

# Work programme and scales of fees 2017/18

Local government and police bodies

March 2017

**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 delegated a number of statutory functions (from the Audit Commission Act 1998) to PSAA on a transitional basis by way of a letter of delegation issued under powers contained in the Local Audit and Accountability Act 2014.**

**As a consequence of these delegations, for 2017/18 the company will continue to be responsible under transitional arrangements for appointing auditors to local government and police bodies, for setting audit fees and for making arrangements for certification of housing benefit subsidy claims.**

**Looking beyond 2017/18, the Secretary of State has specified PSAA as the appointing person for principal local government and police bodies from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015. PSAA will therefore make auditor appointments for local government and police bodies that have opted into its national scheme for audits of the accounts from 2018/19.**

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## Introduction

1. This document sets out the work to be undertaken by appointed auditors at principal local government and police audited bodies for audits of the 2017/18 accounts, together with the associated scale audit fees.
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.
4. This document does not cover the work programme and fees for smaller bodies as defined under section 6 of the Local Audit and Accountability Act 2014. [Smaller Authorities' Audit Appointments Limited](#) is responsible for appointing auditors and setting fees for these bodies for accounting periods starting from April 2017, unless the bodies opt to appoint their own auditor.

## Background

5. 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. The Secretary of State for Communities and Local Government delegated some statutory functions from the Audit Commission Act 1998 to Public Sector Audit Appointments Limited (PSAA) on a transitional basis, and the Audit Commission's audit contracts were novated to PSAA.
6. 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 and police 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. PSAA's responsibilities under the transitional arrangements include setting fees, appointing auditors and monitoring the quality of auditors' work. Further information on [PSAA and its responsibilities](#) is available on our website.
7. PSAA is publishing this 2017/18 work programme and scale fees, following consultation, in advance of the start of the financial year to which they apply to provide clarity and certainty for audited bodies.

## 2017/18 fees

8. There are no changes to the work programme for local government and police bodies for 2017/18. Following consultation, we have set scale fees at the same level as the fees applicable for 2016/17 and 2015/16.
10. Before it closed, the Audit 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. We expect these substantial fee

reductions to continue to apply for the duration of the current audit contracts, providing there are no significant changes to auditors' work. In cash terms, audit fees have reduced by 55 per cent compared to 2011/12 levels; in real terms the saving to audited bodies is equivalent to 61 per cent.

11. We received a limited response to our consultation on the 2017/18 work programme and scale fees, with only 6 replies (1.1 per cent of consultees). Responses were generally positive about the proposals set out in the consultation. We have published a [summary of the consultation responses](#) on our website.
12. The scale audit fees for individual bodies are published alongside this work programme, to support transparency and to enable audited bodies to compare their fees with those of similar bodies.

## Beyond 2017/18

13. The audit of the 2017/18 accounts is the final year for which the current audit contracts and the transitional arrangements made by the Department for Communities and Local Government will apply.
14. For audits of the accounts from 2018/19, the provisions of the Local Audit and Accountability Act 2014 in relation to local appointment of auditors take effect. The Secretary of State for Communities and Local Government has specified PSAA as the appointing person for principal local government and police bodies. PSAA will therefore appoint auditors and set scale audit fees for bodies that have opted into its national scheme.

## Distribution of surplus

15. As a not-for-profit company established by the Local Government Association, PSAA plans, during the course of 2017/18, to make a distribution of surplus funds to principal local government and police bodies. The distribution is made possible by the transfer of an element of the Audit Commission's retained earnings prior to its closure in March 2015 and by PSAA continuing to generate surplus funds and make further efficiencies since its establishment.
16. We expect to make a distribution equivalent to approximately 15 per cent of scale audit fees to local government and police bodies.

## Work programme 2017/18

### Audit

17. 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 of local public bodies. Audits of the accounts for 2017/18 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](#).
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 an audited body, and the arrangements it has put in place to manage those risks.

### Audit work on highways network assets

19. Since we consulted on the proposed 2017/18 scale fees and work programme, CIPFA/LASAAC has postponed full implementation of new measurement requirements for highways network assets in the *Code of Practice on Local Authority Accounting in the United Kingdom*. Originally implementation of the requirements was planned for the 2016/17 accounts.
20. If introduction is confirmed for the 2017/18 accounts, the fees for the additional audit work required at applicable authorities will be subject to PSAA approval under the normal fee variations process set out in the fees section of this document. It is not appropriate to make a general increase to the scale fees of relevant bodies to cover this work, because the amount of work required at individual authorities will vary based on local circumstances.
21. 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 it may not be possible to apply them in every case.

### Auditors' work on value for money arrangements

22. 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).
23. 2017/18 scale fees have been set, as for previous years, on the basis that the NAO's Code of Audit Practice and supporting guidance does not change the level of work required by auditors in order to arrive at a value for money arrangements conclusion.

## **Certification work**

24. As well as their audit work under the Code, appointed auditors will certify 2017/18 local authority claims for housing benefit subsidy to the Department for Work and Pensions.
25. 2017/18 is the final year in which PSAA will make arrangements for auditors to undertake housing benefit subsidy certification work. After the end of the transitional arrangements and the current audit contracts, PSAA has no legal power or remit in relation to assurance on claims or returns. The DWP is developing its own assurance arrangements from 2018/19 and has issued further guidance directly to local authorities.
26. Auditors will not certify any other claims or returns for 2017/18 under PSAA's audit contracts. As in the case of housing benefit subsidy, assurance arrangements for other schemes are a matter for the relevant grant-paying body, and are subject to separate fees and tripartite arrangements between the grant-paying body, the audited body, and the auditor.

## **National report**

27. PSAA will publish a report in 2018 summarising the results of auditors' work on local government and police audited bodies' 2017/18 financial statements and arrangements to secure value for money.

## Scale fees for 2017/18

### Scales of audit fees for local government and police bodies

28. The scale fees for 2017/18 reflect the cost of the work programme outlined above. The 2017/18 scale fee for each [local government](#) and [police](#) audited body is available on the PSAA website.
29. 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.
30. As the 2017/18 scale fees are based on the scale fees for 2016/17, 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 2017/18 where these factors are significantly different from those identified and reflected in the 2016/17 fee.
31. 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.
32. 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.
33. 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 that an objection is valid. This also applies to costs incurred on any special investigations, such as those arising from disclosures under the Public Interest Disclosure Act 1998.

### Housing benefit subsidy certification

34. The 2017/18 indicative fee for housing benefit subsidy certification work at [individual audited bodies](#) is available on the PSAA website. The fees are based on the latest final certification fees available, for 2015/16 certification, and cover certification of housing benefit subsidy claims only. Fees for certification must cover the full cost of the work required to certify a claim.
35. 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.
36. 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

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obtaining approval from PSAA. Only approved fee variations can be invoiced or refunded to audited bodies.

37. As 2017/18 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 2015/16 certification fee.

### **Value added tax**

38. All the 2017/18 fee scales exclude value added tax, which will be charged at the prevailing rate of 20 per cent on all work done.