

# Proposed work programme and scales of fees 2016/17

Local government and police bodies

October 2015

**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 statutory functions (from the Audit Commission Act 1998) to PSAA by way of a letter of delegation issued under powers contained in the Local Audit and Accountability Act 2014.**

**The company is responsible for appointing auditors to local government, police and local NHS bodies, for setting audit fees and for making arrangements for the certification of housing benefit subsidy claims.**

**Before 1 April 2015, these responsibilities were discharged by the Audit Commission.**

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## Introduction

- 1 This consultation document sets out the work that auditors will undertake at local government and police audited bodies during 2016/17, with the associated proposed scale audit fees and indicative certification fees. A separate consultation document covers the [work programme and scales of fees at local 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 [small bodies' fees page](#) of our website.
- 3 We hope the information set out in this document is helpful to stakeholders in considering our proposals for the 2016/17 work programme and scale fees, as well as supporting audited bodies' financial planning.

## Background

- 4 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.
- 5 PSAA will oversee the Commission's audit contracts for local government and police bodies until they end in 2018, following the announcement by the Department for Communities and Local Government (DCLG) that it will extend transitional arrangements for one year. PSAA's responsibilities include setting fees, appointing auditors and monitoring the quality of auditors' work. Further information on [PSAA and its responsibilities](#) is available on our website.

## 2016/17 fees

- 6 Scale fees for 2015/16 were set by the Audit Commission before it closed. The Commission reduced 2015/16 scale fees by 25 per cent based on the fees applicable for the previous year, in addition to the 40 per cent reduction in fees from 2012/13. The expectation is that these substantial fee reductions will continue to apply for the length of the audit contracts, providing there are no significant changes to auditors' work, and subject to annual review.
- 7 There are no planned changes to the overall work programme for local government and police audited bodies for 2016/17. We propose that 2016/17 scale audit fees and indicative certification fees are set at the same level as the scale fees applicable for 2015/16.
- 8 PSAA may approve variations to published scale fees and indicative certification fees for individual audited bodies, to reflect changes in circumstances or audit risks.
- 9 For some authorities a change in accounting requirements in 2016/17 relating to highways infrastructure assets will require additional audit work. The fee variation process will apply in 2016/17 for this additional work, because the amount of work will vary at each applicable authority in the first year of implementation of the new requirements.

## Fees beyond 2016/17

**10** The current contracts with audit firms will run until 2018, covering completion of the audit of the accounts for 2017/18, as DCLG has confirmed that the transitional arrangements will be extended by one year. PSAA will therefore set fees for 2017/18 audits. We would expect to consult on the 2017/18 work programme and scales of fees in late 2016, and publish the confirmed scale fees in March 2017.

## Redistribution of surplus

**11** Following completion of the Audit Commission's 2014/15 accounts, PSAA received a payment in respect of the Audit Commission's retained earnings. PSAA will redistribute this and any other surpluses from audit fees to audited bodies, on a timetable to be established now the position on transitional arrangements has been clarified by DCLG. The amount of the redistribution, based on current information, is likely to be in the order of 15 per cent of scale audit fees for local government and police bodies.

### Responding to this consultation

We welcome comments from stakeholders on the proposals contained in this document.

Please send comments by email to:

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

or by post to Jon Hayes, Chief Officer, at:

Public Sector Audit Appointments Limited  
3rd Floor  
Local Government House  
Smith Square  
London SW1P 3HZ

The consultation will close on **Friday 15 January 2016**.

## Proposed work programme for 2016/17

### Audit

**12** 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 from April 2015. Audits of the accounts for 2016/17 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](#).

**13** 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 infrastructure assets

**14** CIPFA/LASAAC is expected to confirm, subject to the outcome of consultation, that the 2016/17 *Code of Practice on Local Authority Accounting in the United Kingdom* will adopt the measurement requirements of the *CIPFA Code of Practice on Transport Infrastructure Assets*, for highways infrastructure assets.

**15** There is no reliable and equitable way of establishing at this stage the volume of additional audit work, and therefore the fees required, at each applicable local authority because:

- a) the amount of work needed will depend on the value of each authority's highways infrastructure assets, and the consequent impact of the change in reporting requirements on their financial statements;
- b) authorities are at different stages in preparing for implementation, making it difficult to estimate at this stage the amount of work auditors will need to undertake in each case;
- c) as with other financial reporting changes, it is likely that the first year of implementation will require more audit work than in subsequent years, so it would not be appropriate to increase scale fees on the basis of the work needed in the first year; and
- d) there is a possibility that some form of central assurance arrangements may be implemented using an approach that CIPFA is developing, which could help to contain the amount of additional audit work required.

**16** Fees for the additional work identified by auditors at individual audited bodies in 2016/17 will be subject to approval under the normal fee variations process. We expect the additional fees for a highway authority will be in the range £5,000 to £10,000, where authorities are able to provide the information required, and the auditor is able to rely on central assurance of the models in use. Fees for non-highway authorities with material highways infrastructure assets should be below £5,000 where the same conditions apply.

## **Auditors' local value for money work**

**17** 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).

**18** Auditors will apply a risk-based approach to their local value for money 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 for principal bodies.

**19** A value for money arrangements conclusion is not required for audited bodies with annual income or expenditure of less than £6.5 million and which are subject to a limited assurance review. This is in line with the threshold set in the Local Audit and Accountability Act 2014 defining smaller relevant bodies, and the requirements of the Accounts and Audit (England) Regulations 2015.

**20** 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 value for money arrangements conclusion.

## **Certification work**

**21** At the request of the Department for Work and Pensions (DWP), auditors appointed under the audit contracts will certify local authority claims for housing benefit subsidy for 2016/17. Auditors will undertake this work as agents of PSAA, using guidance based on the arrangements previously developed by the Audit Commission.

## **National report**

**22** PSAA will publish a report summarising the results of auditors' work on audited bodies' financial statements and arrangements to secure value for money.

## Proposed scales of fees for 2016/17

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

**23** The scales of fees for 2016/17 reflect the cost of the work programme outlined above. The proposed 2016/17 scale fee for each [local government](#) and [police](#) audited body is available on our website.

**24** The proposed scale audit fees for 2016/17 audits are the scale fees applicable for 2015/16.

**25** 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.

**26** As the 2016/17 scale fees are based on the scale fees for 2015/16, 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 2016/17 where these factors are significantly different from those identified and reflected in the 2015/16 scale fee.

**27** 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, and seek confirmation that an audited body has been consulted about a proposed variation, 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.

**28** We will continue to keep the scale fees for particular groups of bodies under review, including police bodies and pension fund audits, to ensure they remain consistent with auditors' local assessments of audit risks.

**29** 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

**30** The proposed scale fees for 2016/17 pension fund audits are the scale fees applicable for 2015/16. The proposed [pension fund](#) audit scale fee for each relevant audited body for 2016/17 is available on our website.

### Certification work

**31** 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.

**32** An indicative certification fee is published each year for each relevant audited body, using the latest final certification fees available. Indicative fees for 2016/17 housing benefit



subsidy certification work will be based on final 2014/15 certification fees. We will receive this information from auditors in January 2016, after this consultation has closed, and will publish indicative 2016/17 certification fees on our website in March 2016.

**33** For the purposes of this consultation, audited bodies and stakeholders may wish to refer to the [indicative certification fees for 2014/15](#), published on our website.

**34** 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.

**35** 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**

**36** All the 2016/17 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

**37** 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.

**38** We welcome comments from audited bodies and stakeholders on the proposals contained in this document. The consultation will close on **Friday 15 January 2016**.

Please send comments by email to:

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

or by post to Jon Hayes, Chief Officer, at:

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3rd Floor  
Local Government House  
Smith Square  
London SW1P 3HZ

**39** Following consideration of responses to this consultation, the PSAA Board will approve the final 2016/17 work programme and scales of fees for publication in late March 2016.

**40** 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).