

<b>Meeting:</b>	Audit & Governance Committee
<b>Meeting date:</b>	30/07/2025
<b>Report of:</b>	Debbie Mitchell, Director of Finance (S151 Officer)
<b>Portfolio of:</b>	Councillor Katie Lomas, Executive Member for Finance, Performance, Major Projects, Human Rights, Equality and Inclusion

## Audit and Governance Committee Report: External Audit Fees

### Subject of Report

1. The report provides an overview of how external audit fees are set for Councils that have opted into the Public Sector Audit Appointments (PSAA) scheme. The process includes determining a national fee scale, conducting consultations, publishing final fees, and handling any fee variations.

### Recommendation and Reasons

2. Note the contents of the report.

#### Reason

*To keep the Committee informed.*

### Analysis

3. The PSAA sets a scale of fees for each financial year, applicable to all opted-in local authorities. The scale is determined after:
  - Consulting with audited bodies and stakeholders.
  - Considering changes in audit requirements, standards, and inflationary pressures.

- Reviewing the volume and complexity of audit work required under the Code of Audit Practice issued by the National Audit Office.
4. Each year, PSAA conducts a consultation, usually around September/October for the following year. For 2024/25, a 9.5% increase in total scale fees was proposed to reflect both the additional audit work needed under the revised standards and a contractual inflationary increase of audit firms.
  5. The final fee scale must be published before 1 December of the preceding year and cannot be amended afterward. For example, the 2024/25 fee scale was published in November 2024.
  6. Appointed auditors collect the fees on behalf of PSAA and Councils must pay the fees as determined by PSAA under the Local Audit (Appointing Person) Regulations.
  7. If there are local circumstances or national changes that require more audit work (such as complex financial issues or investigations), auditors can request fee variations. These are reviewed and approved by PSAA. The fees charged to the Council are set out in the table below. Note that some charges are paid in a different year, such as the £90k for 2021/22 which was not agreed and paid until 2024/25.

	2021/22	2022/23	2023/24	2024/25
Original Fee	78	97	284	310
Additional fee	90	51		
Fees for other services (grant claims, etc.)	19.6	27	38.5	38.5
Total	187.6	175	322.5	348.5

Table of CYC audit costs

8. There are a number of factors contributing to the increasing cost of external audit. These include:
  - Increased Audit Workload: Revised auditing standards require more detailed and extensive audit procedures, including additional testing and documentation.

- **Contractual Inflationary Increases:** Audit firms are entitled to inflation-linked fee uplifts under their contracts with PSAA.
- **Audit Backlog and Recovery Costs:** The local audit system has faced a significant backlog, with many councils experiencing delays in receiving audit opinions.
- **Systemic Reform and Complexity:** The Code of Audit Practice and financial reporting frameworks have become more complex.
- **Fee Variations:** Significant fee variations still occur due to local issues or additional regulatory requirements. For York, this has mainly been linked to the need to investigate formal objections to the annual accounts.

9. Local audit in England is undergoing significant reforms to address longstanding issues and improve effectiveness. The key aspects of the reform strategy are:

- **Establishment of the Local Audit Office (LAO):** This will be a new statutory and independent body, to provide system leadership. It will have five strategic responsibilities: coordinating the system, managing contracts, owning the Code of Audit Practice, overseeing quality, and reporting.
- **Simplifying financial reporting** – the government aims to simplify financial reporting to ensure they are proportionate and not overly burdensome.
- **Enhancing capacity and capability in the system.** The government has highlighted a lack of auditors, with a limited number of firms operating in the sector.
- This was all out for consultation which was due to be completed by the end of January 2025. Government plan to lay legislation before parliament mid-2025 and have the LAO up and running by 2027/28.

## Contact details

For further information please contact the author(s) of this Report.

### Author

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**Annexes**

none