

# Audit of small bodies

Scales of fees 2012/13 to 2016/17

May 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 provides information on the audit of small bodies and the scales of fees that the Audit Commission charges.

**2** Separate documents cover the Commission's work and fees at principal bodies in the [NHS, local government and police](#).

**3** Small bodies are those with annual income, or expenditure, below a financial threshold, as prescribed by the Accounts and Audit (England) Regulations 2011 (the Regulations). The threshold is set at gross annual income or expenditure of not more than £6.5 million.

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

**5** Schedule 1 of the Code of Audit Practice 2010 (the Code) sets out the limited assurance approach to the audit of small bodies.

**6** 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 scales of fees for small bodies, the Commission consults representative associations and the accountancy profession.

## Scale of fees from 2012/13

**7** In September 2011, the Commission consulted on proposals for 2012/13 scales of fees. The consultation proposed holding audit scale fees for small bodies at 2011/12 levels, and increasing by 5 per cent the maximum hourly rates for additional work.

**8** The consultation proposals were subject to the outcome of the procurement exercise for the audits of small bodies from 2012/13. We said then that, if the procurement exercise realised further reductions in the cost of audit, we would pass these on to audited bodies in the form of lower fees.

**9** In March 2012, the Commission concluded the procurement exercise for the audits of small bodies, awarding five-year contracts to four private sector firms. The contracts cover the audit of all the 9,800 small local public bodies in England.

**10** Through the Commission's unique bulk purchasing power, and the savings achieved through the Commission's own internal efficiencies, we secured significant reductions in the cost of audit for small bodies.

**11** We have been able to reduce fees by an overall total of 30 per cent for small bodies. We have extended the band exempting bodies from any scale audit fee. This band now includes all bodies with income or expenditure of up to £10,000 (previously £1,000). This means that just under 4,500 small bodies (approximately 50 per cent) will not now have to pay a scale audit fee. We have reduced the fee scale for other small bodies, based on the audit fee scales applicable for 2011/12.

**12** These lower fees are fixed for five years – from 2012/13 to 2016/17 – irrespective of inflation, and will help small bodies at a time when budgets are under pressure.

**13** There will be no increase in the hourly rates for additional work – these will be fixed at the level applicable for 2011/12.

# Audit of small bodies

## Limited assurance audit

**14** The 2011 Regulations define a 'smaller relevant body' as one meeting the stated qualifying condition. To qualify, the body must be a prescribed body whose annual gross income or gross expenditure, whichever is the higher, is not more than £6.5 million.

**15** As set out in Schedule 1 to the Code, the accounts of small bodies are subject to a limited assurance audit. The threshold for applying the limited assurance audit approach matches the threshold defining smaller relevant bodies in the Regulations.

**16** The Commission introduced limited assurance audit in 2001/02 for local councils (parish meetings, and parish and town councils) whose income or expenditure did not exceed £500,000. We increased the threshold to £1 million in 2006. The threshold was increased again in 2011, to £6.5 million, in line with the change to the threshold set out in the Regulations.

**17** The limited assurance approach to the audit of small bodies is designed to:

- strengthen accountability;
- improve the control environment; and
- minimise audit fees.

**18** The approach minimises the audit requirement on, and cost to, small bodies. The audit report provides a limited level of assurance to the body, in line with the work done and proportionate to the small amounts of public money involved.

**19** The basic audit approach is common to all small bodies. The body completes and submits to the auditor an annual return, plus key financial data. The auditor carries out a standard review and a limited number of tests, which include checking the internal consistency of the figures in the accounts, the year-end bank reconciliation and any unexpected variances. The auditor also reviews the annual governance statement. If everything is in order, the auditor issues an audit opinion and a certificate to close the audit.

**20** For those bodies with gross income or expenditure over £200,000, auditors are required to carry out extra testing as part of their audit. This approach reflects the higher risk to public funds and is known as intermediate audit. Each year, auditors also apply intermediate audit, at no extra cost, to a 5 per cent sample of bodies operating below the £200,000 threshold.

## Small bodies electing to prepare accounts as a larger relevant body

**21** The default position is that all small bodies are subject to limited assurance audit, unless they elect to prepare accounts as a larger relevant body (LRB) under regulation 12 of the 2011 Regulations.

**22** If a small body elects to prepare accounts as an LRB, it is subject to a full Code audit. This requires the auditor to express an opinion on whether the statement of accounts presents a true and fair view of the body's financial position and to give a conclusion on the body's arrangements to secure value for money (VFM).

**23** For small bodies electing to prepare accounts as an LRB, auditors apply a light touch approach to their VFM work, based primarily on 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.

**24** Details of the approach to local [VFM audit work](#) are available on our website.

## Auditor appointments

**25** The form of accounts prepared by an audited body affects who the Commission appoints as auditor. The Commission has separate contracts with audit suppliers for the audits of principal and small bodies, and appoints auditors experienced in limited assurance audit to small bodies.

**26** A change of appointed auditor is required where a small body:

- whose accounts are subject to limited assurance audit elects to prepare accounts as an LRB under Regulation 12; or
- no longer meets the qualifying conditions for limited assurance audit – in other words, its annual gross income or gross expenditure has been above the £6.5 million threshold for three consecutive years.

**27** We consult bodies before appointing their auditor.

# Scale of audit fees for small bodies from 2012/13

## Scales of audit fees

28 Scales of fees for small bodies are based on bands of annual income or expenditure, whichever is the higher. This means the fees are broadly proportionate to the public funds involved and the ability of the body to pay.

29 Table 1 sets out the scales of audit fees for small bodies whose:

- income and expenditure is up to £200,000 and which are subject to basic limited assurance audit; or
- income or expenditure is above £200,000 and which are subject to intermediate limited assurance audit.

Table 1: Scales of fees for bodies subject to limited assurance audit

Income/expenditure band (£)	Fee for limited assurance audit (£)
0 – 10,000	No fee payable
10,001 – 25,000	100
25,001 – 50,000	200
50,001 – 100,000	300
100,001 – 200,000	400
200,001 – 300,000	600
300,001 – 400,000	800
400,001 – 500,000	1,000
500,001 – 750,000	1,300
750,001 – 1,000,000	1,600
1,000,001 – 2,000,000	2,000
2,000,001 – 3,000,000	2,400
3,000,001 – 4,000,000	2,800
4,000,001 – 5,000,000	3,200
5,000,001 – 6,500,000	3,600

Source: Audit Commission

**30** Audit fees for small bodies whose income or expenditure is above £200,000, and which elect to prepare accounts as an LRB under Regulation 12, will be agreed on an individual basis.

## Additional work and variations to the scale fees

**31** Bodies that complete the annual return fully and accurately within the required timescales, and provide the necessary supporting information and any explanations sought, will pay the fixed limited assurance audit fee. If the annual return is not completed properly, extra fees will be charged.

**32** Extra fees may also be charged in other circumstances, for example where auditors have to:

- consider objections to the accounts from local electors, from the point at which they accept an objection as valid;
- exercise special powers in relation to the audit, such as issuing a report in the public interest; or
- carry out any special investigations, such as those arising from disclosures under the Public Interest Disclosure Act 1998.

**33** Extra fees are based on the maximum hourly rates set out in Table 2. These are the same rates applicable from 2006/07 to 2011/12.

Table 2: **Hourly rates for additional work at small bodies**

Staff grade	Maximum £ per hour		
	Standard	SE England *	London
Engagement lead	325	345	380
Senior manager/manager	180	195	210
Senior auditor	115	125	135
Other staff	85	95	105

Source: *Audit Commission*

\* 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.

## Value added tax (VAT)

**34** All the 2012/13-2016/17 fee scales exclude VAT, which will be charged at the prevailing rate on all work done.