

Work programme and scales of fees 2010/11

and indicative fee proposals for 2011/12 and 2012/13

Local Government, housing and community safety

October 2009



The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Preface and background

This document sets out the work the Audit Commission plans to undertake in the local government, housing and community safety sectors during 2010/11, with the associated scales of audit and inspection fees. It also sets out indicative fee proposals for 2011/12 and 2012/13.

Separate documents have been prepared covering the Commission's work in the NHS and probation boards and trusts in England.

The work of the Commission and its appointed auditors is carried out in accordance with the provisions of the Audit Commission Act 1998 (the AC Act), the Local Government Act 1999 and the Code of Audit Practice 2008 (the Code). Responsibility for the conduct of the audit remains, at all times, that of the appointed auditor.

Under section 7 of the Audit Commission Act 1998 and section 12 of the Local Government Act 1999, the Commission has a statutory duty to prescribe scales of fees for the audit of accounts, and inspections. Before prescribing any scales of fees it consults local government representative associations, audited bodies, the Department for Communities and Local Government (CLG) and the accountancy profession. It has now consulted on the proposed fee scales for 2010/11 and the indicative fee proposals for 2011/12 and 2012/13. The Commission has considered the comments made during the consultation and has agreed the scales of fees set out in this document.

The Commission will continue to publish the agreed audit fees for individual bodies on its website to assist audited bodies to compare their fees with those for similar bodies. The fee comparator tool on the website is intended to make the Commission's regime more transparent to audited bodies and other stakeholders. It can be accessed on the Audit Commission website at www.audit-commission.gov.uk

1 Work programme 2010/11

Audit

- 1 The scales of audit fees in this document cover all the work that auditors need to carry out to meet their statutory responsibilities under the AC Act, in accordance with the statutory Code. Copies of the Code and the associated Statement of Responsibilities of Auditors and Audited Bodies may be found on the Commission's website at www.audit-commission.gov.uk
- 2 The Commission has defined the scale audit fee as the fee required by auditors to carry out the work necessary to meet their statutory responsibilities under the AC Act in accordance with the Code. It represents the Commission's best estimate of the fee required to complete an audit where the audited body has no significant audit risks and it has in place a sound control environment that ensures the auditor is provided with complete and materially accurate financial statements with supporting working papers within agreed timeframes.
- 3 Auditors will tailor their work to reflect local circumstances. In particular, they will carry out an assessment of the financial and operational risks facing the body and the arrangements it has put in place to manage those risks. In this assessment, auditors will consider the strength of the control environment; the quality of working papers produced to support the financial statements; and the extent of internal audit work and the reliance that can be placed on it. However, the core of the work undertaken will be common.
- 4 Where audited bodies do not meet agreed timetables and/or provide poor documentation such that additional audit work is necessary, or the audit is delayed, the Commission will charge additional fees to cover the costs incurred.
- 5 Under the Code, the Commission may specify additional audit work which supplements the local risk-based approach to planning the audit.
- 6 For 2010/11, the Commission has specified work in the following areas.
 - Auditors' input to Comprehensive Area Assessment (CAA) – the Commission will specify audit work at all local authorities, police authorities and fire and rescue authorities, leading to the delivery of use of resources (UoR) judgements. This will include work on data quality as specified in the UoR guidance. This work will also support the annual conclusion that the auditor is required to reach under the Code on an audited body's arrangements to secure value for money.
 - Whole of Government Accounts (WGA) – the Commission has specified a proportionate approach to the audit of the consolidation packs for WGA at all local government bodies.
- 7 The cost of the above work programme is reflected in the scales of fees set out in this document.

Pension funds

- 8 The Commission has not set the scales of fees for local government pension fund audits, which were subject to a separate full audit for the first time in 2008/09. We have deferred the setting of the 2010/11 fee scales for pension fund audits until the 2008/09 audits have been completed and we can review the actual costs incurred in carrying them out. If the results of the review indicate that we can reduce the scale fees for these audits, we will do so and issue revised fee scales for 2009/10. We expect final fee information for 2008/09 audits to be available in December 2009 and will publish the 2010/11 fee scales for the pension fund audits in spring 2010.

Changes in financial reporting standards

- 9 From 2010/11, local authorities, police authorities, fire and rescue authorities and pension funds are required to prepare their accounts in accordance with International Financial Reporting Standards (IFRS). The transition to IFRS will increase auditors' work, particularly in the first year when bodies will need to restate their previous year's accounts on the new basis, to provide prior year comparatives.
- 10 We have increased the scale fees for local authorities, police authorities and fire and rescue authorities by 6 per cent to reflect the costs of this additional work.
- 11 The proposed scales of fees do not include provision for review of the accounting treatment of private finance initiative (PFI) or public private partnership (PPP) schemes, which may be required as a result of the transition to IFRS. The scope, and therefore the costs, of such reviews will depend upon the nature and complexity of the scheme and may need to be reflected in a variation to the scale fee.

Auditors' UoR assessments

- 12 Auditors' UoR assessments are an important part of the local authority performance framework. They act as a spur to stimulating improved performance by challenging organisations to deliver better value for money, promote effective financial management, and establish high standards of governance and accountability.
- 13 The UoR framework for 2009/10 has not changed. However, the Commission's intention is to demonstrate a proportionate approach to UoR. To that end, the 2009/10 assessment will build on the work done to support the 2008/09 assessment, which established a baseline against which auditors will assess progress.
- 14 For the 2009/10 and subsequent assessments, the timetable for the completion of UoR work by auditors has been brought forward to enable auditors to complete their assessment on a phased basis with a view to completing the bulk of the work by the end of the financial year to which the assessment relates. This is to reduce the overlap with the final accounts audit and smooth the workload to reduce the burden on audited bodies and auditors during September.

- 15 We are committed to carrying out a fundamental review of our current approach to local value for money audit work, including UoR, with a view to making changes with effect from 2010/11. Pending the results of the review, further details on the specified key lines of enquiry and the timetable for 2010/11 UoR assessments will be published as part of the UoR guidance, which is published on our website www.audit-commission.gov.uk/localgov/audit/uor/pages/guidance.aspx

Grant certification

- 16 In addition to their work under the Code, appointed auditors are also required, as agents of the Commission, to certify grant claims and returns. In 2010/11, the de minimis threshold below which we will not ask auditors to certify individual claims and returns will be £125,000, and the intermediate threshold below which auditors will be required to undertake only a light touch review will be £500,000. Above this threshold, certification work will be risk-based, taking account of the authority's overall control environment.
- 17 The Commission has recently published its report *Review of Arrangements for Certifying Claims and Returns*. The review identified a number of areas for further improvement in performance: the volume of certification adjustments and qualification letters remains high, suggesting authorities need to attach greater importance to preparing claims and returns; grant-paying bodies have scope to improve their understanding of the certification process; and more could be done by the Commission and by auditors locally to raise the profile of certification work and encourage authorities to improve their use of resources.
- 18 Following on from this report the Commission is taking steps to raise the profile of certification work as follows.
- Auditors will be required to raise the importance and profile of certification work and encourage authorities to improve standards of claims and returns preparation.
 - Auditors will be required to report annually on the results of certification work to those charged with governance, and to Audit Committees, in order to highlight the errors, adjustments and qualifications arising in claims and returns. The first report is expected to be delivered in February 2010.
 - Auditors will be encouraged to use the evidence from certification work to support auditors' other responsibilities, including UoR and data quality work.
 - Auditors will be required to undertake focused, risk-based work at authorities with a consistent record, year-on-year, of high error levels, adjustments or qualifications to claims and returns.
 - Auditors will be encouraged to develop closer working relationships with relevant authority staff, particularly at the planning stages of certification work, through proactive briefings of key staff, to reduce the risk of problems arising.

CAA and inspection

- 19 CAA came into effect on 1 April 2009 and will report for the first time in December 2009. From 2010/11, we will take a proportionate approach to all elements of CAA, placing reliance on any evidence of efficient and effective delivery of outcomes. We will assess the impact of action taken to improve performance and outcomes, updating earlier assessments and taking account of longer-term evidence and trends as they become available.
- 20 CAA has two main elements that will be connected and share a common evidence base.
- An area assessment that looks at how well local public services are delivering better results for local people. This assessment focuses on outcomes rather than organisational performance and will hold local partnerships to account for their impact. The Commission's contribution to this work will be funded by a grant from CLG.
 - Organisational assessments of individual public bodies, the cost of which will be recovered through audit and inspection fees.
- 21 The Commission's inspection work programme and scales of fees set out in this document reflect the CAA framework published in February 2009.
- 22 The 2010/11 inspection programme for each type of local government, housing, criminal justice and fire and rescue body is set out below and summarised in Appendix 1.
- 23 The Commission will publish the planned inspection programme on its website at www.audit-commission.gov.uk/Oneplace once annual inspection plans have been agreed.

Inspection work programme for councils

- 24 Under CAA, in addition to the area assessment, the inspection work programme for councils will include:
- the managing performance theme of the organisational assessment; and
 - risk-based inspection activity where required.
- 25 The organisational assessment of local authorities combines UoR and managing performance assessments into a single assessment of organisational effectiveness. UoR assessments are funded through audit fees as they are part of the audit work programme. The managing performance assessment is part of the inspection work programme and is funded by inspection fees payable by councils on the basis set out in this document.
- 26 The Audit Commission's income from inspection fees has already reduced significantly under CAA. Comparing the final full year of Comprehensive Performance Assessment (CPA) (2007/08) with the first year of CAA (2009/10), our inspection fee income has reduced from £11.7 million to £6.74 million. We expect our 2010/11 inspection fee income to continue at the same level as 2009/10.

- 27 We limit the level of risk-based inspection activity we undertake annually to keep down inspection fees to local authorities. Inspections triggered under CAA and/or informed by any assessments under other performance frameworks will therefore target only the highest risk services or outcomes for inspection.
- 28 We may carry out risk-based inspections as a single inspectorate, or as a partnership of two or more inspectorates, depending on the scope of the inspection. Inspection fees will be payable by councils for risk-based inspections on the basis set out in this document. As a fee will be payable only for the Commission's contribution to joint inspections, it may vary from the standard model presented in this document.
- 29 As part of the Commission's risk-based inspection activity we will continue to undertake the following inspections where appropriate.
- **Housing and council tax benefits service inspections.** These inspections will be planned on a risk basis by the Commission working with the Department for Work and Pensions (DWP) using performance information that DWP receives from all councils, as well as local indicators of risk and the findings of relevant audit work. These inspections are funded by DWP and do not form part of the inspection fees paid by councils.
 - **Local authority housing services inspections.** The Commission will undertake inspections of local authority housing services, including housing landlord and non-landlord services. A decision to inspect or not will take account of the outcomes of CAA and the local government performance framework more generally. The funding of inspections commissioned by the Tenant Services Authority (TSA) (see Paragraph 30) is subject to further discussions and consultation. For all other standard housing services inspections, fees are payable by the council on the basis set out in this document.
 - **Inspections of arm's length management organisations (ALMOs), administered by local authorities.** ALMOs will continue to be inspected by the Commission in 2010/11 under the policy set by CLG. There will be a programme of initial inspections (which could release funds to assist the ALMOs to achieve Decent Homes standards in the managed stock depending on the outcome of the inspections) and re-inspections. The full charge for ALMO inspections is directly invoiced to the administering local authority.
- 30 Subject to the parliamentary processes extending the remit of the TSA across the housing domain from 1 April 2010, the TSA will direct the Commission to undertake inspections of housing landlord services. The precise details of how this will work in practice, including the fees charged for this work, are yet to be determined and will be subject to further discussion and consultation.
- 31 The Commission has recently piloted a programme of short notice inspections of local authority housing services. This pilot programme will be fully evaluated and the results reported to the Audit Commission's Board in December 2009. The Board will decide whether we proceed with this sort of inspection activity and, if so, the Commission will consult on the proposed charging arrangements. This approach would complement our standard inspection approach for housing services.
- 32 The inspection programme for councils will be coordinated across inspectorates.

Inspection work programme for police authorities

- 33 In November 2008, the government confirmed its intention to proceed with police authority inspections in its response to the policing green paper *From the Neighbourhood to the National: Policing our Communities Together*.
- 34 The Commission and Her Majesty's Inspectorate of Constabulary worked in partnership with the Home Office, the Association of Police Authorities, the National Policing Improvement Agency and the Improvement and Development Agency to develop the inspection framework. The framework was published in July 2009 following consultation with the sector.
- 35 The programme of baseline inspections started onsite in September 2009 and will proceed on a phased basis until 2011.
- 36 These inspections are funded by the Home Office.

Inspection work programme for fire and rescue authorities

- 37 In addition to the area assessment, the fire and rescue authority inspection work programme will include:
 - the managing performance theme of the organisational assessment; and
 - risk-based inspection activity where required.
- 38 The organisational assessment of fire and rescue authorities combines the UoR and managing performance assessments, tailored for the fire sector, into a single assessment of organisational effectiveness. The managing performance theme will draw on evidence from the sector-led peer review process (called the operational assessment).
- 39 UoR assessments are funded through audit fees as they are part of the audit work programme. The managing performance assessment is funded by CLG.
- 40 Risk-based inspections of fire and rescue authorities will continue, and these are also funded by CLG.

Studies

- 41 An element of audit and inspection fees is used to fund the Commission's programme of national value for money studies. These studies generate not just national reports with recommendations for central and local government, but also improvement tools for local public bodies. They also contribute to the development of audit and assessment approaches.
- 42 We consulted on our proposed study programme in spring 2009. Details of the Commission's studies programme can be found on its website at www.audit-commission.gov.uk.

2 Scales of fees for local government and community safety bodies 2010/11

43 The scale audit fees for individual bodies comprise:

- a fixed element, for different types of audited bodies – for example, county councils or police authorities;
- an element related to the audited body's planned gross expenditure; and
- a regional premium for audits in London and the South East.

44 The scales of audit fees for 2010/11 are set out in Table 1.

Table 1 The scales of audit fees for 2010/11

	Fixed element (£)	Plus a percentage of 2010/11 planned gross expenditure (See note)
London borough councils	151,500	0.030
Metropolitan borough councils	200,000	0.019
Unitary councils	135,500	0.032
County councils	133,000	0.011
District councils	80,000	0.050
National parks authorities	21,000	0.027
Integrated transport authorities	15,000	0.024
Passenger transport executives	44,500	0.024
Police authorities	75,000	0.007
Fire and rescue authorities	62,000	0.025
Other bodies with income or expenditure in excess of £1 million but less than £5 million	10,500* (amended December 2009)	0.130* (amended December 2009)
Other bodies with income or expenditure in excess of £5 million	23,000	0.030

Note: Gross expenditure is defined as the planned gross expenditure figure as would be shown in the net cost of services section of the Income and Expenditure account.

2 Scales of fees for local government and community safety bodies 2010/11

- 45 A premium of 3 per cent is added to the scales of fees for audited bodies in South East England. A premium of 6 per cent is added to the scales of fees for audited bodies in London (except London borough councils). The premiums do not apply to the audit of local government pension funds.
- 46 The South East England premium applies to all audited bodies in the counties of Bedfordshire, Berkshire, Buckinghamshire, Cambridgeshire, East Sussex, Essex, Hampshire, Hertfordshire, Isle of Wight, Kent, Oxfordshire, Surrey and West Sussex.
- 47 The Commission will consult individual bodies about proposed scale fees where they do not fall within any of the types of audited bodies in Table 1. These bodies include:
- the Common Council of the City of London;
 - the Greater London Authority and its functional bodies;
 - the London Fire and Emergency Planning Authority;
 - the Metropolitan Police Authority;
 - Rutland County Council;
 - the Council of the Isles of Scilly;
 - the London Pensions Fund Authority;
 - the South Yorkshire Pensions Fund Authority; and
 - waste disposal authorities.
- 48 This consultation will normally be carried out by the appointed auditor as part of the audit planning process.
- 49 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 Commission may therefore charge a fee which is larger or smaller than the scale fee to reflect the actual work that auditors need to do to meet their statutory responsibilities. The Commission will do this on the basis of the auditor's assessment of risk and the scale and complexity of the audit at a particular body. This fee then becomes payable.
- 50 It is a matter for the auditor to decide the work necessary to complete the audit and, subject to approval by the Commission, to seek to agree a variation to the scale fee with the audited body. The Commission will normally expect to approve a proposed variation to the scale fee where this is agreed by the auditor and the audited body. The Commission would not normally expect to vary the scale fee by more than 25 per cent upwards and 20 per cent downwards.
- 51 Fees for the auditor's consideration of objections, from the point at which they accept an objection as valid, or special investigations, such as those arising from disclosures under the Public Interest Disclosure Act 1998, will be charged in addition to any variation to the scale fee for risk and complexity.

Grant certification

52 The Commission has set a schedule of hourly rates for different levels of staff, for work relating to the certification of grant claims and returns. The hourly rates as set out in Table 2 will enable us to meet our statutory duty to cover the full cost of carrying out the work.

Table 2 Hourly rates for certifying claims and returns for 2010/11

Maximum £ per hour	Standard	South East England	London
Partner or District Auditor	325	345	380
Senior manager or manager	180	195	210
Senior auditor	115	125	135
Other staff	85	95	105

2 Scales of fees for local government and community safety bodies 2010/11

Scales of inspection fees for local government bodies 2010/11

- 53 The cost of inspection activity will be met by a fee element payable by the authority, and an element that is funded by CLG grant. This is unchanged from 2009/10. A summary is set out in Table 3.

Table 3 CLG grant levels and fee levels for CAA activities

Activity	Authority type	% CLG grant funded	% fee to authority
Area assessment	Local partnerships	100	0
Managing performance theme of organisational assessment	Single-tier and county councils	0	100
	GLA and its functional bodies	0	100
	District councils	50	50
Risk-based inspection activity	Single-tier and county councils	0	100
	GLA and its functional bodies	0	100
	District councils	50	50

Note: DWP funds housing and council tax benefits inspections. Local authority housing landlord services inspections (including ALMOs) will be regulated by the TSA from 2010/11 and undertaken by the Commission as directed by the TSA. The funding of these inspections will be subject to further discussion and consultation.

The full charge for ALMO inspections is directly invoiced to the administering local authority.

- 54 After applying the CLG grant, the fee payable by authorities is subject to a 10 per cent premium for authorities located in the South East and a 20 per cent premium for authorities located in London, except for the GLA and its functional bodies as the premium has already been included in the scale fees. The premiums are different from those for audit fees as the latter include both a fixed element and an element related to planned gross expenditure.
- 55 The 2010/11 standard number of days and proposed fee scales for inspection activity at single-tier and county councils, the GLA and its functional bodies and district councils are shown in the following three tables.

2 Scales of fees for local government and community safety bodies 2010/11

Table 4 Single-tier and county councils

Activity	Standard number of days	Proposed standard fee to authority in 2010/11 after applying CLG grant (£)
Managing performance theme of organisational assessment	11	16,630
Risk-based inspection activity	40	32,460

Note: For the purposes of inspection charges, the Common Council of the City of London is charged on the same basis as a single-tier council.

Table 5 GLA and its functional bodies

Activity	Standard number of days	Proposed standard fee to authority in 2010/11 after applying CLG grant (£)
Managing performance theme of organisational assessment	11	19,960
Risk-based inspection activity	40	38,950

Table 6 District councils

Activity	Standard number of days	Proposed standard fee to authority in 2010/11 after applying CLG grant (£)
Managing performance theme of organisational assessment	11	8,320
Risk-based inspection activity	40	16,230

- 56** The Commission may charge a higher or lower fee if the work required is substantially more or less than that envisaged by the scale fee. The actual number of days planned for each piece of work will be determined by the CAA lead and is dependent on risk and scope of activity.
- 57** The standard 40-day inspection model provides an illustration of the cost of a standard risk-based inspection only. Each inspection we undertake will be scoped to take account of the nature of the work, possibly across a number of councils, and whether we carry out such inspections as a single inspectorate or a partnership of two or more inspectorates. A fee will be payable only for the Commission's contribution to joint inspections.

2 Scales of fees for local government and community safety bodies 2010/11

- 58 The scoping process may therefore result in inspections requiring fewer or more days than the standard model. This will be fully discussed with each of the councils involved.
- 59 For corporate governance inspections the risk-based inspection days and fee will be the starting point and adjusted as necessary for the scope of the inspection.

Value Added Tax (VAT)

- 60 All the 2010/11 fee scales exclude VAT, which will be charged at the standard rate (expected to be 17.5 per cent as at billing date) on all work done.

3 Indicative changes in fees for 2011/12 and 2012/13

- 61 The main factors affecting audit fees in 2011/12 and 2012/13, which we have already notified to audited and inspected bodies, will be as follows.

2011/12 – audit and inspection

- 62 The Commission has agreed that increases should be no more than the government's inflation target, adjusted to reflect ongoing internal efficiencies.
- 63 Ongoing audit costs associated with the adoption of IFRS are expected to reduce by 3 per cent for local authorities, police and fire and rescue bodies, and 5 per cent for pension funds.

2012/13 – audit and inspection

- 64 We envisage fees increasing by no more than the government's inflation target, adjusted to reflect ongoing internal efficiencies.

Appendix 1 – Summary of content of Audit and Inspection plans 2010/11

	Single-tier authorities and county councils	District councils	National park authorities	Passenger transport authorities/executives	Waste disposal authorities	Local councils and other bodies	Authorities with ALMOs or Supporting People programmes	Fire and rescue authorities	Police authorities
Audit and inspection: planning, liaison and reporting	✓	✓	✓	✓	✓	✓		✓	✓
Audit and inspection: liaison with other inspectorates	✓	✓							✓
Audit: accounts and systems	✓	✓	✓	✓	✓	✓		✓	✓
Audit: VFM conclusion	✓	✓	✓	✓	✓	✓		✓	✓
Audit: UoR assessment	✓	✓						✓	✓
Inspection: area assessment	✓	✓	✓	✓	✓			✓	✓
Inspection: managing performance theme of the organisational assessment (combined with UoR assessment to form the organisational assessment)	✓	✓						✓	

Appendix 1 – Summary of content of Audit and Inspection plans 2010/11

	Single tier authorities and county councils	District councils	National park authorities	Passenger transport authorities/executives	Waste disposal authorities	Local councils and other bodies	Authorities with ALMOs or Supporting People programmes	Fire and rescue authorities	Police authorities
Variable work									
Audit: risk-based performance audit work	✓	✓	✓	✓	✓	✓		✓	✓
Inspection: risk-based inspection work	✓	✓					✓	✓	✓
Other: certification of grant claims and returns	✓	✓	✓	✓					

Notes: 1 The UoR assessment does not apply to the Council of the Isles of Scilly

2 For the purposes of inspection charges, the Common Council of the City of London is charged on the same basis as a single-tier council.

3 For the purposes of inspection charges, the Council of the Isles of Scilly is charged on the same basis as a district council.

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