

**Consultation response: PSAA consultation on the audit fee scale 2021-22**

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## **About the District Councils' Network**

The District Councils' Network (DCN) is a cross-party member led network of 187 district councils. We are a Special Interest Group of the Local Government Association (LGA) and provide a single voice for district councils within the Local Government Association. District councils in England deliver 86 out of 137 essential local government services to over 22 million people - 40% of the population - and cover 68% of the country by area. District councils have a proven track record of building better lives and stronger economies in the areas that they serve. Districts protect and enhance quality of life by safeguarding our environment, promoting public health and leisure, whilst creating attractive places to live, raise families and build a stronger economy. By tackling homelessness and promoting wellbeing, district councils ensure no one gets left behind by addressing the complex needs of today whilst attempting to prevent the social problems of tomorrow.

## **General comments**

The consultation acknowledges the challenging state of local authority audit, and we know these concerns are echoed by our members.

We welcomed the opportunity to share the DCN's concerns around audit quality, cost, and timescales with you recently, and look forward to a constructive relationship with PSAA going forwards.

Local government is paying the price for additional requirements imposed on auditors following several high-profile failures in the private sector. The knock-on impact being that auditors are having to meet additional requirements, leading to an excessive focus on Plant, Property and Equipment, and Pensions, at the expense of the Value for Money conclusion. We appreciate that IFRS compliance, however, is a key constraint for auditors, and the limitations around PSAA's ability to address the wide-ranging concerns held. It seems clear that local government audit has reached an unsustainable level of complexity, and there is a clear need for streamlined IFRS requirements, and simplified guidance. Without this, further fee increases seem inevitable.

It seems poor value for money to the taxpayer that the council pays professional valuers to value assets that they are not going to sell, council houses, leisure centres and swimming pools and council offices. Only to have Audit firms refer this to their specialist valuation arm which seems outside the scale fee and an additional cost, so the tax payer pays twice for work which isn't even relevant to the public sector (excepting investment assets).

And this is set against a backdrop of widespread and seemingly excessive fee increases across district councils in respect of the 2019/20 audit. In a recent survey of our members for example, just under 90% of our 64 respondents reported that their external auditor had sought a variation to the PSAA scale fee resulting in an increased fee. And of those seeing an increase, over half were facing an increase of more than 20% - significantly higher in

many cases. This is clearly not a sustainable position. And while contingencies are not built into the contracts with auditors, we would also make the point that district councils do not have built in contingency to deal with these unexpected fee increases.

We are concerned that the current level of audit delay is causing such delays that the audit cycle will not be able to catch up, and these delays will simply end up built in year on year. This causes real practical difficulties and distraction from the critical budget setting and forward looking work that district councils want to be doing. While the challenges within the audit market are understood, and the challenges posed by Covid to ways of working are understandable – we would point out that district councils are under the exact same pressures, at a time when district Finance teams are also stretched dealing with the covid response.

The capacity of auditors to undertake the work they are bidding for should be assessed when the contract is being let, and fee increases should only be agreed where the external auditor can demonstrate that the issues are the fault of the local authority, not the auditor's. If fee increases are agreed, then the result of this should mean the authority in question sees a benefit in the level of experienced staff, and overall capacity put into the audit. We note this was an issue also raised by Sir Tony Redmond: 'A concern, which has been raised by a not insignificant number of authorities, is the fact that fee variation requests are not always supported by any evidence of additional work done'<sup>1</sup>. More could be done to challenge external auditors to justify fee increases – there seems to be little consequence for non-performance.

**Consultation question: Do you support the proposals in the consultation for the fee scale for 2021/22 audits?**

Yes with caveats. The PSAA proposals seem reasonable, but we would make the following points:

**PSAA Consultation Paper paragraph 11:** *In recent years the number of claims for additional fees has increased significantly, as auditors have needed to meet enhanced regulatory requirements following a number of controversial financial failures in the private sector*

We maintain the view that it is unreasonable that local authorities should be paying the price for failures in the private sector – in our view these costs should not be passed on to local council taxpayers. In addition, as noted by the SDCT, some auditors are applying the same approach to local authorities as they would for commercial audits and are carrying out extra work to meet the expectations of the Financial Reporting Council (FRC).

It appears opaque as to what the standard audit covers so is very difficult to counter increased fees.

**PSAA Consultation Paper Paragraph 13.** *In the 2021/22 fee scale we are therefore proposing to update as many individual fees as possible to consolidate the ongoing audit work identified in 2018/19 fee variations. We have reviewed all 2018/19 approved fee variations to establish the ongoing ones. These include, for example, ongoing elements of additional work on property valuations, pensions valuations and group accounts.*

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<sup>1</sup> [Redmond Review, paragraph 3.4.4](#)

We endorse the response of the Society of District Council Treasurers (SDCT), that additional work resulting in a fee variation may diminish over time, as the auditors build up a body of knowledge and expertise. Therefore the consolidation of a value of work in year one may not truly represent the amount of work required in subsequent years. We agree with the SDCT that this should be kept under review. For instance, work on the governance and set up of a company belonging to a council, and a review of any finance lease, do not necessarily have to be repeated each year.

The focus of auditors on technical adjustments on pensions and assets takes up significant officer time, and often adds little to no value, a concern also highlighted to the Redmond Review (para 4.3.13). Auditors are focusing on these technical adjustments at the expense of those that impact on service delivery.

**PSAA Consultation Paper Paragraph 17.** *We are aware of several scheduled changes to auditing and financial reporting requirements which may impact on the amount of audit work required to enable a safe audit opinion on 2021/22 accounts, and to deliver the requirements on the arrangements for securing value for money.*

We agree with the SDCT, that these two specific categories may be better dealt with at a local level, or with some standard minimum national level fee topped up, if necessary, by a local variation. Some district councils for example may have a number of leases to which the revised treatment of IFRS 16 applies, whereas others may have none, and similarly with group accounts. To try and deal with this all at a national level disaggregated solely by reference to type of local authority may be an oversimplification.

**PSAA Consultation Paper paragraphs 23 and 24:** *Scale fees are based on the expectation that audited bodies can provide the auditor with complete and materially accurate financial statements and supporting working papers within agreed timeframes. Additional audit costs that arise due to auditors not meeting expectations in relation to their responsibilities are ineligible for a fee variation.*

In their response to our survey, members highlighted examples of audit companies failing to meet time, cost and quality expectations, and yet there being no consequence or sanction. One telling comment from the survey highlights the issues: *'We don't see extra staff for the extra prices we're charged, nor do we see better experienced auditors'*. We note a further requirement in the Statement of Responsibilities is that the auditor must *'provide appropriate and adequate resources and assign responsibilities to staff with the relevant expertise and experience.'*

We reiterate our points from the November 2020 consultation on fee variations, that when audit firms send in junior audit staff, this places an extra burden for district finance staff. This is a substantial hidden cost to local authorities in staff time and this should be recognised by the PSAA in any consideration of increased fees. An increased main fee should lead to additional and improved auditor capacity and skills. In addition, districts should not be charged additional costs for additional hours having to be spent on the audit that are caused by delay to audits being completed on time, e.g. where the financial position has to be updated due to external events such as financial settlement.