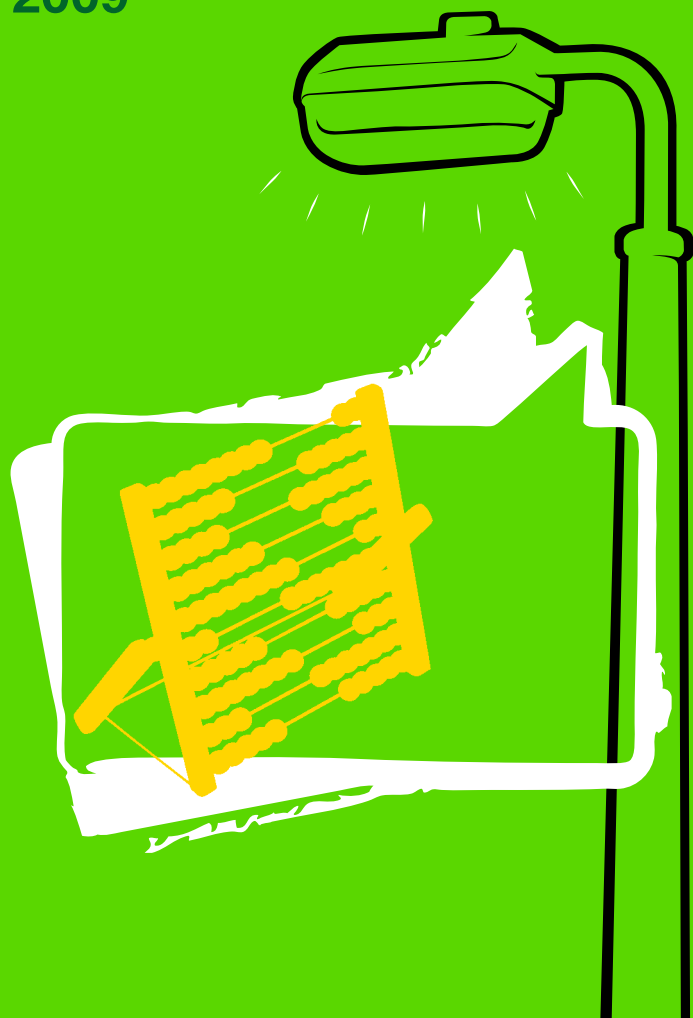


Proposed work programme and scales of fees 2010/11

and indicative fee proposals for 2011/12 and 2012/13

**Local government, housing and community safety
consultation document**

July 2009



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

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

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

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Preface

1 This document sets out the work that the Audit Commission plans to undertake in the local government, housing and community safety sectors during 2010/11 with the associated scales of fees. It also sets out indicative fee proposals for 2011/12 and 2012/13.

2 As planned, we have brought forward further the process for consulting on the scales of fees, with a view to publishing the final scales of fees **by 30 October 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.

3 We welcome comments from stakeholders on the proposals contained in this document. 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 4 September 2009**.

- 1** We are proposing to confirm the main changes to the scales of fees for 2010/11. These were indicated to audited bodies when we published in December 2008 the scales of fees for 2009/10 and our indicative fee proposals for 2010/11 and 2011/12. These are:

 - a** a net increase in audit and inspection fees of 1.25 per cent for inflation, after allowing for efficiency savings of 3 per cent; and
 - b** an increase in scales of audit fees to reflect the additional audit costs arising from the introduction of International Financial Reporting Standards (IFRS) of 6 per cent at local authorities, police and fire and rescue bodies and 8 per cent at pension funds.
- 2** This would result in average increases in audit fees for local government, police and fire and rescue bodies of 7.25 per cent and 9.25 per cent for pension funds.
- 3** However, the Commission has already indicated its intention to offset these increases by a subsidy to audited bodies to cover the one-off element of the cost of transition to IFRS. For local authorities, police and fire and rescue bodies, the agreed amount to be subsidised was 3 per cent of the scale fee for the relevant types of body. For pension funds the agreed amount to be subsidised was 4 per cent of the scale fee. We wrote to all audited bodies on 5 February 2009 indicating that this subsidy would be paid directly to audited bodies in December 2010.
- 4** In recognition of the financial pressures that public bodies are facing in the current economic climate, the Commission has decided to double the amount of the subsidy. Local authorities, police and fire and rescue bodies will now receive a total subsidy for IFRS of 6 per cent of the scale fee, and pension funds will receive a subsidy of 8 per cent of the scale fee. This will reduce the average increase in fees in 2010/11 to 1.25 per cent for local authorities, police, fire and rescue bodies and pension funds. We will be writing to audited bodies shortly to confirm the payment arrangements for this second tranche of subsidy.

Summary

5 We are also proposing a technical change to the scales of audit fees. This will involve narrowing, over the next three years, the range within which we would normally consider varying the scale fee, from 30 per cent above or below the scale fee, to a range of 20 per cent above and 10 per cent below the scale fee.

6 Setting the bands more narrowly will not lead automatically to increases or decreases in audit fees for the bodies affected, but it does highlight our expectation of what constitutes an appropriate fee. Where it can be justified in terms of audit risk, it will be possible to agree a fee outside the proposed range.

7 As well as consulting on our work programme and proposed scales of fees for 2010/11, as we are statutorily required to do, we are also consulting on indicative fee proposals for 2011/12 and 2012/13. The rest of this document sets out our proposed work programme and the associated proposed scales of fees.

8 The Commission's income from audit and inspection fees 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.

9 Under Section 7 of the Audit Commission Act 1998 (the AC Act) 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.

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

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 Commission meets all auditors' costs from the fees it collects and uses the balance to fund its statutory functions – for example, regulation of the audit regime and national studies.

13 The Commission constructs the scales of fees using an outcome-focused approach rather than one based on input costs. The Commission defines the scale audit fee as the fee required by auditors to carry out the work necessary to meet their statutory responsibilities under the AC Act, in accordance with the *Code of Audit Practice* (the Code). The scale fee represents the Commission's best estimate of the fee required to complete an audit where the audited body has no significant audit risks and the audited body has in place a sound control environment that ensures the auditor is provided with complete and materially accurate financial statements with supporting working papers within agreed timeframes.

Background

14 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 planned gross expenditure; and
- a regional premium for audits in London and the South East.

15 The Commission has the power to determine the fee above or below the scale fee, where it considers that substantially more or less work was required than that envisaged by the scale fee. The Commission may therefore charge a fee that 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.

16 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.

17 This allows auditors to propose a variation to the scale fee based on delivering outputs to an agreed timetable. This gives them the flexibility to achieve efficiencies and decide on the proper mix of skills for particular pieces of work.

18 In recent years the range within which we would normally consider varying the scale audit fee has been set at 30 per cent above or below the scale fee. The Commission is proposing over the next three years to narrow this range to 20 per cent above and 10 per cent below the scale fee as set out in Table 1:

Chapter 2 Proposed work programme 2010/11

Table 1: **Proposed ranges**

Year	Maximum range above scale fee %	Maximum range below scale fee %
Current	30	30
2010/11	25	20
2011/12	25	15
2012/13	20	10

19 We are proposing this change because, in practice, the costs arising from the need to carry out additional work as a result of poor quality accounts and working papers, or to address specific audit risks, are always likely to outweigh any reduction in work that can be achieved where accounts and working papers are of high quality.

20 Setting the bands more narrowly will not lead automatically to increases or decreases in audit fees for the bodies affected, but it does highlight our expectation of what constitutes an appropriate fee. Where it can be justified in terms of audit risk, it will continue to be possible to agree a fee outside the proposed range.

21 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.

22 In addition, the Commission may specify fees for specific pieces of work that it wants to be carried out only at selected bodies.

23 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.

Proposed work programme 2010/11

24 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 AC Act, in accordance with 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. We are currently revising the Statement of Responsibilities of Auditors and Audited Bodies for 2010/11 in parallel with the development of the new Code of Audit Practice that will come into effect in March 2010.

25 The Commission will continue to publish the agreed audit fees for individual bodies on its website at www.audit-commission.gov.uk, to help audited bodies to compare their audit fees against similar bodies.

Audit

26 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.

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

28 For 2010/11, the Commission will specify work in:

- 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) judgements. This will include work on data quality as specified in the UoR guidance. 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; and
- 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.

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

Changes in financial reporting standards

30 From 2010/11, local authorities, police, fire and rescue bodies and pension funds will be required to prepare their accounts in accordance with 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 ongoing additional work.

31 We are proposing to increase scale fees for local authorities, police, fire and rescue bodies and pension funds to reflect the costs of this additional work.

Proposed work programme 2010/11

32 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. We are also committed to reducing fees in line with the ongoing costs of the transition to IFRS.

33 The Commission has already indicated its intention to offset these increases by a subsidy to audited bodies to cover the 'one-off' element of the cost of transition to IFRS. For local government, police and fire and rescue bodies, the agreed amount to be subsidised was 3 per cent of the scale fee for the relevant types of body. For pension funds, the agreed amount to be subsidised was 4 per cent of the scale fee. We wrote to all audited bodies on 5 February 2009 indicating that this subsidy would be paid directly to audited bodies in December 2010.

34 In recognition of the financial pressures that public bodies are facing in the current economic climate, the Commission has decided to double the amount of the subsidy. Local authorities, police and fire and rescue bodies will now receive a total subsidy for IFRS of 6 per cent of the scale fee and pension funds will receive a subsidy of 8 per cent of the scale fee. This will reduce the average increase in fees in 2010/11 to 1.25 per cent for local authorities, police, fire and rescue bodies and pension funds. We will be writing to audited bodies shortly to confirm the payment arrangements for this second tranche of subsidy.

35 The proposed scales of fees do not include provision for review of the accounting treatment of private finance initiative (PFI) or public private partnership (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.

Pension fund audits

36 The Commission mandated separate audits of local authority pension funds from 2008/09. The first audits are due to be completed before we finalise our fee proposals for 2010/11. We will review the costs actually incurred by auditors and compare these with the assumptions we made in setting the scale fees for 2008/09 (and 2009/10). In light of our analysis, we will consider the extent to which we can change the scale from one based on fixed sums to one that combines a fixed element and an element that varies in line with the turnover or fund value. If the results of the review indicate that we can reduce the scale fees for these audits, we will do so and issue revised fee scales for 2009/10.

Late and qualified accounts

37 The publication of audited financial statements on a timely basis is the principal means by which those responsible for the stewardship of public money discharge their accountability for their financial performance. In local government in England, the statutory deadline for the publication of annual accounts is 30 September following the end of the financial year to which they relate.

38 It is therefore disappointing that as at 30 September 2008 some 67 local authorities had failed to publish their 2007/08 accounts. As of June 2009, 12 councils have yet to publish audited financial statements.

39 In 16 cases, auditors qualified their opinion on the authorities' accounts, because either they considered that the accounts contained material misstatements, or they could not obtain appropriate assurance on certain amounts reported in the accounts.

40 This is not a record of which those authorities or the wider local government community can be proud. The failure to publish accounts on a timely basis, or the qualification of an auditor's opinion on a set of accounts, not only reflects poorly on those authorities' financial management arrangements, but represents a fundamental failure of governance. This is something that leaders and chief executives alike should take extremely seriously.

41 Against this background, the Commission has decided that it and its appointed auditors should take a stronger line at authorities that fail to publish by the statutory deadline. Specifically, we are advising our appointed auditors that where, other than in the most exceptional circumstances (for example, where a genuinely complex legal issue precludes the issuing of an audit opinion), they have not been able to issue their audit report (including their opinion) on an authority's accounts by 30 November, they should highlight this fact in their annual audit letter to the authority and make statutory recommendations to the authority under section 11 of the AC Act. ('Section 11 recommendations' are recommendations to which the auditor adds specific force by requiring the audited body formally to consider and respond to them, in accordance with a specified procedure set out in sections 11 and 12 of the AC Act.)

Proposed work programme 2010/11

42 For its part, the Commission proposes to publish a list of all those authorities whose accounts have been qualified, or where the auditors have not been able to issue their reports by 30 November, in the form of an open letter to the Secretary of State. We will publicise the letter widely so that local residents and taxpayers can be made aware of this basic failure on the authorities' part.

43 We propose to issue our first open letter in December 2009, in relation to late or qualified accounts for 2008/09.

Auditors' use of resources judgements

44 The new approach to UoR was introduced from 2008/09 and the first results will be reported in autumn 2009. For the 2009/10 and subsequent assessments, the timetable for the completion of UoR work by auditors will be brought forward to maximise the amount of work undertaken by 31 March of the financial year to which the assessment relates. Further details on the 2010/11 timetable for UoR assessments will be published as part of the UoR guidance, which is published on our website www.audit-commission.gov.uk/localgov/audit/uor/pages/guidance.aspx

Proposed work programme 2010/11

45 The work programme specifies which key lines of enquiry (KLOE) will be assessed over the coming year. The KLOE specified for assessment in 2010/11 are set out in Table 2.

Table 2: **Use of resources 2010/11**

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 (Note 1)	✗	✓	✓	✓
3.3 Workforce	✓	✗	✗	✗
Total number of KLOE	9	8	8	8

Notes:

- 1 Strategic Asset Management 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 and 2009/10.
- 2 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.

Grant certification

46 Grant-paying bodies often require certification by an appropriately qualified auditor of claims and returns submitted to them in respect of grants, subsidies and returns of financial information. The Commission makes arrangements for certifying claims and returns under section 28 of the AC Act and auditors act as its agents. The AC Act requires the Commission to charge fees for certification work that cover the full cost of the work, so we set a schedule of hourly rates for different levels of staff. In practice, auditors may agree a composite sum for certification work.

47 In 2010/11, the de minimis threshold below which we will not ask auditors to certify individual claims and returns will be increased to £125,000, and the intermediate threshold below which auditors will be required to undertake only a light touch review, will remain at £500,000. Above this threshold, certification work will be risk-based, taking account of the authority's overall control environment.

48 We have continued to examine ways in which we can minimise the costs of certifying claims and returns, both in terms of the scope of the work that auditors have to carry out and the number of claims and returns that require certification. The Commission intends to make further efficiencies in the certification process and to change the focus of certification work to give greater emphasis to its strategic objectives to improve financial management and data quality.

49 The Commission is taking steps to raise the profile of certification work as follows:

- auditors will be required to prepare an annual report to those charged with governance in order to highlight the errors, adjustments and qualifications arising in claims and returns;
- auditors will be encouraged to use the evidence from certification work to inform their assessments on UoR and data quality; and
- the Commission will prepare and publish an annual report about the results of certification work.

Comprehensive Area Assessment (CAA) and inspection

50 CAA came into effect on 1 April 2009 and will report for the first time in November 2009.

51 CAA assessments will, over time, evolve and mature to tell a story of places and organisations. We do not expect to cover the whole story in the first year but will focus on the highest priorities. The first year of CAA will therefore set a baseline using available evidence.

52 From 2010/11, we will take a proportionate approach to all elements of CAA, placing maximum reliance on any evidence of efficient and effective delivery of outcomes. 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.

53 CAA has 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); and
- organisational assessments of individual public bodies, the cost of which will be recovered through audit and inspection fees.

54 The Commission's inspection work programme and scales of fees set out in this document reflect the CAA framework published in February 2009.

55 The proposed 2010/11 audit and 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.

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

Inspection work programme for councils

57 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.

58 The organisational assessment of local authorities combines UoR and managing performance assessments 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 be funded by inspection fees payable by councils on the basis set out in this document.

59 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 other performance frameworks. 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.

60 As part of the Commission's risk-based inspection activity we will continue to undertake the following inspections where appropriate:

- **Housing and council tax benefits service inspections.** 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.
- **Strategic housing services inspections.** The Commission is currently piloting a programme of short notice inspections of local authority housing services. This pilot programme will be fully evaluated and the results of that evaluation reported to the Audit Commission's Board in November 2009. The Board will decide whether we proceed with this sort of inspection activity and, if so, the Commission will consult on the proposed charging arrangements.

- **Housing landlord services inspections.** Local authority housing landlord services, subject to parliamentary processes extending the remit of the Tenant Services Authority (TSA) across the housing domain, will be regulated by the TSA from 1 April 2010. The Commission will inspect local authority landlord services, including arms length management organisations (ALMOs), where the TSA requires such regulatory intervention. A decision to inspect or not will also need to take account of the outcomes of CAA and the local government performance framework more generally. The precise details of how this will work in practice, including the fees charged for this work, are yet to be determined and will be subject to further discussion and consultation.

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

Inspection work programme for police authorities

62 In November 2008, the government confirmed its intention to proceed with police authority inspections in its response to the policing green paper *From the Neighbourhood to the National: Policing our Communities Together*.

63 The Commission and Her Majesty's Inspectorate of Constabulary worked in partnership with the Home Office, the Association of Police Authorities, the National Policing Improvement Agency and the Improvement and Development Agency to develop the proposed inspection framework, and consulted on the proposals. The consultation closed on 10 June 2009.

64 The police authority inspection framework will take immediate effect when issued in July 2009. On-site inspection activity will begin in September 2009 and will proceed on a phased basis over an 18-month period.

65 These inspections are funded by the Home Office.

Inspection work programme for fire and rescue authorities

66 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.

67 The organisational assessment of fire and rescue authorities combines the UoR and managing performance assessments, 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 (called the operational assessment).

68 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.

69 Risk-based inspections of fire and rescue authorities will continue, and these will also be funded by CLG grant.

Studies

70 An element of audit and inspection fees is used to fund the Commission's programme of national value for money studies. These studies generate not just national reports with recommendations for central and local government, but also self assessment and improvement tools for local public bodies. They also contribute to the development of audit and assessment approaches.

71 We consulted on our proposed study programme in spring 2009. Details of the Commission's studies programme can be found on its website at www.audit-commission.gov.uk.

Chapter 3 Proposed scales of fees for 2010/11

Background

72 We have reflected the cost of the work programme in the proposed scales of fees for 2010/11.

73 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.

74 We also have to project likely future cost increases up to two years ahead. The scales of fees for the 2010/11 audits that we are proposing must cover the cost of work carried out by auditors up to completion of the audits in autumn 2011.

75 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

76 The fee scales we are proposing for 2010/11 provide for an average 1.25 per cent increase in audit fees for inflation, after allowing for 3 per cent efficiency savings made by the Commission.

77 The additional audit costs arising from the transition to IFRS will result in the scales of audit fees for local authorities, police and fire rescue bodies increasing by a further 6 per cent, and those for pension funds increasing by a further 8 per cent in 2010/11.

78 The average increase in audit fees for local authorities, police and fire and rescue bodies will therefore be 7.25 per cent. Pension funds can expect an average increase of 9.25 per cent.

79 However, these increases will be substantially offset by the separate subsidy that the Commission will pay direct to local authorities, police and fire and rescue bodies to mitigate the additional audit costs arising from the transition to IFRS. We wrote to all audited bodies on 5 February 2009 indicating that this subsidy would be paid directly to audited bodies in December 2010. The Commission has now agreed to increase the subsidy by a further 3 per cent of the scale fee. We will be writing shortly to confirm the payment arrangements for this second tranche of subsidy.

Proposed scales of fees for 2010/11

80 The proposed scales of fees do not include provision for review of the accounting treatment of PFI or 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.

81 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, police and fire and rescue bodies

82 The Commission defines the scale audit fee as the fee required by auditors to carry out the work necessary to meet their statutory responsibilities under the AC Act in accordance with the Code. It represents the Commission's best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment that ensures the auditor is provided with complete and materially accurate financial statements with supporting working papers within agreed timeframes.

83 Where auditors consider that they need to address specific audit risks in the scale fee, or 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 incur additional costs that will result in a higher fee than is envisaged in the scale fee.

84 The scale 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 planned gross expenditure; and
- a regional premium for audits in London and the South East.

Proposed scales of fees for 2010/11

85 The proposed scales of audit fees for 2010/11 are set out in Table 3.

Table 3: **Proposed scales of audit fees for 2010/11**

	Fixed element (£)	Plus a percentage of 2009/10 planned gross expenditure (Note 1)
London borough councils	137,500	0.032
Metropolitan borough councils	250,000	0.014
Unitary councils	125,000	0.036
County councils	228,000	0.003
District councils	83,500	0.052
National parks authorities	23,500	n/a
Passenger transport authorities	14,000	0.025
Passenger transport executives	44,000	0.025
Police authorities	74,500	0.007
Fire and rescue authorities	63,500	0.026
Other bodies with income or expenditure in excess of £1 million but less than £5 million	11,500	0.133
Other bodies with income or expenditure in excess of £5 million	23,500	0.030
Local government pension funds (Note 2)		
Single employer fund	42,000	n/a
Large multi-employer fund	77,500	n/a
Small multi-employer fund	53,000	n/a

Notes:

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

2 For the purposes of the scales of audit 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; and
- small multi-employer fund: scheme assets less than £1 billion.

Proposed scales of fees for 2010/11

86 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.

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

88 The Commission will consult individual bodies about proposed scale fees where they do not fall within any of the types of audited bodies listed in Table 3. These bodies include:

- the Common Council of the City of London;
- the Greater London Authority (GLA) 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.

89 The consultation for these individual bodies will normally be carried out by the appointed auditor as part of the audit planning process.

90 The Commission has the power to determine the fee above or below the scale fee where it considers that substantially more or less work was required than envisaged by the scale fee. The 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. This fee then becomes payable.

91 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.

Proposed scales of fees for 2010/11

92 In 2010/11 we will normally expect to approve a proposed variation to the scale fee of no more than 25 per cent above and 20 per cent below the scale fee, where this is agreed by the auditor and the audited body.

93 Fees for auditors' 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.

Grant certification

94 The Commission makes arrangements for certifying claims and returns under section 28 of the AC Act and auditors act as its agents. The AC Act requires the Commission to charge fees for certification work that cover the full cost of the work, so we set a schedule of hourly rates for different levels of staff. In practice, auditors may agree a composite sum for certification work.

95 We are proposing in 2010/11 to uplift the hourly rates by 4.25 per cent to reflect the full increase in costs. The hourly rates as set out in Table 4 will enable us to meet our statutory duty to cover the full cost of carrying out the work.

Table 4: **Hourly rates for certifying claims and returns**

Maximum £ per hour	Standard	SE England	London
Partner/district auditor	340	360	395
Senior manager/manager	190	205	220
Senior auditor	120	130	140
Other staff	90	100	110

Proposed scales of fees for 2010/11

Scale of inspection fees for local government bodies 2010/11

96 We propose a net increase in inspection fees of 1.25 per cent for inflation, after allowing for efficiency savings of 3 per cent.

97 The cost of inspection activity will be met by a fee element payable by the authority, and an element that is funded by CLG grant. This is unchanged from 2009/10. A summary is set out in Table 5:

Table 5: **CLG grant levels and fee levels for CAA and inspection activities**

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	Single tier and county councils	0	100
	GLA and its functional bodies	0	100
	District councils	50	50

Note:

1 DWP funds housing and council tax benefits inspections. Local authority housing landlord services inspections (including ALMOs) will be regulated by the TSA from 2010/11 and undertaken by the Commission as directed by the TSA. The funding of these inspections will be subject to further discussion and consultation.

Proposed scales of fees for 2010/11

98 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 planned gross expenditure.

99 The 2010/11 standard number of days and proposed fee scales for inspection activity at single tier and county councils, GLA and its functional bodies and district councils are shown in the following three tables.

Table 6: **Single tier and county councils**

Inspection activity	Standard number of days	Proposed standard fee to authority in 2010/11 after applying CLG grant (£)
Managing performance theme of organisational assessment	11	16,840
Risk-based inspection activity where required	40	32,860

Note:

1 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.

Proposed scales of fees for 2010/11

Table 7: **GLA and its functional bodies**

Inspection activity	Standard number of days	Proposed standard fee to authority in 2010/11 after applying CLG grant (£)
Managing performance theme of organisational assessment	11	20,210
Risk-based inspection activity where required	40	39,430

Table 8: **District councils**

Inspection activity	Standard number of days	Proposed standard fee to authority in 2010/11 after applying CLG grant (£)
Managing performance theme of organisational assessment	11	8,420
Risk-based inspection activity where required	40	16,430

Proposed scales of fees for 2010/11

100 No fee is payable for housing and council tax benefit inspections, inspections of fire and rescue authorities and police authorities. The inspections will be grant funded by DWP, CLG and the Home Office respectively.

101 The fees charged for local authority housing landlord inspections are yet to be determined and will be subject to further discussion and consultation, as referred to in paragraph 60.

102 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.

103 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.

104 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)

105 All the proposed 2010/11 fee scales exclude VAT, which will be charged at the standard rate (expected to be 17.5 per cent as at billing date) on all work done.

Chapter 4 Indicative changes in fees for 2011/12 and 2012/13

2011/12 – audit and inspection

106 The Commission has agreed that increases for 2011/12 should be no more than the government's inflation target, adjusted to reflect ongoing internal efficiencies.

107 Ongoing audit costs associated with the adoption of IFRS are expected to reduce by 3 per cent for local authorities, police and fire and rescue bodies and 5 per cent for pension funds in 2011/12.

2012/13 – audit and inspection

108 We envisage fees increasing by no more than the government's inflation target, adjusted to reflect ongoing internal efficiencies.

109 Under Section 7 of the AC Act 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 scales of fees, the Commission is required to consult relevant representative organisations.

110 We welcome your comments on this proposed work programme and scales of fees for 2010/11 and indicative fee proposals for 2011/12 and 2012/13. Comments should be sent by email to workandfeesconsultation@auditcommission.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 4 September 2009**.

111 The Commission Board will be asked to approve the 2010/11 work programme and scales of fees and indicative scales of fees for 2011/12 and 2012/13 at its meeting in October 2009. It will give careful consideration to all responses we receive to this consultation. We will then provide audited and inspected bodies with access to the final document by **30 October 2009**.

112 We aim to keep the consultation process for 2011/12 to the same timetable as this year.

Appendix 1

Summary of content of audit and inspection programmes 2010/11

	Single tier authorities and county councils	District councils	National park authorities	Passenger transport authorities/executives
CORE AUDIT AND INSPECTION WORK:				
Audit and inspection: planning, liaison and reporting	✓	✓	✓	✓
Audit and inspection: liaison with other inspectorates	✓	✓		
Audit: accounts and systems	✓	✓	✓	✓
Audit: VFM conclusion	✓	✓	✓	✓
Audit: UoR assessment	✓	✓		
Inspection: area assessment	✓	✓	✓	✓
Inspection: managing performance theme of the organisational assessment (combined with UoR 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	✓	✓	✓	✓

Notes:

- 1 The UoR assessment does not apply to the Council of the Isles of Scilly.
- 2 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.
- 3 For the purposes of inspection charges, the Council of the Isles of Scilly is charged on the same basis as a district council.

Waste disposal authorities	Local councils and other bodies	Authorities with ALMOs or Supporting People programmes	Fire and rescue authorities	Police authorities
✓	✓		✓	✓
				✓
✓	✓		✓	✓
✓	✓		✓	✓
			✓	✓
✓			✓	✓
			✓	
✓	✓		✓	✓
		✓	✓	✓

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We welcome your feedback. If you have any comments on this report, are intending to implement any of the recommendations, or are planning to follow up any of the case studies, please email:
nationalstudies@audit-commission.gov.uk



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