

Proposed work programme and scales of fees 2013/14

Local government and police bodies

December 2012

The Audit Commission's role is to protect the public purse.

We do this by appointing auditors to a range of local public bodies in England. We set the standards we expect auditors to meet and oversee their work. Our aim is to secure high-quality audits at the best price possible.

We use information from auditors and published data to provide authoritative, evidence-based analysis. This helps local public services to learn from one another and manage the financial challenges they face.

We also compare data across the public sector to identify where services could be open to abuse and help organisations fight fraud.

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Introduction

1 This consultation document sets out the work the Audit Commission plans to undertake at local government and police audited bodies during 2013/14, with the associated [scales of audit fees](#). A separate consultation document covers the Commission's [work programme and scales of fees at NHS bodies](#) .

2 The consultation does not cover small bodies subject to the limited assurance regime. Fee scales for small bodies were set in April 2012 for five years and are available on the [Commission's website](#).

3 We hope the information set out in this document is helpful to stakeholders in considering our proposals for the 2013/14 work programme and scale fees, as well as supporting audited bodies' financial planning.

Background

4 In March 2012, the Commission announced significant reductions of up to 40 per cent in audit and certification fees from 2012/13 onwards, following an exercise to outsource the work of its in-house audit practice. These fee reductions were achieved as a combined result of the Commission's bulk purchasing power and internal efficiency savings.

5 When we announced the reductions, we said that we expect these lower fees to apply for five years, from 2012/13 to 2016/17, subject to annual review.

6 We plan to publish the final work programme and scales of fees for 2013/14 in April 2013. We have a statutory duty to consult before prescribing a scale of fees, and consult audited bodies themselves, where possible, as well as their representative associations, relevant government departments and the accountancy profession.

2013/14 fees

7 We do not plan to make any changes to the work programme for local government audited bodies for 2013/14. We therefore propose that scale audit fees are set at the same level as the fees applicable for 2012/13.

8 Fees for police bodies for 2012/13 reflected the increase in audit work arising from the changes introduced by the Police Reform and Social Responsibility Act 2011, requiring auditors to undertake audits of two statutory bodies in a police area from 2012/13, rather than one.

9 The 2012/13 overall fee for each police area, covering the audit of the police and crime commissioner and the chief constable, included an element for auditors' work on financial reporting requirements for the

transition from police authorities. We intend to remove this element for 2013/14, reducing the fee for the police and crime commissioner by a further 7 per cent.

10 We will keep the scales of fees for the new police bodies under review, to ensure they are consistent with auditors' local assessment of audit risks.

11 The Commission may approve variations to published scale fees for individual audited bodies, to reflect changes in circumstances or audit risks. These variations will apply to the fees for 2013/14 where the matter leading to the variation is of an ongoing nature.

Fees beyond 2013/14

12 We have made a commitment to review scales of audit fees each year, with the expectation that the significant audit fee reductions introduced from 2012/13 will apply until 2016/17. We expect to consult each year on the work programme and scales of fees before confirming fees.

13 The Commission has reduced significantly in size, but will continue to oversee the contracts with audit suppliers and make auditor appointments.

14 Draft legislation published by the government in July 2012 proposes closing the Commission by April 2015. The Commission's contracts with audit suppliers run until 2016/17, with a possibility of extension for up to three years. The responsibility for overseeing these contracts is expected to pass to a residuary body from April 2015.

Responding to this consultation

15 We welcome comments from stakeholders on the proposals contained in this document. Please send comments by email to workandfeesconsultation@audit-commission.gov.uk or to Jon Hayes, Associate Controller of Audit (Compliance), at the following address by **Friday 8 February 2013**:

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

Proposed work programme for 2013/14

Audit

16 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.

17 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 2013/14, the Commission will specify work on Whole of Government Accounts (WGA).

National reports

18 In 2013/14, the Commission will again publish a national report on the results of auditors' work. The report will cover the timeliness and quality of financial reporting and will summarise:

- auditors' work on the financial statements;
- auditors' work on the WGA returns;
- auditors' local value for money work;
- the public interest reports and statutory recommendations issued by auditors; and
- the key financial reporting and financial management challenges facing bodies.

19 The report will cover local authorities, fire and rescue authorities, local police bodies, other local government bodies, internal drainage boards and parish councils.

20 The Commission will also continue to publish the results of the annual survey of fraud in local government, in its *Protecting the Public Purse* report.

Auditors' local value for money work

21 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).

22 Auditors of single-tier, county and district councils, fire and rescue authorities and police bodies will 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.

23 Auditors of larger national parks authorities, waste disposal authorities, integrated transport authorities, passenger transport executives, joint committees, and other miscellaneous local government bodies will continue to apply a tailored approach to their local VFM work. The approach is based primarily on review of the annual governance statement, and any other specific work the auditor considers necessary.

24 A VFM conclusion is not required for audited bodies with annual income or expenditure of less than £6.5 million, which are subject to limited assurance audit. This is in line with the threshold set in the Accounts and Audit (England) Regulations 2011 defining smaller relevant bodies.

25 Where a body with annual income or expenditure of less than £6.5 million elects to prepare accounts as a larger relevant body, it is subject to a full Code audit including a VFM conclusion.

26 Our website provides further [information about the VFM conclusion](#).

Certification work

27 As well as their work under the Code, appointed auditors, as agents of the Commission, certify certain claims and returns.

28 In 2013/14, 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

29 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 2013/14, unless specifically directed to do so.

Proposed scales of fees for 2013/14

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

30 We have reflected the cost of the work programme in the proposed scales of fees for 2013/14. The fees are based on the scale fees applicable for 2012/13.

31 The proposed 2013/14 scale fee for each [local government](#) and [police](#) audited body is available on our website.

32 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.

33 As the 2013/14 scale fees are based on the scale fee for 2012/13, 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 2013/14 where these factors are significantly different from those identified and reflected in the 2012/13 fee.

34 The Commission can approve proposed variations to the scale fee, to reflect changes in circumstances, before or at the completion of the 2013/14 audit.

35 We will keep the scales of fees for the new police bodies that have replaced police authorities under review to ensure they are consistent with auditors' local assessment of audit risks.

36 The Commission will obtain updated fee information from appointed auditors, and explanations for any proposed variations from the scale fee on a regular basis. The Commission will consider the reasonableness of the explanations provided by auditors before agreeing to any variation to the scale fee.

37 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

38 The proposed scale fees for 2013/14 pension fund audits are the scale fees applicable for 2012/13. In line with the scale audit fees for all audited

bodies, we expect these lower fees to apply for five years, from 2012/13 to 2016/17, subject to annual review.

39 The proposed [2013/14 pension fund audit scale fee for each relevant audited body](#) is available on our website.

Certification work

40 The Audit Commission Act 1998 requires the Commission to charge fees for certification work that cover the full cost of the work.

41 Certification work fees for 2013/14 will comprise a composite indicative fee for each body, based on the latest certification fees, for 2011/12. Indicative fees will be adjusted for schemes no longer requiring auditor certification.

42 The Commission will receive final fee information from appointed auditors for 2011/12 certification work in January 2013. Where the work required to complete certification is above or below the indicative fee level set for 2012/13, we will revise 2013/14 indicative certification fees accordingly.

43 As the 2013/14 composite indicative fee is based on the latest certification fees available, it reflects the auditors' assessment of the work required. Therefore, we expect variations from the composite indicative fee to occur only where issues arise that are significantly different from those identified and reflected in the actual 2011/12 fee.

44 The indicative fees for certification work are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate claims and returns, with supporting working papers, within agreed timeframes.

45 The draft [2013/14 composite indicative certification fee](#) for each individual audited body is available on our website.

Inspection fees for local government bodies

46 We do not plan to undertake any inspections in 2013/14. Any risk-based inspections we are specifically directed to undertake will be charged on the basis of the fees 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

47 All the 2013/14 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

48 Under section 7 of the Audit Commission 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.

49 We welcome comments from stakeholders on the proposals contained in this document. Please send comments by email to workandfeesconsultation@audit-commission.gov.uk or to Jon Hayes, Associate Controller of Audit (Compliance), at the following address by **Friday 8 February 2013**:

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

50 Following responses to this consultation, the Commission's Board will approve the final 2013/14 work programme and scales of fees in March 2013, for publication in April 2013.

51 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.