

Proposed work programme and scales of fees 2008/09 and indicative fee proposals for 2009/10 and 2010/11

Local Government and Housing

Annex 1

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.

Annex 1

Preface

This document sets out the work that the Audit Commission plans to undertake in the local government and housing sectors in 2008/09 and the associated scales of audit and inspection fees. It also sets out indicative fee proposals for 2009/10 and 2010/11.

Separate documents have been prepared covering the Commission's work in the NHS, police authorities and probation boards, and fire and rescue authorities in England.

The work of the Commission and its appointed auditors is carried out in accordance with the provisions of the Audit Commission Act 1998, the Local Government Act 1999 and the Code of Audit Practice 2005 (the Code). Responsibility for the conduct of the audit remains, at all times, that of the appointed auditor.

The Commission will publish the audit fees for individual bodies, to enable them to compare their audit fee with that of similar bodies.

Summary

For the first time, as well as consulting on our work programme and proposed scales of audit and inspection fees for 2008/09 (as we are required to do by statute), we are also consulting on indicative fee proposals for 2009/10 and 2010/11. We hope that giving an indication of likely fees over three years will help bodies in their long-term financial planning. We will, of course, be examining ways of identifying further efficiency savings that would limit the increases in these indicative fees. We will consult next autumn on the actual scales of audit and inspection fees for 2009/10, and set out indicative fee proposals for 2010/11 and 2011/12.

In setting scales of fees the Commission has to balance a range of factors:

- the Commission's responsibility to ensure that auditors have appropriate and sufficient resources to meet their statutory and professional responsibilities;
- our statutory duty, taking one year with another, to balance expenditure and income for each workstream;
- the expectations of government and other key stakeholders; and
- the affordability of any increases.

Over the next three years, as the rolling programme of corporate assessments is replaced with Comprehensive Area Assessment, with its focus on outcomes, there will be a significant overall reduction in the total costs of regulation.

However, audit fees will increase from 2008/09 onwards, reflecting a number of changes, which will directly increase the amount of work that auditors will need to do and therefore the costs of the audit. These arise from:

Annex 1

- the government's decision, announced in the 2007 Budget, that the public sector should prepare accounts in accordance with International Financial Reporting Standards (IFRS) from 2008/09, which is likely to impact on local government from 2010/11;
- changes to professional auditing standards, with which auditors have a statutory duty to comply, and which are expected to apply from 2009/10; and
- the expanded scope of the proposed new approach to auditors' assessments of the value for money in the use of resources (UoR), which will apply from 2008/09.

The changes arising from the introduction of the new accounting and financial reporting framework, and from new auditing standards, are beyond the Commission's control. Clearly, we will expect our auditors to carry out the additional work that will be required as efficiently as possible, but the public sector cannot be immune from the increased costs of enhanced auditing and accounting standards, which have impacted across the economy and are reflected in increasing audit fees in the private sector too.

In developing our revised approach to use of resources assessments, we have responded to the very clear expectation from government that these will be expanded significantly in scope to include commissioning, asset management and sustainability. Inevitably, an expanded scope will result in additional work for auditors, and therefore increase the cost of the audit. We will be testing our current estimates of the likely increased costs over the next few months. If the results of trials indicate that the work required can be carried out at less cost than we currently envisage for example, if the ability of councils to supply high quality data needed for the audit proves greater than expected, we will of course reflect that in the final fee scales which we will publish next spring. We will also be requiring auditors, in agreeing local audit plans and fees, to substitute wherever possible other risk-based value for money audit work to minimise the impact on individual bodies.

Our fee scales also have to reflect normal increases in audit costs, arising from increases in professional salaries and other cost pressures. However, through a rigorous programme of internal efficiency savings, which will release cash savings of 3 per cent annually over the next three years, we have been able to limit the inflation rate increase in our fees to 2.25 per cent. We intend to hold the increase in fees at this level over the three years covered by the consultation paper.

We will also be passing on to local authorities the reduction in audit costs that will flow from the abolition of the requirement for our auditors to audit the best value performance plan. The Commission first argued for the abolition of this requirement in 2004 and we are pleased that it has been enacted in the Local Government and Public Involvement in Health Act 2007.

We are also continuing to maintain downward pressure on the cost of certifying grant claims and returns. Over the last four years, the Commission has reduced the number of grant schemes it certifies from 126 to 43, reducing fee income by £6 million as a consequence.

Annex 1

The rest of this document sets out the work programme in detail and the associated proposed scales of fees.

Background

Audit and inspection fees make up some 87 per cent of the Commission's income and cover the costs of:

- procuring and delivering audits;
- delivering inspections and related functions including the Comprehensive Area Assessment Lead's (CAAL) role in Comprehensive Area Assessment (CAA);
- the Commission's programme of national studies;
- the Commission's other statutory functions, for example, the appointment of auditors; and
- other corporate management costs.

Under Section 7 of the Audit Commission Act 1998 and Section 12 of the Local Government Act 1999 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 and inspected bodies in local government and the NHS and their representative associations, and the accountancy profession.

Once the Commission has prescribed a scale of fees the applicable fee becomes payable by the body.

We construct the scales of audit fees using an outcome focused approach rather than one based on input costs. The scales of fees allow auditors to agree a fee based on delivering outputs to an agreed timetable. Auditors have the flexibility to achieve efficiencies through innovation and to decide on the proper mix of skills for particular pieces of work. In law, fees are payable to the Commission itself. 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 send the balance to the Commission.

The scales of audit fees for individual bodies comprise:

- a fixed element;
- an element related to the audited body's gross expenditure; and
- a regional premium for audits in London and the South East.

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 auditors need to do to meet their statutory responsibilities. The Commission will do this on the basis

Annex 1

of the auditor's assessment of risk and the scale and complexity of the audit at a particular body. The Commission would not normally expect to vary the scale fee by more than 30 per cent (upwards or downwards).

It is a matter for the auditor to decide the work necessary to complete the audit and, subject to approval by the Commission, to agree a variation to the scale fee with the audited body. The Commission will normally expect to approve a proposed variation to the scale fee where this is agreed by the auditor and the audited body.

Fees for the auditor's consideration of objections 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.

In addition, the Commission may set fees for specific pieces of work that it wants done only at selected bodies.

We also set a schedule of hourly rates for different levels of staff, which auditors use for charging for work on certifying grant claims and returns. In practice auditors may agree a composite sum for this work as part of their audit planning.

The Commission will continue to publish the agreed fees for individual bodies on our website. This year we have developed a new graphics tool to assist audited bodies to compare their audit fees against similar bodies. The tool is intended to make the Commission's regime more transparent to audited bodies and other stakeholders. It can be accessed on the Audit Commission website at www.audit-commission.gov.uk.

Work programme 2008/09

Audit

The scales of audit fees in this document cover all the 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* (the Code). Copies of the Code and the associated *Statement of Responsibilities of Auditors and Audited Bodies* may be found on the Commission's website at www.audit-commission.gov.uk.

The core of the work undertaken by auditors will be common across similar bodies. However, auditors will tailor their work to reflect local circumstances. In particular, they will carry out an assessment of the financial and operational risks facing the body and the arrangements it has put in place to manage those risks. In this assessment, auditors will consider the strength of the control environment, the quality of working papers produced to support the financial statements, the extent of internal audit work and the reliance that can be placed on it.

For the first time, we are also introducing separate fee scales for pension funds. There will be an offsetting reduction in fees for administering bodies but overall there will be a net

Annex 1

increase in audit costs. We believe this increase in audit costs is justified given the significant amounts of public money involved in these funds, which hitherto have not been subject to a full audit.

Under the Code the Audit Commission may specify additional audit work, which supplements the local risk-based approach to planning the audit.

In 2008/09 the Commission will specify work in the following areas:

- Auditors' input to Comprehensive Area Assessment (CAA) - the Commission will specify audit work leading to the delivery of use of resources assessments in 2008/09. 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 2008/09 local authority auditors will be required to undertake audit work in relation to specified performance indicators to support the service assessment element of CAA.
- Whole of Government Accounts (WGA) - the Commission has specified a proportionate approach to the audit of the consolidation packs to WGA. From 2008/09 these will be based on International Accounting Standards (IFRS).

Overall these programmes will result in an increase in the amount of work that auditors will need to do in 2008/09, and therefore the costs of the audit will increase. The detailed work programme and reasons for these levels of increases are summarised below.

Pension Fund Accounts

In July 2006 the Commission sent a letter to the Secretary of State for Communities and Local Government proposing various changes to the governance and accountability of local government pension funds, in recognition of the significant amounts of public money involved in these funds.

We proposed to treat the audit of pension funds as separate audit engagements, rather than auditing them as part of the administering body, reflecting the fact that they are significant public interest entities in their own right and should thus be subject to a separate audit. We acknowledged that this would give rise to certain fixed costs of an audit, in relation to planning and reporting, and would also increase the amount of audit work that needed to be done to comply with the Auditing Standards Board's Practice Note on the audit of pension funds. We now plan to put this proposal into effect.

This will require the auditor to prepare and agree separate audit plans for the audit of the pension fund accounts and to issue a separate auditor's report for delivery to those charged with the governance of the pension fund. Auditors will also review the contents of the pension fund annual report required in accordance with Regulation 76B of the revised Local Government Pension Scheme Regulations 1997.

Annex 1

Accordingly, the cost of auditing pension schemes will transfer from the administering local authority to the pension scheme itself. There will be an offsetting reduction in fees for administering bodies, which will impact on budgets and council tax, but overall there will be a net increase in audit costs.

It is essential that the audit of pension schemes is undertaken by staff with the necessary specialist skills. The Commission has therefore developed separate fee scales for different types and sizes of pension fund, ranging from the relatively small single-employer schemes administered by the London boroughs, to large multi-employer schemes administered by county councils and the free-standing pension authorities.

Table 1: Proposed scales of fees for Local Government Pension Schemes

Scheme	Reduction in fee for administering local authority (£k)	Total new fee (£k)	Net increase in total audit costs (£k)
Single-employer (eg, London boroughs)	19	38	19
Large multi-employer (eg, large county councils)	59	70	11
Small multi-employer (eg, small county councils)	31	48	17

Mandated Work Programme

Use of Resources

The government's White Paper, *Strong and Prosperous Communities*, published in October 2006, set out wide-ranging proposals for supporting the improvement of local services. A key part of the proposals is a new performance assessment framework, the Comprehensive Area Assessment (CAA). A key component of CAA is the annual use of resources assessment. Auditors' use of resources judgements will therefore serve two purposes: as a basis for value for money conclusions and as an input into the first results of CAA which will be reported in autumn 2009.

We are proposing significant changes to our UoR approach for 2008/09. We are broadening its scope, to reflect requests from government for it to cover a range of issues,

Annex 1

including specifically commissioning, asset management and the sustainable use of resources. Subject to the outcome of a separate consultation, auditors' assessments will be supported by three scored themes, rather than the current five: managing money; managing the business; and managing other resources. These themes reflect the importance of issues such as strong financial management; effective commissioning and procurement; and the improved use of physical, natural and human resources. This will result in scored assessments which will enable the Commission to arrive at an overall judgement which will feed in to the CAA.

In the past, auditors have been able to rely on the Commission's corporate assessments, undertaken as part of the Comprehensive Performance Assessment (CPA), of local authorities, to inform their statutory value for money conclusions in relation to audited bodies' performance management arrangements. As these assessments are phased out and become out of date (more than three years old) auditors will need to carry out their own work in this area. We have integrated this aspect of auditors' work in our proposed new approach to use of resources.

We estimate that this additional work will result in an increase in fees of between £12,000 and £19,000 at local government bodies. These increases will be offset in later years by the savings from the cessation of CPA. Although the detail of how CAA will be funded is yet to be finalised, it is clear, for example that the current rolling programme of corporate assessments at single tier and county councils costing up to £106,000 each will cease in 2008/09.

We will test these assumptions over the coming months and, of course, if the results of the trials indicate that the additional work can be delivered at less cost we will reflect this in the final scales which we publish next spring. We will also be requiring auditors, in agreeing local audit plans and fees, to substitute, wherever possible, other risk-based audit work to minimise the impact on individual bodies.

These additional costs will be offset in 2008/09 and beyond by the removal of the requirement for an audit of the best value performance plan (BVPP) through the Local Government and Public Involvement in Health Act 2007. The abolition of this requirement means that the last BVPP audits were of the plans published in June 2007. The Commission first called for this requirement to be abolished in 2004, and we are pleased that it has now been removed. We are pleased to be able to pass on the reduction in audit costs to audited bodies, accordingly.

We are currently consulting separately on our proposals for our new proposed approach to use of resources judgements and on our overall proposals for CAA. The consultation can be seen on www.audit-commission.gov.uk.

Data quality

In making their judgements about value for money in the use of resources, auditors have a responsibility under the Code to consider an audited body's arrangements for data quality. The Commission has a three-stage approach to data quality that involves an assessment of the corporate data quality arrangements, analytical review and data spot checks.

Annex 1

From 2008/09, this approach will be adapted to underpin the three use of resources themes more explicitly. The work will focus clearly on risks to data quality and the local measures to address them. We propose that auditors will reach a scored judgement for data quality which will be reported locally to audited bodies, and published by the Commission, and so act as a spur to improved performance. However, the data quality score will not be a component part of the overall UoR score derived from the three themes. This is to avoid double-counting. As auditors reach a judgement about each of the three themes, their judgement on each theme will inevitably be influenced by the quality of the underlying data.

We are also proposing additional work on data quality at county councils with responsibility for fire and rescue services, to stimulate significant improvement in the quality of data and the use of information by decision makers.

The Commission is now the sole inspector of fire services. In order to assess operational and corporate performance, the Commission needs to place reliance on robust performance information. Performance information on fire and rescue services is currently considered to be of variable quality. In our recent consultation on fire CPA we set out our intention to consider more in-depth work on data quality. Some 80 per cent of fire authorities responding to the consultation supported this proposal.

We estimate that the work involved to enable the auditor to make a judgement on the accuracy of specific fire service performance indicators will result in an increase in fees of £3,000 at relevant county councils in 2008/09.

Whole of Government Accounts

From 2008/09, the Whole of Government Accounts consolidation schedule will need to be prepared on the basis of international accounting standards (IFRS). This will require a reconciliation with the main financial statements prepared on the basis of UK Generally Accepted Accounting Practice (UK GAAP).

Grant claims

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 2008/09 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.

National Fraud Initiative

In 2008/09 the National Fraud Initiative will be undertaken under the Commission's new data matching powers inserted into the Audit Commission Act 1998 by the Serious Crime Act 2007. We will set a fee scale for this work, on which we will consult next April when the new statutory provisions come into force.

Annex 1

Inspection

2008/09 is the transition year from CPA to CAA; with CPA providing a baseline for CAA. The rolling programme of corporate assessments in single tier and county councils and the risk based re-categorisation of corporate assessment activity in district councils will conclude by March 2009.

We will continue to carry out service inspections on a risk basis, where we assess an inspection as the most appropriate tool to drive improvement. The inspection programme for individual bodies will be confirmed as part of the annual audit and inspection planning and will be tailored to reflect local priorities. The actual timing, depth and scope of local inspection work will be planned to take account of the corporate assessment timetable, the assessment of current performance levels and the work of other inspectorates, auditors and regulators.

We will publish our planned housing inspection programme on the Audit Commission website www.audit-commission.gov.uk once the annual audit and inspection planning process is completed.

From 1 April 2008 the regulation of housing benefit and council tax benefit will pass to the Commission following our merger with the Benefit Fraud Inspectorate. In 2008/09, the Commission will liaise with the Department for Work and Pensions (DWP) to identify potential sites for inspection, drawing on the monthly performance information that DWP receives from all councils and taking account of all local indicators of risk.

A summary of the content of local audit and inspection work planned for 2008/09 for each type of audited and inspected body in local government is contained in Annex 1.

Studies

Details of our studies programme may be found on the Commission's website at www.audit-commission.gov.uk.

Indicative changes in audit and inspection fees for 2009/10 and 2010/11

To help audited and inspected bodies with their financial planning we have identified the factors that we see as likely to influence our fees in each of the next two years.

Transition to IFRS

The Financial Statement and Budget report, published on 21 March 2007, stated that:

Annex 1

The annual financial statements of government departments and other entities in the public sector are currently prepared using accounting policies based on UK Generally Accepted Accounting Practice (UKGAAP). In order to bring benefits in consistency and comparability between financial reports in the global economy and to follow private sector best practice, this Budget announces that from the first year of the CSR (Comprehensive Spending Review) period these accounts will be prepared using International Financial Reporting Standards (IFRS) adapted as necessary for the public sector.'

The government timetable suggests that from 2008/09, all public sector bodies, including local government bodies, will be expected to prepare their accounts in accordance with IFRS. The timetable for the transition to IFRS in local government has not yet been confirmed and is currently under discussion between the Treasury, Communities and Local Government (CLG) and the Chartered Institute of Public Finance and Accountancy/Local Authority (Scotland) Accounts Advisory Committee (CIPFA/LASAAC). However, we understand that they are likely to be applied from 2010/11. The Audit Commission is also in discussion with those bodies about how the development of a new local government Statement of Recommended Practice (SORP), or equivalent, should be taken forward and we will work closely with these key stakeholders to support that process over the next year.

The transition to IFRS will increase auditors' work significantly, particularly in the first year when bodies will need to restate their previous year's accounts on the new basis to provide prior year comparatives. The more onerous accounting, measurement and disclosure requirements of IFRS will also result in additional audit work on an ongoing basis.

We estimate the increase in fees for the audit of financial statements in local government will be between 5 and 6 per cent in 2010/11. It will decline thereafter before being consolidated at approximately 3 per cent.

Auditing standards

Under the Commission's *Code of Audit Practice*, appointed auditors have a statutory duty to comply with auditing standards issued by the Auditing Practices Board. The Auditing Practices Board is committed to a programme of global harmonisation of standards and to adopting international standards on auditing issued by the International Auditing and Assurance Standards Board (IAASB). The IAASB has been revising all its existing auditing standards and the changes seem likely to add significantly to auditors' professional responsibilities. This will apply in particular in relation to auditing estimates used by those preparing accounts, verifying written representations from audited bodies and the work required when seeking to place reliance on the work of another auditor. These new requirements are likely to impact from 2009/10 onwards.

The details of these changes, which will impact on all sectors of the economy, and how they are to be introduced, are still being discussed within the global accountancy profession and with regulators. But they will require significant additional audit work on the

Annex 1

financial statements. At this stage it is difficult to quantify, but our best estimate is that these professional changes could increase fees by 7 per cent.

Inspection

2008/09 is the transition year from CPA to CAA; with CPA providing a baseline for CAA. As part of the transition from CPA to CAA we will replace the relationship manager role within the Commission with the post of comprehensive area assessment lead.

The Commission is working with a wide range of stakeholders including the other inspectorates, government and the Local Government Association to develop the CAA framework for implementation from 2009, with the first CAA reports due to be published in autumn 2009. The first in a series of joint consultations on CAA was published on 19 November 2007 www.audit-commission.gov.uk. The inspection work programme and scales of fees for 2009/10 and 2010/11 will flow from the final framework agreed following the consultation. While we will consult on the detail of CAA we are working on the basis of delivering CAA at a lower overall cost to audited and inspected bodies than the CPA framework.

Summary of potential fee increases 2008/09 - 2010/11

The effect of all the above changes on the average audit fees is summarised in Table 2 below.

Annex 1

Table 2: Summary of potential fee increases 2008/09 - 2010/11

	2007-08	2008-09							
	2007/08	3% Efficiency Savings	Cost Pressure	Use of Resources	BVPP elimination	Standards /Clarity	Fire Data Quality	Pension Fund Reduction	2008/09
	Fee £k	Fee £k	Fee £k	Fee £k	Fee £k	Fee £k	Fee £k	Fee £k	Fee £k
London Borough	380	-11	20	19	-2	5		-19	392
Metropolitan Council	335	-10	18	18	-2	5		-5	359
County Council	245	-7	13	18		3	3	-35	240
District Council	105	-3	6	12	-1	1			120
Unitary Councils	274	-8	14	18	-2	3			299
Local Councils*	6.5	-0.2	0.4			0.1			6.8
National Park Authorities	22	-0.7	1.2			0.3			22.8
Passenger transport	69	-2.1	3.6			1			71.5

*This includes all local (town and parish) councils and other bodies that would otherwise be covered by the limited assurance regime but with income or expenditure in excess of £1 million. This includes those authorities that were best value authorities. The cost of the audit of the BVPP for these bodies has been removed from the average fee for 2007/08.

Annex 1

	2009-10			2010-11				
	3% Efficiency Savings	Cost Pressure	Standards/ Clarity	2009/10	3% Efficiency Savings	Cost Pressure	IFRS	2010/11
	Fee £k	Fee £k	Fee £k	Fee £k	Fee £k	Fee £k	Fee £k	Fee £k
London Borough	-12	21	27	428	-13	22	26	463
Metropolitan Council	-11	19	25	392	-12	21	20	421
County Council	-7	13	16	262	-8	14	16	284
District Council	-4	6	8	130	-4	7	6	140
Unitary Councils	-9	16	21	327	-10	17	16	350
Local Councils*	-0.2	0.4	0.6	7.6	-0.3	0.5	0.4	8.2
National Park Authorities	-0.7	1.2	1.6	24.9	-0.7	1.3	1.2	26.7
Passenger transport	-2.1	3.8	5	78.2	-2.3	4.1	3.9	83.9

Annex 1

	% Increases		
	2008/09	2009/10	2010/11
	Inc. %	Inc. %	Inc. %
London Borough	3%	9%	8%
Metropolitan Council	7%	9%	7%
County Council	-2%	9%	8%
District Council	14%	8%	8%
Unitary Councils	9%	9%	7%
Local Councils*	5%	12%	8%
National Park Authorities	4%	9%	7%
Passenger transport	4%	9%	7%

Proposed scales of fees for 2008/09 Audit

We have included the cost of the work programme in the proposed scales of fees for 2008/09.

In setting the scales of fees, the Commission needs to balance the cost pressures it faces with what it is reasonable to expect audited and inspected bodies to pay. We also have to project likely future cost increases up to two years ahead. The scales of fees for the 2008/09 audits that we propose in autumn 2007 must cover the cost of work carried out by auditors up to the completion of the audits in autumn 2009. Through internal efficiencies, we have succeeded over the years in keeping fee increases well below the real increase in the cost of delivering audits.

The cost of employing professional staff is our single biggest item of spending. Increases in professional salaries, therefore, have a significant impact on the costs of delivering audits, which we have to recover through fees. The Office of National Statistics Labour Market Report, published on 12 September 2007, shows that in the year to July 2007 average earnings in the economy as a whole have increased by 3.5 per cent over the past

Annex 1

year with earnings in the public sector rising by 2.9 per cent. In the specialised market for staff with public sector audit and accounting skills, costs have risen even more. A recent Audit Commission salary survey at the firms with which we have contracts, showed that over the last year salaries have increased by around 5 per cent, but for difficult to recruit and retain staff, such as trainees and newly qualified staff, pay rises have been up to 10 per cent.

We have been successful in using our market position as the largest buyer of audits in the UK to procure audits from the firms at competitive rates. Following major procurement exercises over the last two years we have been able to reduce the impact of these cost increases.

Changes in audit fees

The fee scales we are proposing for 2008/09 provide for an average increase in audit fees of £12,000 or 6 per cent across all of local government. Of this, 2.25 per cent reflects inflation, net of the 3 per cent efficiency savings made by the Commission, while the balance reflects the volume increases resulting from additional work we have specified as described above.

We have recalibrated both the fixed and variable elements of the audit fee scales to take account of the proposed work programme and the expected 4 per cent increase (in cash terms) in local government spending.

Scales of audit fees for local government and housing bodies

The scale of audit fees for individual bodies comprises:

- a fixed element;
- an element related to gross expenditure of the audited body; and
- a regional premium for audits in London and the South East.

The proposed scales of audit fees for 2008/09 are as follows.

	Fixed element	Plus a percentage of 2008/09 gross expenditure
London borough councils	£157,000	+ 0.029
Metropolitan borough councils	£195,000	+0.020

Annex 1

Unitary councils

	£140,000	+ 0.032
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County councils (includes those with fire and rescue services)

	£149,000	+0.010
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District councils

	£87,500	+0.051
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Local (town and parish) councils and other bodies otherwise covered by the limited assurance audit regime but with income or expenditure in excess of £1 million

	£5,000	+0.068
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National parks authorities

	£20,500	+ 0.027
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Passenger transport authorities/executives

	£33,500	+0.021
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Local Government Pension Schemes

Single-employer scheme	£38,000	
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Large multi-employer scheme	£70,000	
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Small multi-employer scheme	£48,000	
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A premium of 3 per cent is included in the scales of fees for audited bodies in South East England. A premium of 6 per cent is included in the scales of fees for audited bodies in London, except London borough councils. The premiums do not apply to the audit of local government pension schemes.

Annex 1

The South East England premium applies to all audited bodies in the counties of Berkshire, Cambridgeshire, Kent, Surrey, East and West Sussex, Hampshire, the Isle of Wight, Oxfordshire, Buckinghamshire, Bedfordshire, Hertfordshire and Essex.

The fees to be charged to other bodies will be determined by the Managing Director, Audit following discussions between the auditor and the body concerned. The actual fees set in each case will depend on local circumstances (in particularly the size and role of the body concerned and the risks identified). These other bodies include:

- the Common Council of the City of London;
- the Greater London Authority (GLA) and its functional bodies;
- Rutland County Council; and
- the Council of the Isles of Scilly.

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 indicated 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. But the Commission normally expects this to vary the scale fee by no more than 30 per cent (upwards or downwards), based on the auditor's assessment of risk and the scale and complexity of the audit at a particular body.

It is a matter for the auditor to determine the work necessary to complete the audit and, subject to the approval of the Commission, to seek to agree an appropriate variation to the scale fee with the audited body. The Commission will normally agree a variation to the scale fee where that is agreed by the auditor and the audited body.

Auditors will charge extra fees for dealing with objections (from the point at which they accept an objection as valid) or special investigations, such as those arising from disclosures under the Public Interest Disclosure Act 1998.

Hourly rates for certifying claims and returns

Maximum £ per hour	Standard	South East England	London
Partner / District auditor	£310	£330	£365
Senior manager / Manager	£170	£185	£200
Senior auditor	£110	£120	£130
Other staff	£85	£95	£100

Annex 1

Alternative approach

The Commission could smooth the level of fee increases for district councils across the three year period to ease the effect of the introduction of the new approach to UoR and data quality in year one. However, the average fee increases listed for year 2009/10 and 2010/11 are indicative only at this stage due to the ongoing discussions within the global accountancy profession. The effect of smoothing on the average fee is shown below in Table 3.

Table 3: The effect of smoothing on the average fee for district councils

Body	Average fees and percentage increases						
					per cent Increases		
	2007/08	2008/09	2009/10	2010/11	2008/09	2009/10	2010/11
	Fee £k	Fee £k	Fee £k	Fee £k	Inc. %	Inc. %	Inc. %
District Council	105	117	129	143	11%	11%	11%

Consultation question - District councils

The Audit Commission plans to consider the responses to this question on a group basis. District councils will not have the option to make an individual choice for smoothed fee increases.

Would you prefer a smoothed increase in fees over the next three years, allowing for the fact that future projections of fees would have to compensate the Commission for income foregone in year one, and that these figures can only be indicative?

Inspection

The tables below set out the standard number of days and proposed fee scale for inspection activity by authority type for 2008/09, the transition year from CPA to CAA. 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 scope of activity.

Annex 1

As in previous years, the cost of inspection activity will be met by a fee element payable by the authority (shown in the fee scales below), and an element that is funded by CLG grant. The proportion funded by CLG grant is 25 per cent for single tier authorities and the GLA and its functional bodies, 50 per cent for county councils, and 80 per cent for district councils. We are seeking agreement from DWP for it to fund the cost of the benefits inspection programme for 2008/09.

The proposed inspection fee scales for 2008/09 include an increase of 2.25 per cent on 2007/08 inspection fee scales, subject to the effect of rounding figures.

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, except for the GLA and its functional bodies.

The standard model for district council corporate assessment has increased from 77 days in 2007/08 to 79 days. Feedback from initial blocks of District CPA (DCPA) has highlighted the need for additional time to be allocated to supporting and training peers, to help them operate more effectively as a member of a corporate assessment team. As a consequence, we have made minor adjustments to the fees for DCPA to provide peers involved in this work with a similar level of initial support and training to peers working on single tier and county council corporate assessments.

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'

Inspection activity	Standard number of days	Proposed standard fee to authority in 2008/09 after applying CLG grant (£)
Relationship manager's role in assessment	10	11,310
Direction of travel assessment	10	11,310
Recovery support for under-performing authorities	20	22,620
Corporate assessment	155	106,110
Service inspection"	40	24,280

County councils

Inspection activity	Standard number of days	Proposed standard fee to authority in 2008/09 after applying CLG grant (£)
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' 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.

" Inspections of authorities with ALMOs are not subject to CLG grant. The full charge for these inspections is invoiced to the local authority. We are seeking agreement from DWP for them to fund the cost of the benefits inspection programme for 2008/09.

Annex 1

Relationship manager's role in assessment	10	7,540
Direction of travel assessment	10	7,540
Recovery support for under-performing authorities	20	15,080
Corporate assessment	155	70,740
Service inspection	40	16,190

District councils ⁱⁿ

Inspection activity	Standard number of days	Proposed standard fee to authority in 2008/09 after applying CLG grant (£)
Relationship manager's role in assessment	10	3,020
Direction of travel statement	10	3,020
Recovery support for under-performing authorities	20	6,040
Corporate assessment	79	14,420
Service inspection	40	6,470

GLA and its functional bodies

Inspection activity	Standard number of days	Proposed standard fee to authority in 2008/09 after applying CLG grant (£)
Relationship manager's role in assessment	10	13,510
Direction of travel assessment	10	13,510

Value Added Tax (VAT)

All the proposed 2008/09 fee scales exclude VAT which will be charged at the standard rate, currently 17.5 per cent, on all work done.

Next steps

The Audit Commission Act 1998 and the Local Government Act 1999 require the Commission to prescribe scales of fees in respect of the audit of local government, housing, criminal justice and fire and rescue bodies' accounts and, where required, the

For the purposes of inspection charges, the Council of the Isles of Scilly is charged on the same basis as a district council.

Annex 1

inspection of the services provided by those bodies. Before prescribing scales of fees, the Commission is required to consult relevant representative organisations. In addition, we are circulating an overview of the draft work programme to audited bodies and other stakeholders.

We welcome your comments on this proposed work programme and scales of fees for 2008/09 and indicative fee proposals for 2009/10 and 2010/11, and whether the Commission should smooth the fee increases over the three year period. Comments should be sent by email to workandfeesconsultation@audit-commission.gov.uk or by post to Marcine Waterman, Director of Audit Policy and Regulation, Audit Commission, 1st Floor Millbank Tower, Millbank, London, SW1P4HQ, by 11 January 2008.

The Commission Board will be asked to approve the 2008/09 to 2010/11 work programme and scales of fees at its meeting in March 2008. It will give careful consideration to all responses we receive to this consultation. We will then provide audited bodies with access to the final document by 1 April 2008.

Annex 1

Annex 1

Summary of content of audit and inspection plans 2008/09

Summary of content of audit and inspection plans 2008/09

	Single-tier authorities and county councils ^{iv}	District councils	National park authorities	Passenger transport authorities/ executives	Waste disposal authorities	Local councils	Authorities with ALMOs
CORE AUDIT AND INSPECTION WORK:							
Audit and inspection: Planning, liaison and reporting	✓	✓	✓	✓	✓	✓	✓
Audit and inspection: Liaison with other inspectorates	✓	✓					
Audit: Accounts and systems	✓	✓	✓	✓	✓	✓	
Audit: Use of resources	✓	✓	✓	✓	✓	✓	
Audit: Data quality	✓	✓	✓	✓	✓		
Inspection: CPA improvement reporting	✓	✓					

	Single-tier authorities and county councils	District councils	National park authorities	Passenger transport authorities/ executives	Waste disposal authorities	Local councils	Authorities with ALMOs
VARIABLE WORK:							
Audit: Risk-based performance audit work	✓	✓	✓	✓	✓	✓	
Inspection: Corporate assessments at relevant authorities – dependent on programme	✓	✓					
Inspection: Service-based inspections – dependent on programme	✓	✓					✓
Other: Certification of grant claims and returns	✓	✓	✓	✓			

^{iv} Includes the Common Council of the City of London and the Council of the Isles of Scilly.