

# Work programme and fee scales 2006/07

Local government, housing, criminal justice and fire and  
rescue services

The Audit Commission is an independent body responsible for ensuring that public money is spent economically, efficiently and effectively, to achieve high-quality local services for the public. Our remit covers around 11,000 bodies in England, which between them spend more than £180 billion of public money each year. Our work covers local government, health, housing, community safety and fire and rescue services.

As an independent watchdog, we provide important information on the quality of public services. As a driving force for improvement in those services, we provide practical recommendations and spread best practice. As an independent auditor, we ensure that public services are good value for money and that public money is properly spent.

For further information about the Audit Commission, visit our website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

For additional copies of Audit Commission reports please contact:  
Audit Commission Publications, PO Box 99, Wetherby LS23 75A Tel: 0800 502030

Executive summary	2
Preface and background	5
Planned work programmes	11
Audit and inspection fee scales	16
Appendix 1	26

© Audit Commission 2006

First published in May 2006 by the Audit Commission for local authorities and the National Health Service in England, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

## Executive summary

This work programme describes the work that we plan to undertake in the local government, housing, criminal justice and fire and rescue sectors in England in 2006/07 and sets out our scales of audit and inspection fees.

Our annual *Review 2005: Driving Improvement and Value for Money* demonstrates the breadth and impact of the Commission's achievements. Through better targeting and efficiencies, Strategic Regulation has led to a 20 per cent reduction in our work with local government and a 50 per cent reduction in inspection. Fees have also been reduced significantly.

In continued support of our delivery of Strategic Regulation, a number of key developments will underpin the delivery of our work programmes from April 2006. These include the delivery of the new Comprehensive Performance Assessment (CPA) framework, *CPA – the Harder Test* for all single tier and county councils, and a new CPA framework for district councils which is currently being developed. The use of resources assessment will continue to develop and will also be undertaken in both police authorities and fire and rescue services. Following the CPA reporting on fire and rescue services in 2005, we will continue to contribute to improvement planning and develop an annual service assessment.

Our local and national work programmes will continue to be funded through audit and inspection fees charged to local bodies and grants received from central government. They will reflect the risks and capabilities of each local organisation and mandate the minimum level of scrutiny appropriate to its circumstances, consistent with statutory obligations. We aim to reduce the burdensome aspects of regulation and will target and track the impact of our activities to ensure that regulation is effective. We are continuing to work with other inspectorates and regulators to eliminate duplication and inefficiency and target our combined expertise most effectively.

We have identified a small amount of specified work to be undertaken at audited bodies. This includes audit work contributing to CPA, reviews of data quality in police authorities, and the extension of the use of resources judgement to police and fire and rescue authorities.

At the national level, we are proposing a programme of research and analysis. This has been the subject of a separate consultation and will be published in May 2006.

## 2006/07 fee scales

The Commission has considered the comments made during consultation on the proposed fee scales and has agreed the fee scales set out in this document. They take account of:

- the introduction of new International Standards in Auditing (UK and Ireland) (ISA [UK & I]) that came into effect in 2005/06 and which have increased auditors' mandatory work on audit of the financial statements resulting in an estimated 5 per cent increase in the overall volume of audit work;
- the requirement for auditors of all principal authorities to provide a conclusion on whether the body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Over and above this requirement, auditors in local government are now required by the Commission to give a qualitative assessment of these arrangements through a use of resources assessment;
- cost pressures that are estimated at 5 per cent but will result in only a 2.5 per cent increase in fees as the Commission is committed to making a 2.5 per cent efficiency gain as part of our response to the Gershon agenda; and
- recalibration of the fixed and variable elements of the fee scales to bring the midpoint into line with the reality of the fees currently being charged by auditors.

Audited bodies are reminded that fee scales only provide a framework within which auditors set the actual fees charged to individual audited bodies. The actual fees charged to individual audited bodies will vary according to the risks that each faces and the amount of audit work entailed, which will also be affected by the strength of the control environment and the extent of internal audit work and the reliance that can be placed upon it.

## Transparency of individual audit fees

Audited bodies have asked that we make the fee-setting process for individual organisations more transparent. As a consequence, auditors are now required to explain:

- the specific factors which the auditor has taken into account in proposing the fee (particularly the risk assessment);
- the assumptions upon which the fee is based in terms of, for example, the standard of the body's control environment, coverage of internal audit, quality of working papers and so on;
- what is included in the fee and what is not included;
- what specific actions the audited body could take to reduce the level of its audit fee in the future; and
- the processes for agreeing additional fees if circumstances change or the assumptions upon which the fee is based are not met.

From 2006/07 onwards, the Commission will also publish the agreed fees for individual bodies to enable individual bodies to compare their fee with that of similar bodies.

The overall effect of these changes on total fees is shown in the following table:

	Audit	Inspection
	£ m	£ m
Initial planned fee income for 2005/06	99.0	10.0
<b>Re-based for impact of ISA (UK &amp; I)</b>	<b>104.0</b>	
Add:		
Cost pressures	5.0	0.5
Deduct:		
Efficiency savings	(2.5)	(0.3)
<b>Projected fee income for 2006/07</b>	<b>106.5</b>	<b>10.2</b>

There is an increase in the re-based fee scales of 2.5 per cent for 2006/07.

# 1

## Preface and background

- 1 This document contains details of the work that the Audit Commission plans to undertake in the local government, housing, criminal justice and fire and rescue sectors in England during 2006/07 along with the audit fee scales and an inspection tariff that will apply to audit and inspection work.

### The Commission's responsibilities

- 2 The Commission has a range of responsibilities, principally:
  - *appointing auditors* to all local authorities, police authorities, probation boards and fire authorities in England;
  - *setting standards for appointed auditors*, by setting out how auditors should conduct the audit and report the results, and by monitoring the quality of auditors' work against those standards;
  - *making arrangements for the certification of claims and returns* in respect of grants or subsidies paid to audited bodies by central government departments;
  - *carrying out inspections* at best value authorities in England and (through its Housing Inspectorate) of registered social landlords and local authorities' arm's length management organisations (ALMOs) in England;
  - *carrying out CPAs* at specified local government bodies and fire authorities in England;
  - *setting audit and inspection fee scales*; and
  - *carrying out national studies* that are designed to improve the economy, efficiency and effectiveness of local government, police and probation services.
- 3 The work of the Commission and its appointed auditors' is carried out in accordance with the provisions of the Audit Commission Act 1998, the Local Government Act 1999, the Local Government Act 2003, the Fire and Rescue Services Act 2004, the Accounts and Audit Regulations 2003 and the *Code of Audit Practice* (the *Code*). Responsibility for the conduct of the audit remains, at all times, that of the appointed auditor.

## The role of the Commission's appointed auditors

- 4 The overall framework within which auditors operate is set by the Commission through the *Code*. Under the *Code*, auditors have two specific responsibilities in relation to the accounts and the audited body's arrangements for the use of resources, as detailed below:
  - **The audit of financial statements and statement on internal control.** Auditors give an opinion whether the statements present fairly or, for local probation boards, give a true and fair view of the financial position of the audited body and its expenditure and income, and whether they have been prepared properly in accordance with relevant legislation and applicable accounting standards and for local probation boards, on the regularity of their expenditure and income.
  - **The audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources.** Auditors have a responsibility to satisfy themselves that audited bodies have put in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources. The *Code* requires that auditors give a conclusion on whether such arrangements are satisfactory. In meeting this responsibility auditors will need to review and, where appropriate, examine evidence that is relevant to the audited body's corporate performance management and financial management arrangements and report on these arrangements. Auditors of best value authorities also have a responsibility to consider, and report on, the audited body's compliance with statutory requirements in respect of the preparation and publication of its best value performance plan (BVPP).
- 5 Each year the Commission's independently appointed auditors draw up tailored audit plans with each audited body, based on the auditor's assessment of the financial and operational risks facing that organisation and the arrangements it has put in place to manage those risks. This helps to ensure that audit resources are targeted at the most important issues locally. The work that auditors then do informs their opinions and the annual audit (and inspection) letters which they provide to the audited body. It also means that, where audited bodies are undertaking the same sort of activities on a similar scale, those with sound corporate governance arrangements – including a strong control environment – can expect to have lower audit fees, as the level of risk is likely to be lower.

- 6 In planning their work, auditors will make an overall assessment of the significant financial and operational risks applying at each body. The level of risk will be discussed with audited bodies and will determine the size, scope and focus of the necessary audit work. In making their assessment about the work to be done, auditors will decide whether:
- to **carry out substantive work** in relation to specific risks to form a view on the adequacy of particular aspects of the body's arrangements;
  - to **defer any further work** in the light of planned work by the body or other review agencies; or
  - simply to **bring the risk to the attention of management**.

They will also take into account the work and findings of other inspectors, as required by the *Code*.

- 7 The *Code* also allows auditors to provide the Commission with such information as it needs to meet its own statutory obligations. The *Code* requires auditors to give a positive conclusion as to whether they are satisfied that the audited body has put in place adequate arrangements to secure economy, efficiency and effectiveness in its use of resources. Over and above this requirement, the Commission has asked auditors of local authorities to make more qualitative assessments of the effectiveness of those arrangements in the form of a series of use of resources judgements. These judgements are also used by the Commission as the basis for its overall use of resources judgement for the annual CPA for single tier and county councils.
- 8 In 2006/07, use of resources judgements will also be introduced at fire and rescue and police authorities. Such work will be over and above that required to meet auditors' responsibilities under the *Code* and additional fees to cover the costs of this work would need to be charged accordingly. If grant funding arrangements are to apply for any aspects of this work, this will be notified directly to the relevant body by the appropriate government department.
- 9 The *Code* also provides that, where the value of a particular 'value for money' or other study depends upon comprehensive local coverage, for example where the Commission considers that the level of risk associated with a particular issue or area warrants attention by all auditors locally, the Commission may identify studies or reviews which must be carried out at all relevant bodies. Such 'specified studies' fall outside the risk-based approach to planning the audit. The Commission has indicated that it will exercise this power sparingly, and only where it considers it is in the public interest to do so.

- 10 The audit of the BVPP at best value authorities remains a responsibility of the auditor. As part of our commitment to Strategic Regulation, we have asked the government to repeal Section 7 of the Local Government Act 1999 which requires BVPPs to be audited. This is because we believe that the statutory compliance audit is no longer necessary now that the Commission is undertaking qualitative assessments of how well local authorities are delivering on their improvement planning priorities. Discussions are ongoing and therefore it will remain an auditor responsibility in 2006/07.
- 11 Our audit approach for 2006/07 will also take account of the requirements of the development of ISAs (UK & I). The new ISAs (UK & I) include a requirement for more mandatory procedures including discussing with an audited body the risk of misstatement in the financial statements arising from fraud, assessing IT controls, attendance at stocktaking where the value of stock is material, more work on the internal controls within key information systems and undertaking more procedures when relying on the work in internal audit. Under the *Code*, compliance with professional auditing standards is a statutory, as well as a professional, requirement of appointed auditors.
- 12 We will continue to adopt the more risk-based approach to certifying grant claims introduced in 2004/05 by continuing to apply the *de minimis* threshold of £50,000, below which we will not certify individual claims and returns, and an intermediate threshold of £100,000 below which auditors are required to undertake only a light-touch review. Above this threshold, audit work will be risk-based, will take account of the authority's overall control environment, and would focus on the total amount claimed, not its sub-elements.

## The role of the Commission's inspectors

- 13 The Audit Commission has statutory duties to undertake inspections of best value authorities and registered social landlords (RSLs). The Commission's Housing Inspectorate is responsible for inspecting the performance of local authorities that hold housing stock and of RSLs. It also has the lead role in inspecting ALMOs as well as inspecting services provided under the Supporting People regime with the Probation Inspectorate and the Commission for Social Care Inspection, and a role in the assessment of market renewal pathfinder projects.

- 14 In 2005, the Audit Commission undertook CPA inspections of all fire and rescue authorities in England. During 2006/07 we will develop our work in relation to fire and rescue by developing an annual service assessment, a use of resources judgement, and a direction of travel assessment, in addition to supporting the improvement planning activity following the initial CPA assessments.
- 15 The Commission has recently finalised *CPA – the Harder Test*, the new CPA framework for all single tier and county councils. A new approach to inspecting services has also been introduced. A new framework for CPA for district councils is being consulted on and, following further piloting and consultation, will be finalised in July 2006.
- 16 The new approach to inspecting services will ensure that the frequency, depth and scope of the inspections we undertake will be based on an assessment of risk and will be proportionate to current performance levels. In addition to the inspection of services in the areas of housing, environment and culture, a limited number of service inspections will be introduced from 2006/07 in the following service areas; access to services, regeneration, and community safety.
- 17 Significant improvements in performance have resulted from our CPA process and it has also reduced the regulatory burden on authorities. As part of our commitment to Strategic Regulation, we will continue to target the resources where they will have most impact.
- 18 Whilst we have overall responsibility for the CPA process, we are committed to working with other inspectorates in developing our approach and our work programmes for 2006/07. During 2005/06 we have piloted the joint corporate assessment (CA) and joint area review (JAR) and have commenced the delivery of an aligned three-year programme.

## The role of the Commission's relationship managers

- 19 In order to ensure that local authorities receive a tailored, seamless service, integrated with the work of other inspectorates, the Commission identifies a relationship manager for each local authority. The relationship manager is the Commission's primary point of contact with the authority and is also the interface at the local level between the Commission and other inspectorates, government offices and other key stakeholders. The appointment of a relationship manager is separate from the appointment of the

auditor. Appointed auditors still have personal (in the case of Commission staff) or corporate (in the case of the audit firms) responsibility for discharging their statutory functions under the *Code*.

- 20 From 2006, relationship managers have also been identified for all fire and rescue authorities.

## Overview of the Commission's national research

- 21 The Commission undertakes a broad range of national research in relation to the local government, housing, criminal justice and fire and rescue sectors, which is funded through audit fees charged to local bodies. A few specific studies are separately funded.
- 22 The Commission publishes a number of different products at the national level. These include:
- national studies;
  - national reports summarising audit and inspection findings; and
  - other improvement tools.
- 23 We consulted separately on our studies programme for 2006/07. The final programme will be found on our website, [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk), from May 2006.

# 2

## Planned work programmes

- 24 A summary of content of local audit and inspection work planned for 2006/07 for each type of audited and inspected body (AIB) is contained in Appendix 1.
- 25 Audit and inspection work at each body will be tailored to reflect differing local priorities and, in particular, the local assessment of risks. The 'core' of the work undertaken – work specified by the Commission together with the work auditors must undertake in order to satisfy their statutory duties – will, however, be common. The main elements of the work programme are referred to in more detail below.

### Planning local audit and inspection work

- 26 The audit and inspection work undertaken locally will be tailored to the risks facing the organisation covering finance, governance and performance, based upon a range of local and national factors.
- 27 To help auditors and inspectors to plan their work, the Commission will produce technical guidance for auditors on changes in the legal and regulatory and financial reporting frameworks within which audited bodies operate. This guidance will highlight how such changes impact on the auditor's opinion on the financial statements and conclusion on the adequacy of the audited body's arrangements to secure economy, efficiency and effectiveness in the use of resources.
- 28 Separate guidance will also be produced for relationship managers on performance-related issues relating to key areas (such as community safety, children and young people) which will ensure that the audit and inspection planning takes account of significant risks and issues affecting the sector.
- 29 In planning their local work, auditors and inspectors will also consider relevant local business risks that apply specifically to each AIB and the arrangements put in place by the body to manage and address them, having regard to:
  - evidence gained from other aspects of the audit or from previous audit or inspection work;
  - the results of best value inspections; and

- the action required by authorities identified in the improvement planning work that follows on from CPA (where relevant).
- 30 This analysis will inform the assessment of the significant financial and operational risks applying at the audited body, on the basis of which auditors and inspectors will plan their work and decide whether to:
- highlight the risk to the audited body;
  - defer any work in the light of current or planned work by the body or other review agencies; or
  - carry out work in relation to specific risks to form a view on the adequacy of aspects of the body's stewardship and governance, and corporate performance management and financial management arrangements.

## Specified audit work for 2006/07

- 31 We plan to exercise our right to specify audit work in the following areas:
- **Auditor input to CPA** – In 2005/06 auditors of all local authorities delivered a new use of resources judgement. The Commission will specify audit work leading to the delivery of the use of resources judgement in 2006/07. This work will also support the annual conclusion, under the *Code*, on arrangements to secure value for money.
  - **Data quality** – During 2006/07 local authority auditors will be required to undertake audit work in relation to specified performance indicators to support the service assessment element of CPA.
  - **Use of resources: fire and police** – Following agreement with the Office of the Deputy Prime Minister (ODPM) and the Home Office, auditors will be required to deliver a new use of resources judgement in all police and fire and rescue authorities in 2006/07.
  - **Police data quality** – Further reviews of crime data are currently being planned. This will involve building on the work from previous years on crime data and activity-based costing, focusing on elements of the data reported by police authorities in the police performance assessment framework (PPAF).
  - **Police restructuring** – Auditors will carry out work under the *Code* where they identify risks arising from restructuring. The Commission may require auditors of police authorities to carry out specific work in relation to the proposed restructuring of the police service.

- **Whole of Government Accounts (WGA)** – We have now agreed with HM Treasury and the National Audit Office an approach to the audit of the consolidation packs for 2005/06, which is proportionate to risk and designed to minimise the burden and cost for audited bodies. We expect that this work will also be carried out in 2006/07 and beyond, but plans for this cannot be finalised until the 2005/06 process has been evaluated.

## Local authority CPA and inspection programme

- 32 The CPA work programme for single tier and county councils for 2006/07 is outlined in the *CPA – A Harder Test* framework. It will consist of the following key features:
- Corporate assessments – carried out in accordance with the agreed CA/JAR programme, involving one assessment in each single tier and county council between 2005 and 2008.
  - Annual service assessments – aimed at assessing the direct service delivery of councils in meeting users’ needs, to be carried out at single tier and county councils.
  - Use of resources assessment – annual assessment of how effectively a council is managing its resources to allow it to contribute to the delivery of outcomes for the community (based on the work of auditors).
  - Direction of travel assessment – annual assessment indicating the progress being made in achieving improvement.
- 33 The CPA framework for district councils from 2006 is currently being developed. Following the initial consultation in autumn 2005, further piloting and consultation will take place before the framework is finalised in July 2006.
- 34 In addition to the CPA programmes, service inspections will continue to be undertaken where services are poor and an inspection is considered the most appropriate tool to drive improvement.
- 35 The inspection programme for individual bodies will be confirmed as part of the annual audit and inspection planning process.
- 36 The actual timing, depth and scope of local inspection work will be planned in the light of the CPA timetable, the assessment of risk and current performance levels, and the work of other inspectorates, auditors and regulators. However, the following number of days for each main area of inspection activity are indicative:

- Relationship manager time and direction of travel assessment – up to 20 days in all authorities.
- Service inspections – up to 40 days.
- Corporate assessment (single tier and county councils) – 155 days.

## Housing inspection and assessment work

**37** In addition to the inspection programme, a number of other programmes will be delivered during 2006/07. These include:

- the assessment of ALMOs and their performance in delivering housing services prior to the potential award of additional resources by the ODPM. Approximately 12 new ALMOs are to be inspected in 2006/07. A programme of re-inspections is also planned of those ALMOs which successfully passed their initial inspections under earlier rounds of the ALMO programme;
- the inspection, with the Commission for Social Care and Inspection and the Probation Inspectorate, of the Supporting People (SP) arrangements which formally commenced in April 2003. This is a five-year programme running across all local authorities, including county councils and the district councils in their areas, whose work must be linked. There will be approximately 40 SP inspections in 2006/07; and
- providing support and monitoring the developing work of the nine market renewal pathfinders. This is a three-year programme targeting broad geographical areas of deprivation rather than being based solely on local authority boundaries and the Commission's work will include scrutinising programme prospectuses and monitoring programme delivery.

## Fire and rescue authorities

**38** In July and August 2005, the individual Fire CPA reports for all fire and rescue service authorities were published, following the first round of CPA assessments. The London Fire and Emergency Planning Authority was not subject to Fire CPA. It undertook an initial performance assessment (IPA) as part of the Greater London Authority. The IPA was consistent with Fire CPA and the results published in November 2004.

- 39 During 2006/07, we will continue to support improvement planning activity following this initial assessment, and in consultation with the sector, we will develop a fire and rescue service assessment for all 47 fire and rescue service authorities. From 2006, this assessment will be included within the overall local government CPA framework of the 16 county councils that have fire and rescue responsibilities. We will also plan to extend the use of resources judgement and direction of travel assessment to all fire and rescue services.
- 40 The fees for the planned use of resources judgements will be refunded to fire and rescue authorities by the ODPM and the planned fire and rescue service assessments and direction of travel assessments will be funded by grant direct to the Commission.

# 3

## Audit and inspection fee scales

41 The fee scales set out in paragraph 43 cover the audit of the accounts of local government, criminal justice and fire and rescue bodies for the financial year ending 31 March 2007. They are based on the work programme described above and will apply from 1 April 2006. In response to comments made in previous consultations, they have been recalibrated so that they are more in line with the current levels of fees for different types of audited bodies currently being charged by auditors. They are based on four key variables:

- the type of body, which reflects the range of services undertaken – an element of the fee is fixed and payable irrespective of the size of the body;
- the size of the body in terms of its budgeted gross expenditure for the financial year ending 31 March 2007 – the variable element of the fee is calculated as a percentage of gross expenditure;
- the location of the body – a premium is added for bodies that are located in London and south-east England; and
- the national and local risk and complexity profiles for each individual body determined by the auditor. The fee bands range from 30 per cent below to 30 per cent above the standard fee that is determined by applying the three criteria above. The actual fees set may fall outside these bands where there are particular local circumstances.

The fee scales also take account of:

- new ISAs (UK & I) which came into effect from 2005/06 audits. Although the change was highlighted in the 2005/06 planning documents, we have only now been able, in conjunction with our own audit staff and the firms, to properly assess the additional amount of work auditors are required to do to comply with the new standards. We have concluded that ISAs (UK & I) have increased auditors' mandatory workload by approximately 5 per cent and the fee scales have been adjusted to reflect the requirement for this additional work;
- the requirement for auditors of all principal authorities to provide a conclusion on whether the body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Over and above this requirement, auditors in local government are now required by the Commission to give a qualitative assessment of these arrangements through a use of resources assessment; and

- a 2.5 per cent increase to meet cost pressures. These are increasing at 5 per cent a year for the Commission but will be offset by a 2.5 per cent efficiency gain as part of our response to the Gershon agenda.

42 The 2006/07 audit fee scales are as follows:

	<b>+/-30% depending on risk</b>	
	<b>Fixed element</b>	<b>Plus a percentage of 2006/07 gross expenditure</b>
London borough councils	157,000	+0.029 % of gross expenditure
Metropolitan borough councils	178,000	+0.020 % of gross expenditure
Unitary councils Standard	115,000	+0.032 % of gross expenditure
County councils Standard	143,000	+0.010 % of gross expenditure
District councils Standard	67,500	+0.051 % of gross expenditure
Local (town and parish) councils that are best value authorities Standard	7,500	+0.068 % of gross expenditure
Local (town and parish) councils and other bodies otherwise covered by the limited assurance audit regime but with income or expenditure in excess of £1 million and that are not best value authorities Standard	4,500	+0.068 % of gross expenditure
National park authorities Standard	11,000	+0.027 % of gross expenditure
Passenger transport authorities/ executives Standard	22,500	+0.021 % of gross expenditure

	+/-30% depending on risk	
	Fixed element	Plus a percentage of 2006/07 gross expenditure
Waste disposal authorities Standard	13,500	+0.038 % of gross expenditure
Police authorities Standard	54,000	+0.010 % of gross expenditure
Probation boards Standard	21,500	+0.040 % of gross expenditure
Fire and rescue authorities Standard	44,000	+0.018 % of gross expenditure

- 43 In applying the fee scale formulae, gross expenditure is based on the body's total gross budgeted expenditure (including any pooled budgets for which the body may be responsible) for the financial year ending 31 March 2007.
- 44 A premium of 3 per cent will be added to the above standard fee scales for audited bodies located in south-east England. A premium of 6 per cent will be added for bodies located in London (except London borough councils).
- 45 The south-east England premium applies to all audited bodies situated in the counties of Berkshire, Cambridgeshire, Kent, Surrey, East and West Sussex, Hampshire, Isle of Wight, Oxfordshire, Buckinghamshire, Bedfordshire, Hertfordshire and Essex.

## Fee setting

- 46 It is important to emphasise that the fee scales only provide a framework within which auditors set the actual fees charged to individual audited bodies. Recalibration of the fee scales has increased significantly the midpoint of the fee scales for some audited bodies. So the increase in the midpoint of the fee scales does not of itself mean that audit fees for individual audited bodies will increase. Rather, it simply means that individual bodies will be in a more appropriate position relative to the midpoint, in other words medium and lower risk bodies' fees will be at or below the midpoint, rather than above it as at present and therefore better able to judge their respective positions.
- 47 The level of fee, and any increase, experienced by individual bodies will therefore vary according to local circumstances and the risks each body faces. To ensure greater transparency in the fee-setting process we require auditors to explain much more clearly the basis for the proposed fees. Specifically, they will be required to explain:

- the specific factors which the auditor has taken into account in proposing the fee (particularly the risk assessment);
- the assumptions upon which the fee is based in terms of, for example, the standard of the body's control environment, coverage of internal audit, quality of working papers and so on;
- what is included in the fee and what is not included;
- what specific actions the audited body could take to reduce the level of its audit fee in the future; and
- the processes for agreeing additional fees if circumstances change or the assumptions upon which the fee is based are not met.

48 In certain circumstances, for example where a body faces a particular challenge to manage high risks, a fee may fall outside the appropriate fee scale. In these cases, the audit fee will still be determined in discussion between the auditor and the body to reflect the size and complexity of the work programme, and the auditor's assessment of risk. The Commission's Audit Policy and Appointments Directorate identifies and reviews any fees that fall outside the relevant range to ensure that they are adequately explained by local circumstances.

49 If it should not prove possible to agree a fee, either the auditor or the body can ask the Commission to determine the fee in accordance with section 7(4) of the Audit Commission Act 1998.

## Other bodies

50 The fees to be charged to audited bodies in England for the period 2006–2011, which are designated by the Commission as smaller bodies under paragraph 4 of, and schedule 1 to, the *Code* are set out in a separate document.

51 The fees to be charged to other bodies will be determined in discussions between the auditor/relationship manager and the body concerned, following the principles set out in this local government work programme. The actual fees set in each case will depend on local circumstances (in particular the size and role of the body concerned and the risks identified) and will be reviewed for reasonableness by the Commission's Audit Policy and Appointments Directorate. These other bodies include:

- the Greater London Authority and its functional bodies;
- the Corporation of London;
- the London Probation Board;
- the London Fire and Emergency Planning Authority;
- the Metropolitan Police Authority;
- Rutland County Council
- the Council of the Isles of Scilly; and
- pensions authorities.

## National Fraud Initiative

- 52 Following a highly successful series of pilots which introduced creditors' payments and standing data on creditors to the NFI portfolio, it has been decided to include these datasets in the core mandatory NFI modules for local authorities, police and fire authorities. These extra datasets, which have already generated significant savings for pilot authorities, will incur extra handling and processing costs and these have been reflected in the new fee levels.
- 53 Billing arrangements for the new NFI fee levels have also been changed from the old biennial invoices and audited bodies will receive an annual invoice for half of the appropriate fee level. The second invoice will also include the fees for any optional matches requested, the fees for which remain unchanged at £250 per dataset submitted.

London borough council	1,250
London (other bodies)	340
Metropolitan borough council	1,175
Unitary councils	1,000
County councils	1,175
County councils with fire responsibilities	1,515
District council (large)	600
District council (medium)	550
District council (small)	500

Passenger transport authorities/executives	250
Police authorities	340
Probation boards	265
Fire and rescue authorities	340

## Skill-related fee scales

- 54 In certain circumstances, auditors may need to use staff with specialist skills in order to review specific local issues. The Commission encourages the appropriate use of senior and specialist staff on the more complex parts of audits and recognises that additional costs will be incurred.
- 55 To facilitate the use of appropriately skilled staff, the Commission has set the following skill-related fee scales for 2006/07 as the basis for local discussion. The actual fee rates charged will be determined in discussion between the auditor and the body to reflect the size, complexity or any particular difficulties in respect of the work required.
- 56 The skill-related fee scales for 2006/07 are as follows:

Maximum £ per hour	Standard	South-east England	London
Partner/District Auditor	£290	£315	£345
Senior Manager/Manager	£160	£175	£190
Senior Auditor	£100	£110	£120
Other staff	£75	£85	£90

- 57 The Commission recognises that these fee scales represent a significant discount on the standard commercial rates charged by the larger firms of auditors. Higher rates may be appropriate for certain pieces of work in order to obtain individuals with specialist knowledge. In such circumstances the Commission must be consulted in advance.

## Challenge work

- 58 The costs of dealing with questions and objections from local electors and others is a charge on the audited body. The fee scales provide for dealing with electors' and others' questions in relation to the accounts. However, it is not possible to predict, and therefore plan for, the cost of dealing with specific objections.
- 59 Such work will be charged at skill-related fees, reflecting the level of staff involved in dealing with the objection, which will in turn reflect the complexity of the issues involved. All other costs incurred in relation to the objection, for example the cost of legal or other professional advice to the auditor, are rechargeable to the audited body as part of the overall costs of dealing with the objection.

## Certification of grant claims and returns

- 60 In carrying out work in relation to government grant claims and other returns, the Commission's appointed auditors act as agents of the Commission. The Commission is required to recover, in respect of each grant or return, an amount that covers the full cost of the relevant work undertaken.
- 61 Charges for this work will be based on the skill-related fee scales set out above. The actual fees to be charged will be determined in discussion between the auditor and the audited body to reflect the size, complexity or any particular difficulties in respect of the grant in question.

## Fees for specified work

- 62 In 2006/07, use of resources judgements will also be introduced at fire and rescue and police authorities. The Commission may also require auditors of police authorities to carry out specific work in relation to the proposed restructuring of the police service. Such work will be over and above that required to meet auditors' responsibilities under the *Code* and additional fees to cover the costs of this work would need to be charged accordingly. If grant funding arrangements are to apply for any aspects of this work, this will be notified directly to the relevant body by the appropriate government department.

## Inspection fee scales

- 63 The actual cost of an inspection will be based on the actual number of days included in the annual audit and inspection plan for each programmed activity. The inspection fee scales include an increase of 2.5 per cent, which reflects an increase for employment costs of 5 per cent less an efficiency gain of 2.5 per cent.

Fee per hour	Standard	South-east England	London
Relationship Manager	£205	£225	£245
Performance Manager/ Lead Housing Inspector	£175-£185	£190-£205	£210-£220
Performance Specialist/ Housing Inspector	£60 – £110	£65 -£120	£70 – £130

- 64 The cost of an inspection will include both the fee element payable by the council, and an element which is funded by ODPM grant subsidy. The proportion funded by the ODPM grant is 25 per cent for single tier authorities, 50 per cent for county councils and 80 per cent for district councils.

## Impact of the current consultation on District CPA framework on the inspection tariff

- 65 The framework for CPA of district councils from 2006 onwards is currently being developed following the consultation in autumn 2005. It is likely that the final framework will involve some form of proportionate corporate assessment, however, until this further development work and pilot activity is concluded, it is not possible to estimate the number of days that this will require. The proposed number of days will be published as part of the final framework in July 2006.

## Additional work at under-performing authorities

- 66 In addition to the above, work undertaken in relation to under-performing authorities such as progress assessments or corporate governance inspections will be charged according to the number of days, an appropriate hourly rate and allocation of grant subsidy as appropriate.

## Inspection of ALMOs

- 67 The fees for these inspections will be based on the inspection fee scales above and the cost will depend on the size of the housing stock being inspected and the skill mix of staff involved in the inspection.

## Value added tax

- 68 All the 2006/07 fee scales exclude VAT which will be charged at the standard rate (currently 17.5 per cent) on all work done.



# Appendix 1: Summary of content of audit and inspection plans 2006/07

	Single tier authorities and county councils	District councils	National park authorities	Passenger transport authorities/executives	Waste disposal authorities
<b>CORE AUDIT AND INSPECTION WORK:</b>					
Audit and inspection: Planning, liaison and reporting	✓	✓	✓	✓	✓
Audit and inspection: Liaison with other inspectorates	✓	✓			
Audit: Accounts and systems	✓	✓	✓	✓	✓
Audit: Use of resources (code VFM conclusion)	✓	✓	✓	✓	✓
Audit: Use of resources assessment (scored judgement)	✓	✓			
Audit: Best value performance plan	✓	✓	✓	✓	✓
Audit: Best value performance indicators	✓	✓	✓	✓	✓
Audit: Data quality					
Inspection: CPA improvement reporting (direction of travel)	✓	✓			

Best value local councils	Other larger local councils	Police authorities	Probation boards	Fire and rescue authorities	ALMOs
✓	✓	✓	✓	✓	✓
		✓	✓	✓	
✓	✓	✓	✓	✓	
✓	✓	✓	✓	✓	
		✓		✓	
✓		✓		✓	
		✓		✓	
		✓			
				✓	

	Single tier authorities and county councils	District councils	National park authorities	Passenger transport authorities/executives	Waste disposal authorities
<b>VARIABLE WORK:</b>					
Audit: Risk-based performance audit work	✓	✓	✓	✓	✓
Inspection: Corporate assessments at relevant councils – dependent on programme	✓	✓			
Inspection: Service -based inspections – dependent on programme	✓	✓			
Other: Certification of grant claims and returns	✓	✓	✓	✓	

Best value local councils	Other larger local councils	Police authorities	Probation boards	Fire and rescue authorities	ALMOs
✓	✓	✓	✓		
					✓
		✓			

This report is available on our website at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk). Our website contains a searchable version of this report, as well as a text-only version that can easily be copied into other software for wider accessibility.

If you require a copy of this report in large print, in braille, on tape, or in a language other than English, please call **0845 0522613**.

To order additional copies of this report or other Audit Commission publications please contact **Audit Commission Publications, PO Box 99, Wetherby, LS23 7SA Tel 0800 502030**.

Audit Commission  
1st Floor, Millbank Tower,  
Millbank, London SW1P 4HQ  
Tel: 020 7828 1212 Fax: 020 7976 6187  
Textphone (minicom): 020 7630 0421  
[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

Stock code: GAR3339