**Society of District Council Treasurers**

**Response to The Public Sector Audit Appointments (PSAA) Consultation on the scale of audit fees for 2020-21**

This is the **Society of District Treasurers** response to the consultation paper issued by the PSAA on the scale of audit fees for 2020-21:

 [https://www.psaa.co.uk/audit-fees/consultation-on-2020-21-audit-fee-scale/](https://response.gv-c.com/Mail/Click/507?a=3E43991268B3F6481481BA27DA621F96&r=FFE9779C7EB94993AB2C610168518863&v=)

**General comments**

The Society welcomes the opportunity to comment on the above review. There is not a specific set of questions within the document to prompt individual responses and we have therefore answered with reference to a number of general key points (referenced to specific paragraphs in the document where appropriate):

It is clear that the 2018-19 audit process has been by far the most challenging and frustrating for the sector specifically in relation to the audit process with many references made to:

* Late changes to audit plans
* Late receipt of audit opinions
* Additional fees requests

**Response**

We don’t believe that the statement made (paragraph 9) in respect of tight timescales for the preparation of accounts has any bearing on the process or the issues highlighted above. The Local Authority sector responded incredibly well to produce their financial statements in a shortened time frame; adopting a new and much more focussed approach on the key elements of the statements and the process. This achieved a relatively smooth transition to the new deadline and most audited bodies in the sector have now embedded processes to deliver on or before the 31 May.

Auditors were well aware of the deadline when they tendered for the work and local authorities have managed to work successfully within these revised timescales. For a number of authorities the audit delays experienced in 2018/19 and the additional staff time spent as a result of the delays in the audits outweighs the savings that have been made on the audit fees. It is concerning that a significant number of audits have taken far longer to complete than it has taken authorities to prepare the accounts.

There have also been rumours and suggestions that the deadline(s) particularly in relation to the audit period be reviewed with consideration of it being extended. The Society would not welcome any such change and would urge that attention is focussed on achieving the current time frames, which audit bodies are comfortable working within.

The Sector are very well aware of the impact other regulatory bodies have on the audit process a result of which imposing additional audit and assurance work necessary to meet expected standards. These impacts have clearly affected the audit firms’ ability to deliver on time and within pre-approved scale fees and we appreciate that much of these are beyond their scope of control.

With many more changes likely in the medium term this is likely to continue to adversely impact the external audit process and the relationship between audit firms and the sector.

It is increasingly frustrating that the audit framework has become more fragmented and disjointed since the abolition of the Audit Commission in 31 March 2015. That is not to say we advocate a return to that model of auditing, but certainly a more joined up and clear regulatory approach is necessary.

The consultation raises the issue of additional work arising from changes to the Code of Practice and financial reporting requirements and how this should be reflected in future charging arrangements. The auditors tendered for the work over a fixed period and should have included contingencies within their bid to cover these. This is surely the ethos of tendering for contracts; that the tenderer accepts in equal measure the risks and rewards inherent in the arrangement.

The Society is well briefed on the changes coming forward through the new Code of Audit Practice and the potential implications they have. We recognise the significance and importance of the VFM concept and in particular the increased forward looking focus on resilience and financial sustainability given the increased uncertainty around Local Government Funding in the future.

We welcome these developments and recognise that implementing them may have to come at a cost to ensure the outputs provide the levels of assurance necessary to our stakeholders that the sectors’ management of public money continues to achieve the highest governance standards expected. However, we equally believe as highlighted above when work is tendered for account needs to be taken of potential future changes, which is something we encounter on daily basis through our day to day procurement processes and we would expect this t be the case for audit work.

We also recognise that at this stage it is not easy to translate the impact of these developments without sight of the Audit Guidance Notes (AGNs), which are currently being developed.

The Society recognises that tiers, regions and types of authority will each be at different stages of maturity and will be operating different models of activity and as such their audit will need to reflect that.

However, as highlighted in the document it is imperative that early communication and discussion between the audit firms and audited bodies takes place. Where possible agreement on the levels of audit work necessary and additional fee proposals should be reached in order to avoid the position we found ourselves in during the 2018-19 audit process. We understand that such discussions have started to take place this year, which is a much welcomed improvement from the previous position.

On one hand the Society welcomes budgetary constraint in respect of retaining scale fees unchanged from the scale fee set for 2019-20. However, we are equally concerned at the number of fee variations taking place and also but more significantly the ongoing quality and depth of audit in light of the financial risks facing the sector that can be achieved through freezing scale fee levels.

One-off variations should only be used in exceptional cases, the need for which has arisen from purely local circumstances rather than based on generic costs that the auditors should have foreseen when they made their original bids.

 We acknowledge and are pleased to see in Paragraph 37 of the document reference to work being undertaken by PSAA “exploring a range of issues in relation to scale fees in more detail”, which states will conclude in 2020. We would welcome an opportunity to engage with PSAA on that project and support where necessary to ensure the views of the Districts’ we represent are fully taken into account and included in that work.

However, the Society recommends that the fees and fee setting process should continue to be determined by PSAA. It is crucial that there should be a nationally negotiated fee scale. We also believe that, in view of the difficulties experienced by both local authorities and auditors, the PSAA should assume greater responsibility in the short term for ensuring that the new system operates effectively. The majority of Councils opted to procure their audit services through the PSAA as they perceived it to be the most effective solution and we are concerned that the PSAA’s suggestion of increasing one-off fees would undermine the point of a nationally negotiated fee structure.

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