

9 August 2010

Change in approach to auditors' local value for money work

I wrote to you on 28 May to let you know that work on Comprehensive Area Assessment (CAA), including the use of resources assessment, was stopping immediately following a decision by the new government. I am writing now to update you on the new arrangements for auditors' work on value for money (VFM) relating to the 2010/11 accounts and future years.

New approach to local value for money audit work

The Commission will not be replacing the use of resources assessment. We are reducing auditors' VFM work and removing any requirement for a scored assessment. Auditors still have a continuing statutory responsibility, as set out in the Code of Audit Practice 2010, to give a conclusion on whether audited bodies have proper arrangements for securing VFM. Our aim is to focus this work on the auditor's core responsibilities and on local audit issues. We will also recognise the scale of the financial pressures for public bodies in the current economic climate.

We will introduce these changes for the 2010/11 accounts at single tier, county and district councils, and fire and rescue authorities. Auditors will give their statutory VFM conclusion on the arrangements to secure economy, efficiency and effectiveness based on two criteria, specified by the Commission, related to an audited body's arrangements for:

- securing financial resilience – focusing on whether the audited body is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how it secures economy, efficiency and effectiveness – focusing on whether the audited body is prioritising its resources within tighter budgets and improving productivity and efficiency.

Auditors will plan a local programme of VFM audit work based on their local audit risk assessment. They will report their VFM conclusion and the key messages from their work, including suggested areas for improvement, to the body's audit committee and in a clear and accessible annual audit letter. Auditors may qualify their VFM conclusion if they are not satisfied that the audited body has adequate arrangements in place.

For 2010/11, auditors of smaller bodies (such as larger town councils and national parks authorities) will continue to apply the current lighter touch approach to their VFM conclusion work.

Impact on audit fees

The new approach will mean a reduction in audit fees from 2011/12.

For 2010/11, the Commission has already given a 6 per cent rebate this year to mitigate the increases in audit fees arising from the transition to IFRS. In May local authorities, and fire and rescue authorities received a cheque or credit note from the Commission. The rebates varied but the average was £7,000 for district councils, £16,500 for county councils and £25,000 for London borough councils. Fire and rescue authorities received £4,600. The total returned for local government bodies including fire and rescue authorities was almost £5 million.

We have a duty to ensure that the Commission has sufficient income in 2010/11 to meet its costs. There are uncertainties around some aspects of our 2010/11 costs, including the significant in-year transitional costs arising from the cessation of CAA. We therefore cannot commit to a rebate of 2010/11 audit fees at this time. The Commission Board will consider a rebate in September when considering audit fees for 2011/12.

Next steps

We will write to you again in September in the context of consulting on the 2011/12 work programme and scales of fees.

Yours sincerely

Gareth Davies
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