

Proposed work programme and scales of fees 2015/16

Local government and police bodies

October 2014

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 that auditors will undertake at local government and police audited bodies during 2015/16, with the associated scales of audit fees and indicative certification fees. A separate consultation document covers the [work programme and scales of fees at local 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 [Audit Commission's website](#).

3 We hope the information set out in this document is helpful to stakeholders in considering our proposals for the 2015/16 work programme and scale fees, as well as supporting audited bodies' financial planning.

Background

4 The Local Audit and Accountability Act 2014 provides for the closure of the Audit Commission and the introduction of a new framework for local public audit.

5 The Audit Commission will close on 31 March 2015. The Department for Communities and Local Government (DCLG) has asked the Commission to set external audit fees for 2015/16 for principal bodies before it closes.

6 We plan to publish the confirmed 2015/16 work programme and scales of fees in March 2015. We have a statutory duty to consult stakeholders before prescribing a scale of fees. We consult audited bodies themselves, where possible, as well as their representative associations, relevant government departments and the accountancy profession.

7 From 1 April 2015 a transitional body, Public Sector Audit Appointments Limited (PSAA), established by the Local Government Association (LGA) as an independent company, will oversee the Commission's audit contracts until they end in 2017 (or 2020 if extended by DCLG). PSAA's responsibilities will include setting fees, appointing auditors and monitoring the quality of auditors' work. The responsibility for making arrangements for housing benefit certification and for publishing the Commission's value for money profiles tool will also transfer to PSAA.

8 From 1 April 2015, the Commission's other functions will also transfer to new organisations:

- responsibility for publishing the statutory Code of Audit Practice and guidance for auditors will transfer to the National Audit Office (NAO), for audits of the accounts from 2015/16;

- the Commission's responsibilities for local value for money studies will also transfer to the NAO;
- the National Fraud Initiative (NFI), which has helped to detect fraud, overpayments and errors totalling £1.17 billion since 1996, will transfer to the Cabinet Office; and
- the Commission's counter-fraud function will transfer to the new public sector Counter Fraud Centre established by the Chartered Institute of Public Finance and Accountancy (CIPFA).

9 We will be writing to audited bodies and other stakeholders in the coming months with more information about the transfer of the Commission's functions and where to find details about specific topics. The changes are summarised at Appendix 1 to this consultation, which is provided for information.

Audit contracts

10 In March 2012 the Commission completed a procurement exercise to outsource the work of its in-house audit practice, covering 70 per cent of principal audits. This exercise, and other efficiencies, allowed the Commission to make reductions of up to 40 per cent in audit and certification fees from 2012/13, subject to annual review.

11 The Commission completed a further audit procurement exercise in April 2014, retendering the work done under contracts with audit firms originally awarded in 2006 and 2007, covering 30 per cent of principal bodies. This procurement has enabled the Commission to make a further reduction of 25 per cent in the annual audit and certification fees paid by local public bodies from 2015/16.

12 The new contracts awarded in the 2014 procurement are for two years, with the potential for extension by a further three years. The contracts will finish either in 2017, or in 2020 if extended. The Commission's other audit contracts, awarded in 2012, finish at the same time as the 2014 contracts. Extending the contracts to 2020 would 'lock in' reduced audit fees, delivering further savings for audited bodies.

2015/16 fees

13 We do not plan to make changes to the overall work programme for local government and police audited bodies for 2015/16. We therefore propose that 2015/16 scale audit fees and indicative certification fees are set based on the fees applicable for 2014/15, reduced by 25 per cent.

14 The 25 per cent reduction will not apply to fees for pension fund audits, where fee pressures are rising due to the increasing complexity of the funds audited. The reduction will also not apply to 15 local government audited bodies whose 2014/15 audit scale fees are already below £20,000. This is because there is no scope to reduce fees below this level and still ensure

the auditor is able to complete an audit compliant with the Code of Audit Practice and professional standards.

15 The Commission may approve variations to published scale fees and indicative certification fees for individual audited bodies, to reflect changes in circumstances or audit risks.

Joint committees

16 The Local Audit and Accountability Act 2014 removes the requirement for the accounts of joint committees to be subject to audit. DCLG has confirmed to the Commission that this change will apply from 2015/16. We are therefore not consulting joint committees on proposed 2015/16 fees.

Police bodies

17 Police bodies experienced further governance changes in 2014/15, with stage 2 transfers of staff and assets. We do not think this should increase scale audit fees for 2015/16, but will continue to keep the scales of fees for police bodies under review to ensure they are consistent with auditors' assessments of audit risks.

Fees beyond 2015/16

18 The Commission's contracts with audit suppliers run until 2017, with a possibility of extension for up to a further three years. The responsibility for overseeing these contracts from April 2015 will pass to Public Sector Audit Appointments (PSAA), the independent company set up by the LGA. PSAA will set fees for 2016/17, and any subsequent years if contracts are extended.

Responding to this consultation

19 We welcome comments from stakeholders on the proposals contained in this document by **Friday 9 January 2015**.

20 Please send comments by email to:

workandfeesconsultation@audit-commission.gsi.gov.uk

or by post to Jon Hayes, Associate Controller of Audit (Compliance), at:

Audit Commission,
1st Floor, Fry Building
2 Marsham Street
London, SW1P 4DF

Proposed work programme for 2015/16

Audit

21 Under the provisions of the Local Audit and Accountability Act 2014, the National Audit Office (NAO) will be responsible for publishing the statutory Code of Audit Practice and guidance for auditors from April 2015. Audits of the accounts for 2015/16 will be undertaken under this Code, on the basis of the work programme and scale fees set out in this consultation. The NAO's draft Code is available on the [NAO website](#).

22 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.

23 Under the Commission's audit contracts, Public Sector Audit Appointments (PSAA) may specify additional audit work which supplements the local risk-based approach to planning the audit and the requirements set out in the NAO's Code of Audit Practice. This is consistent with the previous arrangements under the Commission's Code. For 2015/16, no additional work is specified.

24 Auditors are no longer required to undertake certification work on national non-domestic rates, following the introduction in April 2013 of new arrangements for collecting and distributing business rates. In completing their work on the financial statements, auditors previously placed reliance on their work to certify returns on national non-domestic rates to DCLG. In the absence of this work, auditors will need to undertake additional audit procedures on material business rates balances and disclosures in the financial statements. This will require a small increase in the scale audit fees for applicable councils, but provides a net saving to councils of half the average previous certification fees.

25 The Chartered Institute for Public Finance and Accountancy (CIPFA) has confirmed that the 2016/17 *Code of Practice on Local Authority Accounting in the United Kingdom* will adopt the measurement requirements of the *CIPFA Code of Practice on Transport Infrastructure Assets*. CIPFA/LASAAC considers this change in accounting policy is equivalent to a change in IFRS, and has indicated that relevant disclosures will be required in the 2015/16 financial statements. Fees for additional work identified by auditors at individual audited bodies in 2015/16 will be subject to approval under the normal fee variations process.

Auditors' local value for money work

26 Under the Local Audit and Accountability Act 2014, auditors are required to satisfy themselves that an audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion).

27 Auditors will apply a risk-based approach to their local value for money work, giving a conclusion on the arrangements in place. The NAO's Code of Audit Practice and supporting guidance for auditors set out the approach and reporting criteria applicable for principal bodies.

28 A value for money conclusion is not required for audited bodies with annual income or expenditure of less than £6.5 million and 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. DCLG has consulted on an update to the Regulations, but this does not affect the audit threshold.

29 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.

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

Certification work

31 As well as their work under the Code, appointed auditors, as agents of the Commission, have previously certified certain claims and returns. DCLG and HM Treasury have worked with grant-paying bodies to develop other assurance arrangements for certifying claims and returns following the closure of the Commission.

32 At the request of the Department for Work and Pensions (DWP), auditors appointed under the Commission's audit contracts will continue to certify local authority claims for housing benefit subsidy in 2015/16, using the arrangements previously developed by the Commission.

National reports

33 In previous years, the Audit Commission has published its annual [Auditing the Accounts](#) report. This report summarises the results of auditors' work on audited bodies' financial statements and arrangements to secure value for money.

34 PSAA will continue to publish an Auditing the Accounts report on the results of auditors' work.

Proposed scales of fees for 2015/16

Scales of audit fees for local government and police bodies

35 The scales of fees for 2015/16 reflect the cost of the work programme outlined above. The proposed 2015/16 scale fees for each [local government](#) and [police](#) audited body is available on our website.

36 The proposed scale audit fees for 2015/16 audits are the scale fees applicable for 2014/15 less a reduction of 25 per cent. Scale fees have not been reduced for pension fund audits (see below) or audited bodies with a scale audit fee below £20,000.

37 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.

38 As the 2015/16 scale fees are based on the scale fees for 2014/15, 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 2015/16 where these factors are significantly different from those identified and reflected in the 2014/15 fee.

39 The Commission obtains updated fee information, and explanations for any proposed variations from the scale fee, from appointed auditors 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. Auditors cannot invoice audited bodies for any variations to scale fees until these have been approved by the Commission.

40 We will continue to keep the scale of fees for police bodies under review to ensure they remain consistent with auditors' local assessments of audit risks.

41 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

42 The proposed scale fees for 2015/16 pension fund audits are the scale fees applicable for 2014/15. The proposed [pension fund audit scale](#) fee for each relevant audited body for 2014/15 is available on our website.

Certification work

43 The Audit Commission Act 1998 requires the Commission to charge fees for certification work that cover the full cost of the work. This requirement will continue to apply to certification work undertaken by auditors under the Commission's audit contracts following transfer to the transitional body.

44 An indicative certification fee is published each year for each relevant audited body, using the latest final certification fees available. Indicative fees for 2015/16 certification work will be based on final 2013/14 certification fees for housing benefit subsidy claims only.

45 The Commission will receive this fee information from appointed auditors in January 2015. We will therefore publish the 2015/16 indicative certification fee for each individual audited body on our website in April 2015.

46 For the purposes of this consultation, we have produced an [estimated indicative fee](#) for each body as a guideline, because we do not have final 2013/14 certification fee information yet.

47 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.

48 We expect variations from the indicative certification fee for an audited body to occur only where issues arise that are significantly different from those identified and reflected in the previous year's fee.

Value added tax

49 All the 2015/16 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

50 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.

51 We welcome comments from stakeholders on the proposals contained in this document. Please send comments by email to:

workandfeesconsultation@audit-commission.gsi.gov.uk

or by post to Jon Hayes, Associate Controller of Audit (Compliance), at:

Audit Commission,
1st Floor, Fry Building
2 Marsham Street
London, SW1P 4DF

52 Following responses to this consultation, the Commission's Board will approve the final 2015/16 work programme and scales of fees for publication in late March 2015.

53 If you have comments or complaints about the way this consultation has been conducted, these should be sent by email to complaints@audit-commission.gsi.gov.uk.

Appendix 1 - Transfer of Audit Commission functions

Management of audit contracts

An independent, private company created by the Local Government Association, (Public Sector Audit Appointments Limited), will be responsible for overseeing the Commission's external audit contracts with audit firms from 1 April 2015 until December 2017 or 2020. It will oversee: the management of the existing audit contracts, a range of statutory functions including appointing auditors, setting and determining fees, and making arrangements for housing benefit certification.

The professional conduct of auditors will continue to be regulated by the professional accountancy bodiesⁱ. From 2017, these recognised supervisory bodies will also determine the eligibility of local public auditors and register them and, in turn, they will be recognised and supervised by the Financial Reporting Council. The Financial Reporting Council's Audit Quality Review team will continue to monitor the local public audits carried out by auditors through new regulatory arrangements.

Certification

The role of making arrangements for housing benefit certification will transfer to Public Sector Audit Appointments Limited (PSAA) from 1 April 2015. PSAA will not have a role in relation to the certification of other grant claims or returns.

Code of Audit Practice

The National Audit Office will produce and maintain the Code of Audit Practice and provide supporting guidance to auditors and the associated Code of Audit Practice guidance from 1 April 2015.

Whistleblowing

The Comptroller and Auditor General will be a prescribed person to whom whistleblowing disclosures can be made in respect of local public bodies under the Public Interest Disclosure Act 1998 from 1 April 2015. Appointed auditors retain their status as a prescribed person under the Act.

Counter fraud

The Commission's counter-fraud function will transfer from 1 April 2015 to the new public sector 'Counter Fraud Centre' established by CIPFA, the Chartered Institute of Public Finance and Accountancy. The Centre will work to support senior local authority leaders in management, governance and finance to tackle fraud and corruption. It is anticipated that CIPFA will build upon the annual *Protecting the Public Purse* reports, tailored fraud briefings for local authorities and the survey of fraud and corruption in England that underpins these products. Changing Organisational Cultures, a toolkit that measures and can help improve an organisation's counter-fraud culture will also continue and be expanded upon with the aim of introduce new practical guidance for tackling fraud and corruption. All other related counter-fraud activities of the Commission will cease.

National Fraud Initiative (NFI)

The Commission's NFI will transfer to the Cabinet Office from 1 April 2015. The NFI matches data provided by some 1,300 participating organisations

ⁱ Not all of the professional bodies will be Recognised Supervisory Bodies for the purposes of local public audit.

from across the public and private sectors against data provided by other participants, and key data sets provided by government departments and other national agencies, to prevent and detect fraud.

Provision of information about audit

The National Audit Office will also publish information previously provided by the Audit Commission. The NAO will become the owners of *Council Accounts: A Guide to Your Rights*, often referred to as the guide to electors' rights with regard to the audit of their local authority. Public Sector Audit Appointments Limited will continue to publish Auditing the Accounts and quarterly and annual reports on auditor and compliance and audit quality.

Analytical tools

Three of the Audit Commission's analytical tools that are primarily maintained to support audit contracts will transfer to Public Sector Audit Appointments and will continue until the end of the current audit contracts: the two Value for Money Profiles Tools (for councils and for fire authorities), and the Audit Fees Comparator Tool. The Financial Ratios Tool may become part of LG Inform, a tool managed directly by the Local Government Association.

Local value for money studies

The National Audit Office has started to undertake Value for Money studies on relevant local bodies, and will continue to do so.

Best value inspections

The powers to carry out Best Value inspections (not exercised by the Audit Commission since 2010) transferred to the Secretary of State for Communities and Local Government on 4 April 2014. The Commission's 'gate-keeping' powers in relation to inspection will cease.

Audit Commission historic reports and information

The National Archives preserves copies of the Audit Commission's website and these are available at:

http://webarchive.nationalarchives.gov.uk/*/http://audit-commission.gov.uk/pages/default.aspx

For copies of the Commission's past reports you may view these here on the National Archives website.