

# Proposed work programme and scales of fees 2015/16

Health 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 NHS trusts and clinical commissioning groups during 2015/16, with the associated scales of audit fees. A separate consultation document covers the work programme and scales of fees at [local government and police bodies](#).

2 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

3 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.

4 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 before it closes.

5 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.

6 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.

7 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).

**8** 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**

**9** 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.

**10** The Commission completed a further audit procurement exercise in April 2014, retendering 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.

**11** 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 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**

**12** We do not plan to make changes to the overall work programme for NHS audited bodies for 2015/16. We therefore propose that 2015/16 scale audit fees are set based on the fees applicable for 2014/15, reduced by 25 per cent.

**13** The Commission may approve variations to published scale fees for individual audited bodies, to reflect changes in circumstances or audit risks.

## **Fees beyond 2015/16**

**14** 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, 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

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

**16** Please send comments by email to:

[workandfeesconsultation@audit-commission.gsi.gov.uk](mailto: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

**17** 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](#).

**18** 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.

**19** 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 for NHS trusts and clinical commissioning groups.

## Auditors' local value for money work

**20** 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).

**21** 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.

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

## National reports

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

**24** 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 NHS bodies

**25** The scales of fees for 2015/16 reflect the cost of the work programme outlined above. The proposed 2015/16 scale fees for each [NHS trust](#) and [clinical commissioning group](#) is available on our website.

**26** The proposed scale audit fees for 2015/16 audits are the scale fees applicable for 2014/15 less a reduction of 25 per cent.

**27** 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.

**28** 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.

**29** 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.

**30** The Commission will charge fees for any special investigations, such as those arising from disclosures under the Public Interest Disclosure Act 1998, as a variation to the scale fee.

**31** We will continue to keep the scale of fees for clinical commissioning groups, as relatively new bodies, under review to ensure they remain consistent with auditors' local assessments of audit risks.

**32** Where an NHS trust becomes a foundation trust, or merges with another trust, part-way through the year, the Commission's appointed auditor will continue to be responsible for the audit of the trust's accounts up to the date of foundation status or merger. There will be an audit of the trust's financial statements and a review of the annual governance statement for the part-year. The fee will be 60 per cent of the full year's scale fee.



## Value added tax

**33** 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

**34** 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.

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

[workandfeesconsultation@audit-commission.gsi.gov.uk](mailto: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

**36** 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.

**37** 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](mailto: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 bodies<sup>1</sup>. 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 (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

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

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 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](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.