

Work programme and scales of fees 2012/13

Local government

April 2012

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), local police bodies and other local public services in England, and oversees their work. The auditors we appoint currently 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 at local government and police audited bodies during 2012/13, with the associated scales of audit fees. Separate documents cover the Commission's work in the [NHS](#) and at [small bodies](#). The document does not cover probation trusts, which from 2012/13 come within the remit of the National Audit Office.

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. The Commission is reducing significantly in size and cost, and this is reflected in the scale of reductions we are making in audit fees.

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.

Scales of fees from 2012/13

7 The Commission consulted on proposals for 2012/13 scales of fees for local government bodies in September 2011, and for police bodies in January 2012. These proposals were for a reduction of 10 per cent in the audit fees applicable in 2011/12, subject to the outcome of the procurement exercise to outsource the work of the Commission's in-house audit practice. We said then that we hoped the procurement exercise would realise further

reductions in the cost of audit, which we can pass on to audited bodies in the form of even lower fees.

8 The consultation comments we received, and the Commission's response, are set out in separate documents for local government and police bodies, and are available from our [website](#).

9 In March 2012, the Commission concluded the procurement exercise to outsource the work of the audit practice, awarding five-year contracts to four private sector firms.

10 Through the Commission's unique bulk purchasing power, we have been able to secure significant reductions in the cost of audit services. Together with further savings achieved through the Commission's own internal efficiencies, the Commission will now pass on reductions of up to 40 per cent in audit fees for local public bodies.

11 When we consulted on proposed fees for police bodies, we had expected their fees to increase by 17 per cent. This reflected the fact that there will be a volume increase in audit work from 2012/13 because of changes introduced by the Police Reform and Social Responsibility Act 2011. The changes require auditors to undertake audits of two statutory bodies in a police area from 2012/13, rather than one. Because of the savings we have achieved, scales of fees for police bodies overall will now be reduced by a net 13 per cent.

12 We are also reducing certification fees from 2012/13 by 40 per cent, replacing the previous schedule of maximum hourly rates with a composite indicative fee for certification work for each body. The indicative fee is based on the latest actual certification fees for 2010/11.

13 The fee reductions apply to all local government and police bodies from 2012/13, for the length of the contracts. Local government and police bodies are expected to save an expected £165 million over five years.

14 The Commission is consulting all audited bodies in April 2012 about the appointment of their auditor for the audit of the 2012/13 and future years' accounts. The appointments will start on 1 September 2012. As an auditor must be in place at the start of the financial year, the Commission is making interim audit appointments from 1 April 2012. The statutory terms of interim auditors' appointment limit their role to keeping a watching brief. We do not expect the interim auditor will need to undertake any substantive audit work relating to 2012/13. Provided this is the case, the Commission will meet any costs incurred by the interim auditor.

15 Where, exceptionally, an issue arises that requires the interim auditor to do substantive audit work, for example to exercise their statutory reporting powers, the interim auditor will immediately tell both the audited body and the Commission. Where appropriate the Commission will determine a variation to the scale audit fee to reflect the costs of the work. The additional fee will then become payable by the audited body.

Work programme 2012/13

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, the Commission may specify additional audit work to supplement the local risk-based approach to planning the audit. For 2012/13, the Commission has specified work on Whole of Government Accounts (WGA).

Auditors' local value for money work

18 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.

19 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.

20 Auditors will apply a light-touch 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. The light-touch 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 apply the 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, must certify grant claims and returns.

23 For 2012/13, we are replacing the previous schedule of maximum hourly rates with a composite indicative fee for certification work for each body. The indicative fee is based on actual certification fees for 2010/11 adjusted to reflect the fact that a number of schemes will no longer require auditor certification, and incorporating a 40 per cent reduction.

24 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 audited body's overall control environment for preparing the claim or return.

Assessment and inspection work

25 Following the cessation of CAA in May 2010, there is no longer a programme of mandatory inspection work. We do not envisage carrying out any inspections in 2012/13, unless specifically directed to do so.

National reports

26 The Commission will publish a small number of national reports on the results of audit, analysis and related work at local government and police bodies, under its statutory powers under section 33 of the Audit Commission Act 1998.

27 In particular, the Commission will again publish a series of reports naming those bodies that received a qualified opinion or VFM conclusion, or whose audited accounts have not been published by 30 September 2013.

28 The reports will cover local authorities, fire and rescue authorities, local police bodies, and other local government bodies.

Scales of fees for 2012/13

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

29 The scales of fees for 2012/13 reflect the cost of the work programme outlined above. The [scale fee for individual audited bodies](#) is available on our website.

30 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.

31 It is a matter for the auditor to decide the work necessary to complete the audit and, subject to approval by the Commission, to seek to agree a variation to the scale fee with the audited body.

32 As the 2012/13 scale fees for individual bodies are based on the fee for 2011/12, 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 2011/12 fee.

33 The Commission will get final fee information from appointed auditors, and explanations for any proposed variations from the scale fee, after they have completed the 2012/13 audit. The Commission will consider the reasonableness of the explanations provided by auditors before determining the fee.

34 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

35 Table 1 sets out the scales of fees for pension fund audits for 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	20,000	0.00033
Single-employer funds	21,000	n/a

Source: Audit Commission

Certification work

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

37 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.

38 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.

39 As the 2012/13 scale fees for individual bodies are based on the latest actual certification fees for 2010/11, they already reflect the auditor's assessment of the work required. Therefore, 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 2010/11 fee.

40 The Commission will get final fee information from appointed auditors, and explanations for any proposed variations from the indicative fee, after they have completed their 2012/13 certification work programme. The Commission will consider the reasonableness of the explanations provided by auditors before determining the fee.

Inspection and assessment

41 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

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