

Audit Committee



22 September 2022

PUBLIC SECTOR AUDIT APPOINTMENT (PSAA) - 2022/23 AUDIT FEE SCALE CONSULTATION

Report sponsor	Steve Richardson Director of Finance and Resources
Report author	Vicky Errington Senior Finance Manager – Corporate Accounting vicky.errington@milton-keynes.gov.uk

Exempt / confidential / not for publication	No
Council Plan reference	
Wards affected	All wards

Executive summary

This report informs Audit Committee of the consultation in the 2022/23 audit fee scale which invites audited bodies and stakeholders to submit their views on PSAA's proposals for setting the fee scale for the audit of opted-in bodies' 2022/23 financial statements and value for money arrangements. Audit work under this fee scale will largely be undertaken from autumn 2023 onwards.

This consultation is therefore taking place in the context of the significant tensions and pressures in the wider audit market and profession, and of evolving arrangements in the local audit system. The issues highlighted in 2020 in the Redmond review of local audit and financial reporting continue to have a significant impact on audit delivery and have led to increasing delays for auditors in completing some audits.

The consultation is carried out in accordance with the relevant provisions of the Appointing Person Regulations, which include the requirement to consult on and set the audit fee scale before 1 December of the relevant financial year.

The consultation explains how the PSAA proposes to calculate the audit fees which will make up the 2022/23 fee scale. The proposal involves managing the impact of three key elements:

- fee variations approved in relation to 2019/20 and 2020/21 audit work which relate to recurrent audit work in subsequent audit years;
- changes in local audit requirements; and
- the impact of changes in inflation.

The 2022/23 audit year is the last in the current five-year appointing period, which covers the audits of the accounts of relevant authorities for 2018/19 to 2022/23.

New audit contracts will apply for the five audit years from 2023/24, following a PSAA audit procurement exercise during 2022. Any fee implications arising from the results of the procurement will be considered in the consultation on the 2023/24 fee scale in twelve months' time.

Subject to the outcome of the current consultation, we would anticipate that the 2022/23 Fees will increase.

1. Proposed Decision/s

1.1 To note this report and expected increase in the Scale Fees of the 2022/23 Audit of the Statement of Accounts.

2. Why is the decision needed?

Background

2.1 As the appointing person for local authorities, fire and police bodies, PSAA is required to undertake consultations before setting audit fee scales. This year's consultation, on the fee scale for the audit of 2022/23 financial statements and value for money arrangements of bodies that have opted into PSAA's national auditor appointment scheme, takes place in the context of continuing significant turbulence and uncertainty in the local audit market

2.2 The 2020 Redmond review into local audit and the transparency of local authority financial reporting highlighted a lack of coherence in the current local audit framework, contributing to wider issues including audit delays and market instability. Delays are becoming more prevalent under the pressure of increasing expectations from professional regulators, shortages of experienced auditors, greater complexity of transactions and structures, and the challenges posed by the Covid pandemic.

2.3 PSAA is required to set a fee scale under the statutory requirements and timescales set out in the Local Audit Regulations. Changes to the regulations in February 2022 included moving the fee setting deadline from March to November, to provide more scope to set fees based on information from completed audits. The statutory requirement is now that a fee scale must be set before 1 December of the relevant financial year and cannot subsequently be amended.

Factors to be considered in setting the 2022/23 fee scale

- 2.4 The PSAA set the most recent fee scale, for the 2021/22 audits, in March 2021. At that time, they were able to consolidate into the fee scale approved 2018/19 fee variations for ongoing audit requirements where these had been submitted for approval.
- 2.5 The 2021/22 fee scale is the baseline from which the PSAA will set the 2022/23 fee scale. The fee scales will be updated to take account of more recent approved fee variations for ongoing work. In setting the fee scale, it will also need to consider whether they can update it to reflect changes in audit requirements that apply from 2022/23.
- 2.6 The proposal involves managing the impact of three key elements:
- Fee variations approved in relation to 2019/20 and 2020/21 audit work which relate to recurrent audit work in subsequent audit years - In the 2022/23 fee scale its proposed to consolidate the additional fees needed for ongoing audit work identified in 2019/20 and 2020/21 fee variations, excluding the fees needed for work on the VFM commentary and ISA540. The PSAA can do this where audits are complete and fee variations have been submitted to and approved by PSAA. Where this is not the case, the PSAA will need to consolidate those requirements into a future fee scale consultation and strip out any elements that have already been baked into scale fees in prior years to avoid any double counting.
 - Changes in local audit requirements - Where local audit requirements change or are updated, PSAA must consider the potential impact of each development on the fee scale. They would need to consider whether additional fees are necessary, whether the estimate of the additional fees is based on reliable evidence, and whether it is possible to incorporate the fees into the proposed fee scale in time for the consultation.
 - The impact of changes in inflation - The contracts with audit suppliers provide for an increase for inflation for audit years 2021/22 and 2022/23 based on the annual March CPI rate, minus 1%. There was no increase required for the 2021/22 fee scale given the relatively stable position on inflation in 2021. However, for 2022/23 this will need to increase the firms' remuneration by 5.2% based on the March 2022 CPI of 6.2%.

The PSAA are proposing to fund this increase from the PSAA surplus, rather than making a separate distribution to Authorities.

Milton Keynes City Councils (MKCC) position

2.7 MKCC current scale fee is £135,338. In 2019/20 the PSAA determined an additional fee of £57,547 totaling £192,885 for 2019/20. The audit of 2020/21 concluded on the 8 September 2022, and in the Audit Results reports for 2020/21 it is stated that for an organisation such as Milton Keynes Council and the extent of audit procedures now required means it will take approximately 2,500 hours to complete a quality audit. The current scale fee is £135,388 and E&Y current estimate for 2020/21 is a final fee of c£250,000 which would need to be agreed with the PSAA.

3. Implications of the decision

Financial	Y	Human rights, equalities, diversity	
Legal	Y	Policies or Council Plan	
Communication		Procurement	
Energy Efficiency		Workforce	

a) Financial implications

These are detailed in the report.

b) Legal implications

These are detailed in the report.

4. Timetable for implementation

4.1 The PSAA consultation is due to end 30th September, with the new scale fee for 2022/23 to be agreed by 1 December 2022.

List of background papers

[consulting on the fee scale for 2022/23 audits.](#)