Health

March 2005

Work programme and fee scales 2005/06

Health

The Audit Commission is an independent body responsible for ensuring that public money is spent economically, efficiently and effectively, to achieve high-quality local and national services for the public. Our remit covers more than 15,000 bodies which between them spend nearly £125 billion of public money every year. Our work covers local government, housing, health, criminal justice and fire and rescue services.

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Summary 2

1 Preface and background 5

2 Code of audit practice 7

3 Auditors' local evaluation 9

4 The audit programme 12

5 Audit fee scales 15

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Summary

This work programme describes the work that we plan to undertake in the NHS in 2005/06. It includes our scales of audit fees.

The regulatory regime for the NHS changed considerably on 1 April 2004, when the Healthcare Commission and the Independent Regulator of Foundation Trusts came into existence. The Commission aims to support the Healthcare Commission to deliver its responsibility for co-ordinating reviews of healthcare in the NHS, and to continue to work closely with other bodies to promote improvement and the effective modernisation of health services.

Local audit programmes will continue to be funded through audit fees. The aim is that they should be tailored to the risks facing individual bodies and should result in clear judgements that enable the body to improve. We have looked at how the work of auditors could be improved in each area – risk assessment and audit planning, giving clear judgements and helping improvement. This document sets out how we will achieve this. Risk assessments will continue to be tailored to individual bodies but they will be explicitly informed by the wider risks facing the health economy identified by the strategic health authority (SHA) and their auditor. We have also identified some major risks facing the NHS as a whole. These are principally in the areas of financial management, the roll out of payment by results, the implementation of new contracts for staff and changes to information management and technology. As in 2004/05, we expect auditors to pay particular attention in 2005/06 to the risks facing primary care trusts (PCTs), as these bodies continue to face an increasingly challenging agenda.

Following the audit, auditors will also score NHS trust and PCT performance in five areas: accounts, internal control, financial management, financial standing and value for money. These scores will be made against clear criteria and more detailed guidance on the evidence needed to underpin those judgements. The results will be fed back to the audited body, giving a clearer and more consistent view and enabling the body to benchmark itself against its peers, to measure any improvement that may be necessary and to identify the steps involved. The criteria and judgement on value for money will enable auditors to discharge their responsibilities under the proposed new *Code of Audit Practice* to give an opinion on the adequacy of the body's arrangements for conducting its affairs economically, efficiently and effectively. The judgements that auditors make and

the relevant scores will contribute to the Healthcare Commission's annual assessment of performance, which will replace the star ratings currently used.

In the future we intend that auditors' risk assessments and the subsequent work that they do will be guided by the judgements, and scores, made previously and also by the Healthcare Commission's rating in their annual assessment of performance. The fees charged will also be linked to the previous year's judgements with, all other things being equal, those bodies receiving higher scores having lower fees.

The Commission and the Healthcare Commission intend that there should not be an overall increase in the burden of regulation. The fee scales are intended to cover the total cost of audit work specified by the Commission at the Healthcare Commission's request. (In 2004/05, this comprised work on data quality and the Acute Hospital Portfolio). This means that the cost of undertaking routine aspects of waiting list accuracy audits, previously charged as an extra fee item, is now incorporated in the overall fee. If the Healthcare Commission requests additional work at specified sites (for example, more detailed follow up on waiting list accuracy) a separate fee will be charged.

The Audit Commission is committed to supporting the introduction of payment by results, but is concerned about the absence of a robust strategy to ensure accurate costing and reliable data for payment. We are discussing our role in implementing such a strategy with the Department of Health. Any work undertaken in relation to this would be charged for separately.

The Commission is committed to achieving greater efficiency and better value for money in its own work. It has set a 2 per cent savings target across all its activities. The table below summarises the Commission's forecast income from NHS bodies for 2005/06:

	£ million	% change
Planned fee income for 2004/05 (including grant certification income)	**64.0**	
Deduct:		
Non-recurring income from part year audit of NHS trusts moving to foundation trust status in year	(2.0)	
Effect of structural changes to NHS bodies	(1.0)	
Loss of income from foundation trusts leaving the Commission's regime	(5.0)	
Total reductions	**(8.0)**	**(12.0)**
Inflation increase	2.0	
Forecast fee income for 2005/06	**58.0**	**(9.4)**

There is an increase in the fee scales of 3 per cent for 2005/06.

1

Preface and background

1 This document contains details of the work that the Audit Commission plans to undertake in the NHS in England during 2005/06 and of the fee scales that will apply to audit work in relation to the audit of accounts for 2005/06. It has been prepared in the light of responses to consultation on these proposals.

2 This plan and the fee scales set out apply only to the Commission's work in the NHS in England. Separate documents have been prepared covering the Commission's work in the local government, housing, criminal justice and fire and rescue sectors in England.

The Commission's responsibilities

3 The Commission's responsibilities in relation to the NHS are principally as follows:

- **appointing auditors** to all NHS bodies in England (with the exception of foundation trusts and special health authorities);
- **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;
- **setting audit fee scales**; and
- **undertaking national studies of financial management**.

Working in partnership

4 The Healthcare Commission is responsible for co-ordinating reviews of healthcare in the NHS. Its responsibilities cover public and private sector healthcare and include powers to encourage co-operation between regulators of the NHS. It has responsibility for undertaking annual assessments of the performance of NHS bodies and for undertaking national studies into value for money. The Healthcare Commission and the Commission have powers and duties to work in partnership with each other, which is reflected in a Memorandum of Understanding.

5 We expect auditors to work closely with the Healthcare Commission's local presence, once that has been established, to avoid duplication of effort and focus combined resources to achieve the greatest impact.

6 At the same time, the Commission will aim to continue close co-operation with other bodies to promote improvement in health and the effective modernisation of health services. The Commission is a signatory to a Concordat between bodies that inspect, regulate and audit healthcare, along with the National Audit Office (NAO), Commission for Social Care Inspection (CSCI), NHS Litigation Authority, Academy of Medical Royal Colleges, Health and Safety Executive, NHS Estates, Mental Health Act Commission and the Postgraduate Medical Education and Training Board. This concordat aims to improve co-operation both nationally and locally between the bodies concerned, establishing a clear framework for their activities and minimising the burden placed on NHS bodies.

2

Code of audit practice

7 The work of the Commission and its appointed auditors is carried out in accordance with the provisions of the *Audit Commission Act 1998* and the *Code of Audit Practice*. We recently consulted on the new Code, which, subject to parliamentary approval, will operate from 1 April 2005. It is a statutory requirement that the element of the Code that relates to the audit of NHS bodies' arrangements for securing economy, efficiency and effectiveness in the conduct of their affairs is agreed with the Healthcare Commission. Responsibility for the conduct of the audit remains, at all times, that of the appointed auditor.

8 Under the current *Code*, auditors have three specific responsibilities in relation to the financial aspects of corporate governance, the accounts and performance management. The new *Code* will replace these with two responsibilities in relation to the accounts and the audited body's arrangements for the use of resources, as detailed below:

- **the audited body's financial statements and statement on internal control.** Auditors give an opinion on whether the statements give a true and fair view of the financial position of the audited body and its expenditure and income, whether they have been prepared properly in accordance with relevant legislation and applicable accounting standards and, for specified bodies, on the regularity of expenditure and income. Auditors also review whether the directors' statement on internal control reflects compliance with the Department of Health's requirements and report if it does not meet the requirements specified by the Department, or if the statement is misleading or inconsistent with other information of which the auditor is aware from other audit work; and
- **the audited body's arrangements for securing economy, efficiency and effectiveness in the use of its 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 proposed Code will require that auditors give an opinion 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.

9 Our audit approach for 2005/06 will also take account of the requirements of the development of International Standards on Auditing (UK and Ireland), particularly in relation to new standards in respect of risk, fraud and quality.

10 The Commission may identify risks relating to the use of resources faced by all bodies of a particular type. In the light of these risks, the Commission has powers to design programmes of work that require comprehensive coverage by auditors. In 2005/06 we will use such powers only in relation to work that may be specifically requested by the Healthcare Commission, and the possible work in relation to payment by results set out in paragraph 28.

3

Auditors' local evaluation

11 There was a positive response to the principles and approach set out in our consultation document.

12 The Commission aims to work in a strategic partnership with the Healthcare Commission, both at national level and locally through its appointed auditors. In order to achieve this, the Commission has developed a framework for auditors to use that is designed to ensure increased consistency and clarity in auditors' judgements.

13 The first stage of the framework is the risk assessment. In planning their local work, auditors will, as now, be expected to consider the risks facing each audited body 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 work. However, the Commission expects that such assessments will be explicitly informed by consideration of the wider risks facing the local health economy and the audited body's place within them based on a prior discussion between the Commission's relationship manager for the area and the SHA. This health economy assessment will look forward three years and will relate to the audit plan for the SHA itself. The auditors of SHAs will continue to take a lead in ensuring that the audits of all local bodies are appropriately co-ordinated and that key points arising are brought to the attention of the SHA.

14 Auditors' analysis will produce an overall assessment of the significant financial and operational risks applying at each individual audited body in a systematic way, guided by a common format. The level of risk will be discussed with audited bodies and this will determine the size, scope and focus of the necessary audit work. In making their assessment about the work to be done, auditors will, as now, 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 regulators, as required by the proposed *Code of Audit Practice*.

15 The substantive audit work undertaken during the year will be incorporated into a framework that will allow separate judgements to be made on the following areas:

- accounts;
- financial standing;
- financial management;
- systems of internal control; and
- value for money (efficiency, economy, effectiveness).

16 These judgements make up the auditor's local evaluation. The audited body's performance on each of these elements will be scored on a scale of 1 to 4, with 4 being the best score.

17 Auditors will use the value for money questions, and the judgements made under them, in reaching their opinion under the proposed *Code of Audit Practice* on whether the body has satisfactory arrangements to conduct its affairs economically, efficiently and effectively. To help auditors in their assessment, the Commission intends to develop efficiency metrics for NHS trusts and PCTs, in combination with the Department of Health, the Healthcare Commission, Monitor and representatives from the NHS.

18 Details of the judgements made and the scores will be shared with the audited body and the relevant SHA. This will enable audited bodies to see where they stand more clearly, both absolutely and in relation to their peers; a baseline against which improvement can be measured and, where appropriate, the steps that need to be taken. The judgements made and the overall assessment will be a key component in the following year's risk assessment and audit plan. Audited body's scores will also directly affect subsequent fees, with higher scores resulting in lower fees, all other things being equal. In the future the Healthcare Commission's overall assessment of an NHS trust or PCT will also be an important factor in the auditor's risk assessment and in determining the audit work to be carried out.

Healthcare Commission performance assessments

19 The Healthcare Commission's proposed annual assessments of NHS bodies, which will replace the star ratings from 2006, include proposals for assessments of the use of resources at all NHS bodies. It is proposed that the Healthcare Commission will rely on auditors' scored judgements in PCTs and NHS trusts, as set out above, to make this assessment. We are working closely with the Healthcare Commission to ensure that these judgements are compatible with their requirements. Some auditor findings may also contribute to the Healthcare Commission's assessments of organisational capacity.

20 A critical part of the Healthcare Commission's proposed annual assessment process will be a declaration by trusts as to the extent of their compliance with the Department of Health core standards. The Audit Commission may ask auditors to consider specifically the assurance systems that would underpin a trust's declaration, probably through enhancing their existing work on internal controls, including risk management.

21 The Healthcare Commission's overall assessment of an NHS trust or PCT will in the future be an important factor in the auditor's risk assessment and in determining the audit work to be carried out.

22 The framework set out above does not substantially alter auditors' work, which has always resulted in them making judgements. The work that auditors do will not look markedly different to the NHS bodies from previous years, and the judgements will fall naturally out of that work. The consultation identified that there was broad support for the principle of scored judgements using an explicit set of questions, and we are continuing to hold discussions on some points of detail.

4

The audit programme

Current national risks

23 The NHS is facing a significant challenge to modernise and deliver against national change programmes that are driving improvement. It is increasingly being recognised that, for users to experience significant improvement, different public bodies need to work in partnership to deliver bespoke services that meet the diverse needs of individuals and communities and that improve health as well as healthcare.

24 This agenda requires all NHS bodies to modernise the main elements of their management over the next few years. There are significant risks associated with changes in processes on such a scale, and these are increased where there have been recent changes in structures. In particular PCTs, which have a major role in ensuring that the NHS improves, continue to face an increasingly challenging agenda. We expect auditors to pay particular attention to the risks currently facing PCTs, including new risks as they arise, such as those presented by the implementation of the public health White Paper, *Choosing Health*. We also expect auditors to give high priority to ensuring that PCTs continue to build on the firm foundations of sound financial and management practice that are essential for future improvement.

25 Key national business risks identified by the Commission, which were supported by the consultation process and to which auditors will pay attention in 2005/06, include:

- continued implementation of new contracts for consultants and general practitioners and of Agenda for Change;
- roll out of the National Programme for IT, where the Commission has agreed a co-ordinated approach with the NAO, with a clearly defined set of responsibilities;
- implementation of the agreed Department of Health target of £6.5 billion efficiency savings to be achieved by 2007/08, which rest substantially on improved procurement and higher staff productivity, brought about by combining and realising the benefits of new ways of working under new contracts of employment and the National Programme for IT;
- the further roll-out of payment by results;
- contracting with NHS foundation trusts and the private sector;

- the impact of choice at point of referral from December 2005;
- implementation of the *Freedom of Information Act*;
- development of pooled budgets and integrated children's services;
- the continuing financial management challenges faced by many NHS bodies; and
- the information management and governance issues that need to underpin all of the above.

26 The Commission is keen to contribute its knowledge and expertise to help ensure that the changes in the NHS are as effective as possible in delivering improved services for patients, and in safeguarding taxpayers' money. In 2004/05 the Commission developed audit tools covering several of the most significant issues affecting NHS bodies arising out of the key business risks identified at that time, most of which continue into 2005/06. These tools will be updated so that auditors can continue to use them with their audited bodies. It will be for auditors locally to decide which risks they should address through further work following their local risk assessments.

27 The main elements of the local audit work programme, which will apply at all NHS bodies unless specified, are as follows:

- **Audit management**
  - Planning, liaison and reporting, including co-ordination across health economies.
  - Liaison with the Healthcare Commission and other inspectorates.
- **Audit of financial statements**
  - Accounts and statement on internal control.
  - Regularity of expenditure and income (at specified bodies).
- **Arrangements for securing economy, efficiency and effectiveness in the use of resources**
  - Risk-based, locally tailored audit work in relation to aspects of the body's stewardship and governance and corporate performance management and financial management arrangements.
  - Work in support of the Healthcare Commission's work programme, as specified by the Audit Commission in discussion with the Healthcare Commission, which will supplement the local risk-based approach to planning the audit.

Payment by results

28 The Audit Commission is committed to supporting the introduction of payment by results through its role in auditing NHS bodies and providing national commentary on financial management issues in the NHS. A particular concern is the absence of a robust strategy to ensure accurate costing and reliable data for payment. We are discussing our role in implementing such a strategy with the Department of Health. Any work undertaken in this role would be separately charged, and is not covered by the fee scales in this document.

NHS foundation trusts

29 Where a trust becomes a foundation trust in the course of the year the Commission's appointed auditors will continue to be responsible for the audit of the trust's accounts up to that date. The Commission will specify the work that auditors of these bodies will need to do to meet their responsibilities under the *Code of Audit Practice*. In summary, the audit will comprise:

- an audit of the financial statements for the part-year;
- a review of the statement of internal control for the part-year; and
- any specified studies undertaken at the request of the Healthcare Commission.

Programme of national studies of NHS financial management issues

30 The Commission consulted separately on a proposed programme of studies of aspects of financial management of NHS bodies and the results of this consultation will be published shortly.

5

Audit fee scales

Fee scales

31 The Commission has considered the responses to the consultation and has decided that the fee scales, which cover the audit of the accounts of NHS bodies for the financial year ending 31 March 2006, will incorporate an increase of 3 per cent on the fixed element of those currently in force, together with a sum of £5,000 for work on waiting list accuracy at acute trusts. These fee scales are based on the work programme described above and will apply from 1 April 2005. Planned audit work in connection with the 2004/05 accounts will, however, continue to be covered by the fee scales currently in force.

32 The fee scales for all bodies 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 2006 – the variable element of the fee is calculated as a percentage of gross expenditure;
- the location of the body – separate fee scales are set for bodies that are located in London and south-east England; and
- the national and local risk profiles for each individual body – the fee bands range from 30 per cent below to 30 per cent above the standard fee determined by applying the three criteria above.

33 As in 2004/05, there is a combined fee scale for SHAs and their associated workforce development confederations.

34 The 2005/06 fee scales are as follows (overleaf).

35 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 2006.

36 Acute trusts that become foundation trusts in the course of 2005/06 will be charged a reduced fee to cover the audit of the financial statements for the part year and a review of the trust's statement of internal control covering the part year, as well as any specified studies undertaken at the request of the Healthcare Commission. The fees to be charged will reflect the fact that the work involved in auditing the financial statements is not significantly less for a part year than for a full year.

37 The south-east England fee scales apply 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.

38 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.

39 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*.

	+/- 30% depending on risk	
	Fixed element	Plus a percentage of 2005/06 gross expenditure
Acute trusts		
– Standard	71,500	+0.042%
– South-east England	78,500	+0.042%
– London	86,000	+0.042%
Acute trusts that become foundation trusts part way through the year*		
– Standard	45,000	+0.025%
– South-east England	50,000	+0.025%
– London	55,000	+0.025%
Mental health and community trusts		
– Standard	40,950	+0.0675%
– South-east England	45,000	+0.0675%
– London	49,100	+0.0675%
PCTs		
– Standard	45,300	+0.02%
– South-east England	49,800	+0.02%
– London	54,350	+0.02%
Ambulance trusts		
– Standard	23,700	+0.067%
– South-east England	26,000	+0.067%
– London	**	
SHAs and Workforce Development Confederations (combined)		
– Standard	90,400	
– South-east England	99,500	
– London	108,500	

* Figures exclude any fees for specified studies undertaken at the request of the Healthcare Commission.

** Fee to be agreed between the London Ambulance Service NHS Trust and the local auditor.

Skill-related fee scales

40 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.

41 To facilitate the use of appropriately skilled staff, the Commission has set the following skill-related fee scales for 2005/06 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.

42 The skill-related fee scales for 2005/06 are as follows:

Maximum £ per hour	Standard	South-east England	London
Partner / district auditor	£275	£300	£330
Senior manager / manager	£150	£165	£180
Senior auditor	£95	£105	£115
Other staff	£70	£80	£85

43 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.

Fees for specified work

44 In 2004/05, the Audit Commission undertook work on waiting list accuracy, data quality and topics within the acute hospital portfolio at the request of the Healthcare Commission. For 2005/06, we expect to receive a request for a similar quantum of work. In the past, work on waiting list accuracy has been charged as an extra fee item, but for 2005/06 the cost of undertaking this work is now incorporated in the proposed overall fee. However, if more detailed follow-up work on waiting list accuracy is required at specified sites, a separate fee would be charged.

45 The Commission and the Healthcare Commission intend that there should be no overall increase in the burden of regulation. The fee scales set out here are therefore intended to cover work undertaken by auditors at the Healthcare Commission's request as outlined above.

46 The Commission's forecast income from NHS bodies for 2005/06 is summarised in the table below:

	£ million	% change
Planned fee income for 2004/05 (including grant certification income)	**64.0**	
Deduct:		
Non-recurring income from part year audit of NHS trusts moving to foundation trust status in year	(2.0)	
Effect of structural changes to NHS bodies	(1.0)	
Loss of income from foundation trusts leaving the Commission's regime	(5.0)	
Total reductions	**(8.0)**	**(12.0)**
Inflation increase	2.0	
Forecast fee income for 2005/06	**58.0**	**(9.4)**

Value added tax

47 All the 2005/06 fee scales exclude VAT, which will be charged at the standard rate (currently 17.5 per cent) on all work done.

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