

CONSULTATION ON SCALE AUDIT FEES FOR 2018/19

SUMMARY AND RECOMMENDATIONS:

SUMMARY: This report is a response to the Public Sector Audit Appointments Limited (PSAA) consultation on scale fee setting for 2018/19 for opted-in local government and police bodies.

RECOMMENDATION:

- (i) Licensing and General Purposes Committee note the consultation response on 2018/19 fee setting as issued in Appendix 1.

1 INTRODUCTION

- 1.1 Public Sector Audit Appointments Limited (PSAA) is an independent company limited by guarantee incorporated by the Local Government Association in August 2014.
- 1.2 In 2015, the Secretary of State for Communities and Local Government (Now Ministry of Housing, Communities & Local Government (MHCLG)) delegated a number of statutory functions (from the Audit Commission Act 1998) to PPSA on a transitional basis by way of letter of delegation issued under powers contained in the Local Audit Accountability Act 2014.
- 1.3 Due to delegations, for 2017/18 the PSAA is responsible under transitional arrangements for appointing auditors to local government and police bodies and for setting fees.
- 1.4 In July 2016, the Secretary of State specified PSAA as an appointing person for principal local government authorities from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulation 2015.

- 1.5 From 2018/19, PSAA is responsible for appointing an auditor and setting scale fees for relevant principal authorities that have chosen to opt into its national scheme.
- 1.6 Rushmoor Borough Council has opted in to the national scheme. The consultation response relates to the setting of scale fees in the first year (2018/19) of the new arrangements and covers the following areas:
- Scale fee
 - Work programme
 - Audit quality
 - Fee variation

Appendix 1 provides detail of the consultation response.

2 CONCLUSION

- 2.1 This report informs members of changes in audit fees for 2018/19 and the basis on which they are set.

AMANDA FAHEY

HEAD OF FINANCIAL SERVICES

Rushmoor Borough Council PSAA Scale of audit fees for 2018/19 Local Audit and Accountability Act 2014 Consultation issued December 2017

Introduction

The Public Sector Audit Appointments Limited (PSAA) is consulting on the scale of audit fees for 2018/19.

This paper sets out Rushmoor Borough Council's response to the consultation

Scale fee setting

Rushmoor Borough Council welcomes the opportunity to consult on proposed scale fees for 2018/19. A 23% fee reduction in 2018/19 provides an audit fee saving of £11,462. On first inspection, this is of great benefit with the continued financial pressure within the local government sector. A stable fee proposal across a three-year period is also favourable over a one off reduction in 2018/19 as this will allow greater certainty over fee levels.

However, the basis of using the favourable prices secured from the latest procurement round may overestimate the saving where bids have been lost led to fill order books.

With significant reduction in fees in 2018/19 there is greater pressure on auditor to look for opportunities to raise fee by alternative methods to offset losses.

Work programme

Note that the scale fee is tied into the Code and National Audit Office (NAO) guidance. There is no material change due in 2018/19. The next change in the Code of audit practice is due in 2020/21.

Audit quality

Rushmoor Borough Council supports continued review of audit quality and receiving communication via reports on progress in the audit market.

Fee variation

Fee variation may be targeted as a potential for fee increase. Auditors are able to raise fee variations above scale fee where substantially more work is required than envisaged by the scale fee. For example, where the risk profile of the client changes from year to year and additional audit work is required to address the risk presented. As PSAA clearly outlines such scale fee variations should occur where factors are significantly different from those identified and reflected in the prior year scale fee.

The potential for auditors to obtain additional fees arises due to the auditor being able to make a request to the PSAA for a fee variation. In theory, the auditor needs to agree fees with audited bodies. In practice, there are limited discussions, with the additional charge presented as part of final reports to committees, leaving little room for review.

Auditors supply information to PSAA that portrays their perspective of “additional work” undertaken. However, the evidence presented can often demonstrate the desired outcome rather than a balanced appraisal meeting the PSAA definition of a significant change from the prior year scale fee. For example, in 2017/18 a new value for money risk has been raised for Rushmoor Borough Council. There has been no change in the risk profile to facilitate this risk, yet the audit provider is using a standard risk across all audited bodies on value for money. This risk should not attract a fee variation and will be monitored by the council, yet could be presented as a significant variance from the prior year scale fee.

To avoid miscommunication of a fee variation a robust consultation process including the audited body, auditor and PSAA needs establishing with an iterative progressive resolution process.