

Work programme and scales of fees 2011/12

Local government, housing and community safety

February 2011

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Introduction

Background

- 1** This document sets out the work the Audit Commission plans to undertake in the local government, housing and community safety sectors during 2011/12, with the associated scales of audit and inspection fees.
- 2** A separate document covers the Commission's work in the NHS in England.
- 3** The work of the Commission and its appointed auditors is carried out under the Audit Commission Act 1998 (the Audit Commission Act), the Local Government Act 1999 (the Local Government Act) and the Code of Audit Practice 2010 (the Code). Copies of the Code and the associated Statement of Responsibilities of Auditors and Audited Bodies are on the Commission's website at www.audit-commission.gov.uk. Responsibility for the conduct of the audit remains, always, that of the appointed auditor.
- 4** Under section 7 of the Audit Commission Act and section 12 of the Local Government Act, the Commission has a statutory duty to prescribe scales of fees for the audit of accounts, and inspections. Before prescribing any scales of fees it consults audited bodies in local government, their representative associations, the Department for Communities and Local Government (DCLG) and the accountancy profession. It has now consulted on the proposed scales of fees for 2011/12. The Commission has considered the comments made during the consultation and has agreed the scales of fees set out in this document.
- 5** Fees are the principal way the Commission finances its activities. In law, audit fees are not a fee for audit services, but a levy to fund the costs of the Commission, out of which it meets the costs of audits and its other statutory functions. It has a statutory duty to cover its costs, taking one year with another.
- 6** The Commission will continue to publish the agreed scale fees for individual bodies on its website to help audited bodies compare their fees with those of similar bodies. The fee comparator tool on the website makes the Commission's regime more transparent to audited bodies and other stakeholders. The tool is on the Audit Commission website at www.audit-commission.gov.uk.

Work programme 2011/12

Audit

7 Auditors tailor their work to reflect local circumstances and their assessment of audit risk. They do this by assessing the significant financial and operational risks facing the body, and the arrangements it has put in place to manage those risks.

8 Under the Code, the Commission may specify additional audit work to supplement the local risk-based approach to planning the audit. For 2011/12, the Commission has specified work on Whole of Government Accounts.

9 HM Treasury's Alignment Project may affect the process and timetable for preparing 2011/12 accounts at probation trusts. We will continue to work with the Ministry of Justice on the possible implications for these bodies. We will advise probation trusts if there are implications for fees arising from the implementation of the Alignment Project.

10 We will keep the scales of fees for pension funds under review and will analyse the costs of completed 2010/11 audits to determine whether we need to make any changes.

Accounts and Audit Regulations

11 We expect revised and consolidated Accounts and Audit Regulations (the Regulations) to apply to the audit of accounts for 2011/12. We have taken account of DCLG's proposed changes to the Regulations in the scope of auditors' work and the associated scales of fees for larger relevant bodies.

12 The proposed changes include increasing the threshold for smaller relevant bodies to £6.5 million. Some 100 more bodies would, therefore, be eligible for limited assurance audit. We will consult on extended scales of fees for limited assurance audit after the Regulations come into force.

13 Smaller relevant bodies would have the option of preparing accounts as if they were a larger relevant body. These accounts will be subject to audit as if the body was a larger relevant body.

Late and qualified accounts

14 The Commission will again publish a national summary naming those bodies whose 2011/12 accounts or VFM conclusion are qualified, or which fail to publish their audited accounts by 30 September 2012.

Auditors' local VFM work

15 Under the Audit Commission Act, auditors must satisfy themselves about an audited body's arrangements to secure economy, efficiency and effectiveness in its use of resources.

16 Auditors of single-tier, county and district councils, fire and rescue authorities and police authorities will apply a focused approach resulting in a positive conclusion (the VFM conclusion) on their arrangements. This approach is based on two criteria, specified by the Commission, about audited bodies' arrangements for:

- securing financial resilience; and
- prioritising resources within tighter budgets.

17 Auditors will apply a light touch approach to their VFM work at other local government bodies designated as larger relevant bodies in the Regulations and at probation trusts. These other bodies include national parks authorities; waste disposal authorities; integrated transport authorities; passenger transport executives; pension fund authorities and larger joint committees. The approach is based primarily on a review of the annual governance statement or statement on internal control. Auditors will be required to conclude whether or not there are any matters arising from their VFM work that they need to report. This will be included in their formal audit report issued at the end of the audit.

18 Smaller relevant bodies, as defined by the Regulations, choosing to prepare their accounts in the form of an annual return will be subject to limited assurance audit. Auditors of such bodies will therefore not carry out any local VFM work.

19 Auditors of smaller relevant bodies that opt to prepare accounts as if they were a larger relevant body will apply the VFM approach for other local government bodies designated as larger relevant bodies.

More details on how these approaches apply to different bodies within our audit regime can be found on our website at

www.audit-commission.gov.uk/workandfees201112.

Certification work

20 As well as their work under the Code, appointed auditors, as agents of the Commission, must certify grant claims and returns.

21 In 2011/12, we will not ask auditors to certify individual claims and returns below £125,000. The threshold below which auditors will undertake only limited tests will remain at £500,000. Above this threshold, certification work takes account of the authority's overall control environment for preparing the claim or return.

22 The Commission continues to raise the profile of certification work and auditors are:

- required to highlight the importance of certification work by encouraging authorities to improve standards of claims and returns preparation;
- required to report annually on the results of certification work to those charged with governance or audit committees, to highlight the errors, adjustments and qualifications arising in claims and returns;
- encouraged to use the evidence from certification work to support auditors' other responsibilities;
- required to undertake focused, risk-based work at authorities with a consistent record, year-on-year, of high error levels, adjustments or qualifications to claims and returns; and
- encouraged to develop closer working relationships with relevant authority staff, particularly at the planning stages of certification work, through proactive briefings of key staff, to reduce the risk of problems arising.

Assessment and inspection work

23 Following the cessation of CAA in May 2010, there is no longer any programme of mandatory inspection work. We do not envisage carrying out any inspections in 2011/12, unless specifically directed to do so.

Studies

24 In 2011/12, we will only complete studies we have already begun. Several of these studies are directly supporting the Local Government Group's Place Based Productivity Programme. We will not start any new studies in 2011/12. Details of the Commission's studies programme can be found at www.audit-commission.gov.uk/nationalstudies.

Scales of fees for 2011/12

Scales of audit fees for local government and community safety bodies

25 The scales of fees for 2011/12 reflect the cost of the work programme outlined above.

26 The Commission has the power to determine the fee above or below the scale fee where it considers that substantially more or less work was required than envisaged by the scale fee. The scale fees are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timeframes.

27 It is a matter for the auditor to decide the work necessary to complete the audit and, subject to approval by the Commission, to seek to agree a variation to the scale fee with the audited body.

28 As the 2011/12 scale fees are based on the fee for 2010/11, they already reflect the auditor's assessment of audit risk and complexity. Therefore, we expect variations from the scale fee to occur only where these factors are significantly different from those identified and reflected in the 2010/11 fee.

29 The Commission will get final fee information from appointed auditors, and explanations for any proposed variations from the scale fee, after they have completed the 2011/12 audit. The Commission will consider the reasonableness of the explanations provided by auditors before determining the fee.

30 The Commission will charge fees for considering objections, from the point at which auditors accept an objection as valid, or any special investigations, such as those arising from disclosures under the Public Interest Disclosure Act 1998, as a variation to the scale fee.

Scales of audit fees

31 The scale of fees for each individual audited body can be found at www.audit-commission.gov.uk/individuallocalgovfees.

32 Table 1 summarises the percentage reductions applied to 2010/11 fees to arrive at the 2011/12 scale fees.

Table 1: **Reductions in scale audit fees for 2011/12**

Audited body	Reduction in total audit fee (%)	Audited body	Reduction in total audit fee (%)
London borough councils	10	Metropolitan borough councils	10
Unitary councils	10	County councils	10
District councils	5		
Police authorities	8	Probation trusts	10
Fire and rescue authorities	8		
Integrated transport authorities	13	Passenger transport executives	13
Waste disposal and regulation authorities	13	National parks authorities	13
Pension fund authorities	13	Other larger relevant bodies (as defined in the Regulations)	13
Internal drainage boards and parish and town councils opting to prepare accounts as a larger relevant body	15	Other smaller relevant bodies opting to prepare accounts as a larger relevant body	18

33 Scale fees for 2011/12 for smaller relevant bodies opting to prepare accounts as a larger relevant audited body will be agreed on an individual basis to reflect the specific circumstances of the body.

34 Subject to the Regulations coming into force and following consultation, we will prescribe scales of fees for those smaller relevant bodies eligible for limited assurance audit due to the increase in the threshold to £6.5 million.

Pension fund audits

35 Table 2 sets out the scales of fees for the pension fund audits for 2011/12.

Table 2: Pension funds scales of audit fees

Local government pension funds	Fixed element (£)	Plus a percentage of 2009/10 audited net assets
Single employer funds	35,000	n/a
Multi-employer funds (previously classified separately as small and large multi-employer funds)	33,300	0.00055

Certification work

36 The Audit Commission Act requires the Commission to charge fees for certification work that cover the full cost of the work we undertake. We set a schedule of hourly rates for different levels of staff. In practice, auditors may agree a composite sum for certification work.

37 Table 3 sets out the hourly rates for certification work in 2011/12.

Table 3: Hourly rates for certifying claims and returns

Maximum £ per hour			
Staff grade	Standard	SE England	London
Partner/district auditor	325	345	380
Senior manager/manager	180	195	210
Senior auditor	115	125	135
Other staff	85	95	105

Scales of inspection fees for local government bodies

38 Tables 4 and 5 set out the 2011/12 standard number of days and fee scales for inspections at single-tier, county and district councils, and the Greater London Authority (GLA) and its functional bodies.

39 The fee payable by authorities is subject to a 10 per cent premium for authorities in the South East and a 20 per cent premium for authorities in London. The exception is for the GLA and its functional bodies, as the premium is already in the scale fee.

Table 4: **Single-tier, county and district councils**

Activity	Standard number of days	Standard fee to authority in 2011/12 (£)
Risk-based inspection activity (Note 1)	40	32,460

Note 1: For inspection charges, the Common Council of the City of London is charged on the same basis as a single-tier council.

Table 5: **GLA and its functional bodies**

Activity	Standard number of days	Standard fee to authority in 2011/12 (£)
Risk-based inspection activity	40	38,950

40 The standard 40-day inspection model provides an illustration of the cost of a standard risk-based inspection only. We will scope the work for any inspection we are directed to carry out. If a joint inspection is required, a fee will be payable only for the Commission's contribution to the inspection.

Value added tax (VAT)

41 All the 2011/12 fee scales exclude VAT, which will be charged at 20 per cent on all work done.

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Audit Commission

1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

Telephone: 0844 798 3131
Fax: 0844 798 2945
Textphone (minicom): 0844 798 2946

www.audit-commission.gov.uk

February 2011