

# Work programme and scales of fees 2013/14

Local government and police bodies

March 2013

**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 auditors 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 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. Separate documents cover the Commission's work in the [NHS](#) and at [small bodies](#).

## Background

2 The work of the Commission and its appointed auditors is carried out under the Audit Commission Act 1998 and the Code of Audit Practice 2010 (the Code). Copies of [the Code](#) and the associated [Statement of Responsibilities of Auditors and Audited Bodies](#) are on the Commission's website. Responsibility for the conduct of the audit remains, always, that of the appointed auditor.

3 Under section 7 of the Audit Commission Act 1998, the Commission has a statutory duty to prescribe scales of fees for the audit of accounts. Before prescribing any scales of fees, we consult audited bodies in local government, their representative associations, the Department for Communities and Local Government and the accountancy profession.

4 Fees are the principal way the Commission finances its activities. In law, audit fees are not a fee for audit services, but a levy to fund the costs of the Commission, out of which it meets the costs of audits and its other statutory functions. It has a statutory duty to cover its costs, taking one year with another.

5 The Commission publishes the [scale fees for individual bodies](#) each year on its website, to support transparency and to help audited bodies compare their fees with those of similar bodies. A [fee comparator tool](#) is also available on the website.

6 Section 28 of the Audit Commission Act 1998 requires the Commission to charge fees for certification work that cover the full cost of the work we undertake. The Commission also publishes [indicative certification fees](#) for individual bodies each year on its website.

## Scales of fees for 2013/14

7 In March 2012 the Commission announced significant reductions of up to 40 per cent in audit and indicative certification fees from 2012/13 onwards. These fee reductions were achieved as a combined result of the Commission's bulk purchasing power and internal efficiency savings.

8 We expect the lower fees to apply for the length of the five-year contracts awarded to our audit suppliers, subject to annual review.

**9** We do not plan to make any changes to the work programme for local government and police audited bodies for 2013/14. Following consultation, we have therefore set scale audit fees for local government bodies at the same level as the fees applicable for 2012/13.

**10** For police and crime commissioners, we have made a further reduction in fees for 2013/14 from the fees applicable for 2012/13. This reduction reflects the element included in 2012/13 scale fees relating to auditors' work on financial reporting requirements for the transition from police authorities.

**11** We received a very limited response to our consultation on the 2013/14 work programme and scales of fees, with a 2.6 per cent response rate across all our sectors. A [summary of the consultation response](#) is available on our website.

## **Fees beyond 2013/14**

**12** We have made a commitment to review scales of audit fees and indicative certification fees each year, with the expectation that the significant fee reductions introduced from 2012/13 will apply going forward. We consult on the work programme and scales of fees before confirming scale fees.

**13** The Commission has reduced significantly in size and cost, and this is reflected in the scales of fees. The Commission will continue to oversee the contracts with audit suppliers and make auditor appointments until its closure.

**14** Draft legislation published by the government 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 transitional body from April 2015.

# Work programme 2013/14

## Audit

**15** 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 an audited body, and the arrangements it has put in place to manage those risks.

**16** Under the Code, the Commission may specify additional audit work to supplement the local risk-based approach to planning the audit. The Commission does not plan to specify additional work for 2013/14.

## Auditors' local value for money work

**17** Under the Audit Commission Act 1998, auditors must satisfy themselves that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

**18** Auditors of single-tier, county and district councils, fire and rescue authorities and police bodies will apply a focused approach resulting in a positive conclusion – the value for money (VFM) conclusion – on the bodies' arrangements. This approach is based on two criteria, specified by the Commission, about audited bodies' arrangements for:

- securing financial resilience; and
- prioritising resources.

**19** Auditors will apply a tailored approach to their VFM work at other local government bodies designated as larger relevant bodies in the Accounts and Audit (England) Regulations 2011 (the Regulations). These bodies include: national parks authorities, waste disposal authorities, integrated transport authorities, passenger transport executives, pension fund authorities and larger joint committees.

**20** The tailored approach is based primarily on a review of the annual governance statement. Auditors are required to conclude whether or not there are any matters arising from their VFM work that they need to report. This is included in their formal audit report issued at the end of the audit.

**21** Auditors of smaller relevant bodies, as defined by the Regulations, which opt to prepare accounts as if they were a larger relevant body will also apply the tailored VFM approach for other local government bodies designated as larger relevant bodies.

## Certification work

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

**23** From 2012/13, we replaced the previous schedule of maximum hourly rates with an indicative fee for certification work for each body, incorporating the reduction of 40 per cent made to scale audit fees. The indicative certification fee is based on the latest available information on actual certification fees, adjusted where any schemes no longer require auditor certification. Indicative certification fees for 2013/14 are based on actual fees for 2011/12.

**24** Auditors do not certify claims and returns below £125,000. The threshold below which auditors undertake only limited tests will remain at £500,000. Above this threshold, certification work takes account of the audited body's control environment for preparing the claim or return.

## Assessment and inspection work

**25** 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.

## 'Auditing the Accounts' report

**26** The Commission will publish its annual *Auditing the Accounts* report covering local authorities, fire and rescue authorities, police bodies and other local government bodies. The report will cover the results of auditors' work on the 2013/14 accounts.

# Scales of fees for 2013/14

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

**27** The scales of fees for 2013/14 reflect the cost of the work programme outlined above. The [scale fee for individual audited bodies](#) is available on our website.

**28** 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.

**29** As the 2013/14 scale fees for individual bodies are based on the fees for previous years, they already reflect the auditor's assessment of audit risk and complexity. Therefore, we expect variations from the scale fee to occur only where these factors are significantly different from those identified and reflected in the 2012/13 fee.

**30** It is a matter for the auditor to decide the work necessary to complete the audit. Where an auditor considers more or less work is required than is represented in the scale fee, they must, subject to prior approval by the Commission, seek to agree a variation to the scale fee with the audited body.

**31** Information must be submitted by auditors to the Commission for any proposed variations to scale fees. The Commission has a process based on quarterly returns to manage requests for fee variations.

**32** The Commission will review the explanations for the proposed fee variations and inform the firm whether or not they are acceptable. Only proposed fee variations for which the Commission has accepted the explanation can be invoiced or refunded to audited bodies.

**33** The Commission will charge fees to cover the costs of considering objections, from the point at which auditors accept an objection as valid, as a variation to the scale fee. This also applies to costs incurred on any special investigations, such as those arising from disclosures under the Public Interest Disclosure Act 1998.



## Pension fund audits

**34** The scale fees for 2013/14 pension fund audits are the scale fees applicable for 2012/13. The 2013/14 pension fund audit scale fee [for each relevant audited body](#) is available on our website.

## Certification work

**35** The indicative fee for certification work at [individual audited bodies](#) is available on our website.

**36** The indicative fees 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.

**37** It is a matter for the auditor to decide the work necessary to certify the claim or return and to seek to agree any proposed variation to the indicative fee with the audited body.

**38** As 2013/14 indicative fees for individual bodies are based on the latest 2011/12 certification fees, they already reflect the auditor's assessment of the work required. We expect variations from the indicative fee to occur only where issues arise that are significantly different from those identified and reflected in the actual 2011/12 fee.

**39** Fee variation information must be submitted by auditors to the Commission for any proposed variations to indicative certification fees. The Commission has established a process based on quarterly returns to manage requests for fee variations.

## Inspection and assessment

**40** The Commission will charge fees for any risk-based inspections we are specifically directed to undertake at a level that covers the full cost of the work we undertake.

## Value added tax

**41** All the 2013/14 fee scales exclude value added tax, which will be charged at the prevailing rate of 20 per cent on all work done.