

Agenda Item No 10

Report To: AUDIT COMMITTEE

Date: 25th June 2012

Report Title: Audit Commission's Fees 2012/13

Report Author: Deputy Chief Executive

Summary:	A significant reduction in external audit fees for this and the next four years follows on from the outsourcing of the audit commission's local government and other public sector work. This report provides the details of the new fee scales for the council.
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Key Decision: Not applicable

Affected Wards None specifically

Recommendation: **The Audit Committee is recommended to note the report.**

Policy Overview: External audit is a statutory requirement and provides assurance to the council and its taxpayers and residents about financial governance and value for money.

Financial Implications: 40% reduction in fees, with these generally fixed for five years. A saving of £58,000 against the 2012/2013 budget and cumulative savings of £290,000 over the five year period of the MTFP.

Other material implications: From 1 November the private firm, Grant Thornton UK LLP will take on a five year contract for work let by the Audit Commission, which remains until its abolition once legislation is passed and a timetable set.

Background papers Audit Commission's 2012/2013 Fee Scale Report

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Purpose of Report

1. To inform the committee of the Audit Commission's fee scale for 2012/2013 and the following four years.

Background

2. Following consultation, the Audit Commission has approved the work programme and scales of audit fees for the audit of the accounts of larger local government bodies for 2012/13.
3. The Commission has outsourced the work of its in-house audit practice and on 6 March 2012 officially confirmed it has awarded five-year audit contracts to four private firms. For this council the external audit will be carried out by Grant Thornton UK from 1 November 2012.
4. Through the Commission's unique bulk purchasing power, it has secured significant reductions in the cost of audit services. Together with further savings achieved through the Commission's own internal efficiencies, the Commission will pass on reductions of up to 40 per cent in audit fees for local government bodies. As a result, councils and other local government bodies are expected to save over £32 million a year, amounting to £161 million over the length of the contracts.
5. The Commission's full report is available to view from the link within the footnote¹, alongside a breakdown of the fees for individual bodies and a summary of the consultation feedback.
6. Following consultation, the work programme and fee scales for 2012/13 were confirmed for audits of local government, fire, police and health bodies. The Audit Commission has also introduced composite indicative fees for grant certification work, again with 40% reductions on typical costs.

Scale fees

7. The combination of outsourcing the Audit Commission's in-house Audit Practice and internal efficiency savings means that the Commission is able to pass on significant reductions in audit fees this year to audited bodies. These lower fees are **fixed for five years irrespective of inflation**, and help public bodies at a time when budgets are under pressure.
8. Organisations can compare their fees with similar and neighbouring bodies using the Commission's audit fee comparator tool².

Audit of small bodies (eg. parish and town councils)

¹ Audit Commission's 2012/2013 fee scale report: http://www.audit-commission.gov.uk/SiteCollectionDocuments/Downloads/201213wpsof_lg.pdf

² Audit Commission's audit fee comparator tool: see Paragraph 5 in the above link.

9. Past and present information about the audit of 'small bodies' is available from the Commission's dedicated small bodies' (local parish councils) webpage³. Typically, smaller bodies receive a limited assurance audit, unless turnover exceeds £200,000 (where some greater audit testing is needed) or when parish or town councils elect to have an intermediate limited assurance. In these cases fees are agreed on a case-by-case basis.
10. Of benefit to several parish councils locally is the Commission's decision to increase the income or expenditure threshold where no audit fee is payable. A £10,000 threshold now applies (previously £1,000).
11. For all others, scale fees are reduced on average by 30%.

Financial implications

12. Fee rates for individual councils were announced in April and amount to significant savings for local authorities. Furthermore, the Audit Commission will bear the cost of inflation over the period of the outsourced contracts (2012/2013 – 2016/2017). Fee rates use 2011/2012 assumptions as the basis, and may only vary if the local audit manager considers an audited body's risks are greater or lesser than the risk assumption built into the fee-scale starting point.
13. Composite fees now apply for grant claims work; in the past councils were charged an hourly rate and paid according to length of time needed for the grant audit. Fees assume a lower number of grant claims, as increasingly government grants have been allocated as 'un-ringfenced' and fewer claims, therefore, need external auditor verification. Furthermore, the composite fees build in a 40% fee reduction.
14. Implications for the council's budget and MTFP projection are summarised overleaf and amounts to good news financially.
15. As mentioned in the external auditor's progress report (Item 9) there will be opportunities for members to meet with Grant Thornton UK and the external audit team for Ashford from some after September 2012 and before 1 November when its contract is due to commence.

Audit Fees (£s)

Financial Year	Function	Actual / Accrued Fee	Budget	Savings
2011/12	Main Audit Fee	120,051	152,660	(32,609.00)
	Grant Certification	22,082	28,990	(6,907.75)
		142,133	181,650	(39,516.75)

³ Audit Commission Fee Scales for small audited bodies (inc parish councils): <http://www.audit-commission.gov.uk/audit-regime/audit-fees/pages/smallbodiesfees06071112.aspx>

Above saving
now in the
2011/2012
outturn

Financial Year	Function	Proposed Fee	Budget	Savings
2012/13	Main Audit Fee	80,000	121,300	(41,300.00)
	Grant Certification	11,986	28,740	(16,753.98)
		91,986	150,040	(58,053.98)
2013/14	Main Audit Fee	80,000	121,300	(41,300.00)
	Grant Certification	11,986	28,740	(16,753.98)
		91,986	150,040	(58,053.98)
2014/15	Main Audit Fee	80,000	121,300	(41,300.00)
	Grant Certification	11,986	28,740	(16,753.98)
		91,986	150,040	(58,053.98)
2015/16	Main Audit Fee	80,000	121,300	(41,300.00)
	Grant Certification	11,986	28,740	(16,753.98)
		91,986	150,040	(58,053.98)
2016/17	Main Audit Fee	80,000	121,300	(41,300.00)
	Grant Certification	11,986	28,740	(16,753.98)
		91,986	150,040	(58,053.98)
Five-year saving	Total	£459,930	£750,200	(£290,270)

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