

Work programme and scales of fees 2013/14

Health bodies

March 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 auditors 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.

Contents

Introduction	2
Background.....	2
Scales of fees for 2013/14	2
Fees beyond 2013/14	3
Work programme 2013/14	4
Audit.....	4
Auditors' local value for money work	4
'Auditing the Accounts' report.....	5
Scales of fees for 2013/14	6
Scales of audit fees for health bodies.....	6
Value added tax.....	7

Introduction

1 This document sets out the work the Audit Commission plans to undertake at NHS audited bodies during 2013/14, with the associated scales of audit fees. Separate documents cover the Commission's work at [local government bodies](#).

Background

2 The work of the Commission and its appointed auditors is carried out under the Audit Commission Act 1998 and the Code of Audit Practice 2010 (the Code). Copies of [the Code](#) and the associated [Statement of Responsibilities of Auditors and Audited Bodies](#) are on the Commission's website. Responsibility for the conduct of the audit remains, always, that of the appointed auditor.

3 Under section 7 of the Audit Commission Act 1998 the Commission has a statutory duty to prescribe scales of fees for the audit of accounts. Before prescribing any scales of fees it consults audited bodies in the NHS, their representative associations, the Department of Health and the accountancy profession.

4 Fees are the principal way the Commission finances its activities. In law, audit fees are not a fee for audit services, but a levy to fund the costs of the Commission, out of which it meets the costs of audits and its other statutory functions. It has a statutory duty to cover its costs, taking one year with another.

5 The Commission publishes the [scale fees for individual bodies](#) each year on its website, to support transparency and to help audited bodies compare their fees with those of similar bodies. A [fee comparator tool](#) is also available on the website.

Scales of fees for 2013/14

6 In March 2012 the Commission announced significant reductions of 40 per cent in audit 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.

7 We expect the lower fees to apply for the length of the five-year contracts awarded to our audit suppliers, subject to annual review.

8 We received a very limited response to our consultation on the 2013/14 work programme and scales of fees, with a 2.6 per cent response rate across all our sectors. A [summary of the consultation response](#) is available on our website.

NHS trusts

9 We do not plan to make any changes to the work programme for NHS trusts for 2013/14. Following consultation, we have therefore set scale audit fees for NHS trusts at the same level as the fees applicable for 2012/13.

Clinical commissioning groups

10 The Health and Social Care Act 2012 abolishes primary care trusts and strategic health authorities, and establishes clinical commissioning groups (CCGs). The Department of Health has confirmed that CCGs will be subject to audit from 1 April 2013 under the arrangements set out in the Audit Commission Act 1998.

11 We have set CCG fees on the basis that CCGs will be smaller and less complex bodies than primary care trusts, managing smaller budgets. The model we have used places individual CCGs in one of nine fee bands from £60,000 to £100,000, based on the size of their commissioning budget. The bottom of the fee range is £60,000 because this is the lowest at which the fixed costs of an individual CCG audit can be contained.

12 Auditors will incur additional costs in the first year of CCG audits, as CCGs are new bodies and auditors will not be able to rely on work carried out in previous years. Scale audit fees for 2013/14 will therefore be subject to an exceptional 10 per cent increase to cover these additional costs, to be funded by the Commission.

13 Appointed auditors are able to use the Commission's fee variation process to request an increase or decrease to the scale fee where this does not reflect the level of audit risk or complexity for an individual audited body. Subject to their assessment of the local arrangements in place, auditors may consider this appropriate for CCG federations.

14 We will review CCG scale audit fees following the first year of audit, to consider whether they have been set appropriately at both an individual and a national level.

Fees beyond 2013/14

15 We have made a commitment to review scales of audit fees each year, with the expectation that the significant fee reductions introduced from 2012/13 will apply going forward. We consult on the work programme and scales of fees before confirming scale fees.

16 The Commission has reduced significantly in size and cost, and this is reflected in the scales of fees. The Commission will continue to oversee the contracts with audit suppliers and make auditor appointments until its closure.

17 Draft legislation published by the government proposes closing the Commission by April 2015. The Commission's contracts with audit suppliers run until 2016/17, with the 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.

Work programme 2013/14

Audit

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

19 Under the Code, the Commission may specify additional audit work to supplement the local risk-based approach to planning the audit. For 2013/14, the Commission has specified work on external assurance of quality accounts. A fee of £10,000 for this work is included in the audit scale fees for 2013/14 for NHS trusts.

20 We are discussing possible changes in the scope of auditors' work on quality accounts with relevant national stakeholders, including whether the work will apply at community and ambulance trusts. Changes will be subject to a supplementary fee consultation.

21 The Commission is no longer specifying additional work on Payments by Results. The Department of Health expects to run a national programme to replace the work previously undertaken by the Commission.

Auditors' local value for money work

22 Under the Audit Commission Act 1998 auditors must satisfy themselves that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

23 Auditors of NHS trusts will apply a focused approach resulting in a positive conclusion - the value for money (VFM) conclusion - on the bodies' arrangements. This approach is based on two criteria, specified by the Commission, about audited bodies' arrangements for:

- securing financial resilience; and
- prioritising resources.

24 Auditors of CCGs will apply a tailored approach to their VFM work, with a focus on the risks relating to their establishment as new bodies. The work required will be based primarily on review of a CCG's annual governance statement. Auditors are required to conclude whether or not there are any matters arising from their VFM work that they need to report. This is included in their formal audit report issued at the end of the audit.

‘Auditing the Accounts’ report

25 The Commission will publish an annual *Auditing the Accounts* report covering NHS trusts and CCGs. The report will cover the results of auditors’ work on the 2013/14 accounts.

Scales of fees for 2013/14

Scales of audit fees for health bodies

26 The scales of fees for 2013/14 reflect the cost of the work programme outlined above. The [scale fee for individual audited bodies](#) is available on our website.

27 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. 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.

28 The 2013/14 scale fees for NHS trusts are based on the fees for previous years, so they already reflect the auditors' assessments of audit risk and complexity. Therefore, we expect variations from the scale fee to occur only where these factors are significantly different from those identified and reflected in the 2012/13 fee.

29 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 must, subject to prior approval by the Commission, seek to agree a variation to the scale fee with the audited body.

30 Information must be submitted by auditors to the Commission for any proposed variations to scale fees. The Commission has a process based on quarterly returns to manage requests for fee variations.

31 The Commission will review the explanations for the proposed fee variations and inform the firm whether or not they are acceptable. Only proposed fee variations for which the Commission has accepted the explanation can be invoiced or refunded to audited bodies.

32 The Commission will charge fees for any special investigations, such as those arising from disclosures under the Public Interest Disclosure Act 1998, as a variation to the scale fee.

33 Where an NHS trust becomes a foundation trust part-way through a year, the Commission's appointed auditor will continue to be responsible for the audit of the trust's accounts up to the date of foundation status. There will be an audit of the trust's financial statements and a review of the statement of internal control for the part-year. The fee will be 60 per cent of the full year's scale fee.

34 Revised HM Treasury requirements on merger accounting affect the financial reporting arrangements for NHS trusts that are merging with continuing bodies during a financial year. There is now a requirement for part-year accounts and audit for the demising body. This will require an audit of the trust's financial statements and a review of the annual governance statement for the part-year. The fee will be 60 per cent of the full year's scale fee.

Value added tax

35 All the 2013/14 fee scales exclude value added tax, which will be charged at the prevailing rate of 20 per cent on all work done.