

AUDIT COMMITTEE

3 December 2013

AUDIT COMMISSION CONSULTATION ON 2014/15 WORK PROGRAMME AND
SCALES OF FEES

REPORT OF CHIEF FINANCE OFFICER

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RECENT REFERENCES:

AUD051: Annual Audit Fees 2012/13 and 2013/14, 12 March 2013

EXECUTIVE SUMMARY:

Section 7 of the Audit Commission Act 1998 requires the Audit Commission to prescribe scales of fees for the audit of accounts; and consult with relevant representative organisations prior to their publication.

The Audit Commission have issued a consultation document setting out the work they plan to undertake at local government bodies during 2014/15, with the associated scales of audit fees and indicative certification fees.

The Commission are not planning to make any changes to the work programme for local government bodies for 2014/15. They are therefore proposing that scale audit fees are set at the same level as the fees for 2013/14; that is £74,214 for Winchester City Council. This fee covers the audit of the financial statements; value for money conclusion; and the Whole of Government Accounts audit work. The Commission have estimated the Council's indicative certification fee for 2013/14 as £16,000.

RECOMMENDATIONS:

That the Audit Committee:

1. Notes the work and fee proposals detailed in the Audit Commission's Proposed Work Programme and Scales of Fees 2014/15 consultation document.

OTHER CONSIDERATIONS:

1. SUSTAINABLE COMMUNITY STRATEGY AND CHANGE PLANS
(RELEVANCE TO):

- 1.1. Preparation of the Statement of Accounts is fundamental to the operation of the Council. Achieving corporate priorities must go in hand with accounting for how the public's money has been spent.

2. RESOURCE IMPLICATIONS:

- 2.1. Where, exceptionally, an issue arises that requires the external auditor to do substantive audit work, for example to exercise their statutory reporting powers, this may result in a variation to the scale audit fee to reflect the costs of the work. The additional fee will then become payable by the audited body.

3. BACKGROUND DOCUMENTS:

None

4. APPENDICES

Audit Commission's consultation document.

Proposed work programme and scales of fees 2014/15

Local government and police bodies

October 2013

The Audit Commission's role is to protect the public purse.

We do this by appointing auditors to a range of local public bodies in England. We set the standards we expect auditors to meet and oversee their work. Our aim is to secure high-quality audits at the best price possible.

We use information from auditors and published data to provide authoritative, evidence-based analysis. This helps local public services to learn from one another and manage the financial challenges they face.

We also compare data across the public sector to identify where services could be open to abuse and help organisations fight fraud.

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Introduction

1 This consultation document sets out the work the Audit Commission plans to undertake at local government and police audited bodies during 2014/15, with the associated scales of audit fees and indicative certification fees. A separate consultation document covers the Commission's [work programme and scales of fees at NHS bodies](#).

2 The consultation does not cover small bodies subject to the limited assurance regime. [Fee scales for small bodies](#) were set in April 2012 for five years and are available on the Commission's website.

3 We hope the information set out in this document is helpful to stakeholders in considering our proposals for the 2014/15 work programme and scale fees, as well as supporting audited bodies' financial planning.

Background

4 In March 2012, the Commission announced significant reductions of up to 40 per cent in audit and certification fees from 2012/13 onwards. These fee reductions were achieved as a combined result of the Commission's bulk purchasing power and internal efficiency savings.

5 When we announced the reductions, we said that we expect these lower fees to apply for five years, from 2012/13 to 2016/17, subject to annual review.

6 We plan to publish the confirmed work programme and scales of fees for 2014/15 in March 2014. We have a statutory duty to consult stakeholders before prescribing a scale of fees. We consult audited bodies themselves, where possible, as well as their representative associations, relevant government departments and the accountancy profession.

2014/15 fees

7 We do not plan to make any changes to the work programme for local government and police audited bodies for 2014/15. We therefore propose that scale audit fees are set at the same level as the fees applicable for 2013/14.

8 Fees for police bodies reflect the increase from 2012/13 in audit work arising from the changes introduced by the Police Reform and Social Responsibility Act 2011, requiring auditors to undertake audits of two statutory bodies in a police area rather than one. We will continue to keep the scales of fees for the new police bodies under review, to ensure they are consistent with auditors' local assessment of audit risks.

9 The Commission may approve variations to published scale fees and indicative certification fees for individual audited bodies, to reflect changes in circumstances or audit risks.

Fees beyond 2014/15

10 The Commission is expected to close in March 2015. The Local Audit and Accountability Bill 2013 (the Bill) provides for the closure of the Commission and the introduction of a new framework for local public audit. The Bill completed its passage in the House of Lords in July 2013, with the Commons stage due to take place in the autumn, and is likely to receive Royal Assent early in 2014.

11 The Commission's current contracts with audit suppliers run until 2016/17, with a possibility of extension for up to three years. The responsibility for overseeing these contracts is expected to pass to a transitional body from April 2015.

12 Our understanding is that the Commission will set fees for 2015/16, which will be the first year of audit following our closure. We will continue to work with officials at the Department for Communities and Local Government (DCLG) on this basis. We would expect to consult on the 2015/16 work programme and scales of fees in late 2014, and publish the confirmed scale fees in 2015 before the Commission closes.

13 The Commission is currently undertaking another audit procurement exercise, covering the contracts with audit firms that it let in 2006 and 2007. These contracts cover 30 per cent of principal bodies in the Commission's regime. Any savings achieved as a result of this procurement will be reflected in further fee reductions from 2015/16 for all principal audited bodies. An announcement on the outcome of the procurement is expected in April 2014.

Responding to this consultation

14 We welcome comments from stakeholders on the proposals contained in this document. Please send comments by email to workandfeesconsultation@audit-commission.gsi.gov.uk or to Jon Hayes, Associate Controller of Audit (Compliance), at the following address by **Friday 10 January 2014**:

Audit Commission
3rd Floor, Fry Building
2 Marsham Street
London, SW1P 4DF

Proposed work programme for 2014/15

Audit

15 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 the body, and the arrangements it has put in place to manage those risks.

16 Under the *Code of Audit Practice* (the Code), the Commission may specify additional audit work which supplements the local risk-based approach to planning the audit. For 2014/15, the Commission will specify work on Whole of Government Accounts (WGA).

17 The Chartered Institute for Public Finance and Accountancy (CIPFA) is consulting on proposals for changes to the 2015/16 *Code of Practice on Local Authority Accounting in the United Kingdom*. The proposals include changes to the measurement requirements for transport infrastructure assets. Because these changes may have significant practical implications, CIPFA is proposing phased implementation, with a dry run of the approach in 2014/15. Subject to confirmation following the consultation, auditors may need to undertake additional audit work on transport infrastructure assets at some audited bodies. Where the additional work cannot be accommodated within the scale fee, the auditor will need to agree a fee variation with the audited body and seek approval from the Commission.

National reports

18 In previous years, we have published our annual [Auditing the Accounts](#) and [Protecting the Public Purse](#) reports. These reports summarise, respectively, the results of auditors' work on audited bodies' financial statements and arrangements to secure value for money, and the results of our annual survey of fraud in local government. The Commission is expected to close in March 2015 and will not therefore be publishing an Auditing the Accounts report on the results of auditors' work on 2014/15 audits or a Protecting the Public Purse report.

19 Arrangements will be needed following the closure of the Commission to summarise and publish the results of audits. Central government departments are accountable to Parliament for the billions of pounds of taxpayers' money paid by them to local bodies. Departmental accountability system statements refer to the assurance that departments obtain from local external audit, and Accounting Officers will need to continue to have access to the results of audits and analysis of the outcomes, as currently published by the Commission, to enable this.

Auditors' local value for money work

20 Under the Audit Commission Act 1998, auditors must satisfy themselves about an audited body's arrangements to secure economy, efficiency and effectiveness in its use of resources (the value for money conclusion).

21 Auditors of single-tier, county and district councils, fire and rescue authorities and police bodies will apply a risk-based approach to their local value for money (VFM) work, giving a conclusion on the arrangements in place. The approach is based on criteria specified by the Commission relating to financial resilience and prioritising resources.

22 Auditors of larger national parks authorities, waste disposal authorities, integrated transport authorities, passenger transport executives, joint committees, and other miscellaneous local government bodies will continue to apply a more tailored approach to their local VFM work. The approach is based primarily on review of the annual governance statement, and any other specific work the auditor considers necessary.

23 A VFM conclusion is not required for audited bodies with annual income or expenditure of less than £6.5 million, which are subject to limited assurance audit. This is in line with the threshold set in the Accounts and Audit (England) Regulations 2011 defining smaller relevant bodies.

24 Where a body with annual income or expenditure of less than £6.5 million elects to prepare accounts as a larger relevant body, it is subject to a full Code audit including a VFM conclusion.

25 Our website provides further [information about the VFM conclusion](#).

Certification work

26 As well as their work under the Code, appointed auditors, as agents of the Commission, certify certain claims and returns.

27 For 2014/15, we will not ask auditors to certify individual claims and returns below £125,000. The threshold below which auditors will undertake only limited tests will remain at £500,000. Above this threshold, certification work takes account of the authority's control environment for preparing the claim or return.

28 DCLG and HM Treasury are working with grant-paying bodies to develop assurance arrangements for certifying claims and returns following the closure of the Commission. Subject to confirmation, we expect these new arrangements to apply to 2014/15 claims and returns and therefore the following schemes to fall outside the Commission's arrangements:

- CFB06 Pooling of housing capital receipts;
- PEN05 Teachers' pensions return;
- RG 31 Single Programme (Greater London Authority);
- TRA04 Metropolitan railway passenger services grants; and

- TRA11 Local transport plan major projects.

29 We expect that auditors will continue to certify local authority claims for housing benefit subsidy from the Department for Work and Pensions (DWP) under the arrangements developed by the Commission. The DWP has asked the Commission to prepare the auditor guidance for 2014/15. Arrangements for 2015/16 onwards are to be confirmed, but DWP envisages that auditor certification will be needed until 2016/17, when Universal Credit is expected to replace housing benefit.

Assessment and inspection work

30 Following the end of Comprehensive Area Assessment in May 2010, there is no longer any programme of mandatory inspection work. We do not envisage carrying out any inspections in 2014/15, unless specifically directed to do so.

Proposed scales of fees for 2014/15

Scales of audit fees for local government and police bodies

31 We have reflected the cost of the work programme in the proposed scales of fees for 2014/15. The fees are based on the scale fees applicable for 2013/14.

32 The [proposed 2014/15 scale fee for each local government body](#) and [proposed 2014/15 scale of fee for each police body](#) are available on our website.

33 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 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.

34 As the 2014/15 scale fees are based on the scale fee for 2013/14, 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 2014/15 where these factors are significantly different from those identified and reflected in the 2013/14 fee.

35 The Commission obtains updated fee information from appointed auditors, and explanations for any proposed variations from the scale fee, on a regular basis. The Commission will consider the reasonableness of the explanations provided by auditors before agreeing to any variation to the scale fee.

36 We will keep the scale of fees for police bodies under review to ensure they are consistent with auditors' local assessment of audit risks.

37 The Commission 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

38 The proposed scale fees for 2014/15 pension fund audits are the scale fees applicable for 2013/14. The [proposed pension fund audit scale fee for each relevant audited body for 2014/15](#) is available on our website.

Certification work

39 The Audit Commission Act 1998 requires the Commission to charge fees for certification work that cover the full cost of the work.

40 We publish an indicative certification fee each year for each relevant audited body, using the latest final certification fees available. Indicative fees for 2014/15 certification work will be based on final 2012/13 certification fees, adjusted for schemes no longer requiring auditor certification in 2014/15.

41 The Commission will receive this fee information from appointed auditors in January 2014. We will therefore publish the 2014/15 indicative certification fee for each individual audited body on our website in March 2014.

42 For the purposes of this consultation, we have produced an [estimated indicative fee for each body](#) as a guideline, because we do not have the final fee information for 2012/13 yet. The estimated fees use the 2013/14 indicative certification fees, adjusted for those schemes for which we do not expect to make certification arrangements in 2014/15.

43 As indicative certification fees are based on the latest final certification fees available, they reflect the auditors' assessment of the work required. Therefore, we expect variations from the indicative 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.

44 The 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.

Inspection fees for local government bodies

45 We do not plan to undertake any inspections in 2014/15. Any risk-based inspections we are specifically directed to undertake will be charged on the basis of the fees set for 2010/11. This was the last year in which we undertook a planned programme of inspections. The [2010/11 fees](#) are available on the archived version of our website.

Value added tax

46 All the 2014/15 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

47 Under section 7 of the Audit Commission Act, the Commission has a statutory duty to prescribe scales of fees for the audit of accounts. Before prescribing scales of fees, the Commission is required to consult relevant representative organisations.

48 We welcome comments from stakeholders on the proposals contained in this document. Please send comments by email to workandfeesconsultation@audit-commission.gsi.gov.uk or to Jon Hayes, Associate Controller of Audit (Compliance), at the following address by **Friday 10 January 2014**:

Audit Commission
3rd Floor, Fry Building
2 Marsham Street
London, SW1P 4DF

49 Following responses to this consultation, the Commission's Board will approve the final 2014/15 work programme and scales of fees for publication in late March 2014.

50 If you have comments or complaints about the way this consultation has been conducted, these should be sent by email to complaints@audit-commission.gsi.gov.uk.