

# **Work programme and scales of fees 2011/12**

**Consultation response**

**Local government, housing and community safety**

**February 2011**

**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.**

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# Introduction

## Background

**1** Under section 7 of the Audit Commission Act and section 12 of the Local Government Act, the Commission has a statutory duty to prescribe scales of fees for the audit of accounts, and inspections. Before doing so, it consults audited bodies (ABs) in local government, their representative associations, the Department for Communities and Local Government (DCLG) and the accountancy profession. Once the Commission has prescribed a scale of fees, the applicable fee becomes payable by the body.

**2** 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.

**3** This report summarises the feedback received to our consultation and our response to the key issues raised by respondents. It also sets out our future fees strategy.

### Our future fees strategy

**4** The ending of Comprehensive Area Assessment (CAA) has had significant costs, including making several hundred staff redundant. Those costs and those of our abolition must come from the public purse. Some will be met from the Commission's reserves. Any balance will be funded by DCLG.

**5** Despite the ending of CAA, we have been able to make rebates of £7 million to local authorities in 2010/11.

**6** But we have listened to what respondents have said. We are continuing to drive down our costs and be more efficient so we can reduce fees for ABs in future. We will continue our approach of returning annual surpluses to ABs in a planned way.

**7** So, the Commission has agreed, subject to affordability, to make additional rebates of up to £7.2 million (8 per cent) in 2011/12. This means all ABs will see a significant net reduction in fees compared to 2010/11.

**8** We will notify ABs of the amount due to them in the summer.

**9** Subject to the timetable for our abolition, we are also committed to delivering further significant fee reductions of up to 15 per cent in 2012/13.

## Summary of the consultation

**10** The Audit Commission consulted the local government, housing and community safety sectors on its proposed work programme and scales of fees for 2011/12 at the end of 2010. The consultation closed on 7 January 2011.

**11** Following the ending of CAA, we also told those ABs subject to a scored Use of Resources (UoR) assessment about rebates on their 2010/11 scale fees.

**12** We received a low level of responses from consultees (7 per cent compared with 12 per cent last year). Respondents generally recognised the Commission faces a difficult period ahead of its abolition. Most welcomed a rebate on the fees for 2010/11 and a reduction in fees in 2011/12.

**13** However, most local government respondents believe that, because of the financial pressures they will face in 2011/12, the rebates and reductions are too small. In particular, they feel the way fee decreases from the new approach to local value for money (VFM) audit work have been applied is not transparent.

**14** Many respondents suggested central government should fund the costs arising from the ending of CAA, rather than ABs.

**15** We recognise the concerns of respondents. The Commission has now considered all responses received and has confirmed the work programme and scales of fees for the local government and community safety sectors. The Commission has also agreed in principle to make additional rebates in 2011/12. All ABs should see a significant net reduction in fees compared to 2010/11. The document is available on our website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk).

# The consultation

## Consultees

**16** We consulted all ABs as well as statutory consultees on our proposals. This enabled individual bodies to contribute fully to any views expressed by their representative bodies or to comment direct to the Commission.

## Proposals for 2011/12

**17** Our proposals for 2011/12 were for reductions in total audit fees. They reflected the new approach to local VFM audit work, and reductions in the ongoing audit costs associated with introducing International Financial Reporting Standards (IFRS). Our proposals were:

- 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 18 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.

**18** The cumulative effect of these changes is to reduce audit and inspection fees for local government bodies in 2011/12 by £7.6 million (or 9 per cent).

**19** For 2011/12, we proposed specifying the scale fee for each individual audited body, rather than providing a scale fee with fixed and variable elements. We proposed basing the scale fee for 2011/12 on the planned 2010/11 fee, adjusted for the reductions summarised above, to increase transparency and ensure reductions are delivered on the ground.

**20** The Commission would still be able to approve proposed variations to the scale fee, to reflect changes in circumstances, before or on completing the 2011/12 audit.

# Respondents' views

## Feedback

**21** We invited responses to the consultation from 630 ABs and other stakeholders and received 46 responses (7 per cent). The response rate was lower than last year when 12 per cent of consultees responded. The responses were:

- 41 from local government and community safety sector ABs (7 per cent); and
- five from other stakeholders, representative bodies and audit suppliers and accountancy bodies (19 per cent), as set out in table 1 below.

Table 1: **Summary of responses to the consultation**

Consultees	Number of ABs or other consultees	Number of responses	%
Local authorities (councils)	400	28	7
Police (ABs)	37	6	16
Probation (ABs)	33	1	3
Fire (ABs)	30	4	13
Local government (other ABs) <sup>i</sup>	103	2	2
<b>Local government subtotal</b>	<b>603</b>	<b>41</b>	<b>7</b>
Local government (other stakeholders)	16	3 <sup>ii</sup>	19
Other stakeholders (general)	4	0	-
Suppliers and accountancy bodies	7	2	29
<b>Total</b>	<b>630</b>	<b>46</b>	<b>7</b>

<sup>i</sup> other ABs include those where the fee has previously been individually determined

<sup>ii</sup> Local Government Association, National Association of Local Councils and Association of Drainage Authorities

**22** The main themes were:

- the rebates paid for 2010/11 and proposed reductions in fees for 2011/12 are not big enough. Central government should meet the Commission's costs arising from the ending of CAA and UoR – these should not fall on ABs;
- the way we applied the rebates and reductions was not transparent and in particular district councils felt we were treating them unfairly; and
- disappointment that, after allowing for rebates paid in 2010/11, the 'net' cost of audit in 2011/12 will be at least the same as 2010/11.

**23** We cover these and the other common themes from the consultation below. Some of the comments were specific and we have responded direct to the body concerned.

### **Rebates on 2010/11 audit fees and reductions in 2011/12 audit fees**

**24** Most ABs that responded said the rebates we have paid in 2010/11 to reflect the ending of CAA and UoR work are not enough. Many suggested the Commission's transitional costs should not fall on ABs.

**25** The LGA issued a public statement calling on the Commission to increase the level of rebates. It said: 'It is entirely wrong for a non-profit organisation like the Audit Commission to treat surplus fees as a revenue stream to off-set the cost of abolishing CAAs and the Commission. It is not councils' responsibility to help a national organisation meet the costs of its own restructuring. Councils are entitled to a full rebate of the £26.8m surplus the Audit Commission holds as a result of the audit and inspection fees which they have paid.'

**26** Most considered the proposed reductions for 2011/12 for those no longer having a scored UoR judgement as too small because of the financial pressures they face. Many referred to the significant reductions in funding they will receive from central government and believe the Commission should be matching these.

**27** Conversely, auditors who responded to the consultation said the planned reductions in fees for smaller bodies were disproportionately high and the resulting fees will be unacceptably low. Auditors will still be able to ask for a variation to the scale fee if they can demonstrate they have had to carry out significantly more (or less) work.

**28** The costs of ending CAA and of our abolition must come from the public purse. Some will be met from the Commission's reserves. Any balance will be funded by DCLG.

**29** We have been able to make rebates of £7 million to local authorities in 2010/11, after meeting the costs of ending CAA, including the cost of making several hundred staff redundant.

**30** We are continuing to drive down our costs and be more efficient so we can reduce fees for ABs in future. And we will continue our approach of returning any future annual surpluses to ABs in a planned way.



**31** So, the Commission has agreed, subject to affordability, to make additional rebates of up to £7.2 million (8 per cent) in 2011/12. This means all ABs will see a significant net reduction in fees compared to 2010/11.

**32** Subject to the timetable for our abolition, we are also committed to delivering further significant fee reductions of up to 15 per cent in 2012/13.

### **Transparency of rebates and reductions**

**33** Audited bodies no longer subject to a scored UoR assessment said there was no logic in applying different levels of rebates and reductions to different types of body. They believe the new approach to local VFM audit work should result in uniform rebates and reductions. The 11 district councils responding to the consultation said we were treating them unfairly. This was the largest single group of ABs to respond (6 per cent of the population, but 24 per cent of the consultees).

**34** Police and fire and rescue authorities said their reductions for 2011/12 (8 per cent) should be the same as single tier and county councils (10 per cent). District councils said we were treating them unfairly by having the lowest reduction (5 per cent).

**35** We recognise the concerns about the transparency in applying the rebates for 2010/11 and reductions for 2011/12. However, the cost of local VFM work, including UoR, represented a larger proportion of the total fee at single tier and county councils than at district councils and police and fire and rescue authorities. It is, therefore, right that single tier and county councils receive higher rebates and reductions.

### **Net cost of audit in 2010/11 and 2011/12**

**36** In 2010/11, we have given local government bodies rebates of 6 per cent for IFRS and up to 3.5 per cent to reflect the ending of CAA and UoR work. This means they are paying about 90 per cent of the 2010/11 scale audit fee. Some of those bodies say the starting point for reductions in fees for 2011/12 should be these lower ('net') costs. This misunderstands the different nature of one-off rebates and reductions in future work and fees.

**37** The Commission has previously made 'fixed sum' rebates rather than adjust the statutory scale fees. This is because it needed to ensure that, over time, the scale fee represents the economic cost of delivering an audit that complies with the statutory Code of Audit Practice.

**38** So, although we agreed to subsidise ABs for the extra costs of audit arising from the introduction for IFRS, this did not affect the extra work auditors needed to carry out. This still had to be reflected in the scale fee. Taking away the rebates from the scale fee for 2010/11 to fix the starting point for the scale fee for 2011/12 would break the link between the scale fee and the cost of auditors' work.

**39** However, we recognise the concerns of respondents. So, the Commission has agreed in principle to make additional rebates in 2011/12.

This means all ABs will see a significant net reduction in fees compared to 2010/11.

### **New approach to local VFM audit work and wider work programme**

**40** The LGA was not convinced of the need to assess the arrangements ABs have to ensure financial resilience or for prioritising resources. It questioned the continuing need for a VFM conclusion.

**41** Audited bodies believe the new approach to local VFM audit work should lead to bigger reductions in fees.

**42** Auditors have a continuing statutory responsibility to satisfy themselves an audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources and to issue a VFM conclusion. Our new approach to local VFM audit work is more proportionate and less costly, while still enabling auditors to meet their responsibilities. Inevitably, however, there is a minimum amount of work auditors need to do relating to the specified criteria on financial resilience and prioritising resources.

### **Certification of claims and returns**

**43** The LGA said it is time to stop certifying claims and returns and that councils can be trusted to spend money for the purpose for which it is given. It points to certification of £54.6 billion in 2008/09 with only eight cases requiring amendments of more than £1 million and sees certification work as 'an unnecessary luxury'.

**44** We only make arrangements to certify claims and returns where we are specifically asked to do so by an audited body. We also continue to bear down on the extent of the work carried out at the request of grant paying bodies. As ring-fencing of some grant funding streams ends, in 2011/12 we expect to make arrangements for certifying only 17 claims and returns with fees estimated to be £16.2 million. Just over £11 million of this total will come from certifying the subsidy claims by local authorities to the Department for Work and Pensions for housing and council tax benefits.

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February 2011