

Work programme and scales of fees 2009/10 and indicative fee proposals for 2010/11 and 2011/12

Local government, housing and community safety



Local government

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 **audit**
commission

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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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Preface and background

This document sets out the work the Audit Commission plans to undertake in the local government, housing and community safety sectors during 2009/10, with the associated scales of audit and inspection fees. It also sets out indicative fee proposals for 2010/11 and 2011/12.

A separate document has been prepared covering the Commission's work in the NHS in England.

The work of the Commission and its appointed auditors is carried out in accordance with the provisions of the Audit Commission Act 1998, the Local Government Act 1999 and the Code of Audit Practice 2008 (the Code). Responsibility for the conduct of the audit remains, at all times, that of the appointed auditor.

Under section 7 of the Audit Commission Act 1998 and section 12 of the Local Government Act 1999, the Commission has a statutory duty to prescribe scales of fees for the audit of accounts, and inspections. Before prescribing any scales of fees it consults local government representative associations, audited bodies, the Department for Communities and Local Government (CLG) and the accountancy profession. It has now consulted on the proposed fee scales for 2009/10 and the indicative fee scales for 2010/11 and 2011/12. The Commission has considered the comments made during the consultation and has agreed the scales of fees set out in this document.

The Commission will continue to publish the agreed fees for individual bodies on our website to assist audited bodies to compare their audit fees with those for similar bodies. The fee comparator tool on the website is intended to make the Commission's regime more transparent to audited bodies and other stakeholders. It can be accessed on the Audit Commission website at www.audit-commission.gov.uk

1 | Work programme 2009/10

Audit

- 1 The scales of audit fees in this document cover all the work that auditors need to carry out to meet their statutory responsibilities under the Audit Commission Act 1998, in accordance with the statutory *Code of Audit Practice* (the Code). Copies of the Code and the associated *Statement of Responsibilities of Auditors and Audited Bodies* may be found on the Commission's website at www.audit-commission.gov.uk
- 2 Auditors will tailor their work to reflect local circumstances. In particular, they will carry out an assessment of the financial and operational risks facing the audited body and the arrangements it has put in place to manage those risks. In this assessment auditors will consider the strength of the control environment, the quality of working papers produced to support the financial statements, and the extent of internal audit work and the reliance that can be placed on it. However, the core of the work undertaken will be common.
- 3 The audit fee is based on the assumption that detailed working papers, and other specified information, are provided to an agreed timetable. Where audited bodies do not meet agreed timetables and/or provide poor documentation such that additional audit work is necessary, or the audit is delayed, auditors will charge additional fees to cover the costs incurred.
- 4 Under the Code, the Audit Commission may specify additional audit work, which supplements the local risk-based approach to planning the audit.
- 5 For 2009/10 the Commission will specify work in the following areas:
 - Auditors' input to Comprehensive Area Assessment (CAA) – the Commission will specify audit work at all local authorities, police authorities and fire and rescue authorities, leading to the delivery of use of resources (UoR) assessments relating to 2009/10. This work will also support the annual conclusion that the auditor is required to reach under the Code on an audited body's arrangements to secure value for money.
 - For 2009/10 auditors will be required to undertake audit work in relation to data quality to support their UoR assessments. The work will apply at all local authorities, police authorities and fire and rescue authorities.
 - Whole of Government Accounts (WGA) – the Commission has specified a proportionate approach to the audit of the consolidation packs for WGA at all local government bodies.
- 6 The cost of the above work programme is reflected in the scales of fees set out in this document.

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Auditors' use of resources assessments

7 Auditors' UoR assessments are an important part of the local authority and NHS performance framework. They act as a spur to stimulating improved performance, by challenging organisations to deliver better value for money, promote effective financial management, and establish high standards of governance and accountability.

8 After extensive consultation with audited and inspected bodies, we published our approach to UoR assessments in May 2008. In that document we set out the key lines of enquiry (KLOE) for the three themes of the assessment. We also said that we would specify in our annual work programme and scales of fees document which KLOE would be assessed over the coming year. The KLOE specified for assessment in 2009/10 are:

Table 1: Use of resources 2009/10

Key line of enquiry (KLOE)	Single tier and county councils	District councils	Police authorities	Fire and rescue authorities
Managing finances				
1.1 Planning for financial health	✓	✓	✓	✓
1.2 Understanding costs and VFM	✓	✓	✓	✓
1.3 Financial reporting	✓	✓	✓	✓
Governing the business				
2.1 Commissioning and procurement	✓	✓	✓	✓
2.2 Use of information	✓	✓	✓	✓
2.3 Good governance	✓	✓	✓	✓
2.4 Risk management and internal control	✓	✓	✓	✓
Managing resources				
3.1 Natural resources	✗	✓	✓	✓
3.2 Strategic asset management	✓	✗	✗	✗
3.3 Workforce	✓	✗	✗	✗
Total number of KLOE	9	8	8	8

Changes in financial reporting standards

- 9** From 2009/10, probation boards and trusts will be required to prepare their accounts in accordance with International Financial Reporting Standards (IFRS). The transition to IFRS will increase auditors' work, particularly in the first year when bodies will need to restate their previous year's accounts on the new basis to provide prior year comparatives. We have increased the scale fees for probation boards and trusts in 2009/10 by 4 per cent to reflect the costs of this additional work.
- 10** The proposed scales of fees do not include provision for review of the accounting treatment of PFI/PPP schemes, which may be required as a result of the transition to IFRS. The scope, and therefore the costs, of such reviews will depend upon the nature and complexity of the scheme and may need to be reflected in a variation to the scale fee.

Certification of claims and returns

- 11** In addition to their work under the Code, appointed auditors are also required, as agents of the Commission, to certify grant claims and returns. In 2009/10, the de minimis threshold, below which we will not ask auditors to certify individual claims and returns, will be £100,000 and the intermediate threshold, below which auditors will be required to undertake only a light touch review, will be £500,000. Above this threshold, certification work will be risk-based, taking account of the authority's overall control environment.

Comprehensive Area Assessment and inspection

- 12** Comprehensive Performance Assessment (CPA) will be reported for the final time in February 2009. Comprehensive Area Assessment (CAA) will replace CPA and will report for the first time in November 2009. The Commission and its partner inspectorates (Commission for Social Care Inspection, Healthcare Commission, HM Inspectorate of Prisons, HM Inspectorate of Constabulary, HM Inspectorate of Probation and Ofsted) have consulted on proposals for the overall CAA framework. The consultation closed in October 2008.
- 13** In parallel with the consultation on CAA, the Commission and our partner inspectorates have trialled different aspects of the overall CAA framework in ten areas across the country. The final CAA framework for 2009/10 will be published in early 2009. The final framework may require adjustments to our work programme and scales of fees. However, any changes will be within the reduced level of inspection fee envelope to which the Commission is committed.
- 14** CAA will have two main elements that will be connected and share a common evidence base:
- An area assessment that looks at how well local public services are delivering better results for local people. This assessment focuses on outcomes rather than organisational performance and will hold local partnerships to account for their impact. The Commission's

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contribution to this work will be funded by a grant from the Department for Communities and Local Government (CLG).

- Organisational assessments of individual public bodies, the cost of which will be recovered through audit and inspection fees.

15 The proposed 2009/10 inspection programme for each type of local government, housing, criminal justice and fire and rescue body are set out below and summarised in Appendix 1.

16 The Commission will publish the planned inspection programme on its website at www.audit-commission.gov.uk once annual audit and inspection plans have been agreed.

Inspection work programme for councils

17 Under CAA, in addition to the area assessment, the inspection work programme for councils will include:

- the managing performance theme of the organisational assessment; and
- risk-based inspection activity where required.

18 The managing performance assessment will be part of the inspection work programme and funded by inspection fees payable by councils on the basis set out in this document. The organisational assessment of local authorities will combine the use of resources and managing performance

assessment into a single assessment of organisational effectiveness. UoR assessments are funded through audit fees, as they are part of the audit work programme.

19 Risk-based inspection activity will be triggered by the emerging findings and reports from the area and organisational assessments, and/or will be informed by any assessments under existing performance frameworks reported in late 2008 or early 2009. We may carry out such inspections as a single inspectorate or as a partnership of two or more inspectorates, depending on the scope of the inspection. Inspection fees will be payable by councils for risk-based inspections on the basis set out in this document. As a fee will be payable only for the Commission's contribution to joint inspections, it may vary from the standard model presented in this document.

20 In addition, as part of the Commission's risk-based inspection activity the Commission will continue to undertake the following inspections:

- Housing and council tax benefit service inspections following the transfer of this function from the former Benefit Fraud Inspectorate in April 2008. These inspections will be planned on a risk basis by the Commission working with the Department for Work and Pensions (DWP) using monthly performance information that DWP receives from all councils, as well as local indicators of risk and the findings of relevant audit work. These inspections are funded by DWP

and do not form part of the inspection fees paid by councils.

- Inspections of arm's length management organisations (ALMOs), administered by local authorities. CLG requires a minimum of a two star inspection score prior to the release of additional funds to ALMOs seeking to achieve the Decent Homes Standard for their housing stock. CLG also requires the Commission to re-inspect all ALMOs where they continue to receive additional funding for Decent Homes to ensure that they have maintained or improved service standards. The full charge for ALMO inspections is charged directly to the administering local authority.
- Re-inspections of zero star Supporting People services. Although the rolling programme of Supporting People inspections has concluded, there are some residual re-inspections of zero star services programmed in 2009/10. This is a grant funded programme of work with fees payable by authorities only where they have received two zero star inspections. Issues relating to Supporting People at other administering local authorities will be picked up through CAA.

21 We have consulted on extending short-notice inspections, currently carried out in housing associations only, to other housing inspections and aim to publish our proposals on this during 2009.

22 The inspection programme for councils will be coordinated across inspectorates.

Inspection work programme for police authorities

23 The policing green paper: *From the Neighbourhood to the National: Policing our Communities Together* signalled that police authority inspections, undertaken jointly by the Commission and HM Inspectorate of Constabulary (HMIC), will proceed from April 2009 using provisions in the Criminal Justice and Immigration Act 2008.

24 Since publication of the policing green paper, the Commission and HMIC have been working closely in partnership with the Association of Police Authorities to start preparing the framework for police authority inspection. Further development work and piloting will take place in the early part of 2009.

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Inspection work programme for fire and rescue authorities

- 25** In addition to the area assessment, the fire and rescue authority inspection work programme will include:
- the managing performance theme of the organisational assessment; and
 - risk-based inspection activity where required.
- 26** The organisational assessment of fire and rescue authorities will combine the use of resources and managing performance assessment, tailored for the fire sector, into a single assessment of organisational effectiveness. The managing performance theme will draw on evidence from the sector-led peer review process (currently called the operational assessment of service delivery). Use of resources assessments are funded through audit fees as they are part of the audit work programme. The managing performance assessment will be funded by CLG grant.
- 27** In 2009/10, risk-based inspections will be introduced in fire and rescue authorities, and these will be funded by CLG grant.

2 Scales of fees for local government, criminal justice and fire and rescue bodies 2009/10

- 28** The scale of audit fees for individual bodies comprises:
- a fixed element, for different types of audited bodies, for example county councils or police authorities;
 - an element related to the audited body's gross expenditure; and
 - regional premium for audits in London and the South East.

Table 2: The scales of audit fees for 2009/10 are:

	Fixed element (£)	Plus a percentage of 2009/10 gross expenditure (Note 1)
London borough councils	150,000	+0.028
Metropolitan borough councils	192,000	+0.018
Unitary councils	135,000	+0.030
County councils	135,000	+0.010
District councils	76,000	+0.047
Other bodies otherwise covered by the limited assurance audit regime but with income or expenditure in excess of £1 million	9,000	+0.030
National parks authorities	20,000	+0.025
Passenger transport authorities/executives	34,500	+0.020
Police authorities	70,000	+0.007
Probation boards	22,000	+0.043
Fire and rescue authorities	58,500	+0.024
Local government pension funds (Note 2)		
Single employer fund	38,500	
Large multi-employer fund	70,900	
Small multi-employer fund	48,600	

Note:

1. Gross expenditure is defined as the gross expenditure figure shown in the net cost of services section of the Income and Expenditure account.

2. For the purposes of the scales of fees we have used the following definitions for pension funds:

- Single employer fund: all London boroughs;
- Large multi-employer fund: fund assets in excess of £1 billion; and
- Small multi-employer fund: fund assets less than £1 billion.

2 Scales of fees for local government, criminal justice and fire and rescue bodies 2009/10

29 A premium of 3 per cent will be added to the scale of fee for audited bodies in South East England. A premium of 6 per cent will be added to the scale of fee for audited bodies in London (except London borough councils, as the premium is included in the scale of fee). The premiums do not apply to the audit of local government pension funds.

30 The South East England premium applies to all audited bodies in the counties of Berkshire, Cambridgeshire, Kent, Surrey, East and West Sussex, Hampshire, the Isle of Wight, Oxfordshire, Buckinghamshire, Bedfordshire, Hertfordshire and Essex.

31 The Commission will consult individual bodies about proposed scale fees where they do not fall within any of the types of audited bodies in table 2. These bodies include:

- the Common Council of the City of London;
- the Greater London Authority and its functional bodies;
- the London Fire and Emergency Planning Authority;
- the London Probation Board;
- the Metropolitan Police Authority;
- Rutland County Council;
- the Council of the Isles of Scilly;
- the London Pensions Fund Authority;
- the South Yorkshire Pensions Fund Authority; and
- waste disposal authorities.

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 is required than envisaged by the scale fee. The Commission may therefore charge a fee that is larger or smaller than the scale fee, to reflect the actual work that auditors need to do to meet their statutory responsibilities. It will do this on the basis of the auditor's assessment of risk and the scale and complexity of the audit at a particular body. The Commission normally expects to vary the scale fee by no more than 30 per cent, upwards or downwards. This fee then becomes payable.

33 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. The Commission will normally expect to approve a proposed variation to the scale fee where this is agreed by the auditor and the audited body.

34 Fees for the auditor's consideration of objections, from the point at which they accept an objection as valid, or special investigations, such as those arising from disclosures under the Public Interest Disclosure Act 1998, will be charged in addition to any variation to the scale fee for risk and complexity.

Hourly rates for certifying claims and returns

35 The Commission has set a schedule of hourly rates for different levels of staff, for work relating to the certification of grant claims and returns.

Table 3: Hourly rates for certifying claims and returns for 2009/10 are:

Maximum £ per hour	Standard	South East England	London
Partner/district auditor	325	345	380
Senior manager/manager	180	195	210
Senior auditor	115	125	135
Other staff	85	95	105

Scale of inspection fees for local government bodies 2009/10

36 As in previous years, the cost of inspection activity will be met by a fee element payable by the authority (shown in the fee scales below), and an element that is funded by CLG grant. Given that the area assessment will cover local partnerships, it is not appropriate to charge individual authorities for this work, so this activity will be funded by CLG grant. To achieve this, we have changed the percentage split between grant and fee for the remaining inspection activities that can be attributed to individual authorities. A summary is set out in table 4. The net effect of this change will result in a reduced average inspection fee for single tier and county councils.

2 Scales of fees for local government, criminal justice and fire and rescue bodies 2009/10

Table 4: CLG grant levels and fee levels for CAA activities

CAA activity	Authority type	% CLG grant funded	% fee to authority
Area assessment	Local partnerships	100	0
Managing performance theme of organisational assessment	Single tier and county councils	0	100
	GLA and its functional bodies	0	100
	District councils	50	50
Risk-based inspection activity ¹	Single tier and county councils	0	100
	GLA and its functional bodies	0	100
	District councils	50	50

37 After applying the CLG grant, the fee payable by authorities is subject to a 10 per cent premium for authorities located in the South East and a 20 per cent premium for authorities located in London, except for the GLA and its functional bodies as the premium has already been included in the scale fees. The premiums are different to those for audit fees as the latter include both a fixed element and an element related to gross expenditure.

38 No fee is payable for housing and council tax benefit inspections or for inspections of fire and rescue authorities. These inspections will be grant funded by DWP and CLG respectively.

39 Supporting People re-inspections are CLG grant funded, unless the authority has previously received two zero star rated Supporting People inspections. In this case, the fee for the inspection will be charged in full to the authority. The full fee for ALMO inspections will be charged to the administering local authority.

40 The standard number of days and fee scale for inspection activity by type of authority for 2009/10 are:

¹ This excludes the funding arrangements for ALMO inspections, Supporting People re-inspections and housing and council tax benefit inspections.

Table 5: Single tier and county councils^I

Inspection activity	Standard number of days	Standard fee to authority in 2009/10 after applying CLG grant (£)
Managing performance theme of organisational assessment	11	16,630
Risk-based inspection activity where required ^{II}	40	32,460

Table 6: GLA and its functional bodies

Inspection activity	Standard number of days	Standard fee to authority in 2009/10 after applying CLG grant (£)
Managing performance theme of organisational assessment	11	19,960
Risk-based inspection activity where required	40	38,950

Table 7: District councils^{III}

Inspection activity	Standard number of days	Standard fee to authority in 2009/10 after applying CLG grant (£)
Managing performance theme of organisational assessment	11	8,320
Risk-based inspection activity where required	40	16,230

- ^I For the purposes of inspection charges, the Common Council of the City of London is charged on the same basis as a single tier council.
- ^{II} Inspections of authorities with ALMOs are not subject to CLG grant. The full fee for these inspections is charged to the administering local authority. DWP will fund the cost of the 2009/10 benefits inspection programme. CLG will also fund Supporting People re-inspections unless the authority has previously received two zero star inspections.
- ^{III} For the purposes of inspection charges, the Council of the Isles of Scilly is charged on the same basis as a district council.

2 Scales of fees for local government, criminal justice and fire and rescue bodies 2009/10

41 The Commission may charge a higher or lower fee if the work required is substantially more or less than that envisaged by the scale fee. The actual number of days planned for each piece of work will be determined by the CAA Lead and is dependent on risk and scope of activity.

42 Under CAA, the number of days planned for risk-based inspection activity in particular will be scoped to take account of the nature of the work, possibly across a number of councils, and whether we carry out such inspections as a single inspectorate or as a partnership of two or more inspectorates. A fee will be payable only for the Commission's contribution to joint inspections. The fee charged may therefore vary from the standard model presented above.

43 For corporate governance inspections the risk-based inspection days and fee will be the starting point and adjusted as necessary for the scope of the inspection.

Value Added Tax (VAT)

44 All the 2009/10 fee scales exclude VAT which will be charged at the standard rate (currently 15 per cent and 17.5 per cent from 1 January 2010) on all work done.

3 Indicative changes in fees for 2010/11 and 2011/12

2010/11 – Audit

- 45** The main factors affecting audit fees in 2010/11, which we have already notified to audited bodies, will be:
- a net increase of 1.25 per cent for inflation, after allowing for efficiency savings of 3 per cent;
 - increases in audit fees of 6 per cent for local government bodies and 8 per cent for pension funds, to reflect the additional audit costs arising from the introduction of IFRS (the difference reflects the fact that the opinion audit represents a higher proportion of the total fee for pension funds); and
 - a net reduction in audit fees of 1 per cent for probation boards to reflect the reduction in the ongoing audit costs arising from the transition to IFRS.
- 46** The Chartered Institute of Public Finance and Accountancy and Local Authority Accounts (Scotland) Advisory Committee has confirmed that, from 2010/11, local government bodies that prepare their accounts in accordance with the Statement of Recommended Practice for local authority accounting will be required to prepare their accounts on the basis of IFRS. The transition will increase auditors' work, particularly in the first year when bodies will need to restate their previous year's accounts on the new basis to provide prior year comparatives. This will result in a real additional increase in audit fees for these bodies of 6 per cent in 2010/11.

2010/11 – Inspection

- 47** Subject to the finalisation of the CAA framework, the 2009/10 work programme will continue into 2010/11.
- 48** It is proposed that the area assessment will evolve and mature to tell a story of the place over time. In the first year of CAA, in 2009/10, a baseline will be set using available evidence and taking into account relevant aspects of recent assessments. In future years, the area assessment will concentrate on what has changed. We will assess the impact of action taken to improve performance and outcomes, updating earlier assessments and taking account of longer-term evidence and trends as they become available.
- 49** The organisational assessment and risk-based inspection activity, including housing and council tax benefit inspections and ALMO inspections will continue. We expect inspection fees to increase in line with our net inflation figure of 1.25 per cent.

2011/12 – Audit and Inspection

- 50** We envisage fees increasing by no more than the Bank of England's inflation target level of 2 per cent. However, if this assumption proves to be incorrect, we will need to vary fees accordingly. For local government bodies there should also be a real terms reduction in audit fees of 3 per cent (5 per cent for pension funds) to reflect the reduction in the ongoing audit costs arising from the transition to IFRS.

Appendix 1

Summary of content of Audit and Inspection plans 2009/10

	Single tier authorities and county councils ¹	District councils	National park authorities	Passenger transport authorities/executives	Waste disposal authorities	Local councils	Authorities with ALMOs or Supporting People programmes	Fire and rescue authorities	Probation boards and probation trusts	Police authorities
CORE AUDIT AND INSPECTION WORK:										
Audit and inspection: Planning, liaison and reporting	✓	✓	✓	✓	✓	✓		✓	✓	✓
Audit and inspection: Liaison with other inspectorates	✓	✓						✓	✓	✓
Audit: Accounts and systems	✓	✓	✓	✓	✓	✓		✓	✓	✓
Audit: Use of resources	✓	✓	✓	✓	✓	✓		✓		✓
Audit: Data quality	✓	✓	✓	✓	✓			✓		✓
Inspection: Area assessment	✓	✓	✓	✓	✓	✓		✓	✓	✓
Inspection: Managing performance theme of the organisational assessment (combined with use of resources assessment to form the organisational assessment)	✓	✓						✓		
VARIABLE WORK:										
Audit: Risk-based performance audit work	✓	✓	✓	✓	✓	✓		✓	✓	✓
Inspection: Risk-based inspection work	✓	✓					✓	✓		✓
Other: Certification of grant claims and returns	✓	✓	✓	✓						

¹ Includes the Common Council of the City of London and the Council of the Isles of Scilly.

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