



CONSULTATION ON SCALE OF AUDIT FEES FOR 2020/21: OPTED IN LOCAL GOVERNMENT AND POLICE BODIES

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ICAEW welcomes the opportunity to comment on the Consultation published on 27 January 2020 on *Scale of audit fees for 2020/21: Opted in local government and police bodies* by Public Sector Audit Appointments (PSAA), a copy of which is available from this [link](#).

ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of strong economies, ICAEW works with governments, regulators, businesses and it leads, connects, supports and regulates more than 154,000 chartered accountant members across 149 countries. ICAEW members work in all types of private and public organisations, including public practice firms, and are trained to provide clarity and rigour and to apply the highest possible professional, technical and ethical standards.

ICAEW is the largest Recognised Supervisory Body (RSB) and Recognised Qualifying Body (RQB) for statutory audit in the UK, registering approximately 3,500 firms and 9,300 responsible individuals under the Companies Act 1989 and 2006. ICAEW is also the largest RSB in England in respect of local public audit, registering 8 firms and 94 key audit partners under the Local Audit and Accountability Act 2014 (LAAA).

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MAJOR POINTS

1. Audit has been undergoing an unprecedented level of scrutiny both in the private and public sectors in the last 18 months. Audit fees, audit resources and the quality of audit has been a large part of this scrutiny and debate.
2. While ICAEW is not commenting on the individual contracts that PSAA has negotiated with local bodies and the audit firms that are part of its framework contracts, we have provided some comments and observations on the underlying principles which we believe could be usefully considered as part of the fee-setting and fee variation process.
3. In providing our comments, we have also had sight of the *Future Procurement and Market Supply Options Review* which outlines research (through discussion with accountancy firms) in relation to both fees and the overarching environment that they are currently working in and the impact of other circumstances which will have an effect on the level of work that is carried out for the 2020/21 audits.
4. As stated in both the consultation and the Options Review paper, we agree that there are a number of issues that need to be considered in setting fees at individual bodies, including but not limited to:
 - The risk environment at the body itself (which may depend on a number of factors);
 - Changes in some of the International Financial Reporting Standards (IFRSs) which may impact on the 2020/21 financial statements;
 - The new auditing requirements under *ISA540, Auditing accounting estimates and related disclosures*;
 - The new requirements for the VFM arrangements conclusion outlined in the NAO's Code of Audit Practice and the supporting notes;
 - The quality of local bodies financial statements and supporting working papers;
 - Increased regulation by the regulatory bodies; and
 - Any other expected or unexpected issues that may arise during the course of the audit.
5. In *ICAEW's response to the Redmond Review*, we highlighted our view that: *The drive to reduce audit fees, since the announcement of the abolition of the Audit Commission in 2010, took on greater significance in the local audit market, arguably to the potential detriment of other factors such as quality of work. In the development of the new regulatory and audit regime for local public bodies, a low audit fee was seen as a good thing without there being sufficient debate or discussion about the 'value of audit' and what local bodies (and indeed what other stakeholders) might actually want from auditors' reports. In our paper, Local Public Audit; Expectations Gap, we discuss the issue of decreased audit fees (pages 15 and 16).*
6. While we do not disagree with the proposals laid out in the paper, including PSAA's view that firms should discuss the need for additional fees directly with the audited bodies, we understand from local auditors that there is an issue regarding the timeliness of approving the variation requests (this issue is also outlined in the Options Review). ICAEW's view is that PSAA may need to consider whether it needs additional resource to enable it to review the variation requests on a more timely basis.

In much of the discussion and debates in the last two years in relation to fees and the audit work that local auditors are carrying out, there has been reference to CFOs wanting auditors to challenge their forward-looking plans and assumptions and comment on the financial resilience of the organisation. We outlined in our Redmond Review response that, where CFOs want additional advisory work rather than just the audit, they can separately hire consultants to work alongside them in their financial resilience work and challenge their budget assumptions. ICAEW's view is that it may be helpful in PSAA's dialogue with local bodies, if it were to highlight that auditors need to remain removed from management processes and local bodies working papers which they are subsequently auditing. PSAA could also usefully highlight that the independence and ethical

standards which local auditors are required to follow do not allow them to provide advice to local bodies' on how they should prepare their working papers.

ICAEW has responded to a number of external reviews in relation to audit, namely:

Review of the Financial Reporting Council by Sir John Kingman (ICAEW [Representation 92/18](#));
Statutory Audit Market by the Competition and Markets Authority (ICAEW [Representation 123/18](#));

Review of the Financial Reporting Council by Sir John Kingman: Arrangements for Auditor Procurement and Remuneration (ICAEW [Representation 127/18](#));

BEIS Committee: Future of Audit Inquiry – Written Submission (ICAEW [Representation 07/19](#));

CMA Statutory Audit Services Market Study – Update Paper (ICAEW [Representation 13/19](#));

Independent Review into the Quality and Effectiveness of Audit (ICAEW [Representation 64/19](#));
and

Independent review into the arrangements in place to support the transparency and quality of local authority financial reporting and external audit in England by the Ministry of Housing, Communities and Local Government (MHCLG) (ICAEW [Representation 128/19](#)).

ICAEW has also, since the announcement to abolish the Audit Commission in 2010, contributed a number of responses to key stakeholders in the development of the new framework, namely:

Draft Local Audit Bill (ICAEW [Representation 130/12](#));

Future of Local Audit: Consultation on secondary legislation (ICAEW [Representation](#));

Local Audit (in relation to smaller authorities) (ICAEW [Representation 98/14](#));

NAO Code of Audit Practice (ICAEW [Representation 142/14](#));

Local Audit: Extension of Contracts (ICAEW [Representation 93/15](#)) – Our comments in this representation are pertinent to the current situation that is currently now playing out;

Auditors Work on Value for Money (VFM) Arrangements (ICAEW [Representation 133/15](#)); and

Developing options of a national scheme for local auditor appointments (ICAEW [Representation 169/16](#)) – this representation is also worth noting for the various options that we have outlined in our response.

ICAEW also published its [Local Public Audit: expectations gap](#) paper in October 2019.