

12 August 2021

Via email

Email

generalenquiries@psaa.co.uk

Dear Councillor Claydon

### **Your letter re proposed increase in audit fees**

Thank you for your letter. Please note that I responded to Councillor Haywood's letter of March 12 on March 16 via email. Unfortunately, it appears that my letter was not circulated within the Council, and last week my colleague provided Stephen Pearse with a further copy which hopefully you now have (I have cc'd Stephen). This letter does not repeat its contents, but I have updated the information provided where I thought it would be helpful to do so.

#### Fees

I set out our approach to dealing with fee variations in my March letter, and that we have a robust process ([Fee variation process](#)) to review all fee variations submitted in accordance with our governing statutory regulations and the fact that public money is involved. If we do not consider that the evidence provided by the auditor justifies the proposal and/or the body does not agree with the auditor's proposal, it can take some time to resolve, and this is the case for yourselves. Our discussions with your auditor are continuing and I am hopeful that we will be in a position to move it forward soon.

I referred to the increased audit quality requirements. We are working with all firms to continue to understand the ongoing impact. Where possible we will be building recurrent additional fee items (e.g. the cost of new and ongoing group accounts) into the scale fees for efficiency, but because of the statutory regulation constraints there can be a significant time lag before we can make these changes. Some individual fee elements are non-recurrent, such as the impact of the pandemic. We are aware that late notification of additional audit costs has been a concern for authorities, and we have asked that auditors have early discussions on these matters where possible. Please note though that no additional fee is payable by opted-in bodies unless the auditor proposal has been approved by PSAA.

I also referred to the wider difficulties that the current drafting of the fee setting part of our regulations caused us. You may have seen that MHCLG has published the results of its consultation on the Local Audit (Appointing Person) Regulations 2015 and is intending to make changes to enable us to set a scale fee closer to the audit commencement date which can be based on more timely information. For example, we had to set a scale fee for 2020/21 encompassing the first year of the new VFM arrangements commentary before the NAO had had time to issue its consultation on its guidance notes on what was expected of auditors.

On a more positive note, MHCLG has recently published its allocation of £15m of funding to local government bodies in view of the increased cost of audit, and I note that Arun's share is £22,666.

### Local audit position

As you might expect PSAA recognises and shares your disappointment and frustration at the prospect of a delayed 2020/21 audit process. We also appreciate the inconvenience that it will cause you, and we are very conscious of the adverse effects which flow from delayed audit opinions. They include disrupted related work plans for all parties, uncertainty about the organisation's financial position, and weakened governance and accountability processes. Perhaps most obviously, delayed audited accounts are less valuable and relevant.

The widespread concern over the timeliness of local government audit opinions is reflected in an NAO report published in March 2021, '[Timeliness of local auditor reporting on local government in England, 2020 - National Audit Office \(NAO\) Report](#)'. This was followed by two sessions of the Public Accounts Committee (PAC) inquiry into the timeliness of local government audits following the NAO's report. The Committee heard from representatives of the firms, Sir Tony Redmond, MHCLG and PSAA (myself).

The PAC has recently published its report from this enquiry, '[Local auditor reporting on local government in England - Committee of Public Accounts - House of Commons \(parliament.uk\)](#)'. There were a number of recommendations, including that '*as a matter of urgency, the Department should write to the PAC by September 2021 with a detailed plan and timetable for getting local audit timeliness back on track*'.

In common with all stakeholders in the local audit system (including the auditors themselves), we want to see the earliest possible return to a position in which virtually all local bodies are able to publish their audited accounts by the target date specified in the Accounts and Audit Regulations. We are represented on MHCLG's new Liaison Committee that is working to address the issues, and we are aware that there are a number of significant obstacles to be overcome before this can happen. They include:

- a significant backlog of delayed 2019/20 audit opinions, of which 89 are still outstanding;
- more demanding regulatory requirements which increase the time and resources needed to complete each audit;
- local bodies entering more frequently into innovative transactions which require detailed examination by auditors; and
- the challenges posed by the pandemic including its implications for auditors' work in relation to the financial resilience of bodies.

There is also a shortage of auditors to undertake local audits and Key Audit Partners to lead them, and concerns about the number of trainees choosing to stay in the sector post-qualification. This is affecting all firms and all parts of England. The shortage of local auditors has also been highlighted by the Healthcare Financial Management Association in its February 2021 briefing paper [audit-appointments-briefing-final.pdf \(hfma.org.uk\)](https://www.hfma.org.uk/audit-appointments-briefing-final.pdf). It noted that '*Some members have reported that their auditor has resigned or has declined to extend the current audit contract. For the 2019/20 audits there were three NHS organisations that were unable to appoint an external auditor following the required audit appointment process*'.

Unfortunately, there are no easy solutions which we or any other party can simply action. The reality is that returning to a more predictable and stable position is going to take some time and will be a gradual process.

We have been consulting local bodies about our draft prospectus for the next appointing period commencing in April 2023. In parallel we have consulted audit suppliers through a market engagement exercise. Importantly, both consultations ask for views and suggestions about how the system can respond to the challenges outlined as speedily as possible. We will also be looking to support growth and attract additional capacity into the market.

#### Publishing date

Whilst there is an expectation in the NAO's Code of Audit Practice that auditors report on a timely basis insofar as they are able to do so, there is no statutory date for the audit opinion to be given. This is because the Accounts and Audit Regulations set out at 10(2) that where an audit is not concluded by the specified publishing date (30 September this year), the body must instead publish a notice stating that it does not have audited accounts and the reasons why. This means that bodies that do not have audited accounts by the specified date are able to comply with their statutory requirement. We recognise that this does not reduce the inconvenience or alleviate the disappointment that comes with the delay to publishing accounts by the due date. However, it does enable the body to inform its public and other stakeholders of the reasons for the delay. The wording of the statement is at the discretion of the authority.

I hope this information is useful to you. We would also be happy to have a discussion with you if that would be helpful.

Yours sincerely



Tony Crawley  
Chief Executive

Cc Stephen Pearse, Internal Audit Manager