

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Consultation on fee rates and fee scales 2017-18



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Consultation on fee rates and fee scales 2016-17, incorporating local government and data matching fee scales

Overview

This consultation invites views and comments on the Wales Audit Office's proposals for fee rates and other aspects of the statutory fee regime for audit work.

Following the consultation, the Wales Audit Office will submit a Fee Scheme 2017-18 with its Estimate 2017-18, for consideration by the National Assembly's Finance Committee this autumn. The Fee Scheme is prepared under section 24 of the Public Audit (Wales) Act 2013. The proposals in this consultation are dependent on approval by the National Assembly for Wales of that Estimate and Fee Scheme.

How to respond

Please respond by 23 September 2016.

Responses can be sent to the following address:

Fee scales consultation
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

Or completed electronically and sent by e-mail to info@audit.wales

If you require this publication in an alternative format and/or language please contact us using the details provided above or by telephone on 029 2032 0500.

Publication of responses – confidentiality and data protection

Information provided in response to this consultation may be published or disclosed in accordance with the access to information legislation (chiefly the Freedom of Information Act 2000, but also the Data Protection Act 1998 and the Environmental Information Regulations 2004).

If you want any information you provide to be treated as confidential, it would be helpful if you could explain to us why you regard the information you have provided as confidential.

If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give any assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Wales Audit Office.

Personal data will be processed in accordance with the Data Protection Act. Where such data falls within the scope of a request for information from another person, the provisions of the 1998 and 2000 Acts will need to be considered in the particular circumstances. While no situation can be prejudged, this is likely to mean that information concerning senior officials and public figures is likely to be disclosed while the names and addresses of ordinary members of the public are likely to be withheld.

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Message from the Director of Finance, Wales Audit Office



Legislation requires us to consult on fee scales charged for certain types of work undertaken by the Auditor General for Wales. However, we go further and choose to consult on the fee rates charged for all areas of audit work. We believe this is fairer to our stakeholders and provides for greater transparency when the Assembly's Finance Committee considers our final Fee Scheme and Estimate (the budget) for the year ahead.

Last year, whilst welcoming a continued freeze in our fee rates and the greater transparency in our audit fees, you told us that you would like to understand more about what we are doing to improve efficiency in our audit processes. We set that out in our subsequent [Estimate for 2016-17](#), focusing on leaner skills' mixes, transformation in how we use data and technology and developing an appropriate audit approach under the Well-being of Future Generations Act. We have since undertaken a stakeholder consultation on our response to the Act, as explained further in this document. For 2017-18 we will not charge any additional fee for work undertaken relating to the Act, dependent on the Assembly's approval of our Estimate.

You also told us that you would like this consultation document to be clearer in relation to the different sectors audited; you will see that we have now done so.

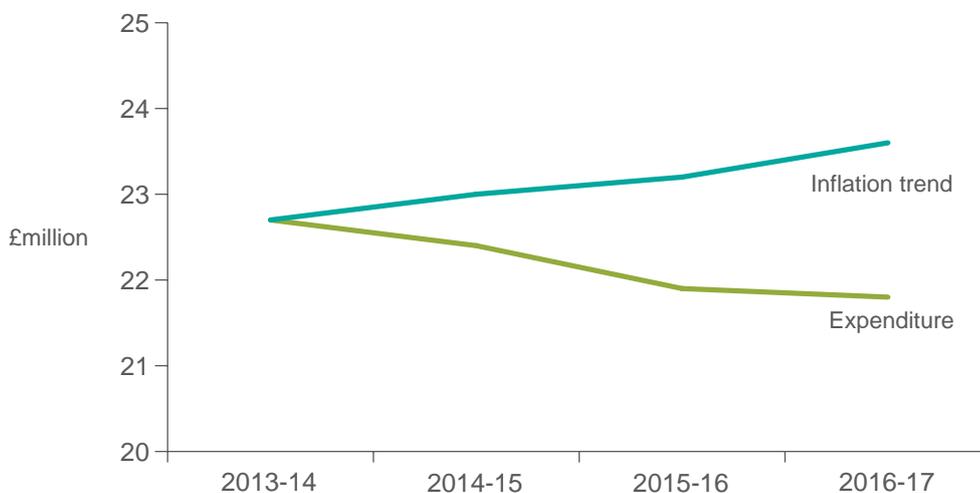
Following our recent stakeholder engagement survey with public services' Chief Executives, the Board was pleased to find that 97 per cent have confidence in the work of the Wales Audit Office, 79 per cent say our work had led to improvement in public services, and 83 per cent see us as a well-run organisation. I often get challenged by fellow Finance Directors about the overall cost of audit and the value for money provided through public audit in Wales; the survey also told us that we need to be clearer in how we demonstrate this. We look to do so through our Annual Report and Accounts, this consultation document and as we finalise our Estimate document for 2017-18. You can learn more about our most recent year of performance delivery, expenditure and income in our [Annual Report and Accounts 2015-16](#), published on 14 June 2016.

We set fee rates and audit fees at a level only to recover costs, as legislation precludes us from charging any more than that. Overall, our expenditure in running the Wales Audit Office and supporting the delivery of the Auditor General's work programme equates to much less than one penny of every pound of the funds that are voted on annually by the National Assembly. Our funding comes from two sources – from the fees we charge for the audit work we do (circa 70 per cent), and from the Welsh Consolidated Fund which meets specific areas of our spending (circa 30 per cent). We set out the detail in our annual Estimate.

The Wales Audit Office Board is currently finalising its expenditure and income plans (the Estimate) for 2017-18 in readiness for scrutiny by the National Assembly's Finance Committee this November. The proposals set out in this consultation document are dependent on the Committee's approval of that Estimate.

Despite significant cost pressures, as a result of stringent financial management and a continued focus on efficiency and cost-effectiveness across the business, the Board expects to be able to **freeze fee rates for a third year running**. This represents a four per cent reduction in real terms since those rates were set in 2014-15. Continued review of our operating practices and cost base in line with our Smarter, Leaner, Better efficiency and effectiveness programme has seen the total cost of our work reduce by eight per cent in real terms since 2013-14, as demonstrated in the following graph.

Expenditure 2013-14 to 2016-17



Specifically, we have targeted annual savings from our procurement arrangements of over £800,000, reduced our management and administration costs by £475,000 and achieved efficiency savings through improved staff utilisation and outsourcing of some support services of a further £480,000. Importantly, these savings have enabled us to meet cost increases, such as pay and contract inflation and increased pension and national insurance contributions without impacting fees. We have also actively managed reductions in our fee/grant base without needing to propose fee rate increases or seek additional funding from the National Assembly. During the past year, we completed difficult negotiations to close the Wales Audit Office lease car scheme and introduce a revised Travel Scheme for staff that will deliver savings of circa 10 per cent annually on our travel costs, so further reducing our overhead costs.

We have reviewed the skills mix of our financial audit teams, to enhance our graduate trainee scheme linked to the implementation of the Pan-Wales Finance Trainee programme creating Wales's future finance professionals. In the medium term, this will help contain the cost of audit work.

Looking ahead, we are using funding received from the Welsh Consolidated Fund in 2016-17 to challenge our existing use of data and technology, question the assumptions we normally take for granted and develop radical solutions as to how we might use new technology to transform our audit and business processes by 2025. Whilst this work is unlikely to impact on our audit fees in 2017-18, we expect it to lead to changes in our audit approach in the medium to longer term, positively influencing both our cost base and our fees.

On a further long-term note, legislation governing the fee regime in Wales is more complex than in other parts of the UK. As the Auditor General outlined to the Finance Committee in the last Assembly, this creates inefficiency and additional cost for the public sector in Wales. We are keen to develop proposals for a simpler and more cost-effective arrangement which can be considered by the present Assembly's Finance Committee. We will be looking to consult public services on possible options early in 2017.

I hope you will see that there is much in hand to ensure that the overall cost of public audit in Wales remains transparent, proportionate and justifiable in these challenging times. I really encourage you to take this opportunity to let us know your views on the fee rate proposals set out on the following pages. As demonstrated from previous consultations, your views are carefully considered by the Board and genuinely help inform its decisions.

Do please contact me directly if you should like to discuss.

Steve O'Donoghue CPFA

Director of Finance

On behalf of the Board and Auditor General for Wales

Consultation

The sections below explain how our fees affect your organisation, according to which sector you form part of.

Consultation with **all** audited bodies on proposed fee rates for audit work

We invite your views on our intention to deliver a third-year cash freeze in the hourly rates for all audit work undertaken during 2017-18.

- 1 **Exhibit 1** sets out the proposed hourly fee rates for audit staff which reflect direct costs and a proportion of overhead costs. These rates represent a **four per cent reduction** in real terms since 2014-15.

Exhibit 1 - Fee rates for audit staff

Grade	Fee rate (£ per hour)
Engagement director	162
Audit manager	111
Performance audit lead	93
Financial audit team leader	75
Performance auditor	65
Financial auditor	56
Graduate trainee	45

- 2 Audited bodies not covered by the statutory requirement for a fee scale have their estimated audit fees calculated in the same way as for those which are covered – that is, through applying the published fee rates to the estimated team mix and hours of input required for the audit.
- 3 Auditors undertake grant certification work on behalf of the Auditor General, on a per-hour charging basis. The amount of grant certification work undertaken in any year is dependent on the number of schemes subject to audit and the number of audited bodies participating in those schemes. Charges for this work are calculated using the fee rates and time taken.
- 4 The fee rates apply to all audit work that the Wales Audit Office will charge for, except to the extent that the fee scales, for local government bodies, regulate the amount to be charged (or in the case of work done under agreements predating 1 April 2014, rates are as agreed). If it subsequently appears to the Wales Audit Office that the work involved in a particular audit differs substantially from that originally envisaged, the Wales Audit Office may charge a fee which differs from that originally notified.
- 5 Where specialist support, legal, or other professional advice is required, this may be charged to audited bodies in addition to the cost of Wales Audit Office staff.

Consultation with **all** audited bodies on fee scales for the National Fraud Initiative (data matching)

We invite your views on continuing participation in the National Fraud Initiative (NFI) on a nil-fee basis.

- 6 We are required to consult on and prescribe scales of fees for data matching for mandatory participants in the NFI. The Auditor General conducts the NFI using his statutory data-matching powers under Part 3A of the Public Audit (Wales) Act 2004.
- 7 The NFI matches data across organisations and systems to help public bodies identify potentially fraudulent or erroneous claims and transactions. The NFI has been a highly effective tool in detecting and preventing fraud and overpayments. Since its commencement in 1996, NFI exercises have resulted in the detection and prevention of more than £30 million of fraud and overpayments in Wales and £1.3 billion across the UK.
- 8 Since April 2016, the National Assembly has met the costs of running the NFI through payment from the Welsh Consolidated Fund as approved through the Wales Audit Office's Estimate, so ensuring that voluntary participants are not charged a fee for participation. As required by legislation, the fees for mandatory participants are shown below.

Exhibit 2 - NFI fees

Type of body	Fee 2017-18 £
Unitary authority; Police and crime commissioners and chief constables; Fire and rescue authorities; NHS trusts; Local health boards.	Nil
All participants may also be provided with access to the NFI Application Checker (App Check).	Nil

Fee refunds and excess charges

- 11 On completion of audit assignments, we will assess the actual costs incurred in undertaking the assignment against the fee charged. We will let you know, during the audit process, if we experience difficulties which may result in an increased fee. We will refund any excess of fee over cost and, conversely, we may charge additional costs where the fee falls short. We will process refunds and additional charges in a manner which seeks to minimise administrative costs, such as through offsetting against future fees or fees for other aspects of audit activity where permissible under legislation.

The Well-being of Future Generations (Wales) Act 2015

- 10 The Well-being of Future Generations Act requires specified public bodies to set and publish well-being objectives, take steps to meet those objectives and report annually on their progress. It also requires the Auditor General to carry out examinations into the extent to which those public bodies set objectives and take steps to meet them in accordance with the sustainable development principle.
- 11 During 2016-17, we are working with audited bodies named in the Act and the Future Generations Commissioner for Wales as we develop and test audit approaches to fulfil the Auditor General's duty under the Act. The Auditor General recently carried out a consultation on the implications of the Act on our audit approach. We are taking account of the positive and constructive responses to that consultation as we develop and test our audit approach, working closely with a representative sample of audited bodies and with the Future Generations Commissioner. We expect this development work to continue into 2017-18 and we will be seeking continuing, albeit reduced, funding from the Welsh Consolidated Fund for that purpose.
- 12 As we confirm our audit approach over the course of the year, we will talk to relevant audited bodies about the implications of discharging the Auditor General's duty under the Act for fees from 2017-18 onward. For 2017-18, we do not plan to charge any additional fees for this work, dependent on Assembly approval of our Estimate. Our aspiration, supported by consultation responses, is to integrate the requirements of the Act into our existing audit work, wherever practicable, as we move towards a consistent framework for review across all the bodies subject to the Act.

Consultation with the Welsh Government, Welsh Government Sponsored Bodies and similar, statutory Commissioners and the Assembly Commission

- 13 In 2017-18, we will be working with a sample of relevant bodies in developing our audit approach under the Well-being of Future Generations Act. We will do this work without charging any additional fee, subject to Assembly approval of our Estimate. The Auditor General's duty under the Act will necessitate additional audit work for specified central government bodies, which could result in additional fee charges in future years unless an alternative funding model is agreed. We are developing proposals for this and will consult separately on options early in 2017.
- 14 Fee rates for chargeable audit work will be frozen in cash terms for the third year running in 2017-18.
- 15 Access to the National Fraud Initiative will continue on a nil-fee basis in 2017-18.
- 16 Advisory support to the central government bodies' Heads of Resources' Group and the Chairs of Audit Committees' Forum will continue to be provided on a nil-fee basis.
- 17 Each body's Engagement Director will discuss with you the skills' mix for your audit and the factors influencing your overall fee.

We would welcome your views on the above.

Consultation on fee scales for work undertaken in the Health sector

- 18 For relevant health bodies, under the Well-being of Future Generations Act we will seek to adapt existing audit work to meet the new requirements so as to minimise any increase in fees. No additional fees will be set for work under the Act in 2017-18, subject to Assembly approval of our Estimate.
- 19 Fee rates for chargeable audit work will be frozen in cash terms for the third year running in 2017-18.
- 20 Access to the National Fraud Initiative will continue on a nil-fee basis in 2017-18.
- 21 We are developing proposals for a simplification of the fee regime and will consult separately on that early in 2017.
- 22 Each body's Engagement Director will discuss with you the skills' mix for your audit and the factors influencing your overall fee.

We would welcome your views on the above.

Consultation on fee scales for work undertaken at local government bodies

- 23 We have urged the Welsh Government to reconsider the audit requirements for Local Government under Part 1 of the Local Government (Wales) Measure 2009. The Auditor General has given evidence to the National Assembly that reducing the extensive assessment requirements placed on him by the Measure and introducing instead simplified improvement planning and reporting requirements that are integrated with other legislation would have the potential to reduce requirements on local authorities and auditors, reduce costs and ensure that resources are used to best effect. Our stated position, for relevant bodies in local government, is that additional fee charges required in respect of work arising from the Well-being of Future Generations Act should be offset by reductions in fees resulting from the repeal or reform of the Measure. For 2017-18, no additional fees will be set for work under the Act, subject to Assembly approval of our Estimate.
- 24 For local government bodies, the Wales Audit Office is specifically required to consult on and prescribe:
- scales of fees payable in respect of the audit of accounts of local government bodies in Wales; and
 - scales of fees in respect of audits, assessments and special inspections carried out under the Local Government (Wales) Measure 2009.
- These fee scales are provided in [Appendix 1](#). Fee scale minimum, median and maximum figures in the tables are rounded to the nearest £000. We are working to reduce the median figures in the medium term through revising the audit skills' mix and containing our overall operating costs.
- 25 Annual audit work includes work undertaken in relation to the audit of accounts alongside, where applicable, improvement audit and assessment work carried out under the Local Government (Wales) Measure 2009.
- 26 Annual audit work fee scales do not include work that goes beyond the general duty of the Auditor General (under section 17 of the Public Audit (Wales) Act 2004), such as reporting in the public interest, extraordinary audit, special inspections and work in relation to elector challenge and the prevention of unlawful expenditure. Such additional work is charged on an hourly basis. Fee rates apply additionally to work undertaken to certify claims and returns in respect of grants paid or subsidies made to local government bodies.

- 27 Auditors will use their professional judgement, informed by the Auditor General's Code of Audit Practice, relevant accounting and auditing standards, and guidance issued by the Auditor General to determine where a particular audited body lies on the prescribed fee scale for that type of body. The fees to be charged at individual bodies will depend on each body's circumstances. In order to properly reflect the cost of the audit, and so provide transparency, the fee must be sufficient (but no more than sufficient) to fund the work required taking into account considerations such as the governance environment, risk, financial and performance management arrangements, size, complexity and the body's track record on improvement.
- 28 Fee rates for chargeable audit work will be frozen in cash terms for the third year running in 2017-18.
- 29 Access to the National Fraud Initiative will continue on a nil-fee basis in 2017-18.
- 30 We are developing proposals for a simplification of the fee regime and will consult separately on that early in 2017.
- 31 Town and community councils in Wales are subject to a limited assurance audit regime. For 2017-18, we will continue to charge for such work on a time basis at our published fee rates.

We would welcome your views on the above.

Appendix 1

Unitary authorities

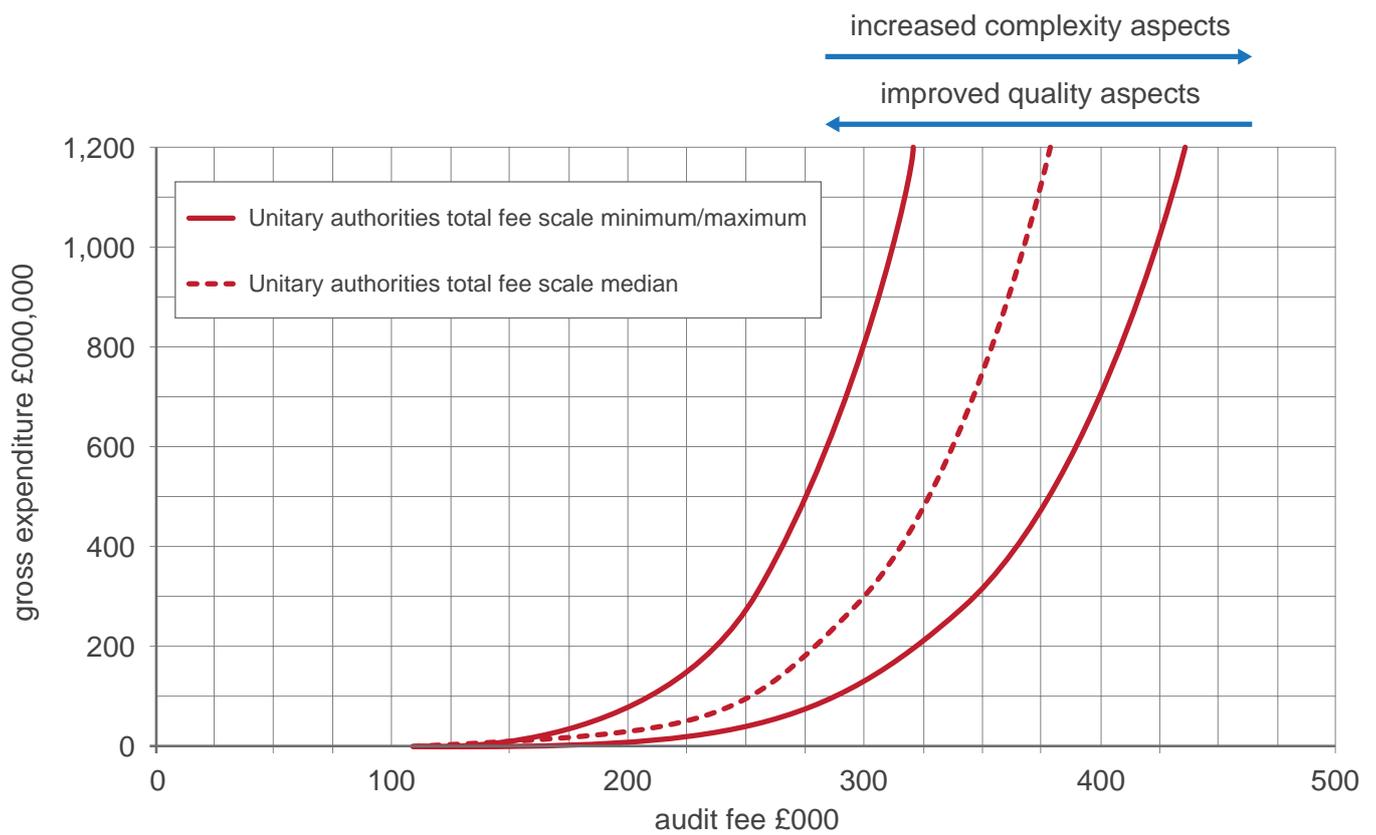
Fee scale for audit of 2016-17 accounts

Gross expenditure £000,000	Fee range £000			Previous year median £000
	Minimum	Median	Maximum	
100	118	139	160	140
200	142	167	192	168
300	158	186	214	187
400	171	201	231	202
500	181	213	245	215
600	190	224	257	225
700	198	233	268	235
800	205	242	278	243
900	212	249	287	251
1,000	218	256	295	258
1,100	224	263	303	265
1,200	229	269	310	271

Fee scale for 2016-17 improvement audits, assessments and special inspections under the Local Government (Wales) Measure 2009

All unitary authorities	Fee range £000			Previous year median £000
	Minimum	Median	Maximum	
	94	112	130	112

Graphic of total fee scale for unitary authorities



Fire and rescue authorities

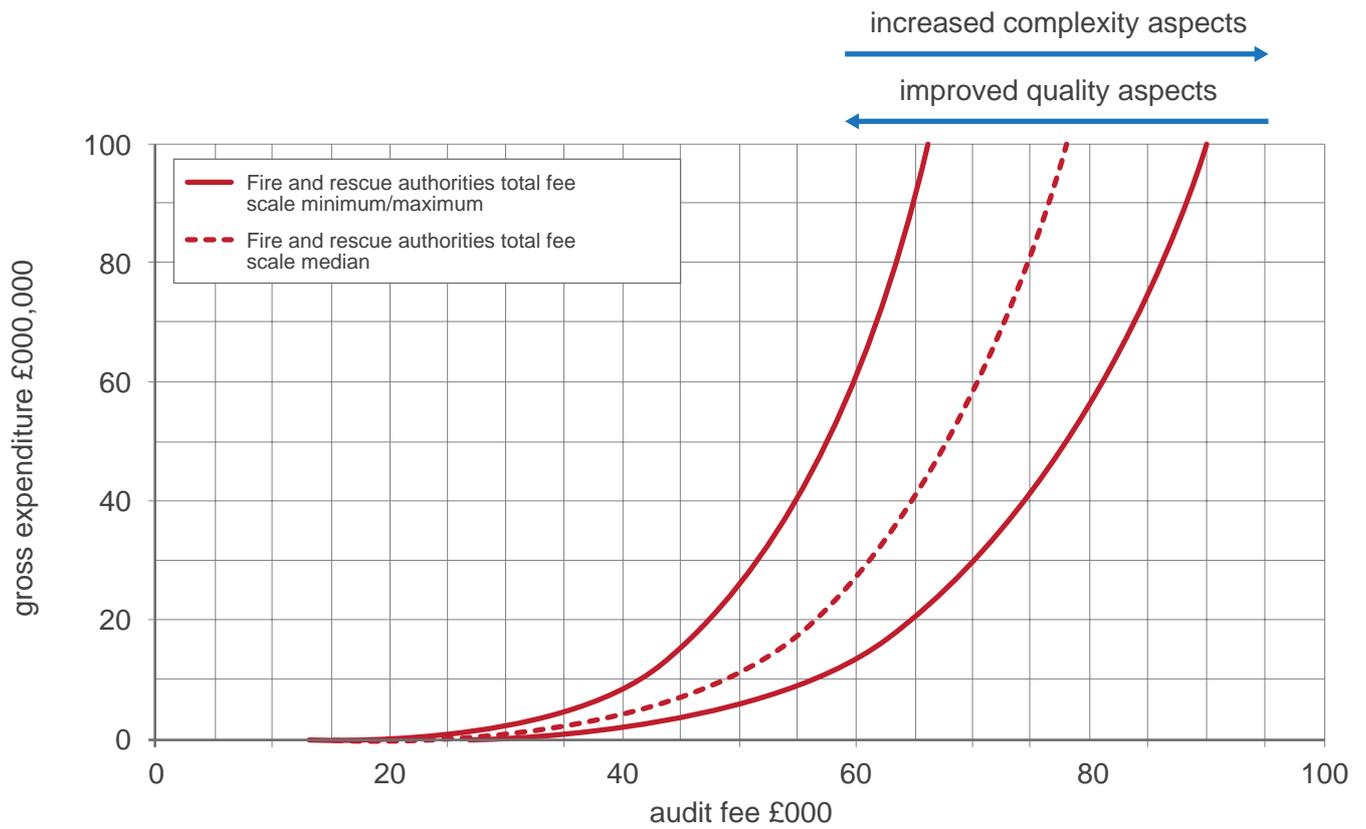
Fee scale for audit of 2016-17 accounts

Gross expenditure £000,000	Fee range £000			Previous year median £000
	Minimum	Median	Maximum	
20	35	41	47	41
40	42	49	56	49
60	46	55	63	55
80	50	59	68	59
100	53	63	72	63

Fee scale for 2017-18 improvement audits, and assessments and special inspections under the Local Government (Wales) Measure 2009

All fire and rescue authorities	Fee range £000			Previous year median £000
	Minimum	Median	Maximum	
	13	16	18	14

Graphic of audit total fee scale for fire and rescue authorities



National park authorities

Fee scale for audit of 2016-17 accounts

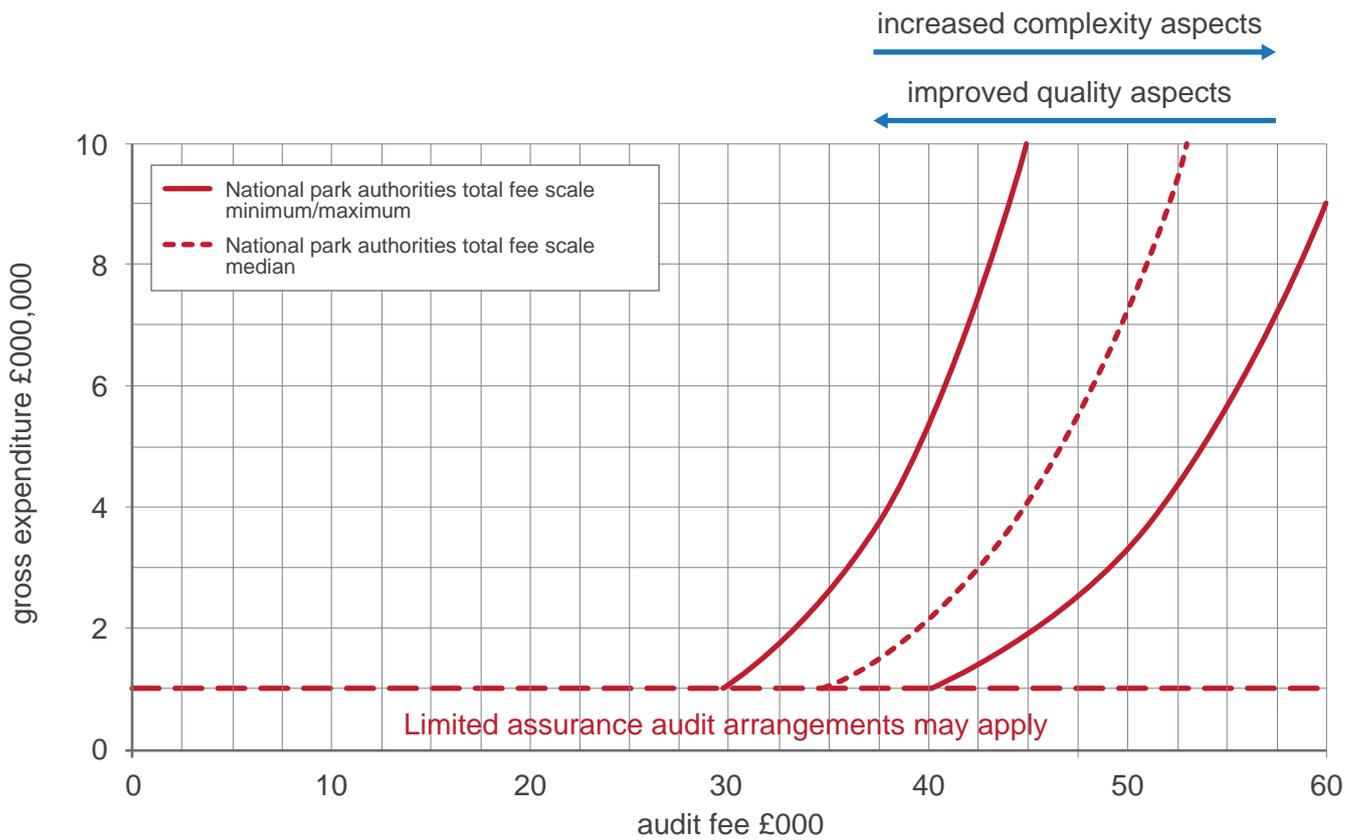
Gross expenditure £000,000	Fee range £000			Previous year median £000
	Minimum	Median	Maximum	
2	21	25	29	25
4	26	30	35	31
6	29	34	39	34
8	31	37	42	37
10	33	39	45	39

Fee scale for 2017-18 improvement audits, and assessments and special inspections under the Local Government (Wales) Measure 2009¹

All national park authorities	Fee range £000			Previous year median £000
	Minimum	Median	Maximum	
	12	14	17	7

¹ Increased fee range reflects loss of subsidy from WPI grant, of which these bodies are already aware.

Graphic of total fee scale for national park authorities



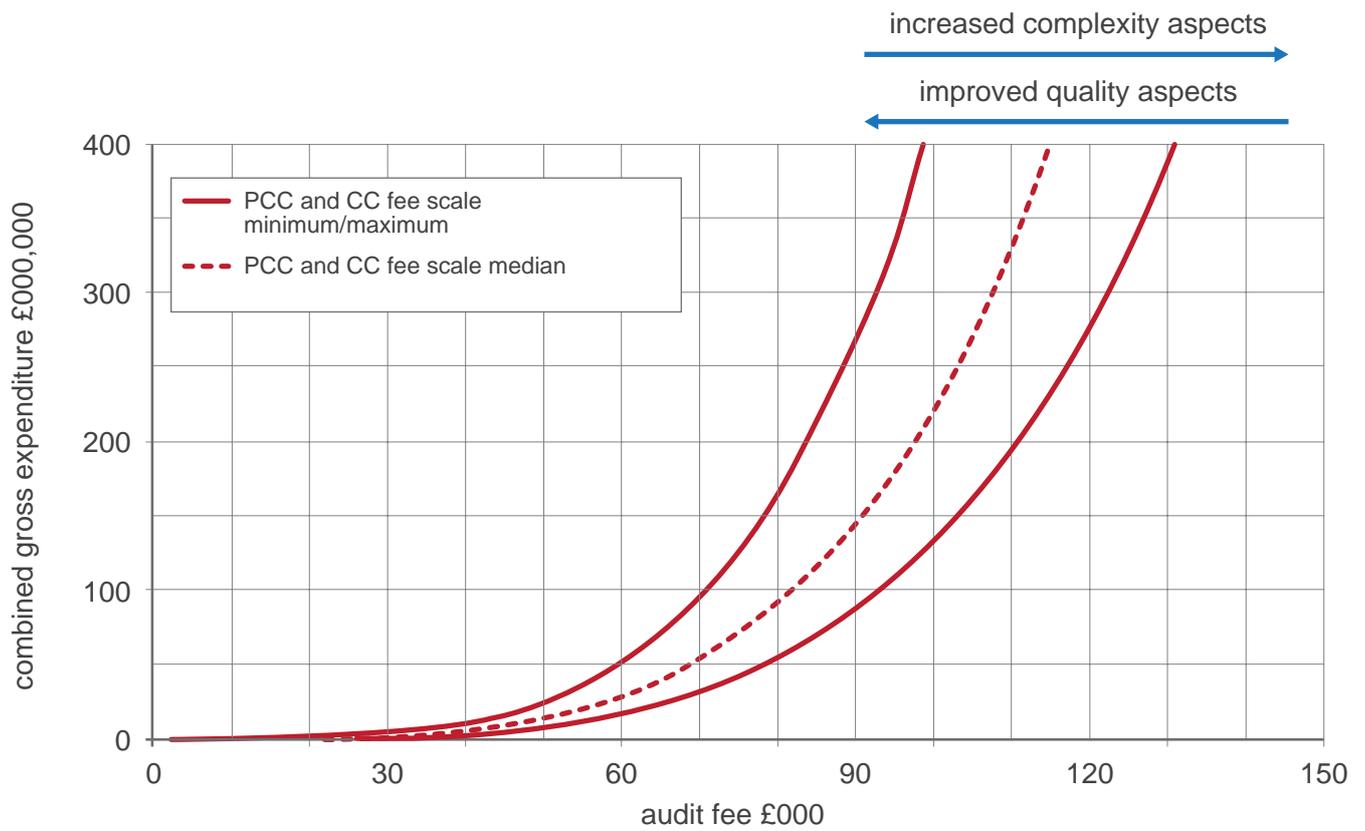
Police and crime commissioners and chief constables

Auditors undertake audits of two statutory bodies in a police area – the Police and Crime Commissioners (PCC) and the Chief Constables (CC). The split of the total fee between the two bodies in a particular police area will be a matter for auditors to determine, based on accounting requirements and the operational arrangements put in place by each of the bodies.

Total fee scale for 2016-17

Combined gross expenditure of PCC and CC £000,000	Combined fee range for PCC and CC £000			Previous year median £000
	Minimum	Median	Maximum	
50	60	70	79	70
100	71	82	93	82
150	78	91	103	91
200	84	97	111	98
250	88	103	117	103
300	92	107	122	108
350	96	112	127	112

Graphic of total fee scale for police and crime commissioners and chief constables



Town and community councils with annual income or expenditure under £2.5 million

Town and community councils in Wales are subject to a limited assurance audit regime. From 2016-17 we charged for work on a time basis rather than the historical basis of a fixed fee according to expenditure/income bands. The fee rate charges are as set out in [Exhibit 1](#). No changes to this model are proposed for 2017-18.

In circumstances where the auditor requires further evidence to properly discharge their responsibilities, including following publication of a related public interest report, additional testing will be undertaken to address the auditor's concerns.

It is emphasised that the actual charge made to any particular body will be dependent on the time actually worked on that particular audit. The ranges provided in the table below are for indicative purposes only.

Estimated time charges for audit of 2016-17 accounts of town and community councils

Annual income or expenditure (fees are payable on whichever is the higher each year)	Indicative baseline charge	Indicative upper range fee
£Nil – £99	£Nil	£Nil
£100 – £5,000	£30	£280
£5,001 – £100,000	£160	£320
£100,001 – £500,000	£200	£380
£500,001 – £2,500,000	£240	£460

Local government pension funds

Fee scale for audit of 2016-17 accounts

All pension funds	Fee range £000			Previous year median £000
	Minimum	Median	Maximum	
	30	40	50	40

Fee rates for other work in local government

The audit of other types of local government body, work which goes beyond the general duties of the Auditor General, and grant certification work

Other than those types of bodies for which fee scales have been prescribed, there are a small number of other types of local government body. For audits of these bodies, a zero-based approach to audit planning will still be applied, with resource requirements converted into fees directly based on the costs of delivering the work or by applying the fee rates as set out in [Exhibit 1](#).

For all types of government body to meet their statutory responsibilities, it is sometimes necessary for the Auditor General to carry out work which goes beyond general duties (those set out in section 17 of the Public Audit (Wales) Act 2004). Additional work can include reports in the public interest, extraordinary audit, special inspections and further work in relation to elector challenge and the prevention of unlawful expenditure. Charges for this type of work will reflect the nature of the work required.

Auditors may also undertake grant certification work at local government bodies on behalf of the Auditor General. The amount of grant certification work undertaken in any year is dependent on the number of schemes subject to audit and the number of audited bodies participating in those schemes. Charges for this work are made on a per-hour basis and reflect the size, complexity or any particular issues in respect of the grant in question.

We are working closely with the Welsh Government and hope to be able to agree a model that focuses more on the outputs and outcomes from grant-supported activity, moving away from the traditional audit approach of checking invoices. This should provide the Welsh Government and audited bodies with a clearer understanding of the difference grant-supported activity is making, whilst also reducing the cost of grant certification work. We are piloting this approach during 2016-17 and will discuss fee implications with pilot authorities.

Estimates of the relative proportions of financial audit staff grades to be used for different types of grants work are provided below.

Grade of staff	Complex grants staff mix %	All other grants staff mix %
Engagement director	1 to 2	0 to 1
Audit manager	4 to 6	1 to 2
Team leader	18 to 21	12 to 16
Team member/trainee	77 to 71	87 to 81

Complex grants include:

- BEN01 Housing and council tax benefits scheme
- LA01 National non-domestic rates return
- PEN05 Teachers' pensions return

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