code's approach to VFM arrangements, in order to inform discussions between authorities and firms on fee variations.</p>
2	<p>If audit providers have demonstrated across the board that they cannot sustain a timely audit of any quality with fees this low why is PSAA not increasing the 2020/21 scale fees?</p> <p>What proposals are PSAA coming up with to deal with the increasing demands on audit firms? Does PSAA agree a fee increase is needed to ensure the audit resourcing issue can be dealt with?</p> <p>The audit firms have made noises publicly that the audit fees are too low and that the audit environment has changed since the contracts were let. The consultation document appears to suggest support to that view? Is that right?</p>	<p>PSAA is required under the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015 to set the fee scale for 2020/21 by the end of March 2020 at the latest. The relevant audit work under the fee scale will not begin until late 2020 at the earliest, and the outcomes of 2019/20 planning discussions are not finalised before the end of March. Full information on the first year of audit (2018/19) is also not yet available. This timeframe has not been an issue previously as the audit framework has been relatively stable, as it has been possible to assess the appropriate level of fees ahead of the financial year. However, as we set out in a letter to all S151 officers on 12 December 2019, local audit and audit more widely is in a turbulent position with significant pressures on fees. Taking uninformed decisions about the fee scale on this basis could further complicate establishing the correct level for the scale fee for each authority in the future.</p> <p>2018/19 was an unprecedentedly turbulent time in the audit industry. The combined effects of regulatory pressure and demands, more complicated accounts resulting from innovation by local bodies and attrition rates in audit staffing have created detailed pressures and challenges in local audit that could not have been anticipated by the audit firms early in 2017 when they submitted their bids. While the firms were aware of the expectation that audit opinions would be given by the end of July, the challenge of meeting this timetable has been heightened by the other aspects.</p>

	Question	Answer
		<p>PSAA needs to consider how these pressures and challenges can be managed in terms of the fee scales it sets, while recognising that it has no remit in relation to the scope of audit and the role of the auditor. A review of the scale fee framework is currently in progress, and the outcome will inform future fee consultations. The consequences of not addressing this situation are serious and could have a significant impact on the sustainability of the local audit market.</p>
3	<p>Does PSAA's proposal ensure consistency with the original contract? How can we ensure fee variations are only approved for issues that could not reasonably be envisaged by auditors, when they were awarded the contract?</p>	<p>Under local audit legislation - the Local Audit (Appointing Person) Regulations 2015, made under the Local Audit and Accountability Act 2014 - the audit fee for an individual authority may be varied by PSAA from the fee scale where substantially more work is required than is covered by the scale. PSAA's contracts and fee setting arrangements reflect these requirements.</p> <p>PSAA has a robust process for assessing fee variation requests from audit firms and does not approve all variations. We do not consider any variation unless the auditor confirms that it has been discussed with the audited body. Where we identify consistency issues, we challenge the firm on the reasons for the variation and request more detailed information.</p> <p>We are currently processing higher numbers of fee variation requests reflecting the high level of change – especially in relation to increased regulatory requirements – affecting UK audits.</p>
4	<p>How can we consider the proposals in the fee consultation when audit fees for 2018/19 or 2019/20 have not been finalised?</p>	<p>PSAA is in the process of collating fee information on 2018/19 audits and intends to provide comparative information on fee variations for specific additional technical requirements. Our fee setting timetable is determined by the requirements of local audit legislation, which means that fee setting, audit planning and audit delivery for multiple audit years all overlap.</p>
5	<p>How will my final fee compare to the scale fee with the 23% fee reduction?</p>	<p>It is not possible to provide final information for all 2018/19 audits yet, but this should be available over the next few months. The fees required for 2020/21 audits will need to reflect any matters</p>

	Question	Answer
		<p>identified in 2018/19 and 2019/20 audits where there will be an ongoing impact on the amount of audit work required for 2020/21. We also need to establish the impact on fees of the changes to be introduced by the new Code of Audit Practice and auditing standards.</p> <p>The pressures to increase fees relate to specific changes since 2017 (e.g. the new Audit Code, increased regulatory pressures) rather than the reduction in scale fees following the 2017 tender process.</p>
6	<p>Will PSAA be providing indicative ranges of fees for each of the key variables, by type of body, assuming a typical number of leases, etc?</p>	<p>In terms of changes in 2020/21 relating to new accounting or auditing requirements, we will need information from auditors about the extent of work required at each authority which will be established in discussions primarily at the audit planning stage. We will consider the practicalities of collecting and sharing comparative information bearing in mind that the circumstances of individual bodies will vary with local circumstances.</p> <p>In terms of VFM arrangements, when the supporting guidance on the new Code is available later in 2020, we may be able to provide estimated ranges of the costs of the additional work required in most cases. However, auditors are required by the Code to plan their work on the basis of an assessment of audit risks, and this may mean the eventual fee in some cases is more or less than any estimated range.</p>
7	<p>Will PSAA be conducting a further consultation in summer / autumn 2020 when the actual scope of the auditors' work on the new Code is clearer?</p>	<p>Under local audit legislation a fee scale cannot be amended once the financial year to which it relates has started. At the time of setting the fee scale for 2020/21 in March, we cannot estimate the possible impact of the new Code. We need to wait for the detailed guidance, which will be published by the NAO later in 2020. We have therefore proposed the use of fee variations for 2020/21, as they can reflect the discussions between auditors and authorities about the details of local circumstances informed by the guidance, and will be more accurate than a centrally-determined estimate.</p>

	Question	Answer
		PSAA will seek feedback from stakeholders on any fee implications when the guidance has been finalised.
8	If several bodies are working jointly using the same systems should the scale fee be adjusted downwards to reflect efficiency benefits?	Where authorities are working together and using the same systems there is the potential for auditors to seek to rely on other's work. However, much will depend on the auditor's assessment of the local audit risks of individual authorities across the full scope of the auditor's responsibilities. This is a matter that could be covered in audit planning discussions between the auditors and the authorities.
9	If CIPFA introduce a simplified 2019/20 Code of Practice to reflect the more difficult working environment for all local government audited bodies – how is that reflected a) in the audit work required and b) in the audit fee that was agreed this time last year?	<p>CIPFA/LASAAC considered proposals to streamline the 2019/20 accounts by suspending the requirement to apply the Code of Accounting Practice for 2019/20 in its current format and instead introducing an alternative, simplified Code. However, on 6 April the CIPFA/LASAAC Board decided that there will be no changes to <u>the 2019/20 Code</u>. CIPFA nonetheless encourages the application of local judgement on what disclosures should be made in order to alleviate organisational pressures on councils.</p> <p>The National Audit Office provides guidance to auditors, and so any changes to the CIPFA/LASAAC Code would be discussed by the NAO and the supplier firms to assess the impact on the work that auditors need to do. There may also need to be further discussions about any implications of the current coronavirus emergency on other Code of Audit Practice areas, for example the VFM arrangements work and elector rights.</p> <p>PSAA commissions audits that are Code of Audit Practice compliant. We will not know whether there are to be any changes in what is to be audited until various matters have been finalised by CIPFA/LASAAC, FRAB and the NAO. It is therefore impossible for PSAA to make an assessment of any impact at this stage.</p> <p>When further information is available from the key stakeholders, we will provide updates on the position.</p>

Fee Variations

No.	Question	Answer
10	What is included in the scale fee?	<p>The scale fee is expected to cover a Code compliant audit. This requires the auditor to give an opinion on the financial statements and under the new Code of Audit Practice to provide a commentary on the arrangements for value for money (VFM) (previously provide a conclusion on the adequacy of the VFM arrangements). The Code requires auditors to carry out their work in compliance with the requirements of the relevant professional standards issued by the Financial Reporting Council and relevant quality control standards.</p> <p>The scale fee is intended to reflect a good representation of the risks associated with the conduct of each of the individual audits within PSAA's jurisdiction, assuming the timely production of draft accounts and working papers of an appropriate standard. However, PSAA recognises that every fee within the scale is subject to a margin for error and risk profiles are also susceptible to change over time.</p>
11	What arrangements does PSAA have in place to enable the scale fee to be adjusted?	<p>PSAA's arrangements in relation to fees are designed to include a number of checks and balances to enable the scale to be adjusted as and when appropriate. These include:</p> <ul style="list-style-type: none"> • Placing the extant scale of fees at the heart of any tender process and inviting suppliers to express their bids as a proportion of the current scale; • Pooling winning firms' bids so that the fees of individual bodies are not linked to the bid prices of the individual firm that is appointed as their auditor; • Consulting with bodies, as appropriate, when firms exercise their right to submit proposals to charge additional fees for additional audit work over and above that assumed in the relevant scale fee;

No.	Question	Answer
		<ul style="list-style-type: none"> • Similarly consulting with bodies when firms submit proposals to amend the scale fee of an individual body to reflect an ongoing change to the level of audit work required.
12	Audit fees can be varied if substantially more or less audit work is required than envisaged by the scale of fees - what is classed as substantial?	<p>The auditor needs to carry out sufficient work to deliver a Code compliant audit gaining enough assurance to be able to:</p> <ul style="list-style-type: none"> • issue an opinion on the audited body's financial statements; • issue a conclusion on the audited body's VFM arrangements; and • exercise their additional powers and duties. <p>Additional work may be required when the auditor does not have the assurance needed to discharge his/her duties. PSAA considers each fee variation proposal on the basis of 'was the work needed to enable the auditor to discharge Code responsibilities?'</p>
13	Are auditors trying to recover their losses by charging additional fees because they cannot complete all the work for the set fee?	<p>PSAA commissions auditors to deliver audits that comply with the Code of Audit Practice (the Code). The Code is principles-based and allows the auditor to adopt a flexible approach that is responsive to sector developments and to the specific circumstances faced by the audited body. The Code requires auditors to carry out their work in compliance with the requirements of the relevant professional standards issued by the Financial Reporting Council and relevant quality control standards. The Code notes that the amount of work required to perform a good quality audit may increase or decrease in relation to those circumstances.</p> <p>It is apparent that since the firms bid in 2017 the audit requirements have increased. The well publicised challenges facing the auditing profession following several significant corporate failures in the private sector have contributed to this. The Government</p>

No.	Question	Answer
		<p>commissioned three separate reviews of audit - Sir John Kingman on audit regulation, the Competition and Markets Authority on the audit market, and Sir Donald Brydon on improving the quality and effectiveness of audit.</p> <p>It is not yet clear what the long term implications of these reviews will be. However, the immediate impact is clear - greater pressure on firms to deliver higher quality audits by requiring auditors to demonstrate and document greater professional scepticism, when carrying out their work across all sectors – and this includes local audit. This has resulted in auditors needing to exercise greater challenge in relation to the areas where management makes judgements or relies upon advisers, for example, in relation to estimates and related assumptions within the accounts. As a result, audit firms have updated their work programmes and reinforced their internal processes and will continue to do so to enable them to meet expectations.</p> <p>The Local Audit (Appointing Person) Regulations 2015 state that if it appears to PSAA that on the basis of information supplied by the auditor that the work involved in a particular audit was substantially more or less than that envisaged by the appropriate scale fee, then a fee which is larger or smaller than the scale fee may be charged.</p> <p>In determining every proposed fee variation, PSAA will:</p> <ul style="list-style-type: none"> • review the justification (including any supporting workings/documents) provided by the firm in support; • check that the nature of the work performed is work which is suitable for an additional audit fee – this would include an expectation that it would not be covered by the scale fee, and that it was relevant to the auditor’s Code responsibilities;

No.	Question	Answer
		<ul style="list-style-type: none"> • check whether or not a suitable person at the body has agreed the fee variation; • obtain the views of the authority if the fee variation has not been agreed; • undertake a sample of audit file reviews; • ensure that the issues that have given rise to the proposed fee variation have been reported to 'Those Charged With Governance' (TCWG); and • check either that the amount of the proposed fee variation value has been reported to TCWG or that arrangements are in place to confirm it.
14	Auditors tendered for work over a fixed period and should have included contingencies within their bids, therefore should bodies be approving additional fee requests from auditors?	PSAA commissions firms to deliver Code of Audit Practice compliant audits. The fee variation process is embodied in the statutory Appointing Person Regulations, and it enables PSAA to vary audit fees if there is a change in the amount of work needed to deliver a Code of Audit Practice Audit. The alternative is that firms would have to build in contingencies to their bids at the outset, anticipating all changes that may happen over the 5 year period. It is questionable whether firms would be willing to bid on such a basis given the high level of risk involved in anticipating future developments, many of which cannot be controlled by audit providers, over such a long period.
15	<p>In relation to the FRC should auditors be charging additional fees</p> <ul style="list-style-type: none"> • for increased regulation and changes in reporting requirements? • for something auditors took on at their risk when tendering for the work? • when we know that auditors have been under immense regulatory pressure to meet standards for a while? 	The FRC is the statutorily appointed regulator for local audit, and the Code states that the auditors are required to comply with the FRC's requirements. The FRC has challenged auditors on the depth and quality of the assurance that they draw on when giving their opinions, with a focus on high value elements such as PPE and Pension Fund valuations. The FRC has also stressed the need to evidence that they have applied appropriate professional scepticism when considering management assertions and assumptions. The areas where recommendations have been made by the FRC are included in our annual regulatory compliance

No.	Question	Answer
	<ul style="list-style-type: none"> where audit firms are being required to deliver work to a higher quality level by regulators. If audit firms had not been doing this shouldn't the additional costs be borne by the firm and not passed on to the client? 	<p>and quality reports for 2018 (covering 2016/17 audits) and 2019 (covering 2017/18 audits):</p> <p>https://www.psa.co.uk/functions-up-to-2017-18/managing-audit-contracts-up-to-2017-18/</p> <p>It is important to note that these annual reports demonstrate that contracted audit firms met the required standards set out in the contracts, originally entered into by the Audit Commission, which PSA oversaw under transitional arrangements up to 2017/18. The contracts that PSA has with the firms recognise that the Appointing Person Regulations allow for PSA to vary the fee if substantial additional work is needed to deliver a Code compliant audit. This includes additional work that is required to meet the requirements of the statutory Regulator. The alternative would be to require firms to build contingencies into their bids, anticipating all changes that may happen over the 5 year period. It is questionable whether firms would be willing to bid on such a basis given the high level of risk involved in anticipating future developments, many of which cannot be controlled by audit providers, over such a long period.</p>
16	Should auditors be requesting additional fees for completing audits in a short time? As auditors should have known the timetable when they submitted their bids.	The Accounts and Audit Regulations 2015 gave notice of the earlier timetable for 2017/18, and so the firms were aware of the arrangements when bidding. We would take this into account when reviewing fee variation proposals – completing audits in line with the known timetable in itself would not be an acceptable reason for a fee variation. Moreover payment of an audit fee premium for meeting the timetable would not be permissible because it would be in conflict with the Ethical Standard which all audit firms are required to observe.
17	Shouldn't the cost of the new VFM judgement be included in the original quote? What is NAO's guidance? (We understood that the NAO have stated that there should be no additional work to be undertaken).	The NAO's new Code of Audit Practice was published in April 2020. This covers the audit work in respect of the new VFM arrangements applicable from 2020/21 onwards. These arrangements were not known about when the firms bid for PSA's

No.	Question	Answer
		<p>current contracts. Whilst it was known there would be a new Code of Audit Practice, its content, such as the change to a VFM commentary, could not have been anticipated.</p> <p>The new Code states that determining how much work to do on arrangements to secure VFM is a matter of auditor judgement, based on the requirements set out in the Code and supporting guidance. Supporting guidance will be published later in 2020 and will provide more detail on the work required.</p> <p>The extent of additional work on VFM arrangements will depend on local circumstances and may vary from year to year and from authority to authority. There may be a one-off effect as both authorities and auditors make the transition from old to new requirements and lay the foundations for appropriate audit coverage.</p> <p>The NAO's consultation noted the <i>'possibility that changes made to the Code will alter the amount of work auditors need to do, the resources and skills that firms need to deploy on the audit, and therefore potentially the fee required to fund this work'</i>.</p>
18	Will the new Code be 'light touch' in the first year as the transitional period with the effect of moderating the in-year fee increase?	<p>The NAO's latest Code of Audit Practice was published in April 2020. This covers the audit work required in respect of the financial statements and the arrangements for VFM. This work will be required to be performed from 2020/21 onwards and will need to have regard to auditor guidance which will be published by the NAO later in 2020. We are not aware of any proposal for a 'light touch' approach (and it is difficult to see that being adopted given the pressures that the sector is likely to be facing in 2020/21). The Code is principles-based and allows the auditor to adopt a flexible approach that is responsive to sector developments and to the specific circumstances faced by the audited body. The Code notes</p>

No.	Question	Answer
		that the amount of work required to perform a good quality audit may increase or decrease in response to those circumstances.
19	<p>What level of delay does the PSAA think is reasonable and will it categorically state that the delay in timing of an audit cannot be a reason for increased charges?</p> <p>If the target date of 31 July is extended to 30 September will it mean bodies will not be charged additional fees for resourcing issues?</p>	<p>If the delay is caused by the auditor, then PSAA wouldn't expect there to be a fee variation in respect of the delay. However, if the auditor is delayed by the authority, e.g. late responses to queries or supply of working papers, then a fee variation could result. PSAA looks at every fee variation individually and seeks further information where appropriate.</p> <p>Delays to audit opinions being issued are regrettable and disruptive. They arise for a variety of different reasons and are not just about audit resource shortages. The convention in local government is that both sides strive to reach the point where the auditor can issue an unqualified opinion, even if that takes a long time. A qualified opinion is seen as a last resort. This approach is enabled by the absence of a statutory deadline.</p>
20	Following revisions in ISA 540 and the resulting move from the current 23 required procedures to 39, will this mean there will be additional costs as a result of those revisions?	<p>These changes are likely to have a variable impact on 2020/21 audit plans depending on the type, number and significance of estimates included in an individual authority's financial statements, and the quality and depth of the working papers that explain management's approach to each estimate.</p> <p>Auditors will need to have local discussions with individual bodies about ISA 540. These discussions will inform the auditor's judgement about the amount of additional audit work needed. Early discussions may enable bodies to take actions to mitigate the risk of additional fees.</p>
21	The introduction of the new accounting standard IFRS 16 Leases will cause additional work for the auditor during 2020/21 but is it a one-off review and therefore no additional fees for future years?	The impact of the standard will vary between authorities and accounting periods, based on factors such as the volume of leases and quality of documentation. There may be a greater impact in the first year of implementation of the new standard compared to subsequent years. It is therefore difficult to estimate with any accuracy the potential impact on individual authorities at this stage.

No.	Question	Answer
		<p>Auditors will need to have local discussions with individual bodies about IFRS16. Bodies were to disclose the estimated impact in their 2019/20 accounts. However, the timetable has now been slipped by 12 months with initial disclosure in 2020/21 and full adoption in 2021/22. Discussions will inform the auditor's judgement about the amount of additional audit work needed and may help to identify actions which bodies can take to reduce the extent of additional audit work needed. Any work done prior to the deferral announcement should remain valid as the requirements have not changed.</p>
22	<p>Will external auditors be charging additional fees so they can attract and retain staff and resource audits better?</p>	<p>Firms are able to propose additional fees if they need to carry out additional work to deliver a Code compliant audit as per the Appointing Person Regulations. The costs of retention and attraction of audit staff would not be accepted as the basis of a fee variation request. However, PSAA recognises that recruitment and retention of staff with the required knowledge of local audit is a critical challenge for firms with significant implications for the sustainability of long term audit supply. We are in close contact with firms as they work to address these issues.</p>
23	<p>When will my auditor inform me about additional fees for my authority?</p>	<p>PSAA is aware that the timeliness of communication of fee variations in 2018/19 was an issue for a number of authorities. PSAA has therefore asked audit firms that where possible any proposed additional fees are reported as early as possible, e.g. in the Audit Plan. Where there are issues that arise later during the audit, these should be raised at the earliest opportunity.</p>
24	<p>Why does PSAA's approval process for additional fees take so long? What is the process and timetable for reviewing and approving fee variations?</p> <p>How / when will we know PSAA has approved fee variations submitted by our External Auditors? What communication will bodies receive?</p> <p>How will PSAA ensure there is consistency across the country?</p>	<p>The Local Audit (Appointing Person) Regulations 2015 provide that if it appears to PSAA on the basis of information supplied by the auditor that the work involved in a particular audit was substantially more or less than that envisaged by the appropriate scale fee then a fee which is larger or smaller than the scale fee may be charged. In order to meet these regulations information has to be provided by the auditor in order that an appropriate determination can be made on an individual body basis.</p>

No.	Question	Answer
		<p>In determining every proposed fee variation, PSAA will:</p> <ul style="list-style-type: none"> • review the justification (including any supporting workings/documents) provided by the firm in support; • check that the nature of the work performed is work which is suitable for an additional audit fee – this would include that it would not be expected to be covered by the scale fee, and that it was relevant to the auditor’s Code responsibilities; • check whether an appropriate person at the body has had the opportunity to consider the proposed variation and to agree it; • ensure that the issues that have caused the proposed fee variation have been reported to ‘Those Charged With Governance’ (TCWG); and • check either that the amount of the proposed fee variation value has been reported to TCWG or that arrangements are in place to confirm it. <p>In addition:</p> <ul style="list-style-type: none"> • if the proposed fee variation is not agreed by the audited body, PSAA speaks to an appropriate officer of the body as part of its consideration of the request; and • if the additional fee has been agreed but appears unusual then PSAA may ask either the auditor or the audited body for clarification. We may also undertake an audit file review. <p>If there is a disputed fee variation then PSAA will determine an appropriate fee. Bodies should not receive an invoice until PSAA’s processes have been completed, as the auditors are not allowed to raise any fee variation invoice until PSAA has made its determination. If a body has concerns then they are asked to please contact PSAA at generalenquiries@psaa.co.uk</p>

No.	Question	Answer
25	<p>How do I challenge my auditor locally on whether their work meets the standard or indeed is necessary?</p> <p>Where can I find information on 2018/19 additional fees charged to other bodies by class of authority?</p>	<p>It is for the auditor to provide a full explanation of any additional work that is required on the audit and confirm the impact on fees. The audited body can then bring judgement and experience to bear in order to raise any questions about the additional work proposed.</p> <p>We will be able to provide more information on actual average additional fees and total final fees (scale fees plus additional fees) by type of body for 2018/19 once we have complete data.</p>
26	<p>What information should auditors provide bodies to support fee variation requests?</p>	<p>The auditor should provide an explanation of the work done to management and to 'those charged with governance' (normally the Audit Committee or equivalent), detailing why it is necessary and why it is additional to the work covered by the scale fee. The auditor should flag the need to carry out additional work as soon as is practically possible and where appropriate discuss with the body any actions that it can take to mitigate the risk of similar additional fees being needed in the future.</p>

Guidance

No.	Question	Answer
27	<p>Where can I obtain PSAA's guidance on the new Code of Audit Practice and VFM approach?</p>	<p>The scope and requirements for auditors' work are determined by the following:</p> <ul style="list-style-type: none"> • Code of Audit Practice (the Code) and supporting Auditor Guidance Notes (AGNs) published by the National Audit Office (NAO) for auditors; • financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC; • professional standards applicable to auditors' work set and enforced by the Financial Reporting Council. <p>The NAO will in due course be consulting on the guidance that it provides to firms on its expectations for undertaking and reporting on VFM arrangements under the new Code.</p>

		PSAA has no remit to issue or enforce technical guidance about audit or the way audits are undertaken – our role in accordance with the appointing person the regulations, focuses on procuring audit services, appointing auditors to opted in bodies, and setting a scale of fees.
28	Is CIPFA working with external auditors and the National Audit Office to ensure that there is a consistent approach across the local government sector in producing suitable evidence to support the VFM arrangements commentary, thus mitigating the need for additional work by the external auditor.	The NAO will provide guidance on the VFM arrangements commentary following a consultation process that will be open to all interested parties.
29	Will PSAA be performing more work across the whole sector to provide further fee guidance, such as indicative ranges, to take account of all the changes in the fee consultation document?	<p>The NAO will be consulting on the guidance that it provides to firms on its expectations for undertaking and reporting on VFM arrangements under the new Code.</p> <p>PSAA will be able to consider the potential impact on fees once the guidance has been finalised. The NAO is aware of the possibility that changes made to the Code will alter the amount of work auditors need to do, the resources and skills that firms need to deploy on the audit, and potentially the audit fee required.</p> <p>At that stage PSAA is hoping to be able to provide indicative ranges in relation to the likely fee implications for different types and classes of body.</p>

Auditor Communication

No.	Question	Answer
30	When will my audit take place and be finalised?	In planning for the audit of 2019/20 accounts, PSAA has tried to address two of the concerns which featured most frequently in our conversations and exchanges with bodies about their 2018/19 audit experience. Firstly, bodies want greater certainty about when their audit will take place and, if for any reason it cannot be undertaken in time to meet the target date for publication of audited accounts, they want to know this at the earliest opportunity.

		<p>Secondly, if there is any likelihood of additional audit work being required which may lead to a fee variation proposal, bodies want early information and explanation.</p> <p>PSAA has worked with auditors to address both of these issues - the planned timetable and any likely fee variations - in their audit planning submissions to bodies as part of a concerted effort to strengthen auditor-audited body communications.</p> <p>In response to the pressures experienced in completing 2018/19 audits in local government, and recognising the challenges posed by the coronavirus emergency, the Ministry of Housing, Communities and Local Government has adjusted the target date for 2019/20 audited accounts to be published to 30 November 2020.</p>
31	<p>Will my auditor stick to the timetable for 2019/20?</p> <p>What is PSAA doing about extending the target date to September?</p>	<p>PSAA's response to the Redmond review addressed the audit timetable. The relevant extract from our response is below:</p> <p><i>"We are very aware of the issues facing the audit profession at present, and the potential changes that may flow from the high profile audit industry reviews by Sir John Kingman, the Competition and Markets Authority and Sir Donald Brydon. Although there is limited reference to local audit within the reports and recommendations for these reviews, their impact on it has been, and is likely to continue to be, very significant. Our aim is to work with the other players in the local government world to achieve long-term audit sustainability. No-one should be in any doubt that this will be a difficult road to negotiate."</i></p> <p>The accounts and audit timetable for local government is set by the government, in the Accounts and Audit Regulations 2015. PSAA has no control over the timetable, although it can seek to influence it in working with the Ministry of Housing, Communities and Local Government. In our view the 31 July target for publication of audited accounts has exacerbated audit resource challenges.</p>

		<p>Local government audit is a specialist area and reducing the audit window means that those experienced in it are able to play a role in fewer local body audits.</p> <p>MHCLG has adjusted the target date for publication of 2019/20 audited accounts to 30 November 2020 taking into account the additional complications arising from the impact of the COVID-19 emergency.</p>
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Auditor Delivery

No.	Question	Answer
32	<p>Why was my 2018/19 audit not delivered by the 31 July?</p> <p>It the bodies can achieve the timetable of 31 May why can't auditors achieve their timetable of 31 July?</p>	<p>The causes of delay vary from body to body. There are three common factors and in some cases a combination of these points apply:</p> <ul style="list-style-type: none"> • a shortage of auditor resources: all firms face significant recruitment and retention problems. The report that PSAA commissioned from independent consultants discusses these issues in greater detail in the context of the sustainability of audit supply. (Touchstone Renard Report). • concerns about the quality of draft accounts and working papers: it is widely acknowledged that producing IFRS-based, code-compliant accounts is a time-consuming annual task, placing considerable strain on what are now leaner finance teams. • insufficient time to resolve technical issues: the first two points exacerbate this third issue.
33	<p>Why are audit staff not sufficiently qualified?</p>	<p>Decisions on staff deployment are a matter for an individual firm taking into account several factors including audit risk, the relevant experience and availability of staff, as well as career progression.</p> <p>As we have reported elsewhere the audit firms have experienced attrition and recruitment issues that have impacted on local audit teams and depleted them far beyond expected norms. Where</p>

No.	Question	Answer
		<p>possible staff have been brought in from other countries with similar local government structures or other parts of the firm. In such circumstances we stress the need for firms to ensure that new staff are appropriately briefed. However, getting to grips with the CIPFA Code IFRS based accounts inevitably involves a learning curve which takes time to negotiate.</p> <p>Audit trainees have always been a part of audit teams and it is vital that they continue to be so for long term audit sustainability. However, it is also vital that firms provide appropriate training and briefings to all client facing staff.</p>
34	The outcome of the 2018/19 audits raises concerns about the delivery of the 2019/20 audits. When will the 2019/20 audits be delivered and will we face the same issues as 2018/19?	<p>It is clear that the audit of 2019/20 accounts will be challenging. As well as continuing to address challenges which arose in 2018/19 the coronavirus emergency now presents additional difficulties.</p> <p>We have asked that audit firms in discussing audit plans with authorities give attention to setting out realistic and achievable timetables. Helpfully, MHCLG has announced a revised timetable setting a target date of 30 November 2020 for publication of audited accounts, with a flexible inspection period that enables bodies to produce their accounts as soon as they are able to do so.</p> <p>We are in regular dialogue with firms concerning their plans to recruit to expected staffing levels and good progress is being made. However there remain hotspots which require further work and it will also take time for all staff to be fully briefed and trained.</p> <p>Clearing the backlog of remaining delayed 2018/19 opinions wherever possible is an obvious priority, which will require focused attention and efforts by auditors and the relevant bodies.</p>
35	Is PSAA supportive of a later deadline?	PSAA favours a longer timetable for publication of audited accounts. We welcome MHCLG's extension of the 2019/20

No.	Question	Answer
		accounts to 30 November 2020 recognising the additional challenges posed by the coronavirus emergency. Ideally bodies will produce accounts and be audited as soon as is practicable, avoiding a build up near the end of the new timetable.
36	Will we get a discount if auditors do not deliver by 31 July?	<p>Auditors are commissioned to deliver an audit that is compliant with the NAO Code of Audit Practice which itself requires compliance with the professional regulatory standards set by the FRC. 31 July is an expected target date but not a statutory deadline, and the Accounts and Audit Regulations 2015 recognise this.</p> <p>A discount of this nature would be contrary to the Ethical Standard, which all audit firms must observe, in that the fee would be contingent on the outcome and therefore would be classified as a threat to the independence of the auditor.</p>

General

No.	Question	Answer
37	If a Company Board is able to engage any registered auditor why is it not the same with the public sector?	The Local Audit and Accountability Act 2014 requires that in order to be eligible to carry out local audit a firm must be registered with one of two recognised supervisory bodies, ICAEW or ICAS. The person appointed to lead the audit must meet specified criteria and be registered with either ICAEW or ICAS as a Key Audit Partner. At present there are nine firms registered to carry out local audit and 96 registered Key Audit Partners.
38	Why are auditors so worried about the FRC?	The FRC is the statutorily appointed regulator to the audit profession and to local audit specifically. It has powers to impose sanctions and significant financial penalties on firms and individuals if they decide that professional standards have not been met.
39	Firms are large organisations with plenty of experience in bidding for contracts. If they bid too low for PSAA contracts why should bodies bail out firms for their mistakes?	Local bodies are not being asked to bail our firms.

No.	Question	Answer
		<p>Audit requirements have increased since the firms submitted their bids in 2017. Following a number of significant financial failures in the private sector, the Government commissioned three separate reviews - Sir John Kingman has reviewed audit regulation, the Competition and Markets Authority has reviewed the audit market, and Sir Donald Brydon is currently looking at the audit product.</p> <p>It is not yet clear what the long term implications of these reviews will be. However, the immediate impact is clear - greater pressure on firms to deliver higher quality audits by requiring auditors to demonstrate greater professional scepticism when carrying out their work across all sectors – and this includes local audit. This has resulted in auditors needing to exercise greater challenge to the areas where management makes judgements or relies upon advisers, for example, in relation to estimates and related assumptions within the accounts. As a result, audit firms have updated their work programmes and reinforced their internal processes and will continue to do so.</p> <p>PSAA commissions auditors to deliver audits that comply with the Code of Audit Practice. The Code is principles-based and allows the auditor to adopt a flexible approach that is responsive to sector developments and to the specific circumstances faced by the audited body. The Code notes that the amount of work required to perform a good quality audit may increase or decrease in response to those circumstances.</p>
40	Why does my authority require an asset valuation when it may be important for the private sector but not for my authority?	<p>Our views on this question are addressed in our response to the Redmond Review. The relevant extract is below:</p> <p><i>“In our view it would be helpful to decouple responsibility for local audit from that for company audit, recognising that local authorities and listed companies are fundamentally different and have their own distinctive needs and challenges. The solutions appropriate</i></p>

No.	Question	Answer
		<p><i>for a company are unlikely to be appropriate for a local authority and vice versa.</i></p> <p><i>Local audit needs a regulatory framework which is able to be responsive to the needs of and unique challenges affecting local bodies, whilst at the same time sitting logically alongside any new arrangements that may be put in place for other sectors of the economy, recognising the desirability of a level of consistency across all sectors on some issues. This is an important issue because it is increasingly clear that local audits are being significantly impacted by the regulatory pressures arising from the audit industry's response to the controversial financial failures in the private sector."</i></p>
41	The objection process represents a challenge to scale fees. Can PSAA review the objection process in terms of defined milestones with timescales in place?	<p>The scale fee does not and never has included any element for challenge work such as objections. The fee for any challenge work is always dealt with through the fee variation process, recognising that both its incidence and scale are inherently unpredictable.</p> <p>In terms of timeliness, PSAA has no role in defining the process beyond encouraging firms to complete their work as soon as possible. We note that the NAO has strengthened the requirements on timeliness in the Code of Practice that will apply from 2020/21 onwards, and we will look to build that into our contract monitoring procedures.</p>

Questions raised by firms

No.	Question	Answer
42	Why hasn't PSAA reviewed the basis for scale fees since 2010 especially because those fees formed the basis of the information provided to underpin pricing decisions in the 2017 bid?	PSAA's position is unusual because as the appointing person for principal local authorities we are required to set a scale of fees spanning more than 480 audits with differing levels of size, responsibility, complexity, capacity, capability and risk.

No.	Question	Answer
		<p>The current scale of fees reflects the continuation of a methodology developed by the Audit Commission, with firms bidding for large lots of audits rather than on an individual body basis. Fees are intended to reflect a good representation of the risks associated with the conduct of each of the individual audits within PSAA's jurisdiction, assuming the timely production of draft accounts and working papers of an appropriate standard. However, individual fees are susceptible to change over time. Accordingly, PSAA's arrangements in relation to fees are designed to include a number of checks and balances to enable the scale to be adjusted as and when appropriate. These include:</p> <ul style="list-style-type: none"> • Placing the extant scale of fees at the heart of any tender process and inviting suppliers to express their bids as a proportion of the current scale; • Pooling winning firms' bids so that the fees of individual bodies are not linked to the bid prices of the individual firm that is appointed as their auditor; • Consulting with bodies, as appropriate, when firms exercise their right to submit proposals to charge additional fees for additional audit work over and above that assumed in the relevant scale fee; • Similarly consulting with bodies when firms submit proposals to amend the scale fee of an individual body to reflect an ongoing change to the level of audit work required. <p>It is apparent that in some cases scale fees have not been updated for events such as the adoption of group accounts. We are committed to make adjustments to fees when these situations are drawn to our attention.</p>

No.	Question	Answer
43	<p>Bids were based on the assumption that the fee setting process would update fees for fundamental changes affecting local audit – why is PSAA not implementing this?</p> <p>Why is PSAA signalling to the market that there will be no change to fees?</p> <p>Will the communication of the 2020/21 fee be very clearly signposted as only a temporary measure to meet the regulations laid down, and that further increases to that fee should be expected?</p>	<p>The scale fee document sets out the 2020/21 scale fees and examples of the variable factors that will impact on the amount of work that auditors need to carry out to deliver a Code compliant audit. After careful consideration of the issues raised in the feedback to our consultation and the factors affecting auditors' work, PSAA has set the scale fee for 2020/21 on the basis that individual scale audit fees for opted-in bodies will remain unchanged from the fee scale applicable for 2019/20. Our expectation is that the final 2020/21 fees will be higher in most cases. However, in the absence of any data for 2019/20 at this stage, and because local circumstances play a key role in the amount of work to be done at any individual body, PSAA is not able to estimate with any reasonable certainty what the appropriate 2020/21 fees should be. The position is made more uncertain by the disruption caused by the coronavirus emergency and the potential impact on matters such as investment asset valuations.</p> <p>The fee variations process will therefore be utilised to determine any appropriate fee adjustments as the position becomes clearer for 2019/20 and 2020/21.</p>
44	<p>Why is PSAA not increasing fees and meeting our expectation of higher fees?</p>	<p>PSAA has approved additional fees for additional work required in carrying out 2018/19 audits. It expects to receive a significant volume of variation requests again in respect of 2019/20 and 2020/21. For the reasons outline in answer to Q43 it has not been possible to make a reasoned estimate of the level of additional work required at each body in 2020/21 at this stage.</p>
45	<p>How will PSAA address the long-term challenges facing local audit and make it more attractive for firms to remain in the market?</p>	<p>Research conducted on our behalf by independent consultants provides a summary of the challenges to long-term audit sustainability for local government. (Touchstone Renard Report). PSAA is committed to working with other stakeholders to help address those significant challenges. However, as the report makes clear there are no easy solutions and PSAA does not control many of the factors that impact on audit sustainability.</p>

No.	Question	Answer
46	<p>Why is PSAA not agreeing centrally specific elements which are pervasive to the regime and not relating to a specific risk at the body? Firms are happy to work with PSAA to provide additional information relating to the impact of those charges.</p>	<p>Our view is that establishing an appropriate additional fee for work not covered by the existing fee scale, requires a process of discussion involving both the appointed auditor and the audited body.</p> <p>PSAA relies on audit firms to provide their views and feedback to it on the factors affecting scale fees, and on opted-in authorities to provide feedback from their perspective on any matters relating to the local audit. Without this information exchange, PSAA cannot make informed decisions about additional work and fees.</p>
47	<p>Why are the fees for audited bodies with fees at the lower end, including pension schemes not being increased? There is a fixed element to an audit and the fees are too low to cover the cost. With regards to pensions, we note there has been a significant change in the regulatory environment that does require a more extensive response from auditors.</p>	<p>PSAA is currently researching the cost of carrying out Code compliant audits in the current regulatory framework and will then consider the results and the best way forward.</p>
48	<p>How do firms plan to treat the changes in the new Code in relation to VFM arrangements?</p>	<p>The starting point will be the NAO's final guidance, which will be subject to consultation in due course. PSAA recognises that whatever the guidance is, the change from a binary conclusion to a commentary will have an impact on the audit time and/or audit team profile, and that there is likely to be a bedding in process as both auditors and bodies get used to the reporting process.</p> <p>Potential transitional issues to address include:</p> <ul style="list-style-type: none"> • Communication and explanation to bodies of the change in requirements, scope of work required and reporting outcomes; • Development of the audit and reporting approach, including risk review from the firm's Risk Management function, to approve the scope of work to be undertaken; • Training of audit staff in the approach and reporting requirements;

No.	Question	Answer
		<ul style="list-style-type: none"> • Compliance arrangements to ensure that teams deliver to the required standard.
49	<p>Why is the process to agree variations overly onerous? Especially when the audited body has agreed the fee the time taken for PSAA to confirm their acceptance of the fee variation is also too long.</p>	<p>We aim to respond to fee variation requests within 15 days. In certain cases, it may take longer to give approval for the variation because we may require more information or need to discuss the additional fee with the body before we are able to determine the variation. We are reviewing the fee variation process as part of our consideration of the scale fees framework.</p>
50	<p>Why is PSAA not updating the scale fee variation rates as they do not reflect the cost of skills required to address audit issues, risks (increased costs of training and retaining higher skilled and specialist staff) and are no longer appropriate?</p> <p>Why is the current rate card not being updated?</p>	<p>As part of the examination of the scale fees framework, PSAA will explore these concerns around fee variations and hourly rates in more detail.</p>
51	<p>Who is best placed to discuss and agree individual authority fee adjustments?</p>	<p>PSAA is required to consider any auditor proposal for a fee variation. In order to make sound decisions on such requests it is important that we are informed by the views of both the auditor and the audited body. They have first hand information about the issues which have given rise to the request and, more generally, have access to local contextual information which is not routinely available to PSAA.</p> <p>We believe that the fairest way to deliver our statutory role is for the auditor to have discussed the proposal with the body before submitting it with a clear statement as to whether the body agrees. If there is agreement we will still review the proposal for reasonableness in the context of any similar fee proposals received. If there is no agreement then we will contact the two parties to discuss the request as a necessary prelude to making a final decision.</p>
52	<p>What is the likely impact on fees following government reviews and especially Sir Tony Redmond?</p>	<p>PSAA will review the outcomes but at present the reviews are either subject to consideration or in the case of the Redmond review have not yet reported.</p>

No.	Question	Answer
53	With regards to the consultation document under the new Code it refers to a 'sharper focus' which implies that there may be a reduced amount of work required in this area. Is that right?	The sharper focus refers to the intention that ' <i>The new approach will extract more value from this work and make auditor reporting more useful to the audited body and the wider public</i> '. The new Code also places a greater emphasis on effective reporting. The NAO will be consulting on its guidance for auditors in delivering this work. When completed this will give a clearer indication of the quantum and type of audit work required.
54	Is local audit an attractive area of work for firms?	Firms have indicated that local public audit operates on much lower profit margins than other parts of the business and is seen to be a less attractive area in which to work. This issue is discussed in the context of market sustainability in the independent review commissioned by PSAA (Touchstone Renard Report).