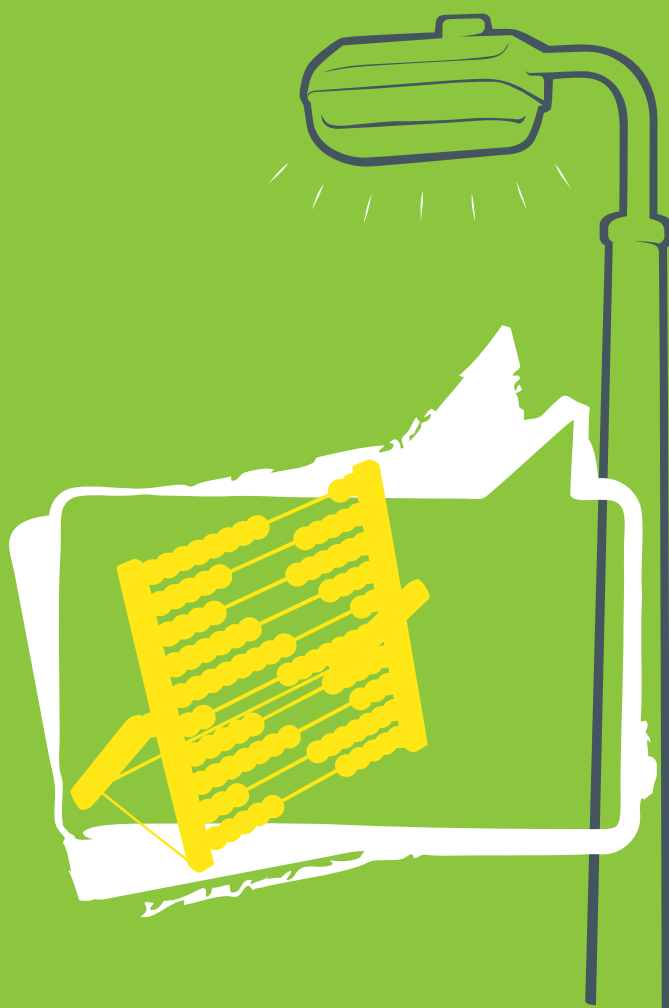


Proposed work programme and scales of fees 2009/10 and indicative fee proposals for 2010/11 and 2011/12

Local government, housing and community safety



Local government

Discussion document

September 2008

 **audit**
commission

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, covering the £180 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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Preface

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- 1** This document sets out the work the Audit Commission plans to undertake in the local government, housing and community safety sectors during 2009/10, with the associated scales of audit and inspection fees. It also sets out indicative fee proposals for 2010/11 and 2011/12.
 - 2** We have brought forward the process for consulting on the scales of audit and inspection fees, with a view to publishing the final scales of fees by 1 February 2009. This is in response to requests from audited bodies that we consult them early enough so that they can take account of our proposals in their budget setting processes. We aim to bring forward the consultation process for 2010/11 even further to the summer of 2009.
 - 3** We would be grateful for comments from stakeholders, which 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, SW1P 4HQ, by **Friday 7 November 2008**.
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Summary

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- 4** We are proposing to confirm the main changes to the scales of fees for 2009/10, which we indicated to audited bodies when we published the scales of fees for 2008/09 and our indicative fee proposals for 2009/10 and 2010/11 in March 2008. These are:
- a) a net increase for inflation of 1.25 per cent in the scales of audit fees, after allowing for efficiency savings by the Commission of 3 per cent;
 - b) an increase of 4 per cent at probation boards and trusts to reflect the costs of additional audit work arising from the introduction of International Financial Reporting Standards (IFRS); and
 - c) changes in the inspection scales of fees to deliver an average net reduction of 10 per cent in the combined cost of auditors' work on use of resources and inspection work at single tier and county councils, compared to 2007/08 levels. At district councils, the effect will be broadly neutral in real terms.
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- 5** As well as consulting on our work programme and proposed scales of audit fees for 2009/10 (as we are required to do by statute), we are also consulting on indicative fee proposals for 2010/11 and 2011/12. Our aim is that by giving an indication of likely fees over three years we will help bodies in their medium-term financial planning.
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- 6** The rest of this document sets out the work programme in detail and the associated proposed scales of fees.

1 | Background

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- 7** The Commission's income must cover the cost of its work in the local government, housing and community safety sectors, which comprises:
- procuring and delivering audits;
 - delivering inspections and related functions;
 - the Commission's programme of national studies;
 - the Commission's other statutory functions, for example, the appointment of auditors; and
 - other corporate management costs.

8 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 for inspections. Before prescribing any scales of fees it consults audited and inspected bodies in local government and their representative associations, and the accountancy profession.

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

10 We construct the scales of 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 decide on the proper mix of skills for particular pieces of work.

11 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.

12 The scales of audit fees for individual bodies comprise:

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

13 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 charge a fee which is larger or smaller than the scale fee to reflect the actual work that auditors need to do to meet their statutory responsibilities. It will do this 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.

14 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. 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.

15 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.

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

17 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.

18 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, in accordance with the statutory *Code of Audit Practice*. 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.

19 The Commission will continue to publish on its website the agreed fees for individual bodies, to enable them to compare their audit fee with that of similar bodies. The fees can be viewed at www.audit-commission.gov.uk.

2 Proposed work programme 2009/10

Audit

20 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, and the extent of internal audit work and the reliance that can be placed on it. However, the core of the work undertaken will be common.

21 The audit fee is based on the assumption that detailed working papers and other specified information are provided to an agreed timetable. Where audited bodies do not meet agreed timetables and/or provide poor documentation such that additional audit work is necessary, or the audit is delayed, auditors will charge additional fees to cover the costs incurred.

22 Under the *Code of Audit Practice* (the Code) the Audit Commission may specify additional audit work, which supplements the local risk-based approach to planning the audit.

23 For 2009/10 the Commission will specify work in the following areas:

- Auditors' input to Comprehensive Area Assessment (CAA) – the Commission will specify audit work at all local authorities, police authorities and fire and rescue authorities, leading to the delivery of use of resources (UoR) assessments relating to 2009/10. This work will also support the annual conclusion that the auditor is required to reach under the Code on an audited body's arrangements to secure value for money.
- For 2009/10 auditors will be required to undertake audit work in relation to data quality to support their UoR assessments. The work will apply at all local authorities, police authorities and fire and rescue authorities.
- Whole of Government Accounts (WGA) – the Commission has specified a proportionate approach to the audit of the consolidation packs for WGA at all local government bodies.

24 The cost of the above work programme is reflected in the scales of fees set out in this document.

25 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 2009/10 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.

Auditors' use of resources judgements

26 Auditors' UoR judgements are an important part of the local authority and NHS performance framework. They act as a spur to stimulating improved performance, by challenging organisations to deliver better value for money, promote effective financial management, and establish high standards of governance and accountability.

27 After extensive consultation with audited and inspected bodies, we published our approach to UoR assessments in May 2008. In that document we set out the key lines of enquiry (KLOE) for the three themes of the assessment. We also said that we would specify in our annual work programme and scales of fees document which KLOE would be assessed over the coming year. So we are now proposing that the KLOE specified for assessment in 2009/10 will be as follows:

2 Proposed work programme 2009/10

Table 1: Use of resources 2009/10

Key line of enquiry (KLOE)	Single tier and county councils	District councils	Police authorities	Fire and rescue authorities
Managing finances				
1.1 Planning for financial health	✓	✓	✓	✓
1.2 Understanding costs and VFM	✓	✓	✓	✓
1.3 Financial reporting	✓	✓	✓	✓
Governing the business				
2.1 Commissioning and procurement	✓	✓	✓	✓
2.2 Use of information	✓	✓	✓	✓
2.3 Good governance	✓	✓	✓	✓
2.4 Risk management and internal control	✓	✓	✓	✓
Managing resources				
3.1 Natural resources	✗	✓	✓	✓
3.2 Strategic asset management	✓	✗	✗	✗
3.3 Workforce	✓	✗	✗	✗
Total number of KLOE	9	8	8	8

Note:

1. Natural resources (KLOE 3.1) will be assessed for the first time at all bodies other than single tier and county councils, where it will have been assessed for 2008/09.
2. Workforce (KLOE 3.3) will be assessed for the first time at single tier and county councils, but will not be assessed at districts, police authorities and fire and rescue authorities.
3. A score of level 1 on any KLOE will result in automatic re-assessment of that KLOE in the following year, regardless of whether it is specified for assessment.

Changes in financial reporting standards

- 28** From 2009/10, probation boards and trusts will be required to prepare their accounts in accordance with International Financial Reporting Standards (IFRS). The transition to IFRS will increase auditors' work, 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 work on an ongoing basis.
- 29** As previously indicated, we are proposing to increase scale fees for probation boards and trusts by 4 per cent in 2009/10, to reflect the costs of this additional work. In the private sector the introduction of IFRS increased audit fees by over 20 per cent, and we are committed to holding increases at less than half this level.
- 30** The proposed scales of fees do not include provision for review of the accounting treatment of PFI/PPP schemes, which may be required as a result of the transition to IFRS. The scope, and therefore the costs, of such reviews will depend upon the nature and complexity of the scheme and may need to be reflected in a variation to the scale fee.

Comprehensive Area Assessment (CAA) and inspection

- 31** Comprehensive Performance Assessment (CPA) will be reported for the final time in February 2009. Comprehensive Area Assessment (CAA) will replace CPA and will report for the first time in November 2009. The Commission and its partner inspectorates (Commission for Social Care Inspection, Healthcare Commission, HM Inspectorate of Prisons, HM Inspectorate of Constabulary, HM Inspectorate of Probation and Ofsted) are currently consulting on the proposals for the overall CAA framework. The consultation, available on the Commission's website at www.audit-commission.gov.uk, closes on 20 October 2008.
- 32** In parallel with the consultation on CAA, the Commission and our partner inspectorates are trialling different aspects of the overall CAA framework in ten areas across the country. The CAA methodology will be refined in light of the consultation and learning from the trials and the final CAA framework for 2009/10 will be published in early 2009.
- 33** We expect that CAA will deliver a significant reduction in average inspection fees paid by single tier and county councils (up to 50 per cent for some councils). Taken together with the fee for auditors' work on UoR, an average net fee reduction of 10 per cent will be delivered at single tier and county councils, compared to 2007/08 levels.

2 Proposed work programme 2009/10

At district councils, the effect will be broadly neutral in real terms; reflecting the fact that there is no rolling programme of corporate assessments for these councils and average inspection fees are already very low.

34 The Commission's inspection work programme and scales of fees set out in this document reflect the proposals in the joint inspectorate consultation document published in July 2008. Any subsequent changes in our CAA proposals in the light of consultation and the trialling may require adjustments to our final work programme and scales of fees. However any changes will be within the reduced level of inspection fee envelope to which the Commission is committed.

35 CAA will have two main elements that will be connected and share a common evidence base:

- An area assessment that looks at how well local public services are delivering better results for local people. This assessment focuses on outcomes rather than organisational performance and will hold local partnerships to account for their impact. The Commission's contribution to this work will be funded by a grant from the Department for Communities and Local Government (CLG).
- Organisational assessments of individual public bodies, the cost of which will be recovered through audit and inspection fees.

36 The proposed 2009/10 inspection programme for each type of local government, housing, criminal justice and fire and rescue body is set out below and summarised in Appendix 1.

37 The Commission will publish the planned inspection programme on its website at www.audit-commission.gov.uk once annual audit and inspection plans have been agreed.

Inspection work programme for councils

38 Single tier and county councils will no longer be subject to three-yearly corporate assessments (for which the 2008/09 fees were £105,080 and £70,050 respectively).

39 Under CAA, in addition to the area assessment the inspection work programme for councils will include:

- the managing performance theme of the organisational assessment; and
- risk-based inspection activity where required.

40 The organisational assessment of local authorities will combine the UoR and managing performance assessment into a single assessment of organisational effectiveness. UoR assessments are funded through audit fees as they are part of the audit work programme. The managing performance assessment will be part of the inspection work programme and funded by inspection fees payable by councils on the basis set out in this document.

41 As part of the move to CAA, the recent reduction in the volume of inspection will continue. Risk-based inspection activity will be triggered by the emerging findings and reports from the area and organisational assessments, and/or informed by any assessments under existing performance frameworks reported in late 2008 or early 2009. We may carry out such inspections as a single inspectorate or as a partnership of two or more inspectorates, depending on the scope of the inspection. Inspection fees will be payable by councils for risk-based inspections on the basis set out in this document. As a fee will be payable only for the Commission's contribution to joint inspections, it may vary from the standard model presented in this document.

42 In addition, as part of the Commission's risk-based inspection activity the Commission will continue to undertake the following inspections:

- Housing and council tax benefit service inspections following the transfer of this function from the former Benefit Fraud Inspectorate in April 2008. These inspections will be planned on a risk basis by the Commission working with the Department for Work and Pensions (DWP) using monthly performance information that DWP receives from all councils, as well as local indicators of risk and the findings of relevant audit work. These inspections are funded by DWP and do not form part of the inspection fees paid by councils.

- Inspections of arm's length management organisations (ALMOs), administered by local authorities. CLG requires a minimum of a 2 star inspection score prior to the release of additional funds to ALMOs seeking to achieve the Decent Homes Standard for their housing stock. CLG also requires the Commission to re-inspect all ALMOs where they continue to receive additional funding for Decent Homes to ensure that they have maintained or improved service standards. The full charge for ALMO inspections is directly invoiced to the administering local authority.
- Re-inspections of 0 star Supporting People services. Although the rolling programme of Supporting People inspections has concluded, there are some residual re-inspections of 0 star services programmed in 2009/10. This is a grant funded programme of work with fees payable by authorities only where they have received two 0 star inspections. Issues relating to Supporting People at other administering local authorities will be picked up through CAA.

43 We are investigating extending short-notice inspections, currently carried out in housing associations only, to other housing inspections and will consult on any proposals shortly.

44 The inspection programme for councils will be coordinated across inspectorates.

2 Proposed work programme 2009/10

Inspection work programme for police authorities

45 We are in discussion with the Home Office and the HM Inspectorate of Constabulary about undertaking inspections of police authorities from 2009/10 as proposed in the policing green paper: *From the Neighbourhood to the National: Policing our Communities Together*. Subject to the outcome of these discussions about the funding and coverage of these inspections, development work will take place in 2008/09.

Inspection work programme for fire and rescue authorities

46 In addition to the area assessment, the fire and rescue authority inspection work programme will include:

- the managing performance theme of the organisational assessment; and
- risk-based inspection activity where required.

47 The organisational assessment of fire and rescue authorities will combine the use of resources and managing performance assessment, tailored for the fire sector, into a single assessment of organisational effectiveness. The managing performance theme will draw on evidence from the sector-led peer review process (currently called the operational assessment of service delivery). UoR assessments are funded through audit fees as they are part of the audit work programme. The managing performance assessment will be funded by CLG grant.

48 In 2009/10, risk-based inspections will be introduced in fire and rescue authorities and these will be funded by CLG grant.

Studies

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

3 Proposed scales of fees for 2009/10

Background

50 We have included the cost of the work programme in the proposed scales of fees for 2009/10.

51 In setting the scales of fees, the Commission needs to balance the cost pressures it faces and 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 2009/10 audits that we are proposing must cover the cost of work carried out by auditors up to completion of the audits in Autumn 2010. Over the years we have succeeded in keeping fee increases well below the real increase in the cost of delivering audits, through internal efficiencies, and we will continue to do so.

Changes in audit fees

52 The fee scales we are proposing for 2009/10 provide for an average 1.25 per cent increase in audit fees, reflecting inflation after allowing for 3 per cent efficiency savings made by the Commission. The average increase in audit fees for probation boards and trusts will be 5 per cent, reflecting the additional audit costs that will arise from the transition to IFRS.

53 We have taken account of published expected changes in funding for the different parts of the local government and community safety sectors. 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 changes in funding.

Scales of audit fees for local government, criminal justice and fire and rescue bodies

54 The scale of audit fees for individual bodies comprises:

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

55 The proposed scales of audit fees for 2009/10 are as follows:

3 Proposed scales of fees for 2009/10

Table 2: Proposed scales of fees for 2009/10

	Fixed element (£)	Plus a percentage of 2009/10 gross expenditure (Note 1)
London borough councils	150,000	+0.028
Metropolitan borough councils	192,000	+0.018
Unitary councils	135,000	+0.030
County councils	135,000	+0.010
District councils	76,000	+0.047
National parks authorities	20,000	+0.025
Passenger transport authorities/executives	34,500	+0.020
Police authorities	70,000	+0.007
Probation boards	22,000	+0.043
Fire and rescue authorities	58,500	+0.024
Other bodies otherwise covered by the limited assurance audit regime but with income or expenditure in excess of £1 million	9,000	+0.030
Local government pension funds (Note 2)		
Single employer fund	38,500	
Large multi-employer fund	70,900	
Small multi-employer fund	48,600	

Note:

1. Gross expenditure is defined as the gross expenditure figure shown in the net cost of services section of the Income and Expenditure account

2. For the purposes of the scales of fees we have used the following definitions for pension funds:

- Single employer fund: all London boroughs
- Large multi-employer fund: scheme assets in excess of £1 billion
- Small multi-employer fund: scheme assets less than £1 billion

56 A premium of 3 per cent is added to the scales of fees for audited bodies in south-east England. A premium of 6 per cent is added to 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 funds.

57 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.

58 The Commission will consult individual bodies about proposed scale fees where they do not fall within any of the types of audited bodies. These bodies include:

- the Common Council of the City of London;
- the Greater London Authority and its functional bodies;
- the London Fire and Emergency Planning Authority;
- the London Probation Board;
- the Metropolitan Police Authority;
- Rutland County Council;
- the Council of the Isles of Scilly;
- the London Pensions Fund Authority;
- the South Yorkshire Pensions Fund Authority; and
- waste disposal authorities.

59 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 charge a fee which is larger or smaller than the scale fee to reflect the actual work that auditors need to do to meet their statutory responsibilities. It will do this 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.

60 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. 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.

61 Fees for the auditor's consideration of 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, will be charged in addition to any variation to the scale fee for risk and complexity.

3 Proposed scales of fees for 2009/10

Table 3: Hourly rates for certifying claims and returns

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

Scale of inspection fees for local government bodies 2009/10

62 The Commission outlined in its response to the consultation on its work programme and scales of fees 2008/09 that CAA will deliver a significant reduction in average inspection fees paid by single tier and county councils (up to 50 per cent for some councils). At district councils the effect will be broadly neutral in real terms, reflecting the fact that there is no rolling programme of corporate assessments for these councils and average inspection fees are already very low.

63 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. Given that the area assessment will cover local partnerships it is not appropriate to charge individual authorities for this work. It is therefore proposed that this activity will be funded by CLG grant. To achieve this we have changed the percentage split between grant and fee for the remaining inspection activities that can be attributed to individual authorities. A summary is set out in Table 4. The net effect of this change will result in the reduced average inspection fee for single tier and county councils.

Table 4: CLG grant levels and fee levels for CAA activities

CAA activity	Authority type	% CLG grant funded	% fee to authority
Area assessment	Local partnerships	100	0
Managing performance theme of organisational assessment	Single tier and county councils	0	100
	GLA and its functional bodies	0	100
	District councils	50	50
Risk-based inspection activity ¹	Single tier and county councils	0	100
	GLA and its functional bodies	0	100
	District councils	50	50

64 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 where the premium has already been included in the scale fees). The premiums are different from those for audit fees as the latter include both a fixed element and an element related to gross expenditure.

65 No fee is payable for housing and council tax benefit inspections or for inspections of fire and rescue authorities. The inspections will be grant funded by DWP and CLG respectively.

66 Supporting People re-inspections are CLG grant funded, unless the authority has previously received two 0 star rated Supporting People inspections. In this case, the fee for the inspection will be charged in full to the authority. The full fee for ALMO inspections will be charged to the administering local authority.

67 The standard number of days and proposed fee scale for inspection activity by type of authority for 2009/10 are set out below.

¹ This excludes the funding arrangements for ALMO inspections, Supporting People re-inspections and housing and council tax benefit inspections.

3 Proposed scales of fees for 2009/10

Table 5: Single tier and county councils^{II}

Inspection activity	Standard number of days	Proposed standard fee to authority in 2009/10 after applying CLG grant (£)
Managing performance theme of organisational assessment	11	16,630
Risk-based inspection activity where required ^{III}	40	32,460

Table 6: GLA and its functional bodies

Inspection activity	Standard number of days	Proposed standard fee to authority in 2009/10 after applying CLG grant (£)
Managing performance theme of organisational assessment	11	16,960
Risk-based inspection activity where required	40	38,950

Table 7: District councils^{IV}

Inspection activity	Standard number of days	Proposed standard fee to authority in 2009/10 after applying CLG grant (£)
Managing performance theme of organisational assessment	11	8,320
Risk-based inspection activity where required	40	16,230

^{II} 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.

^{III} Inspections of authorities with ALMOs are not subject to CLG grant. The full fee for these inspections is charged to the administering local authority. DWP will fund the cost of the 2009/10 benefits inspection programme. CLG will also fund Supporting People re-inspections unless the authority has previously received two 0 star inspections.

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

68 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 CAA Lead and is dependent on risk and scope of activity.

69 Under CAA, the number of days planned for risk-based inspection activity in particular will be scoped to take account of the nature of the work, possibly across a number of councils, and whether we carry out such inspections as a single inspectorate or as a partnership of two or more inspectorates. A fee will be payable only for the Commission's contribution to joint inspections. The fee charged may therefore vary from the standard model presented here.

70 For corporate governance inspections the risk-based inspection days and fee will be the starting point and adjusted as necessary for the scope of the inspection.

Value Added Tax (VAT)

71 All the proposed 2009/10 fee scales exclude VAT which will be charged at the standard rate (currently 17.5 per cent) on all work done.

4 Indicative changes in fees for 2010/11 and 2011/12

2010/11 – Audit

- 72** The main factors affecting audit fees in 2010/11, which we have already notified to audited bodies, will be:
- a net increase of 1.25 per cent for inflation, after allowing for efficiency savings of 3 per cent;
 - increases in audit fees of 6 per cent for local government bodies and 8 per cent for pension funds, to reflect the additional audit costs arising from the introduction of IFRS (the difference reflects the fact that the opinion audit represents a higher proportion of the total fee for pension funds); and
 - a net reduction in audit fees of 1 per cent for probation boards to reflect the reduction in the ongoing audit costs arising from the transition to IFRS.

73 The Chartered Institute of Public Finance and Accountancy and Local Authority Accounts (Scotland) Advisory Committee has confirmed that from 2010/11 local government bodies that prepare their accounts in accordance with the statement of recommended practice for local authority accounting will be required to prepare their accounts on the basis of IFRS. The transition will increase auditors' work, 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 work on an ongoing basis. This will result in a real additional increase in audit fees for these bodies of 6 per cent (8 per cent for pension funds) in 2010/11.

74 In the private sector the introduction of IFRS increased audit fees by over 20 per cent, and we are committed to holding increases at less than half this level.

2010/11 – Inspection

75 Subject to the finalisation of the CAA framework, the 2009/10 work programme will continue into 2010/11.

76 It is proposed that the area assessment will evolve and mature to tell a story of the place over time. In the first year of CAA, in 2009/10, a baseline will be set using available evidence and taking into account relevant aspects of recent assessments. In future years, the area assessment will concentrate on what has changed. We will assess the impact of action taken to improve performance and outcomes, updating earlier assessments and taking account of longer-term evidence and trends as they become available.

77 The organisational assessment and risk-based inspection activity, including housing and council tax benefit inspections and ALMO inspections will continue. We expect inspection fees to increase in line with our net inflation figure of 1.25 per cent.

2011/12 – Audit and Inspection

78 We envisage fees increasing by no more than the Bank of England's inflation target level of 2 per cent. However, if this assumption proves to be incorrect we will need to vary fees accordingly. For local government bodies there should also be a real terms reduction in audit fees of 3 per cent (5 per cent for pension funds) to reflect the reduction in the ongoing audit costs arising from the transition to IFRS.

5 | Next steps

79 The Audit Commission Act 1998 requires the Commission to prescribe scales of fees in respect of the audit of health bodies' accounts. 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.

80 We welcome your comments on this proposed work programme and scales of fees for 2009/10 and indicative fee proposals for 2010/11 and 2011/12. 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, SW1P 4HQ, by Friday 7 November 2008.

81 The Commission Board will be asked to approve the 2009/10 work programme and scales of fees and indicative scales of fees for 2010/11 and 2011/12 at its meeting in December 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 February 2009.

82 We aim to bring forward the consultation process for 2010/11 to the summer of 2009.

Appendix 1

	Single tier authorities and county councils ^V	District councils	National park authorities	Passenger transport authorities/executives	Waste disposal authorities	Local councils and other bodies	Authorities with ALMOs or Supporting People programmes	Fire and rescue authorities	Probation boards and probation trusts	Police authorities
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: Area assessment	✓	✓	✓	✓	✓			✓	✓	✓
Inspection: Managing performance theme of the organisational assessment (combined with use of resources assessment to form the organisational assessment)	✓	✓						✓		
VARIABLE WORK:										
Audit: Risk-based performance audit work	✓	✓	✓	✓	✓	✓		✓	✓	✓
Inspection: Risk-based inspection work	✓	✓					✓	✓		✓
Other: Certification of grant claims and returns	✓	✓	✓	✓						

^V Includes the Common Council of the City of London and the Council of the Isles of Scilly.

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