

# Proposed work programme and scales of fees 2012/13

Local government and community safety

September 2011

**The Audit Commission is a public corporation set up in 1983 to protect the public purse.**

**The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.**

**We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.**

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# Introduction

1 This document sets out the work the Audit Commission plans to undertake in the local government and community safety sectors during 2012/13, with the associated [scales of audit fees](#).

2 Separate documents [cover the Commission's work in the NHS and at small bodies](#) subject to the limited assurance regime.

## Background

3 On 28 July 2011, the Audit Commission announced that it had agreed to transfer the work of its in-house audit practice to the private sector, by outsourcing through a procurement exercise. This follows the Department for Communities and Local Government (DCLG) announcement in August 2010 of the intention to disband the Commission.

4 DCLG has asked the Commission to seek bids for the work currently undertaken by the in-house audit practice. DCLG has written to local authorities setting out its decision, and the Home Office has written to police authorities in similar terms. The Commission wrote to audited bodies on 3 August 2011 to set out the implications for auditor appointments.

5 The procurement timetable is for new auditor appointments to be in place by 1 September 2012. New contracts will start from the audit of the accounts for 2012/13, and are expected to run for three or five years. The length of the contracts will be determined during the procurement, in discussion with DCLG, on the basis of the potential trade-off between value for money and the benefits of the proposed new audit arrangements for local public bodies.

6 The Commission is expected to reduce significantly in size by the end of 2012/13 as a consequence of the outsourcing. Prior to primary legislation to introduce a new local audit framework, the Commission will remain to oversee the contracts and make auditor appointments.

## 2012/13 fees

7 The Commission reduced fees by between 5 and 20 per cent in 2011/12, and made one-off rebates of between 1.5 and 3.5 per cent. These reductions were part of a three-year programme, begun before the announcement of the abolition of the Commission, to deliver cost cuts of £70 million (30 per cent) in audit fees.

8 For 2012/13, the Commission proposes reducing audit fees for audited bodies by 10 per cent from the published 2011/12 scale fees, reflecting the Commission's continued reduction in costs.

9 The information on proposed fees set out in this consultation document should support audited bodies' planning for 2012/13.

10 The costs of procuring audit services under its contracts with suppliers will be met by the Commission from the statutory audit fees that are determined by, and payable to, the Commission. We hope the procurement exercise will realise further reductions in the cost of audit, which we can pass on to audited bodies in the form of even lower fees. We will therefore publish the final work programme and scales of fees for 2012/13 in April 2012, when the exercise to outsource the work of the in-house audit practice has been completed.

## Fees beyond 2012/13

11 When we publish the final 2012/13 work programme and scales of fees in April 2012, we will also set out our proposals for audit fees beyond 2012/13.

## Responding to this consultation

12 We welcome comments from stakeholders on the proposals contained in this document. Please send comments by email to [workandfeesconsultation@audit-commission.gov.uk](mailto:workandfeesconsultation@audit-commission.gov.uk) or to Marcine Waterman, Director of Audit Policy and Regulation, at the following address by **Monday 24 October 2011**:

Audit Commission  
1st Floor Millbank Tower  
Millbank  
London  
SW1P 4HQ.

# Proposed work programme for 2012/13

## Audit

**13** Auditors tailor their work to reflect local circumstances and their assessment of audit risk. They 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.

**14** 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 2012/13, the Commission will specify work on Whole of Government Accounts (WGA).

**15** HM Treasury's Alignment project, to improve financial reporting to Parliament, may affect the process and timetable for preparing the 2012/13 accounts at probation trusts. We will continue to work with the Ministry of Justice and the National Offender Management Service on the possible implications. We will advise probation trusts if there are implications for fees arising from the implementation of the Alignment project.

## Late and qualified accounts

**16** In 2012/13, the Commission will again publish a national summary naming those bodies whose accounts or value for money (VFM) conclusion have been qualified, or whose audited accounts have not been published by 30 September 2013.

**17** The report will cover local authorities, fire and rescue authorities, local police bodies, probation trusts and other local government bodies. We will also publish separate reports covering internal drainage boards and parish councils.

## Auditors' local value for money work

**18** Under the Audit Commission Act 1998, auditors must satisfy themselves about an audited body's arrangements to secure economy, efficiency and effectiveness in its use of resources (the value for money conclusion).

**19** Auditors of single-tier, county and district councils and fire and rescue authorities will continue to apply a risk-based approach to their local value for money (VFM) work, giving a conclusion on the arrangements in place. The approach is based on two criteria, specified by the Commission:

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

**20** The Commission will confirm the approach to local VFM work for 2012/13 at police bodies once the provisions set out in the Police Reform and Social Responsibility Bill are finalised. The Bill abolishes police authorities and creates two new statutory bodies in each police area. The timetable for implementation of the Bill's provisions is expected to be confirmed in September 2011.

**21** Auditors of larger national parks authorities, waste disposal authorities, integrated transport authorities, passenger transport executives, joint committees, other miscellaneous local government bodies and probation trusts will continue to apply a light-touch approach to their local VFM work. The approach is based primarily on review of the annual governance statement or statement on internal control, and any other specific work the auditor considers necessary.

**22** A VFM conclusion is not required for audited bodies with annual income or expenditure of less than £6.5 million. This is in line with the changes to the Accounts and Audit (England) Regulations 2011, which raised the threshold defining smaller relevant bodies to £6.5 million.

**23** Our website provides more details on how these [VFM approaches](#) apply to different bodies within our regime.

## Certification work

**24** As well as their work under the Code, appointed auditors, as agents of the Commission, certify grant claims and returns.

**25** In 2012/13, we will not ask auditors to certify individual claims and returns below £125,000. The threshold below which auditors will 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

**26** Following the end of Comprehensive Area Assessment in May 2010, there is no longer any programme of mandatory inspection work. We do not envisage carrying out any inspections in 2012/13, unless specifically directed to do so.

## National reports

**27** The Commission will publish a small number of national reports on the results of audit, analysis and related work, under its statutory powers. Details of [the Commission's programme of national reports](#) are on our website.

# Proposed scales of fees for 2012/13

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

**28** We have reflected the cost of the work programme in the proposed scales of fees for 2012/13. The fees are based on the 2011/12 scale fee, reduced by 10 per cent.

**29** [The proposed scale fee for each individual audited body](#) is available on our website.

**30** Fees for new police bodies, expected to be created in May 2012, will be estimated following confirmation of the accounting and audit requirements for the bodies. We will consult separately on the scale fees for the new police bodies in May 2012.

**31** 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.

**32** As the 2012/13 scale fees are based on the scale fee for 2011/12, they continue to reflect the auditor's assessment of audit risk and complexity. We would only expect variations from the scale fee to occur in 2012/13 where these factors are significantly different from those identified and reflected in the 2011/12 fee.

**33** The Commission can approve proposed variations to the scale fee, to reflect changes in circumstances, before or at the completion of the 2012/13 audit.

**34** The Commission will obtain final fee information from appointed auditors, and explanations for any proposed variations from the scale fee. The Commission will consider the reasonableness of the explanations provided by auditors before determining the fee.

**35** The Commission will charge fees for considering objections, from the point at which auditors accept an objection as valid, or any special investigations, such as those arising from disclosures under the Public Interest Disclosure Act 1998, as a variation to the scale fee.

## Pension fund audits

**36** Table 1 sets out the scales of fees for the pension fund audits in 2012/13.



Table 1: Pension fund proposed scales of audit fees

Local government pension funds	Fixed element (£)	Plus a percentage of 2010/11 net audited assets
Multi-employer funds	30,000	0.00050
Single employer funds	31,500	n/a

Source: Audit Commission

## Certification work

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

38 We are not proposing to uplift for inflation the hourly rates for certification in 2012/13.

39 Table 2 sets out the hourly rates for certification work in 2012/13.

Table 2: 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

## Inspection fees for local government bodies

40 We do not plan to undertake any inspections in 2012/13. Any risk-based inspections we are specifically directed to undertake will be charged on the basis of the fees previously set for 2010/11. This was the last year in which we undertook a planned programme of inspections. The [2010/11 fees](#) are available on our website.

## Value added tax

41 All the 2012/13 fee scales exclude value added tax (VAT), which will be charged at the prevailing rate of 20 per cent on all work done.

## Next steps

**42** Under section 7 of the Act, the Commission has a statutory duty to prescribe scales of fees for the audit of accounts. Before prescribing scales of fees, the Commission is required to consult relevant representative organisations.

**43** We welcome comments from stakeholders on the proposals contained in this document. Please send comments by email to [workandfeesconsultation@audit-commission.gov.uk](mailto:workandfeesconsultation@audit-commission.gov.uk) or to Marcine Waterman, Director of Audit Policy and Regulation, at the following address by **Monday 24 October 2011**:

Audit Commission  
1st Floor Millbank Tower  
Millbank  
London  
SW1P 4HQ.

**44** The Commission Board will approve the final 2012/13 work programme and scales of fees for publication in April 2012, following completion of the exercise to outsource the work of the Commission's in-house audit practice.

**45** 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](mailto:complaints@audit-commission.gov.uk) or by post to Robert Mauler, Public Enquiries Manager, at the following address:

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Lime Kiln Close  
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BS34 8SR