

# Work programme and scales of fees 2015/16

Local government and police bodies

March 2015

**The Audit Commission's role is to protect the public purse. We do this by appointing auditors, publishing analysis and comparing data.**

**In August 2010, the Department for Communities and Local Government announced plans to put in place new arrangements for auditing England's local public bodies.**

**The 2014 Local Audit and Accountability Act makes it possible for the Audit Commission to close, in line with Government expectations, on 31 March 2015, 32 years after it was established.**

**The Commission's functions will continue after its closure in new organisations, including responsibility for the Code of Audit Practice, the management of audit contracts, the provision of information about audit, and value for money studies.**

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# Introduction

**1** This document sets out the work to be undertaken by appointed auditors at local government and police audited bodies for 2015/16, with the associated scales of audit fees. Separate documents cover auditors' work at [NHS bodies](#) and at [small bodies](#).

**2** The work will be undertaken under the Code of Audit Practice, which has been published by the [National Audit Office \(NAO\)](#) on behalf of the Comptroller and Auditor General. The NAO's Code of Audit Practice takes effect for audit work relating to the 2015/16 financial year onwards.

**3** The [statement of responsibilities of auditors and audited bodies](#) continues to apply to the work set out in this work programme. The appointed auditor is, always, responsible for the conduct of the audit.

## Background

**4** Under provisions of the Local Audit and Accountability Act 2014, the Audit Commission closes on 31 March 2015 and the Audit Commission Act 1998 is repealed<sup>1</sup>.

**5** The Commission's functions continue in other organisations<sup>2</sup>:

- Public Sector Audit Appointments Limited (PSAA), an independent company established by the Local Government Association, will oversee the management of the Commission's audit contracts until they end in 2017, or 2020 if they are extended. PSAA will also continue to make available the VFM profiles tool, and the fee comparator tool;
- responsibility for publishing the statutory Code of Audit Practice and guidance for auditors transfers to the NAO, for audits from 2015/16;
- the Commission's responsibilities for local value for money studies also transfer to the NAO; and
- the National Fraud Initiative (NFI), which has helped to detect fraud, overpayments and errors totalling £1.17 billion since 1996, moves to the Cabinet Office.

**6** PSAA will manage the Commission's audit contracts, exercising statutory powers in relation to appointing auditors, setting and determining fees, and making arrangements for housing benefit subsidy certification. The Secretary of State for Communities and Local Government has

**1** Sections 3, 7 and 28 of the Audit Commission Act 1998 have been saved and delegated by the Secretary of State.

**2** More information on the transfer of Audit Commission functions is available on the version of the Commission's website archived in March 2015.

delegated certain functions from the Audit Commission Act 1998 to PSAA to enable it to deliver these functions.

**7** Fees are the principal way the delegated functions are financed, taking one year with another. In law, audit fees are not a fee for audit services, but a charge to fund operating costs, out of which the costs of audits are met. Fees for certification must cover the full cost of the work required to certify a claim.

**8** DCLG asked the Commission to set scale fees for principal bodies for 2015/16, as part of the transition to the new framework. This will be the first year of audit following the Commission's closure.

**9** The Commission is publishing the 2015/16 work programme and scales of fees in advance of the start of the financial year to which they apply, as is our usual practice. From 1 April 2015, PSAA will administer the work programme and scales of fees.

## Scales of fees for 2015/16

**10** There are no changes to the overall work programme for local government and police audited bodies for 2015/16. Following consultation, we have set scale fees based on a reduction of 25 per cent to the fees applicable for 2014/15.

**11** This fee reduction is possible as a result of the lower prices achieved in the audit procurement exercise undertaken by the Audit Commission in 2014. The reduction is in addition to the savings of up to 40 per cent in scale audit fees and indicative certification fees in 2012, following a larger procurement.

**12** The fee reductions are expected to apply until the end of the audit contracts in 2017, or to 2020 if extended, subject to annual review.

**13** The reduction of 25 per cent for 2015/16 does not apply to pension fund audits, where fee pressures have been rising due to the increasing complexity of the funds audited. The reduction has also not been applied to local government audited bodies with 2014/15 scale audit fees below £20,000. This is because there is no scope to reduce fees below this level and still ensure the auditor is able to complete an audit compliant with the Code of Audit Practice and professional standards.

**14** We received a limited response to our consultation on the 2015/16 work programme and scales of fees, with only 15 responses (1.8 per cent) across all our sectors and stakeholders. We have published a [summary of the consultation responses](#).

**15** The scale audit fees and indicative certification fees for individual bodies are published alongside this work programme, to support transparency and to help audited bodies compare their fees with those of similar bodies. The 2015/16 work programme and the scale fees for individual bodies are available on the [Audit Commission website](#) until 31 March 2015 and on the [PSAA website](#) from 1 April 2015. After the

Commission's closure, an archive version of the website will be available from the [National Archives](#).

## **Fees for 2016/17**

**16** The current Audit Commission contracts with audit suppliers run until 2017, with a possibility of extension for up to three years. Under its responsibility to manage the audit contracts, PSAA will need to consult on and set fees for 2016/17.

# Work programme 2015/16

## Audit

**17** 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 an audited body, and the arrangements it has put in place to manage those risks.

**18** The Chartered Institute for Public Finance and Accountancy (CIPFA) has confirmed that a change in accounting policy will be introduced for the accounts from 2016/17, in relation to the measurement of transport infrastructure assets for authorities with highways responsibilities. Fees for any additional audit work required in 2015/16, the preparatory year, in relation to disclosures in the financial statements, will be subject to approval under the normal fee variations process. It is not appropriate to increase scale fees because the amount of work required at individual authorities will vary based on local circumstances, and may not be required for more than one year.

## Auditors' work on value for money arrangements

**19** Under the Local Audit and Accountability Act 2014, auditors have a responsibility to satisfy themselves about an audited body's arrangements to secure economy, efficiency and effectiveness in its use of resources.

**20** 2015/16 fees have been set on the basis that the NAO's Code of Audit Practice maintains the scope of work required by auditors under the Audit Commission's previous Code and supporting guidance. The NAO will publish guidance for auditors on the required approach to work on value for money arrangements in due course.

**21** A conclusion on VFM arrangements is not required for bodies with annual income or expenditure of less than £6.5 million, which are subject to a limited assurance engagement, unless the body has elected to prepare accounts as a larger authority. This is in line with the threshold defining smaller authorities under section 6 of the Local Audit and Accountability Act 2014.

## Certification work

**22** As well as their work under the Code, appointed auditors will certify 2015/16 local authority claims for housing benefit subsidy to the Department for Work and Pensions (DWP) under the Commission audit contracts managed by PSAA.

**23** Auditors will not certify any other claims or returns under the audit contracts. Assurance arrangements for other schemes are a matter for the relevant grant-paying body, and may be the subject of separate fees and tripartite arrangements between the grant-paying body, the audited body, and the auditor.

## **Reporting on the results of auditors' work**

**24** The Audit Commission has previously published an annual [Auditing the Accounts](#) report, summarising the results of auditors' work on audited bodies' financial statements and arrangements to secure value for money. PSAA will continue providing access in this way to the results of auditors' work.

# Scales of fees for 2015/16

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

**25** The scales of fees for 2015/16 reflect the cost of the work programme outlined above. The 2015/16 scale fee for each [local government](#) and [police](#) audited body is published on the [Audit Commission](#) and [PSAA](#) websites.

**26** The duty to set fees includes the power to determine the fee above or below the scale fee where it is considered that substantially more or less work is 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.

**27** As the 2015/16 scale fees for individual bodies have been set based on the fees applicable for the previous year, 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 2014/15 fee.

**28** It is a matter for the auditor to decide the work necessary to complete the audit. Where an auditor considers more or less work is required than is represented in the scale fee, they are required under the audit contracts to seek approval for a variation to the scale fee and to agree the amount of this variation with the audited body.

**29** Under the audit contracts, appointed auditors are required to provide updated fee information, and explanations for any proposed variations from the scale fee, on a regular basis. PSAA will consider the reasonableness of the explanations provided by auditors before agreeing to any variation to the scale fee. Only approved fee variations can be invoiced or refunded to audited bodies.

**30** Fees to cover the costs of considering objections are charged, as a variation to the scale fee, from the point at which an auditor accepts an objection as valid. 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

**31** The 2015/16 scale audit fee [for each pension fund audit](#) is available on the [Audit Commission](#) and [PSAA](#) websites

## Certification work

**32** The 2015/16 indicative fee for certification work at [individual audited bodies](#) is available on the [Audit Commission](#) and [PSAA](#) websites. The fees are based on the latest final certification fees available, for 2013/14 certification, and cover certification of housing benefit subsidy claims only.

**33** Indicative certification fees are based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate claims, with supporting working papers, within agreed timeframes.

**34** It is a matter for the auditor to decide the work necessary to certify the claim and to seek to agree any proposed variation to the indicative fee with the audited body before obtaining approval from PSAA. Only approved fee variations can be invoiced or refunded to audited bodies.

**35** As 2015/16 indicative certification fees for individual bodies are based on the latest certification fees available, they already reflect the auditor's assessment of the work required. 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 2013/14 certification fee.

## Value added tax

**36** All the 2015/16 scale fees exclude value added tax, which will be charged at the prevailing rate of 20 per cent on all work done.