

EAST SUSSEX FIRE AUTHORITY

Panel Scrutiny & Audit Panel

Date 9 November 2023

Title of Report External Audit Update

By Assistant Director of Resources/Treasurer

Lead Officer Duncan Savage – Assistant Director of Resources/Treasurer

Background Papers Scrutiny & Audit Panel 10 November 2022 – Appointment of External Auditors
[221110 SA Appointment of External Auditors REPORT.pdf \(modern.gov.co.uk\)](#)
PSAA consultation on the 2023/24 audit fee scale
PSAA e-mail on audit fee scale 20-09-2023

Appendices 1. East Sussex Fire Authority response to PSAA fee consultation September 2023

Implications

CORPORATE RISK		LEGAL	✓
ENVIRONMENTAL		POLICY	
FINANCIAL	✓	POLITICAL	
HEALTH & SAFETY		OTHER (please specify)	
HUMAN RESOURCES		CORE BRIEF	
EQUALITY IMPACT ASSESSMENT			

PURPOSE OF REPORT To provide an update on Public Sector Audit Appointment's (PSAA's) proposals for fee scales for 2023/24 and on the audit of the 2022/23 accounts.

EXECUTIVE SUMMARY

The new contract with PSAA for the appointment of the Authority's external auditors started on 1 April 2023. PSAA had previously confirmed the re-appointment of Ernst & Young LLP (EY) as the Authority's auditors for five years from 2023/24 to 2027/28.

In September 2023 PSAA consulted in its proposed fee scales for 2023/24. A copy of the Authority's response is attached at Appendix 1. A copy of PSAA's consultation can be found at:

[Consultation on the 2023/24 audit fee scale - PSAA](#)

Based on the information set out in the consultation document we estimated that the minimum scale fee for 2023-24 would be £115,099. A subsequent e-mail from PSAA has clarified that the proposed scale fee will be £94,288. The budget for 2023/24 is set at £100,000. This budget will also need to bear the cost of any scale fee variation for 2022/23 if that exceeds the amount accrued of £9,815 (i.e. the amount charged to the 2022/23 accounts but not yet invoiced) and any scale fee variation for 2023/24. At this stage therefore, the budget appears sufficient to cover the cost of external audit but this cannot be confirmed until the 2022/23 and 2023/24 audits have been concluded.

The total fee for 2021/22 including variations was £40,781. The scale fee for 2022/23 is £30,815 (excluding variations as the audit has not yet commenced).

The Authority published its draft accounts for 2022/23 by the statutory deadline of 31 May 2023.

Members will be aware that there is a national backlog of local public audits. PSAA has confirmed that only five out of 467 audit opinions on the 2022/23 accounts were issued by the statutory deadline of 30 September. The total backlog is now 918 delayed audit opinions.

On 17 July, Minister Lee Rowley attended the latest LUHC Select Committee hearing for its inquiry into Financial Reporting and Audit in Local Authorities. The Committee has published the letter that the Minister sent in advance,

committees.parliament.uk/publications/40932/documents/199432/default/, which includes the latest position on proposals to address the significant backlog of local

government audits in England. The letter explained that there will be further work and engagement across the local audit system over the Summer.

At the time of writing, we have not received any further update either on the national proposals or from EY about the timing of our audit. We are meeting with EY on 8 November and will provide any update at the Panel meeting.

There is a risk that completion of audit will add to the workload pressures on the finance and other teams overlapping with the budget setting process for 2024/25, the ongoing work on the MBOS project and potentially with financial closedown and preparation of the accounts for 2023/24.

In line with the requirements of the Accounts and Audit Regulations 2015 the Authority published notice on its website explaining that we were not able to publish our audited accounts for 2022/23 by the statutory deadline. <https://www.esfrs.org/sites/default/files/media-uploads/Public%20Notice%20-%20delay%20in%20audit%20opinion%20final.docx>

RECOMMENDATION

The Panel is recommended to note:

- (i) PSAA's consultation paper and the Authority's response
 - (ii) The forecast impact on the Authority's revenue budget
 - (iii) The position regarding the audit of the 2022/23 accounts.
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East Sussex Fire Authority response to PSAA fee consultation September 2023

This consultation invites audited bodies and other stakeholders to submit views on PSAA's proposals for setting the fee scale for the 2023/24 audits.

PSAA has a statutory duty under the local audit regulations to consult on and prescribe scales of fees for the audit of accounts of opted-in bodies. A fee scale must be set before 1 December of the relevant financial year.

The detail of the consultation proposals is set out [on our website](#). In summary, they involve ensuring that scale fees are fully and consistently updated for the start of the new appointing period from the 2023/24 audits. This means the scale fee for each opted-in body better reflects the audit work required under the Code of Audit Practice published by the National Audit Office and the regulatory expectations of the Financial Reporting Council.

The consultation is taking place at a time of change in the local audit system. Consultees will be aware that the audit profession has been subject to high levels of scrutiny in recent years following several widely reported financial failures in the private sector. Over this period there have been growing delays in completing local audits. In July 2023 the Department for Levelling Up, Housing and Communities (DLUHC) announced [proposals to address the backlog](#), and is working with all stakeholders to tackle the complex issues involved.

The proposals to address the audit backlog are still under consideration and any changes affecting fees are still to be confirmed, so we cannot reflect them in the proposed fee scale yet. We are therefore consulting on the basis of existing audit requirements. We will need to assess the impact on audit fees once changes are confirmed, and at that point we will write to opted-in bodies to set out how we will update fees.

The 2023/24 audit year is the first under new audit contracts awarded in 2022 following a challenging procurement. When we announced the outcome of the procurement in October 2022, we advised opted-in bodies to anticipate a major reset of total audit fees for 2023/24 involving an increase estimated in the order of 150% on total fees (that is, scale fees plus additional fees for recurrent additional audit work) for 2022/23. We are now able to confirm the increase required is 151%. The adjustment is

applied to the proposed updated 2022/23 scale fees to produce the proposed 2023/24 fee scale.

We welcome comments from audited bodies and other stakeholders on our proposals. The consultation will close at **noon on Tuesday 10 October 2023**.

Question Title

* 1. *Contact details*

Name

Organisation

Email address

Question Title

* 2. *Please select your role*

- Director of Finance
- Audit Committee chair
- National stakeholder
- Other, please provide details below

Other (please specify)

Question Title

* 3. *Do you support the proposals in the consultation for the fee scale for 2023/24 audits?*

- Yes
- Yes, with some reservations**
- No

Please provide additional comments to expand on your response

We are broadly supportive of the approach proposed by PSAA. See Q4-6 below.

Question Title

4. Do you agree with the proposed elements of the 2023/24 fee scale?

2023/24 fee scale: proposed elements

A - The scale fees for 2022/23

Plus:

B - Fee variations for recurrent additional audit work in prior years not yet included in scale fees

C - Changes in local audit requirements

D - Adjustments at specific bodies for local circumstances

E - Adjustment for the procurement outcome

- Yes
- Yes, with some caveats**
- No

Please indicate which proposed elements you agree/disagree with and add any additional comments you wish to make

Fee variations for recurrent additional audit work in prior years not yet included in scale fees – PSAA needs to be clear which elements of prior year adjustments it regards as recurrent. Looking at this Authority’s fee variation for 2021/22 and the guidance in the consultation document we assume that Pension Valuation, PPE Valuation and Increased FRC Challenge will be regarded as recurrent but Covid 19 and Work of Internal Expert will not but we would appreciate confirmation.

Changes in local audit requirements – the inclusion of costs relating to VFM arrangements and ISA 540 appear logical and figures for the fire sector quoted on p7 appear to reflect the fee variations incurred in 2021/22. In our view PSAA should follow its previous practice and publish new minimum additional fee ranges for any other changes that are confirmed for example those listed in paragraph 34

Adjustments for specific opted in bodies – we presume that in the 20 cases referred to the audited bodies affected have been notified of this additional adjustment.

Adjustment for the procurement outcome – whilst we acknowledge the problems within local public audit as set out in the Redmond Review and the challenges PSAA faced in carrying out the procurement, the resulting additional costs are wholly disproportionate and will have to be borne by local council taxpayers. Please see our further comments in Q6.

5. Are there other factors you think should be reflected in the 2023/24 fee scale?

Yes

No

Please provide additional comments to expand on your response.

Yes - there should be provision for fees to be discounted where the auditor fails to provide an audit opinion by the statutory deadline, or otherwise fails to meet their duties under the contract, where this is not due to failures on the part of the audited body.

Question Title

6. Any other comments you would like to make?

- This Authority like all local authorities faces significant financial challenges both in the current year and future years due to the uncertainty regarding our funding settlement and the significant pressures on costs due to current high levels of inflation. For that reason, any increase in costs that adds to those pressures is unwelcome.
- The Government has provided, and has committed to provide until 2024/25, additional funding of £15m to the sector to reflect all new burdens resulting from the Redmond Review and the Government's response to it. However, the increase in the audit fee from the original £23,690 to the minimum scale fee proposal for 2023/24 for this Authority (based on the criteria set out in the consultation) at £115,099 already exceeds the grant allocation of £13,507 (2022/23) by £77,902.
- The estimate of the scale fee for 2023/24 set out above, exceeds the level of £100,000 advised by PSAA in a meeting on 03/11/2022 based on a 150% uplift on our expected 2021/22 scale fee of £40,000 (including variations)

- Any fee scale variations need to be proportionate to the size and complexity of the audited body and justifiable based on the additional work necessary to meet regulatory or code changes.

Thank you for your response.

The PSAA Board will consider consultation responses carefully in determining the final fee scale for 2023/24. We will publish the final 2023/24 fee scale on our website by 30 November 2023.

If you have comments about the way this consultation has been conducted, these should be sent by email to workandfeesconsultation@psaa.co.uk.