

Proposed work programme and scales of fees 2011/12

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

December 2010

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.

Contents

Introduction	2
Background	2
2010/11 rebates	3
2011/12 fees	3
Fees beyond 2011/12	4
Conclusion	4
Chapter 1: Proposed work programme for 2011/12	5
Audit	5
Late and qualified accounts	5
Auditors' local VFM work	5
Certification work	6
Assessment and inspection work	6
Studies	6
Chapter 2: Proposed scales of fees for 2011/12	7
Scales of audit fees for local government, police and fire and rescue bodies	7
Scales of audit fees	7
Pension fund audits	9
Certification work	9
Scale of inspection fees for local government bodies 2011/12	10
Value added tax (VAT)	11
Chapter 3: Next steps	12
Appendix 1 Impact of reductions and rebate on cost to audited bodies in 2010/11	13
Appendix 2 Impact of reductions on 2011/12 audit fees	15

Introduction

Background

1 In 2009, the Audit Commission (the Commission) consulted on its draft 2010/11 work programme and scales of fees over the summer. It confirmed its proposals in October 2009.

2 This year however we have not been in a position to do so as events have overtaken this annual consultation. On 13 August 2010, the government announced its plan to abolish the Commission.

3 The Commission has a statutory duty to break even taking one year with another. Audit and inspection fees are the principal means by which it finances its activities.

4 In setting the 2011/12 scales of fees, the Commission Board (the Board) has discussed with the Department for Communities and Local Government (CLG) how the one-off costs that will arise with the abolition of the Commission will be funded. CLG has informed the Commission Board that it has earmarked contingency funding to cover certain additional redundancy costs and lease commitments that cannot be met from the Commission's surplus and which will be funded by the Department. The contingency would be sufficient to cover the range of costs discussed by officials.

5 CLG will also work with the Commission to develop the best option for the future of the Commission's pension scheme which protects members' accrued rights and delivers best value for taxpayers. CLG has stated that, as a consequence, it is reasonable for the Commission's Board to work on the basis that pension scheme liabilities will not be crystallised.

6 On the basis of these assurances, the Commission's Board has concluded that it does not need to provide for these costs in setting scales of audit fees for 2011/12.

7 The Commission therefore proposes to carry through its pre-13 August announcement plans for fees. These were part of a three-year programme to deliver cost cuts of about £70 million (10 per cent per year). The plans involve fee rebates for 2010/11, and lower fees for 2011/12.

2010/11 rebates

8 The impact of stopping Comprehensive Area Assessment (CAA), including the cost of making several hundred staff redundant, has limited the level of rebates the Commission can afford to give bodies in 2010/11.

9 However, the Commission will rebate 1.5 per cent of the 2010/11 scale fee for district councils, police and fire and rescue authorities, and 3.5 per cent for single-tier and county councils. The rebates will be sent out shortly. The Commission will also not charge inspection fees for work already carried out in this financial year on the managing performance part of the organisational effectiveness assessment. This is because there was no value to the work once CAA ended.

10 These reductions, and the earlier rebate for the additional audit costs from the transition to International Financial Reporting Standards (IFRS), mean average scale fees for local government bodies subject to the scored use of resources (UoR) assessment have already reduced by 8 to 15 per cent.

11 The combined financial effect of these changes is to reduce the cost of audit and inspection fees for local government bodies in 2010/11 by £11.6 million (or 12.5 per cent). Appendix 1 sets out these reductions.

2011/12 fees

12 Our proposals for 2011/12 are for reductions in total audit fees. These reflect the new approach to local value for money (VFM) audit work, and reductions in the ongoing audit costs associated with introducing IFRS. Our proposals are:

- no inflationary increase in 2011/12 for audit and inspection scales of fees and the hourly rates for certifying claims and returns;
- a reduction in scale fees resulting from our new approach to local VFM audit work of 2 to 20 per cent; and
- a reduction in scale audit fees of 3 per cent for local authorities, police and fire and rescue authorities, reflecting lower ongoing audit costs after implementing IFRS.

13 The cumulative effect of these changes is to reduce audit and inspection fees for local government bodies in 2011/12 by a further £7.6 million (or 9 per cent). Appendix 2 sets out these reductions.

14 For 2011/12, we are proposing to specify the scale fee for each individual audited body, rather than providing a scale fee with fixed and variable elements. We will base the scale fee on the proposed 2010/11 fee, adjusted for the proposals summarised above. This will increase transparency and ensure planned reductions are delivered on the ground.

15 The Commission can approve proposed variations to the scale fee, to reflect changes in circumstances, before or at the completion of the 2011/12 audit.

Fees beyond 2011/12

16 Because of the Secretary of State's announcement, about the proposed abolition of the Commission, we cannot say anything at this stage about audit fees beyond 2011/12. The Commission, with other stakeholders, is working with CLG to help it develop proposals for a new local public audit framework. The new audit arrangements and their implications for audit fees; the timetable for implementing them; and the transitional arrangements have yet to be determined. The new arrangements will need to be reflected in legislation, which CLG is planning to introduce in 2011.

Conclusion

17 This document sets out the Commission's proposed 2011/12 work programme and scales of fees. It covers the local government, housing and community safety (including probation trusts) sectors.

18 We welcome comments from stakeholders on the proposals contained in this document. Please send any comments to workandfeesconsultation@audit-commission.gov.uk or to Marcine Waterman, Director of Audit Policy and Regulation, at the following address **by Friday 7 January 2011**.

Audit Commission
1st Floor Millbank Tower
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SW1P 4HQ

19 We plan to publish the scales of fees for 2011/12 **by the end of February 2011**.

Chapter 1: Proposed work programme for 2011/12

Audit

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

21 Under the *Code of Audit Practice* (the Code), the Commission may specify additional audit work which supplements the local risk-based approach to planning the audit. For 2011/12, the Commission will specify work on Whole of Government Accounts (WGA).

Late and qualified accounts

22 In 2011/12, the Commission will again publish a national summary naming those bodiesⁱ whose accounts or VFM conclusion have been qualified, or whose audited accounts have not been published by 30 September 2012.

Auditors' local VFM work

23 The Commission made a commitment in its *Work Programme and Scales of Fees 2010/11*, to review the approach to local VFM audit work, including the UoR assessment. As part of that review, we consulted national stakeholders on the possible options.

24 The new approach will:

- enable auditors to fulfil their responsibility under the Audit Commission Act 1998 (the Act) relating to an audited body's arrangements to secure economy, efficiency and effectiveness in its use of resources;
- be sharper, more focused and less costly than the previous UoR assessment, enabling a reduction in audit work and audit fees; and
- be applied proportionately and, as far as possible, consistently across all sectors of the Commission's regime.

ⁱ The report will cover local authorities, fire and rescue authorities, police authorities and other local government bodies (larger internal drainage boards, larger town and parish councils, national park authorities, conservation boards, integrated transport authorities, passenger transport executives, waste disposal authorities, and pension authorities).

25 From 2010/11, auditors of single-tier, county and district councils, fire and rescue authorities and police authorities will apply a new, more focused approach to the VFM conclusion. The new approach is based on two criteria, specified by the Commission, relating to audited bodies' arrangements for:

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

26 We are introducing a light-touch approach for larger national parks authorities, waste disposal authorities, integrated transport authorities, passenger transport executives and probation trusts. The approach will be based primarily on a review of the annual governance statement or statement on internal control, and will result in less work than is currently undertaken.

27 The light-touch approach will also apply at joint committees and other miscellaneous local government bodies. But for these bodies, the reduction in work will be much lower, reflecting the small amount of time currently spent on the VFM conclusion.

28 In 2011/12, we are also removing the requirement for auditors to issue a VFM conclusion at audited bodies with annual income or expenditure of less than £6.5 million.

29 The Commission's [website](#) contains more detail on how these approaches will apply to different bodies within our audit regime.

Certification work

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

Assessment and inspection work

31 Following the cessation of CAA in May 2010, there is no longer any mandatory inspection work. While the Commission will retain its power to carry out inspections, we do not envisage carrying out any inspections in 2011/12, unless specifically directed to do so.

Studies

32 In 2011/12, we will only be completing studies that had already begun before the 13 August announcement. Several of these studies are directly supporting the Local Government Group's Place Based Productivity Programme. We will not start any new studies in 2011/12. Details of the Commission's studies programme can be found at www.audit-commission.gov.uk/nationalstudies

Chapter 2: Proposed scales of fees for 2011/12

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

33 We have reflected the cost of the work programme in the proposed scales of fees for 2011/12.

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

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

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

37 Auditors will charge any fees for the consideration of objections or special investigations in addition to any variation to the scale fee.

Scales of audit fees

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

39 The fees are based on the proposed 2010/11 fee, adjusted to provide for:

- A reduction in scale fees as a result of our new approach to local VFM audit work of:
 - 2 to 7 per cent for audited bodies previously subject to the scored UoR assessment;
 - 10 per cent for larger national parks authorities, waste disposal authorities, joint committees, integrated transport authorities, passenger transport executives and probation trusts;
 - up to 20 per cent for local government bodies with expenditure of less than £6.5 million; and

- a reduction in scale audit fees of 3 per cent for local authorities, police and fire and rescue bodies to reflect the reduction in the ongoing audit costs arising from the transition to IFRS.

40 Table 1 summarises the proposed percentage reductions to 2011/12 fees.

Table 1: **Proposed reductions in audit fees for 2011/12**

Audited body	Reduction in total audit fee (%)	Audited body	Reduction in total audit fee (%)
London borough councils	10	Passenger transport executives	13
Metropolitan borough councils	10	Waste disposal and regulation authorities	13
Unitary councils	10	National parks authorities with income or expenditure in excess of £1 million but less than £6.5 million	23
County councils	10	National parks authorities with income or expenditure in excess of £6.5 million	13
District councils	5	Parish councils with income or expenditure in excess of £1 million	15
Police authorities	8	Pension fund authorities	23
Fire and rescue authorities	8	Other bodies with income or expenditure in excess of £1 million but less than £6.5 million	18
Probation trusts	10	Other bodies with income or expenditure in excess of £6.5 million	13
Integrated transport authorities	13		

Source: *Audit Commission*

41 The Commission can approve proposed variations to the scale fee, to reflect changes in circumstances, before or at the completion of the 2011/12 audit.

Pension fund audits

42 We deferred setting the 2010/11 fee scales for local government pension funds, pending a review of the costs of the 2008/09 audits. We completed our review and, in light of that analysis, approved revised scales of fees for 2009/10 and 2010/11. We intend to keep the scales of fees for pension funds under review and will analyse the costs of 2009/10 audits to determine whether any further changes are required.

43 Table 2 sets out the proposed scales of fees for the pension fund audits for 2011/12 pending the outcome of this review.

Table 2: **Pension funds proposed scales of audit fees**

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

Source: Audit Commission

Certification work

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

45 We are not proposing to uplift for inflation the hourly rates for certification work in 2011/12.

Table 3: Hourly rates for certifying claims and returns

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

Source: Audit Commission

Scale of inspection fees for local government bodies 2011/12

46 In 2011/12, any risk-based inspections we are specifically directed to undertake will be charged on the basis of 2010/11 fees.

47 The cost of inspection activity will no longer be partly funded by CLG grant. All fees will need to be met by the body.

48 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. The exception is for the Greater London Authority (GLA) and its functional bodies, as the premium has already been included in the scale fees.

49 The following tables set out the 2011/12 standard number of days and proposed fee scales for inspection activity at single-tier, county and district councils, and the GLA and its functional bodies.

Table 4: Single-tier, county and district councils

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

Source: Audit Commission

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. The 2010/11 standard fee for district councils was £16,230. The removal of the CLG grant funding of 50 per cent for these inspections means the full cost will now be payable by the body.

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

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

Source: Audit Commission

50 The standard 40-day inspection model provides an illustration of the cost of a standard risk-based inspection only. Each inspection we are directed to undertake will be scoped to take account of the work undertaken. If a joint inspection is required, a fee will be payable only for the Commission's contribution to the inspection.

Value added tax (VAT)

51 All the proposed 2011/12 fee scales exclude VAT, which will be charged at the new rate (20 per cent) on all work done.

Chapter 3: Next steps

52 Under section 7 of the 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.

53 We welcome comments from stakeholders on the proposals contained in this document. Please send any comments to workandfeesconsultation@audit-commission.gov.uk or to Marcine Waterman, Director of Audit Policy and Regulation, at the following address **by Friday 7 January 2011**.

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54 The Commission Board will be asked to approve the 2011/12 work programme and scales of fees at its 16 February 2011 meeting. 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 the end of February 2011**.

55 If you have comments or complaints about the way this consultation has been conducted, these should be sent by email to complaints@audit-commission.gov.uk or by post to Robert Mauler, Public Enquiries Manager, at the following address.

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Appendix 1 Impact of reductions and rebate on cost to audited bodies in 2010/11

Audited body	Average scale audit fee (£)	Managing performance fee (inspection) (£)	Average total cost to audited body (£)	Average rebate for IFRS (6% of scale audit fee) (£)	Removal of managing performance (£)	Proposed reduction for new approach to VFM (£)	Revised average total cost to audited body (£)	Change to average total cost (%)
London borough councils	414,818	16,630	431,448	-24,889	-16,630	-14,519	374,411	-13
Metropolitan borough councils	378,804	16,630	395,434	-22,728	-16,630	-13,258	342,817	-13
Unitary authorities	325,970	16,630	342,600	-19,558	-16,630	-11,409	295,002	-14
County councils	275,625	16,630	292,255	-16,538	-16,630	-9,647	249,441	-15
District councils	115,868	8,320	124,188	-6,952	-8,320	-1,738	107,178	-14
Police authorities	94,508		94,508	-5,670		-1,418	87,420	-8
Fire and rescue authorities	75,137		75,137	-4,508		-1,127	69,501	-8
Integrated transport authorities	67,923		67,923	-4,076			63,847	-6
Passenger transport executives	89,038		89,038	-5,342			83,696	-6

Audited body	Average scale audit fee (£)	Managing performance fee (inspection) (£)	Average total cost to audited body (£)	Average rebate for IFRS (6% of scale audit fee) (£)	Removal of managing performance (£)	Proposed reduction for new approach to VFM (£)	Revised average total cost to audited body (£)	Change to average total cost (%)
Waste disposal and regulation authorities	47,664		47,664	-2,860			44,804	-6
National parks authorities	23,261		23,261	-1,395			21,866	-6
Pension fund authorities	81,026		81,026	-4,862			76,164	-6
Other bodies (£1m <= £6.5m)	23,535		23,535	-1,412			22,123	-6
Other bodies (>£6.5m)	54,151		54,151	-3,249			50,902	-6

Probation trusts transitioned to IFRS in 2009/10 and parish councils are not subject to IFRS.

Appendix 2 Impact of reductions on 2011/12 audit fees

Audited body	2010/11 Average planned audit fee (£)	2011/12 Average reduction in planned audit fee (£)	2011/12 Average scale audit fee (£)	Change to average audit fee (%)
London borough councils	403,571	-40,357	363,214	-10
Metropolitan borough councils	375,107	-37,511	337,596	-10
Unitary authorities	332,750	-33,275	299,475	-10
County councils	268,850	-26,885	241,965	-10
District councils	117,717	-5,886	111,831	-5
Police authorities	92,950	-7,436	85,514	-8
Fire and rescue authorities	78,522	-6,282	72,241	-8
Probation trusts	31,880	-3,188	28,692	-10
Integrated transport authorities	52,779	-6,861	45,918	-13
Passenger transport executives	91,270	-11,865	79,405	-13
Waste disposal and regulation authorities	50,042	-6,506	43,536	-13
National parks authorities (£1m <>£6.5m)	23,144	-5,323	17,821	-23
National parks authorities (>£6.5m)	25,113	-3,265	21,848	-13
Parish councils (>£1m)	12,337	-1,850	10,487	-15
Pension fund authorities	77,500	-17,825	59,675	-23

Audited body	2010/11 Average planned audit fee (£)	2011/12 Average reduction in planned audit fee (£)	2011/12 Average scale audit fee (£)	Change to average audit fee (%)
Other bodies (£1m <= £6.5m)	12,123	-2,122	10,001	-18
Other bodies (>£6.5m)	26,695	-3,470	23,225	-13

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