

# Proposed work programme and scales of fees 2017/18

Local government and police bodies

October 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 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 an appointing person for principal local government bodies from 2018/19, under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.**

## Contents

<b>Introduction.....</b>	<b>2</b>
Background.....	2
2017/18 fees.....	2
Distribution of surplus.....	3
New local audit arrangements.....	3
Responding to this consultation.....	3
<b>Proposed work programme for 2017/18.....</b>	<b>4</b>
Audit.....	4
Auditors' local value for money arrangements work.....	4
Certification work.....	4
National report.....	5
<b>Proposed scales of fees for 2017/18 .....</b>	<b>6</b>
Scales of audit fees for local government and police bodies.....	6
Pension fund audits.....	6
Certification work.....	6
Value added tax .....	7
<b>Next steps .....</b>	<b>8</b>

## Introduction

- 1 This consultation document sets out the work that auditors will undertake at principal local government and police audited bodies during 2017/18, with the associated proposed scale audit fees and indicative certification fees.
- 2 We hope the information set out in this document is helpful to stakeholders in considering our proposals for the 2017/18 scale fees, as well as supporting audited bodies' financial planning.

## 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 delegated some statutory functions from the Audit Commission Act 1998 to Public Sector Audit Appointments Limited (PSAA) on a transitional basis from 1 April 2015.
- 4 In October 2015, the Secretary of State confirmed that the transitional arrangements would be extended for one year for audits of principal local government bodies only, to cover the audit of the accounts for 2017/18. The audit contracts previously let by the Audit Commission and novated to PSAA have therefore also been extended for one year to give effect to this decision.
- 5 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.
- 6 From 2018/19, new arrangements for local auditor appointment set out in the Local Audit and Accountability Act 2014 will apply for principal local government and police bodies. PSAA will play a new and different role in these arrangements.

## 2017/18 fees

- 7 There are no changes to the overall work programme for local government and police audited bodies for 2017/18. We therefore propose that 2017/18 scale audit fees are set at the same level as the scale fees applicable for 2016/17.
- 8 The proposed scale fees for 2017/18 reflect the significant fee reductions of up to 55 per cent made to scale fees since 2012/13. When these reductions were made, the expectation was that they would continue to apply for the length of the current audit contracts, providing there are no significant changes to auditors' work, and subject to annual review.
- 9 PSAA may approve variations to published scale fees and indicative certification fees for individual audited bodies, to reflect changes in circumstances or audit risks.
- 10 For authorities with highways network assets, a change in accounting requirements implemented by CIPFA/LASAAC in 2016/17 will continue to require some additional audit work in 2017/18. The fee variation process will apply in 2017/18 for this additional work, because the amount of work will vary at each authority.

## Distribution of surplus

**11** Following completion of the Audit Commission's accounts, PSAA received a payment in respect of the Audit Commission's retained earnings. PSAA operates on a not-for-profit basis and will therefore distribute this and any other surpluses from audit fees to audited bodies on a timetable to be established during 2017. The amount of the redistribution is likely to be in the order of 15 per cent of scale audit fees for local government bodies.

## New local audit arrangements

**12** In July 2016, the Secretary of State specified PSAA as an appointing person for principal local government and police bodies, under the provisions of the Local Audit and Accountability Act 2014 and the requirements of the Local Audit (Appointing Person) Regulations 2015.

**13** PSAA will therefore make auditor appointments to principal local government bodies that choose to opt into the national scheme the company is developing with the sector, for audits of the accounts from 2018/19.

**14** We intend to run the scheme in a way that will save time and resources for local public bodies. A collective procurement will enable us to secure the best prices, keeping the cost of audit as low as possible for the bodies who choose to opt in, without compromising on audit quality. Using the scheme will avoid the need for opted-in authorities to:

- establish an audit panel with independent members;
- manage their own auditor procurement and cover its costs;
- monitor the independence of their appointed auditor for the durations of the appointment; and
- manage the contract with the auditor.

**15** We expect to issue the invitation to opt into the national auditor appointment arrangements at the end of October 2016 with an expected deadline for responses in early March 2017.

**16** Further information is available on the [appointing person page](#) of our website.

## Responding to this consultation

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

[workandfeesconsultation@psaa.co.uk](mailto:workandfeesconsultation@psaa.co.uk)

The consultation will close on **Thursday 12 January 2017**.

## Proposed work programme for 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. 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 New requirements were introduced from 2016/17 in the *Code of Practice on Local Authority Accounting in the United Kingdom* in relation to the measurement requirements for highways network assets.

20 As we have set out in the [2016/17 work programme and fees](#) published on our website in March 2016, fees for the additional work identified by auditors at individual audited bodies for 2016/17 will be subject to approval under the normal fee variations process. An expected range of £5,000 to £10,000 will apply, where authorities are able to provide the information required, and the auditor is able to rely on central assurance of the models in use.

21 Fees for additional audit work required for 2017/18 will also be approved under the fee variations process, with a lower expected range of £3,000 to £6,000, where authorities are able to provide the information required, and the auditor is able to rely on central assurance of the models in use. These fee ranges are indicative, and costs outside them may be necessary in some cases.

### Auditors' local value for money arrangements work

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 Auditors will apply a risk-based approach to their 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.

### Certification work

24 At the request of the Department for Work and Pensions, auditors appointed by PSAA will certify local authority claims for housing benefit subsidy for 2017/18. This is the final year in which these certification arrangements will apply.

25 Auditors will undertake this work as agents of PSAA, using guidance based on the arrangements previously developed by the Audit Commission.

## National report

**26** PSAA will publish an annual report summarising the results of auditors' work on audited bodies' 2017/18 financial statements and arrangements to secure value for money.

## Proposed scales of fees for 2017/18

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

**27** The scales of fees for 2017/18 reflect the cost of the work programme outlined above. The proposed 2017/18 scale fee for each [local government](#) and [police](#) audited body is available on our website.

**28** The proposed scale audit fees for 2017/18 audits are the scale fees applicable for 2016/17.

**29** PSAA 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.

**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 for 2017/18 where these factors are significantly different from those identified and reflected in the 2016/17 scale fee.

**31** PSAA obtains updated fee information, and explanations for any proposed variations from the scale fee, from appointed auditors on a regular basis. We 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 PSAA.

**32** PSAA will charge fees for considering objections from the point at which auditors accept an objection as valid, or any special investigations, such as those arising from disclosures under the Public Interest Disclosure Act 1998, as a variation to the scale fee.

### Pension fund audits

**33** The proposed scale fees for 2017/18 pension fund audits are the scale fees applicable for 2016/17. The proposed individual [pension fund audit scale fees](#) for 2017/18 are available on our website.

### Certification work

**34** The statutory duty to make certification arrangements, delegated to PSAA by the Secretary of State for the purpose of certifying housing benefit subsidy claims, requires PSAA to charge fees that cover the full cost of certification work.

**35** An indicative certification fee is published each year for each relevant audited body, using the latest final certification fees available. Indicative fees for 2017/18 housing benefit subsidy certification work will be based on final 2015/16 certification fees. We will receive this information from auditors in January 2017, after this consultation has closed, and will publish indicative 2017/18 certification fees on our website in March 2017.



**36** For the purposes of this consultation, audited bodies and stakeholders may wish to refer to the [indicative certification fees for 2015/16](#), published on our website.

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

**38** We expect variations from the indicative certification fee for an audited body to occur only where issues arise that are significantly different from those identified and reflected in the previous year's fee.

### **Value added tax**

**39** All the 2017/18 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

**40** PSAA has a statutory duty to prescribe scales of fees for the audit of accounts. Before prescribing scales of fees, we are required to consult relevant representative organisations.

**41** We welcome comments from audited bodies and stakeholders on the proposals contained in this document. The consultation will close on **Thursday 12 January 2017**.

Please send comments by email to:

[workandfeesconsultation@psaa.co.uk](mailto:workandfeesconsultation@psaa.co.uk)

**42** Following responses to this consultation, the PSAA Board will approve the final 2017/18 work programme and scales of fees for publication in late March 2017.

**43** If you have comments or complaints about the way this consultation has been conducted, these should be sent by email to [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk).