

Work programme and scales of fees 2016/17

Local government and police bodies

March 2016

Public Sector Audit Appointments Limited (PSAA) is an independent company limited by guarantee incorporated by the Local Government Association in August 2014.

The Secretary of State for Communities and Local Government has delegated statutory functions (from the Audit Commission Act 1998) to PSAA by way of a letter of delegation issued under powers contained in the Local Audit and Accountability Act 2014.

The company is responsible for appointing auditors to local government, police and local NHS bodies, for setting audit fees and for making arrangements for the certification of housing benefit subsidy claims.

Before 1 April 2015, these responsibilities were discharged by the Audit Commission.

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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 2016/17, with the associated scale audit fees. Separate documents cover the [work programme and scale fees at NHS bodies](#) and at [small bodies](#).
- 2 The work will be undertaken under the [Code of Audit Practice](#) published by the National Audit Office on behalf of the Comptroller and Auditor General.
- 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

- 3 The Local Audit and Accountability Act 2014 provides for the introduction of a new framework for local public audit. Under these provisions, the Audit Commission closed in March 2015 and the Secretary of State for Communities and Local Government has delegated some statutory functions from the Audit Commission Act 1998 to Public Sector Audit Appointments Limited (PSAA) on a transitional basis.
- 4 PSAA will oversee the Audit Commission's audit contracts until they end. The Department for Communities and Local Government has confirmed that for the principal local government bodies listed in schedule 2 to the Local Audit and Accountability Act 2014 this will be with the completion of the audits of the 2017/18 accounts.
- 5 PSAA's responsibilities include setting fees, appointing auditors and monitoring the quality of auditors' work. Further information on [PSAA and its responsibilities](#) is available on our website.
- 6 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.
- 7 PSAA is publishing the 2016/17 work programme and scale fees in advance of the start of the financial year to which they apply to provide certainty for audited bodies.

2016/17 fees

- 8 There are no changes to the work programme for local government and police bodies for 2016/17. Following consultation, we have set scale fees at the same level as the fees applicable for 2015/16.
- 9 Scale fees for 2015/16 were set by the Audit Commission before it closed. The Commission reduced 2015/16 scale fees for most audited bodies by 25 per cent based on the fees applicable for the previous year, in addition to the 40 per cent reduction in fees from 2012/13. These substantial fee reductions continue to apply for the length of the audit

contracts, providing there are no significant changes to auditors' work, and subject to annual review.

10 We received a limited response to our consultation on the 2016/17 work programme and scales of fees, with only 14 responses (1.7 per cent of consultees) across all our sectors and stakeholders. Responses were positive about the proposals set out in the consultation. We have published a [summary of the consultation responses](#) on our website.

11 The scale audit 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.

Fees beyond 2016/17

12 The Department for Communities and Local Government has confirmed it will ask PSAA to extend the audit contracts for one year for local government and police bodies, to include audits of the 2017/18 accounts. PSAA will set fees for 2017/18, and expects to consult on proposals in autumn 2016.

13 It is not clear yet whether the Department for Work and Pensions will ask PSAA to make arrangements for 2017/18 certification of housing benefit subsidy claims. If this is the case, the consultation on 2017/18 fees would include certification fees.

Redistribution of surplus

14 Following completion of the Audit Commission's 2014/15 accounts, PSAA received a payment in respect of the Audit Commission's retained earnings. PSAA will redistribute this and any other surpluses from audit fees to audited bodies, on a timetable to be established by the PSAA Board.

15 The amount of the redistribution, based on current information, is likely to be in the order of 15 per cent of scale audit fees for local government and police bodies.

Work programme 2016/17

Audit

16 Under the provisions of the Local Audit and Accountability Act 2014, the National Audit Office (NAO) is responsible for publishing the statutory [Code of Audit Practice](#) and guidance for auditors from April 2015. Audits of the accounts for 2016/17 will be undertaken under this Code, on the basis of the work programme and scale fees set out in this consultation. Further information on the NAO Code and guidance is available on the [NAO website](#).

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.

Audit work on highways network assets

18 CIPFA/LASAAC has confirmed that the 2016/17 *Code of Practice on Local Authority Accounting in the United Kingdom* will adopt the measurement requirements of the *CIPFA Code of Practice on Transport Infrastructure Assets* for highways network assets.

19 Fees at applicable authorities for the additional audit work required in 2016/17, the year of introduction, will be subject to approval under the normal fee variations process. It is not appropriate to increase scale fees to cover the costs of this work because the amount of work required at individual authorities will vary based on local circumstances.

20 We expect the additional fees for a highway authority will be in the range £5,000 to £10,000, where authorities are able to provide the information required, and the auditor is able to rely on central assurance of the models in use. Where the reporting requirements apply at non-highway authorities, fees should be below £5,000 where the same conditions apply. These fee ranges are indicative, and costs outside them may be necessary.

Auditors' work on value for money arrangements

21 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 arrangements conclusion).

22 2016/17 scale fees have been set on the basis that the NAO's Code of Audit Practice and supporting guidance does not change the level of work required by auditors on the value for money arrangements conclusion.

23 A conclusion on value for money 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

24 As well as their work under the Code, appointed auditors will certify 2016/17 local authority claims for housing benefit subsidy to the Department for Work and Pensions under the audit contracts managed by PSAA.

25 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 tri-partite arrangements between the grant-paying body, the audited body, and the auditor.

National report

26 PSAA will publish a report in 2017 summarising the results of auditors' work on audited bodies' 2016/17 financial statements and arrangements to secure value for money.

Scale fees for 2016/17

Scales of audit fees for local government and police bodies

27 The scale fees for 2016/17 reflect the cost of the work programme outlined above. The 2016/17 scale fee for each [local government](#) and [police](#) audited body is available on the PSAA website.

28 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. 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.

29 As the 2016/17 scale fees are based on the scale fees for 2015/16, 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 2016/17 where these factors are significantly different from those identified and reflected in the 2015/16 fee.

30 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.

31 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 before agreeing to any variation to the scale fee. Only approved fee variations can be invoiced or refunded to audited bodies.

32 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.

Certification work

33 The 2016/17 indicative fee for certification work at [individual audited bodies](#) is available on the PSAA website. The fees are based on the latest final certification fees available, for 2014/15 certification, and cover certification of housing benefit subsidy claims only.

34 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.

35 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.

36 As 2016/17 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 2014/15 certification fee.

Value added tax

37 All the 2016/17 fee scales exclude value added tax, which will be charged at the prevailing rate of 20 per cent on all work done.