

Work programme and scales of fees 2015/16

Consultation feedback

March 2015

The Audit Commission's role is to protect the public purse. We do this by appointing auditors, publishing analysis and comparing data.

In August 2010, the Department for Communities and Local Government announced plans to put in place new arrangements for auditing England's local public bodies.

The 2014 Local Audit and Accountability Act makes it possible for the Audit Commission to close, in line with Government expectations, on 31 March 2015, 32 years after it was established.

The Commission's functions will continue after its closure in new organisations, including responsibility for the Code of Audit Practice, the management of audit contracts, the provision of information about audit, and value for money studies.

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Introduction

1 This document summarises the replies received to our consultation on the work programme and scales of fees for 2015/16 for principal audited bodies, and our response to the main issues raised by respondents.

Background

2 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 doing so, it consults audited bodies, their representative associations, relevant government departments, other national stakeholders, and the accountancy profession. Once a scale of fees is prescribed, the applicable fee becomes payable in law by the audited body.

3 Under provisions of the Local Audit and Accountability Act 2014, the Audit Commission will close on 31 March 2015. The Department for Communities and Local Government (DCLG) asked the Commission to set scale fees for principal bodies for 2015/16, the first year of audit following the Commission's closure.

4 Public Sector Audit Appointments Limited (PSAA), an independent company established by the Local Government Association, will oversee the management of the Commission's audit contracts until they end in 2017, or 2020 if extended. The decision to extend the contracts rests with the Secretary of State for Communities and Local Government and the Secretary of State for Health.

5 PSAA will exercise delegated statutory powers in relation to appointing auditors, setting and determining fees, and making arrangements for housing benefit subsidy certification.

2015/16 fees

6 We have not made changes to the work programme for principal bodies. Following consultation, we have set scale audit fees and indicative certification fees based on a reduction of 25 per cent for most bodies to the fees applicable for 2014/15. This fee reduction is in addition to the savings of up to 40 per cent in scale fees made by the Commission in 2012.

7 These fee reductions are expected to apply until the end of the audit contracts in 2017, or 2020 if extended, subject to annual review.

8 The final 2015/16 work programme documents and the lists of fees for individual bodies are available [on the Audit Commission website](#). After the Commission's closure, the documents will be accessible from the [archived Audit Commission website](#), and from the [PSAA website](#).

The consultation

Consultees

9 In the spirit of openness and transparency, the Commission consults audited bodies themselves each year, as well as statutory consultees, on proposals for the work programme and scales of fees. This is to enable individual audited bodies to contribute fully to any views expressed by their representative bodies, or to comment directly to the Commission.

Consultation proposals

10 Our 2015/16 consultation proposed no overall change to the work programme, and a reduction of 25 per cent in the scale fees applicable in 2014/15 for most principal bodies.

11 The consultation proposed that the fee reduction would not apply to pension fund audits, where fee pressures have been rising due to the increasing complexity of the funds audited.

12 We also proposed that the reduction would not apply to a small number of audited bodies with 2014/15 scale audit fees below £20,000. There is no scope to reduce fees below this level and still ensure the auditor is able to complete an audit compliant with the Code of Audit Practice and professional standards.

13 The consultation started on 13 October 2014 and closed on 9 January 2015.

Responses

14 We received 15 replies to the consultation, mostly from audited bodies. This low response is consistent with the trend for fees consultations in recent years, particularly since the Commission reduced fees by 40 per cent in 2012/13.

15 Fourteen audited bodies and one audit firm responded to the consultation. There were no responses from representative bodies or national stakeholders.

Consultation response

Summary of the consultation feedback

16 We invited responses to the consultation from 842 audited bodies and national stakeholders, and received 15 responses (table 1 provides a breakdown of the responses):

- twelve responses from local government audited bodies (five councils, five police bodies, two fire and rescue authorities);
- two from NHS bodies (two clinical commissioning groups); and
- one from an audit firm.

Table 1: Breakdown of responses to the 2015/16 fees consultation

Consultees	Number of consultees	Number of responses	%
Local authorities	353	5	1.4
Fire and rescue authorities	31	2	6.5
GLA bodies	3	0	-
Police bodies	76	5	6.6
Other local government bodies ¹	32	0	-
Clinical commissioning groups	211	2	0.9
NHS trusts	93	0	-
Audited bodies subtotal	799	14	1.7
National stakeholders and representative organisations	33	0	-
Audit firms and accountancy bodies	10	1	10.0
Total	842	15	1.8

17 The volume of responses and feedback received to the consultation suggests that audited bodies and other stakeholders are content with the proposed work programme and fees for 2015/16.

¹ Including parks authorities, transport authorities, waste authorities, small bodies accounting as larger bodies.

18 We received a small number of comments about matters of detail, most of which are covered in the remainder of this document. Apart from the positive response on the proposed fee reduction, there was generally little consistency or consensus on the matters raised in individual consultation responses.

19 Some responses raised questions or issues in relation to the closure of the Commission and future arrangements, including concerns about whether the audit contracts will be extended, and changes in certification arrangements.

20 Some consultation comments were specific to the circumstances of individual bodies, and we have responded directly to the bodies concerned in these cases.

2015/16 scale fees

21 The Commission made reductions of up to 40 per cent to scale audit and indicative certification fees in 2012, locking in the reductions for the life of the audit contracts (to 2017, or 2020 if extended), subject to annual review.

22 The Commission completed an audit procurement exercise in 2014, in relation to audit work covered by contracts let in 2006 and 2007 covering 30 per cent of principal bodies. The prices achieved in this procurement have enabled the Commission to make a further reduction of 25 per cent in fees from 2015/16.

23 We do not consider there are any new factors that suggest the need for changes to the work programme or to scale fees in general for 2015/16. We therefore consulted on the basis of no change to the work programme, but a reduction of 25 per cent in scale fees.

24 The consultation responses confirm that this approach is welcomed. Of the 15 responses we received, 13 (87 per cent) welcomed the fee proposals for 2015/16. The remaining two responses did not comment on proposed fees at all. Seven of the responses stated that the fee reduction was helpful in the context of continuing budget pressures for audited bodies, and two also welcomed the unchanged work programme.

25 There were no negative responses in relation to our overall fee proposals, but one positive response queried whether the further fee reduction may have an impact on audit quality.

Pension fund audits

26 We consulted on the basis that the 25 per cent fee reduction will not apply to pension fund audits, where fee pressures have been rising because of audit complexity.

27 We received two contradictory consultation responses about whether the proposed fee reduction should apply to pension fund audits:

- one from a council, querying the reasons for the decision not to apply the fee reduction to pension fund audits; and
- one from an audit firm welcoming the decision not to apply the fee reduction.

28 The limited consultation response suggests that most audited bodies accept the reasons for not reducing fees for pension fund audits.

Scale fees below £20,000

29 The consultation proposed that the 25 per cent fee reduction will not apply to audited bodies whose scale audit fees are below £20,000. This is to recognise the fixed costs of delivering an audit compliant with the Code of Audit Practice and auditing standards. There is a small number of local government principal bodies with scale audit fees below £20,000, including national parks and waste authorities, and smaller bodies accounting as larger bodies.

30 We received no consultation responses from audited bodies on the proposal, which was supported by the audit firm that responded to the consultation.

Scale fees for councils with highways responsibilities

31 A change in accounting policy will be introduced in 2016/17 by the Chartered Institute for Public Finance and Accountancy (CIPFA) in relation to transport infrastructure assets, requiring authorities with highways responsibilities to include relevant disclosures in their 2015/16 financial statements.

32 Our work programme and fees consultation explained that any additional audit work required in relation to this change will be subject to approval under the normal fee variations process.

33 We received three consultation responses asking the Commission to reconsider the approach to the fees that may be required for this work, either by including an estimate for the expected work in scale fees, or by covering the work at no additional cost to audited bodies.

34 We have confirmed in the published 2015/16 work programme document for local government bodies that the fee variations approach is unavoidable because:

- the amount of work required at individual authorities will vary, depending on how well-prepared they are for the new requirements, so it would not be appropriate to apply a universal increase at relevant authorities;
- the additional work may only be required for 2015/16, so should not be built into scale fees; and
- scale fees have already been subject to significant reductions and are set based on auditors' assessment of risk and the amount of audit work required.

Variations to scale fees

35 We received two consultation responses asking for more information about future arrangement for fee variations.

36 The individual scale audit fee for an audited body represents the fee required for the auditor to carry out the work necessary to meet their statutory and professional responsibilities. The principle is that the scale fee is based on the auditor's assessment of audit risk, and the work required under the Code of Audit Practice and auditing standards.

37 Where changes in risk occur, either upward or downward, the appointed auditor can ask the Commission to consider a request for a variation to the scale fee. As the 2015/16 scale fees for individual bodies have been set based on the fees applicable for the previous year, we expect variations to occur only where audit risks are significantly different from those identified and reflected in the 2014/15 fee.

38 Where an auditor considers more or less work is required than is represented in the scale fee, they are required to seek approval for a variation to the scale fee and to agree the amount of this variation with the audited body. This process is described in the 2015/16 work programme document.

39 These arrangements will continue to apply under PSAA's management of the audit contracts. PSAA will consider the reasonableness of the explanations provided by auditors before agreeing to any variation to the scale fee. Only approved fee variations can be invoiced or refunded to audited bodies.

Certification arrangements

40 With the closure of the Commission and repeal of the certification duty set out in the Audit Commission Act 1998, grant-paying bodies are developing new assurance arrangements for certifying claims and returns. From 2014/15 onwards, the only scheme certified under the Commission's audit contracts is the housing benefit subsidy claim from local authorities to the Department for Work and Pensions.

41 We received three consultation responses from audited bodies raising concerns about the new certification arrangements, and the rising costs of certification for schemes no longer covered by arrangements made by the Audit Commission.

42 With the exception of the housing benefit subsidy scheme, certification arrangements are no longer a matter for the Commission or for PSAA. While the Commission has been working with DCLG, HM Treasury and grant paying bodies to consider how the new assurance arrangements could work, the detail of, and guidance for, these new arrangements is a matter for DCLG and the relevant departments.

Auditor appointment

43 We received three responses to the consultation commenting on whether the Commission's audit contracts may be extended, and requesting clarification of when this decision will be made.

44 The timing of the introduction of local auditor appointment, and whether the audit contracts will be extended in relation to this, is a matter for DCLG and the Department of Health. The Commission has no information that would enable audited bodies to develop their local arrangements.

Next steps

45 Under section 7 of the Audit Commission Act, the Commission has a statutory duty to prescribe scales of fees. Following consultation, we have now set the scales of fees for 2015/16.

46 PSAA will be responsible for consulting on and setting the work programme and scales of fees for 2016/17. We would expect this to follow a similar pattern to the Commission's arrangements, with consultation in autumn 2015 for publication of the confirmed fees early in 2016.

47 If you have any comments on this document, please send them to workandfeesconsultation@audit-commission.gsi.gov.uk.

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