

Local government, housing, criminal justice and fire and rescue services

Proposed work programme and scales of fees 2007/08

The Audit Commission is an independent body responsible for ensuring that public money is spent economically, efficiently and effectively, to achieve high-quality local services for the public. Our remit covers around 11,000 bodies in England, which between them spend more than £180 billion of public money each year. Our work covers local government, health, housing, community safety and fire and rescue services.

As an independent watchdog, we provide important information on the quality of public services. As a driving force for improvement in those services, we provide practical recommendations and spread best practice. As an independent auditor, we ensure that public services are good value for money and that public money is properly spent.

For further information about the Audit Commission, visit our website at www.audit-commission.gov.uk

Preface	2
Background	3
Work programme	5
Proposed scales of fees for 2007/08	8

© Audit Commission 2007

First published in January 2007 by the Audit Commission
for local authorities and the National Health Service in England,
1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

Preface

- 1 This document sets out the work that the Audit Commission plans to undertake in the local government, housing, criminal justice and fire and rescue sectors during 2007/08, together with the scales of audit and inspection fees that will apply to that work.
- 2 We should be grateful for comments from stakeholders on any aspect of the plan and the proposed scales of fees. Comments should be sent to **lg-0708-programme-consultation@audit-commission.gov.uk** or by post to Gareth Davies, Acting Managing Director Local Government, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ by **Friday 16 February 2007**.

Background

- 3 Audit and inspection fees constitute some 85 per cent of the Commission's income and cover the costs of:
 - procuring and delivering audits;
 - delivering inspections and related functions (including relationship managers' roles in assessment);
 - the Commission's programme of national studies;
 - the Commission's other statutory functions relating to audit (for example, the appointment of auditors); and
 - other corporate management costs.
- 4 Under Section 7 of the Audit Commission Act 1998 and Sections 8 and 12 of the Local Government Act 1999 the Commission has a statutory duty to prescribe scales of fees in respect of the audit of accounts, which are required to be audited in accordance with the Audit Commission Act 1998, and of inspections. Before prescribing any scales of fees it consults audited and inspected bodies in local government and the NHS and their representative associations, and the accountancy profession.
- 5 Once the Commission has prescribed a scale of fees the applicable fee becomes payable by the body. The Commission sets scales of audit fees on a fee for audit approach, in other words, one that is outcome-focused rather than based on input costs. The scales allow auditors to discuss the programme of audit work with each audited body and to agree a proposed fee on the basis of delivering an agreed range of audit outputs to an agreed timetable. This gives auditors the flexibility to achieve efficiencies through innovation and it is for individual auditors to determine the appropriate skills mix for particular pieces of work.
- 6 In law, fees are payable to the Commission itself. In practice, however, where firms are the appointed auditors, they collect audit fees on our behalf. They keep an agreed sum for carrying out the audit and remit the balance to the Commission.

- 7 The scale of audit fees for individual bodies comprises:
 - a fixed element, which is specified for different types of audited bodies, for example county councils or police authorities;
 - an element related to gross expenditure; and
 - regional premia for audits in London and the South East.
- 8 The Commission has the power to determine the fee above or below the scale fee where it considers that substantially more or less work is required than envisaged by the scale fee. The Commission may therefore adjust the scale fee to reflect the actual work that needs to be carried out to meet the auditor's statutory responsibilities, on the basis of the auditor's assessment of risk and the scale and complexity of the audit at a particular body. The Commission normally expects to vary the scale fee by no more than 30 per cent (upwards or downwards). This fee then becomes payable.
- 9 It is a matter for the auditor to determine the work necessary to complete the audit and, subject to approval by the Commission, to seek to agree an appropriate variation to the scale fee with the audited body. The Commission will normally expect to approve a proposed variation to the scale fee where that is agreed by the auditor and the audited body, and to determine the fee accordingly.
- 10 Fees relating to consideration of objections (from the point at which they have been accepted as valid by the auditor) or special investigations, such as those arising from disclosures under the Public Interest Disclosure Act 1998, will be charged in addition to any variation to the scale fee for risk and complexity.
- 11 In addition, the Commission may specify fees for specific pieces of work that are carried out only at selected bodies.
- 12 We also set a schedule of hourly rates for different levels of staff, which are used for work relating to the certification of grant claims and returns. In practice auditors may agree a composite sum for this work as part of the audit planning process.
- 13 The Commission will publish the agreed fees for individual bodies, to enable them to compare their audit fee with that of similar bodies.

Work programme

- 14 The scales of audit fees proposed in this consultation document cover all work that auditors need to carry out to meet their statutory responsibilities under the Audit Commission Act 1998 and the Local Government Act 1999, in accordance with the statutory Code of Audit Practice 2005 (the Code). Copies of the Code and the associated *Statement of Responsibilities of Auditors and of Audited Bodies* may be found on the Commission's website at www.audit-commission.gov.uk.
- 15 The programme of audit work at individual bodies will be tailored to reflect local circumstances and, in particular, the auditor's professional assessment of the financial and operational risks facing the body and the arrangements it has put in place to manage those risks. It will also be affected by the strength of the control environment, including the extent of internal audit work and the reliance that may be placed upon it, and the quality of the accounts presented for audit and the supporting working papers. However, the core of the work undertaken will be common.
- 16 Under the Code the Audit Commission may specify additional elements of work to be carried out by auditors, which supplement the local risk-based approach to planning the audit.
- 17 In 2007/08 we plan to specify work in the following areas:
 - Auditor input to Comprehensive Performance Assessment (CPA) – in 2006/07 auditors of all local authorities delivered a new use of resources judgement. The Commission will specify audit work leading to the delivery of the use of resources judgement in 2007/08. This work will also support the annual conclusion the auditor is required to reach under the Code on arrangements to secure value for money.
 - Data quality – during 2007/08 local authority auditors will be required to undertake audit work in relation to specified performance indicators to support the service assessment element of CPA.
 - Whole of Government Accounts (WGA) – the Commission will specify a proportionate approach to the audit of the consolidation packs for WGA.

- Use of resources, fire and police – the Commission will again specify work in relation to use of resources at police and fire and rescue authorities, following an evaluation of the first year’s assessments and discussions with the Home Office and Communities and Local Government (CLG).
 - National Fraud Initiative (NFI) – the Commission’s computerised data-matching exercise designed to detect fraud perpetrated upon public bodies.
- 18 The cost of the above work programmes is reflected in the proposed fee scales set out in this document.
- 19 We will also be specifying work in relation to:
- Audit of pension funds – at those bodies responsible for administering the Local Government Pension Scheme, the Commission will require auditors to carry out a comprehensive audit of the pension fund’s accounts, in accordance with the Auditing Practices Board’s Practice Note 15. We will be consulting administering authorities separately on these fees.
 - Police data quality – the Commission will specify audit work in relation to the quality of crime data recorded by police authorities, focusing on management arrangements. A specific fee will be charged for this work, and we will be consulting police authorities separately on this fee.
- 20 In addition to their work under the Code, appointed auditors are also required to certify grant claims and returns, as agents of the Commission. In 2007/08 the *de minimis* threshold, below which we will not ask auditors to certify individual claims and returns, will be £100,000, and the intermediate threshold, below which auditors will be required to undertake only a light touch review, will be £500,000. Above this threshold, audit work will be risk-based, taking account of the authority’s overall control environment.
- 21 In spring 2007, we will consult on the CPA framework for 2007 for single tier and county councils and on any proposed changes to the CPA framework for district councils.
- 22 In addition to the CPA programmes, service inspections will continue to be undertaken on a risk basis where an inspection is considered the most appropriate way to drive improvement. The inspection programme for individual bodies will be confirmed as part of the annual audit and inspection planning process and will be tailored to reflect differing

local priorities. The actual timing, depth and scope of local inspection work will be planned in the light of the corporate assessment timetable, the assessment of risk in current performance levels and the work of other inspectorates, auditors and regulators.

- 23 Our planned housing inspection programme will be published on completion of the annual audit and inspection planning process. This will be available from the Commission website at **www.audit-commission.gov.uk**.
- 24 In addition, a number of other risk-based programmes will be delivered, including:
 - corporate assessment activity in district councils (please refer to *CPA: District Council Framework from 2006* on the Commission website for further information at **www.audit-commission.gov.uk/cpa/districts**); and
 - corporate assessment activity in fire and rescue authorities.
- 25 We are consulting on the 2007/08 CPA framework for fire and rescue authorities until 8 February 2007. The consultation document is available from our website at **www.audit-commission.gov.uk**.
- 26 A summary of the content of local audit and inspection work planned for 2007/08 for each type of audited and inspected body in local government is contained in **Table 1**.
- 27 Details of our studies programme may be found on the Commission's website at **www.audit-commission.gov.uk/nationalstudies**.

Proposed scales of fees for 2007/08

Background

- 28 In setting fee scales, the Commission needs to strike a balance between the cost pressures facing the Commission and its audit suppliers (including the costs of any additional work required to comply with new professional standards and regulatory requirements) and what it is reasonable to expect audited and inspected bodies to pay (having regard to what they can afford). We also have to project likely future cost increases up to two years ahead, as the scales of fees for 2007/08 audits that we propose in January 2007 must cover the cost of work carried out by auditors up to the completion of the audits in autumn 2008. Over the years we have succeeded in keeping fee increases well below the real increase in the cost of delivering audits, through internal efficiencies.
- 29 The employment of professional staff accounts for the major part of the Commission's costs. Increases in professional salaries thus have a significant impact on the costs of delivering audits, which have to be recovered through fees. Average earnings in the economy as a whole have increased by 4.6 per cent over the past year with earnings in the public sector rising less rapidly by 3.8 per cent. In the highly specialised market for staff with public sector audit and accounting skills costs have risen at a slightly slower rate. A 2006 survey of public sector audit practice costs by specialist recruiters Hays indicated that over the last year salaries for trainees have increased by 1.5 per cent, for newly qualified staff by 3.5 per cent and for managers by 1.2 per cent. Over the years we have been able successfully to use our market position as the largest purchaser of audits in the UK to procure audits from the firms at very competitive rates. Following a major procurement exercise earlier this year we have been able to drive down these costs even further to generate real savings to the Commission over the next five years.
- 30 The Commission recognises the financial pressures on the local government, housing, criminal justice and fire and rescue services sectors, and the importance of directing expenditure towards front-line services and limiting the sums spent on corporate services, including audit and inspection.
- 31 Allowing for projected increases in local government expenditure, the fee scales we are proposing for 2007/08 provide, therefore, for an average 2.75 per cent increase in audit and inspection fees. This reflects the net effect of increased costs, after taking into account internal efficiencies, including those achieved through the recent procurement exercise.

Scale of audit fees for local government, housing and criminal justice bodies

32 The scale of audit fees for individual bodies comprises:

- a fixed element, which is specified for different types of audited bodies, for example county councils or police authorities;
- an element related to gross expenditure; and
- regional premia for audits in London and the South East.

33 The proposed scales of audit fees for 2007/08 are as follows.

	Scale fee	
	Fixed element	Plus a percentage of 2007/08 gross expenditure
London borough councils	£157,000	+0.029% of gross expenditure
Metropolitan borough councils	£178,000	+0.020% of gross expenditure
Unitary councils	£115,000	+0.032% of gross expenditure
County councils	£143,000	+0.010% of gross expenditure
District councils	£67,500	+0.051% of gross expenditure
Local (town and parish) councils that are best value authorities	£7,500	+0.068% of gross expenditure
Local (town and parish) councils and other bodies that would otherwise be covered by the limited assurance audit regime but with income or expenditure in excess of £1 million and that are not best value authorities	£4,500	+0.068% of gross expenditure
National park authorities	£11,000	+0.027% of gross expenditure

Continued overleaf

	Scale fee	
	Fixed element	Plus a percentage of 2007/08 gross expenditure
Passenger transport authorities/executives	£22,500	+0.021% of gross expenditure
Waste disposal authorities	£13,500	+0.038% of gross expenditure
Police authorities	£54,000	+0.010% of gross expenditure
Probation boards	£21,500	+0.040% of gross expenditure
Fire and rescue authorities	£44,000	+0.018% of gross expenditure

- 34 A premium of 3 per cent will be added to the above scale fees for audited bodies located in south-east England. A premium of 6 per cent will be added for bodies located in London (except London borough councils).
- 35 The south-east England premium applies to all audited bodies situated in the counties of Berkshire, Cambridgeshire, Kent, Surrey, East and West Sussex, Hampshire, the Isle of Wight, Oxfordshire, Buckinghamshire, Bedfordshire, Hertfordshire and Essex.
- 36 The Commission will consult a number of individual bodies about proposed scale fees where they do not fall within any of the types of audited bodies in the table at paragraph 33.
- 37 The actual fee may vary from the scale fee where the work programme to complete the statutory audit is substantially more or less than that envisaged by the scale fee. This will be determined in light of the local circumstances of the audited body, but the Commission normally expects this to vary the scale fee by no more than 30 per cent (upwards or downwards), on the basis of the auditor's assessment of risk and the scale and complexity of the audit at a particular body.
- 38 Fees relating to consideration of objections (from the point at which they have been accepted as valid by the auditor) or special investigations, such as those arising from disclosures under the Public Interest Disclosure Act 1998, will be charged in addition to any variation to the scale fee for risk and complexity.

Hourly rates for the certification of claims and returns

	Maximum £ per hour		
	Standard	South-east England	London
Partner/district auditor	£300	£325	£355
Senior manager/manager	£165	£180	£195
Senior auditor	£105	£115	£125
Other staff	£80	£90	£95

Scale of inspection fees for local government bodies

- 39 The tables overleaf set out the standard number of days and proposed fee scale for inspection activity by type of authority for 2007/08. The Commission may charge a higher or lower fee if the work required is substantially more or less than that envisaged by the scale fee. The actual number of days planned for each piece of work will be determined by the relationship manager and is dependent on risk and the scope of the inspection.
- 40 As in previous years, the cost of inspection activity will be met by a fee element payable by the authority (shown in the tables overleaf), and an element which is funded by CLG grant. The proportion funded by CLG grant is 25 per cent for single tier authorities and the Greater London Authority (GLA) and its functional bodies; 50 per cent for county councils; 80 per cent for district councils; and 100 per cent for fire and rescue authorities.
- 41 For comparative purposes, the fee scales for 2006/07 are included alongside the proposed fee scales for 2007/08.
- 42 After applying the CLG grant, the fee payable by authorities is subject to a 10 per cent premium for authorities located in the South East and a 20 per cent premium for authorities located in London (with the exception of the GLA and its functional bodies where the fee payable includes the relevant premium).
- 43 For corporate governance inspections the corporate assessment days and fee will be the starting point and adjusted as necessary for the scope of the inspection.

Single tier councils^I

Inspection activity	Standard number of days	Proposed standard fee to authority in 2007/08 after applying CLG grant	Standard fee to authority in 2006/07 after applying CLG grant
Relationship manager's role in assessment	10 days	£11,060	£10,760
Direction of travel assessment	10 days	£11,060	£10,760
Recovery support for under-performing authorities	20 days	£22,120	£21,520
Corporate assessment	155 days	£103,750	£100,970
Service inspection ^{II}	40 days	£23,720	£23,090

County councils

Inspection activity	Standard number of days	Proposed standard fee to authority in 2007/08 after applying CLG grant	Standard fee to authority in 2006/07 after applying CLG grant
Relationship manager's role in assessment	10 days	£7,370	£7,180
Direction of travel assessment	10 days	£7,370	£7,180
Recovery support for under-performing authorities	20 days	£14,740	£14,360
Corporate assessment	155 days	£69,160	£67,310
Service inspection	40 days	£15,820	£15,390

- ^I For the purposes of inspection charges, the Common Council of the City of London is charged on the same basis as a single tier council.
- ^{II} Inspections of authorities with arm's length management organisations (ALMOs) are not subject to CLG grant. The full charge for these inspections is invoiced to the local authority.

District councils^I

Inspection activity	Standard number of days	Proposed standard fee to authority in 2007/08 after applying CLG grant	Standard fee to authority in 2006/07 after applying CLG grant
Relationship manager's role in assessment	10 days	£2,950	£2,870
Direction of travel assessment	10 days	£2,950	£2,870
Recovery support for under-performing authorities	20 days	£5,900	£5,740
Corporate assessment	77 days	£13,720	£13,360
Service inspection ^{II}	40 days	£6,330	£6,160

GLA and its functional bodies

Inspection activity	Standard number of days	Proposed standard fee to authority in 2007/08 after applying CLG grant	Standard fee to authority in 2006/07 after applying CLG grant
Relationship manager's role in assessment	10 days	£13,220	£12,860
Direction of travel assessment	10 days	£13,220	£12,860

Value Added Tax (VAT)

- 44 All the proposed 2007/08 fee scales exclude VAT which will be charged at the standard rate (currently 17.5 per cent) on all work done.

-
- ^I For the purposes of inspection charges, the Council of the Isles of Scilly is charged on the same basis as a district council.
- ^{II} Inspections of authorities with ALMOs are not subject to CLG grant. The full charge for these inspections is invoiced to the local authority.

Table 1
Summary of content of audit and inspection plans 2007/08

Core audit and inspection work	Single tier authorities and county councils*	District councils	National park authorities	Passenger transport authorities/executives	Waste disposal authorities	Best value local councils	Other larger local councils	Police authorities	Probation boards	Fire and rescue authorities	Authorities with ALMOs
Audit and inspection: Planning, liaison and reporting	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Audit and inspection: Liaison with other inspectorates	✓	✓						✓	✓	✓	
Audit: Accounts and systems	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Audit: Use of resources	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Audit: Best value performance plan	✓	✓	✓	✓	✓	✓		✓		✓	
Audit: Data quality	✓	✓	✓	✓	✓			✓		✓	
Inspection: CPA improvement reporting	✓	✓								✓	

* Includes the Common Council of the City of London and the Council of the Isles of Scilly.

Variable work	Single tier authorities and county councils	District councils	National park authorities	Passenger transport authorities/executives	Waste disposal authorities	Best value local councils	Other larger local councils	Police authorities	Probation boards	Fire and rescue authorities	Authorities with ALMOs
Audit: Risk-based performance audit work	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	
Inspection: Corporate assessments at relevant councils – dependent on programme	✓	✓								✓	
Inspection: Service-based inspections – dependent on programme	✓	✓									✓
Other: Certification of grant claims and returns	✓	✓	✓	✓				✓			

This report is available on our website at www.audit-commission.gov.uk. Our website contains a searchable version of this report, as well as a text-only version that can easily be copied into other software for wider accessibility.

If you require a copy of this report in large print, in braille, on tape, or in a language other than English, please call **0845 0522613**.

Audit Commission
1st Floor, Millbank Tower,
Millbank, London SW1P 4HQ
Tel: 020 7828 1212 Fax: 020 7976 6187
Textphone (minicom): 020 7630 0421
www.audit-commission.gov.uk