

**Consultation response: Changes to the Local Audit  
(appointing person) regulations**

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**About the District Councils' Network**

The District Councils' Network (DCN) is a cross-party member led network of 183 councils. We are a Special Interest Group of the Local Government Association (LGA) and provide a single voice for district services 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.

**Initial comments**

Local authority audit is in an extremely challenging place at present, with local government paying the price for additional requirements imposed on auditors following several high-profile failures in the private sector. The increasing level of complexity of the accounts, rising costs and fragile market mean that audit is a critical concern for district councils.

We are concerned that the current level of audit issues are 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. The longer that council teams are dealing with backwards looking audits, the less time they have for the forward-looking planning and budget setting that councils need them to be focusing on.

The allocation of £15m to support local authorities with the ongoing rising cost of audit is welcome but should not be a one-off; it should be made permanent. 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. One recently reported example is of a district council facing a bill of over £90,000 for 2019-20 compared to £56,000 the previous year. This is clearly not a sustainable position.

**Consultation questions**

**Q1 Do you agree with the above proposal to extend the regulatory deadline by which the scale fees need to be set to enable the appointing person (PSAA Ltd) to take into account more up-to-date information?**

- Yes – I agree with the above proposal
- No – I disagree with the above proposal
- Unsure

Yes, we agree with this proposal. This is a helpful proposal that will aid district council budget setting. We note the proposal is for a latest date – and would emphasise the importance of consultation starting as early as possible so that districts can factor the fees into their budget setting.

**Q2. Do you agree with the above proposals to enable the appointing person to consult on and agree standardised fee variations to be applied to all or certain groups of principal bodies?**

- Yes – I agree with the above proposal
- No – I disagree with the above proposal
- Unsure

Yes, we agree with this proposal as it would reduce the number of local negotiations, though it will be important that there is consultation on these standardised fees to ensure they are reasonable and proportionate. Any standardised fee should reflect the type and size of authority.

**Q3. National fee variations could only be implemented in prescribed circumstances, which would be defined in the regulations. Do you have any comments on the example circumstances outlined in paragraph 8, or any additional circumstances that should be considered?**

We refer you to our response to the PSAA consultation on fee variations in November 2020. In our response we agreed that it is logical to identify the two types of variation and we supported the principle of having fees for national issues pre-determined by the PSAA. We note that PSAA has commissioned independent research to review potential examples where standardised fee variations could apply and call on PSAA to engage with the Society of District Council Treasurers and the DCN on these as part of this work. We also call for the fee variations process to be open and transparent, to provide assurance that the process is sufficiently robust to hold audit firms to account.

**Q4. Do you have any comments about the above proposals to enable some fee variations for additional elements of work to be approved during the audit, noting that the appointing person's scrutiny processes to review the proposed additional fees would operate in all cases in the usual way?**

We do not disagree with this approach, though we note that this will require additional district council resources during the time they are also involved in audit work. It is essential that there are initial discussions between the auditor and the audited body with PSAA having a leading role to play in facilitating good communication between all parties.

**Q5 Do you agree with the above proposal that the appointing person is able to appoint auditors for the period that it considers to be the most appropriate, up to the maximum length of the appointing period subject to consultation with the relevant bodies?**

- Yes – I agree with the above proposal
- No – I disagree with the above proposal
- Unsure

Yes, we agree with this proposal, and agree that this would enable greater flexibility for audit appointments given the fragile nature of the audit market, for example with losing firms not having to wait 5 years for the chance to win another appointing person contract. However,

changes should only be made where necessary, and following consultation – as too frequent changes will see the loss of local knowledge built up over previous years, which in itself will then place further demands on limited district council resources. Given the serious issues in local government audit at present, councils should also have the ability to change their auditor (in consultation with the appointing person) where there are issues of poor performance and quality. There needs to be a clear arbiter to take a final decision in these instances to determine a way forward that recognises the accounting requirements but also reflects on the cost to the public purse and what is ultimately in the public interest.

**Q6. Finally, we would also welcome any more general comments on the proposals, including any comments relating to equalities impact or any potential for unintended consequences of any of the above proposals.**

As stated above, the allocation of £15m to support local authorities with the ongoing rising cost of audit is welcome but should not be a one-off, it should be made permanent. 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. One recently reported example is of a district council facing a bill of over £90,000 for 2019-20 compared to £56,000 the previous year. This is clearly not a sustainable position.