



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

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Archwilydd Cyffredinol Cymru
Auditor General for Wales

Discussion Paper: Simplifying a Complex Fee Regime



Overview

This discussion paper explains why the fee regime under which the Wales Audit Office operates is overly complex and invites views on its simplification.

The Wales Audit Office will share responses with the Finance Committee of the National Assembly for Wales, as part of ongoing discussions looking to simplify the regime.

How to respond

Please respond by 28 July 2017.

Responses can be sent to the following address:

Fee Regime Discussion Paper
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

Or be sent by email 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.

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Introduction from the Chair of the Wales Audit Office and the Auditor General for Wales

Our annual fee consultations and evidence to the National Assembly's Finance Committee have explained that the legislation governing the audit fee regime in Wales is more complex and burdensome than in other parts of the UK.

The legacy report of the last Finance Committee recommended that the Public Audit (Wales) Act 2013 be amended to clarify the audit fee charging requirements. We are keen to recommend a move to a simpler arrangement for consideration by the present Finance Committee. In particular, we would prefer a statutory framework which could encourage greater efficiency in how we undertake our audit work without compromising our responsibility to work within our overall budget set by the Assembly. Fee consultation responses have told us that audited bodies are supportive of simplification.

We believe that the changes we are proposing in this discussion paper could further enhance our operating efficiency and contribute to containing the cost of audit going forward, without the distraction of the complexities of the current fee regime.

We therefore hope you will take some time to consider the case for changes to the fee regime that we set out in this discussion paper and respond with your views on our preferred solutions.

With thanks.

Isobel Garner
Chair, Wales Audit Office

Huw Vaughan Thomas
Auditor General for Wales

Executive summary

Funding for the Wales Audit Office comes from two main sources – from the fees we charge for the audit work we do (circa 70% of our funding), and from the Welsh Consolidated Fund which finances specific areas of our spending (circa 30%).

The legislation governing audit fees in Wales is complex and differs markedly from the arrangements in place for the other UK audit bodies. It means that the processes underpinning how we operate the fee regime are complicated, time consuming and confusing to many. We do not believe that the Welsh Government intended to create the level of complexity experienced in practice when it introduced the legislation. We have very much welcomed the willingness of the Assembly's Finance Committee to discuss and explore potential for its simplification. This discussion paper explains the fee regime and the main complexities experienced in working to it.

We explore options for change, including the 'no change' option, and we set out advantages and disadvantages for each. We present our preferred solutions, for legislative changes:

- to incentivise audit efficiency and provide greater certainty in fees charged to audited bodies. We believe that this solution will ensure a no-surprises approach for our audited bodies and improve the cost effectiveness of the funding arrangements of the Wales Audit Office.
- to cease the circulation of fee money amongst central government and NHS bodies and bolster audit independence.
- to give the Wales Audit Office full discretion in determining charging arrangements for agreement work¹ so as to help manage the overall cost of public audit and enable us to secure better value for money in the use of our resources.

We consider that it is very much in the public interest to achieve simpler, clearer and more efficient funding arrangements for the Wales Audit Office, and we would suggest the inclusion of necessary legislative changes in a Bill as soon as possible. We look forward to sharing the responses to this discussion paper with the Assembly's Finance Committee.

¹ Agreement work is work done at the request of a body on agreed terms, including where the Wales Audit Office bids for work on a competitive basis. Such work is distinct from the audit work that the Auditor General is statutorily required to undertake.

The fee regime for the Wales Audit Office

- 1 The Public Audit (Wales) Act 2013 sets out the arrangements under which the Wales Audit Office may or must charge fees for certain audit-related work. Other legislation, such as the Public Audit (Wales) Act 2004, sets out where fee scales must be set and who must be consulted on the setting of those scales. We choose to consult more widely than legislation requires as we consider it enhances transparency and gives all our stakeholders the opportunity to comment on our fee-charging plans.
- 2 The relevant extract of the 2013 Act is provided in [Appendix 1](#), along with an overview of the equivalent legislation applying to the other UK audit bodies. [Appendix 2](#) provides a list of enactments under which the Wales Audit Office must and may charge fees. It is a complex picture.
- 3 Our Annual [Estimate](#) (budget) sets out the detail of our expected income and expenditure for the forthcoming financial year. Aligned with the Estimate, we publish a [Fee Scheme](#), which sets out our charging structure for audit work and fee scales as required by legislation. Both the Estimate and Fee Scheme are subject to scrutiny by the Assembly's Finance Committee.
- 4 We are not able to charge fees for all aspects of our work – for example, the Auditor General's programme of economy, efficiency and effectiveness examinations, is not paid for by audited bodies. Such work is funded from the Welsh Consolidated Fund, as set out in our Estimate, under the authority of the Assembly's annual budget motion.
- 5 Where we charge a fee, we set hourly fee rates at a level only to recover the costs we incur, as legislation precludes us from charging any more than that. We then set our estimated audit fees based on the estimated staff time for each auditor role required to complete the work. This is done for each audited body.
- 6 For 2017-18, we estimate income from fee charges at £14.7 million, as per [Exhibit 1](#).

Exhibit 1: analysis of estimated fee income 2017-18

Sector	Financial audit work £'000	Performance audit work £'000	Grant certification £'000	Total 2017-18 £'000
Local government bodies	5,785	2,538	1,406	9,729
Central government bodies	1,790	-	-	1,790
NHS bodies	1,886	1,224	-	3,110
Other income	37	28	-	65
Total fee income	9,498	3,790	1,406	14,694

Comparison with other UK audit bodies

- 7 **Exhibit 2** compares fee-related legislative requirements in Wales with those in place for the other UK audit bodies (narrative provided in **Appendix 1**):

Fee-related requirements	Wales Audit Office	National Audit Office	Audit Scotland	Northern Ireland Audit Office
Set fees to broadly break even on fee work taking one year with another	No	Not required but is established practice	Yes	Not required but is established practice
No fee charged for accounts prepared by central government bodies (bodies funded by the relevant Consolidated Fund)	No	Yes	Yes	Yes
Must have a fee scheme setting out arrangements for charging fees	Yes	Yes	No	No
Terms and conditions for agreement work are a matter for the audit body	Yes but with restrictions	Yes	Yes	Yes

- 8 Three particular provisions stand out from **Exhibit 2** that have the potential to simplify the fee regime in Wales:
- the ability to charge fees with a view to breaking even (on fee-related work) ‘taking one year with another’;
 - not charging a fee for accounts prepared by government departments or other bodies that are funded direct from the relevant Consolidated Fund; and
 - greater latitude so that the terms and conditions of agreement work are a matter for the relevant auditing body.

The case for change

- 9 We see the opportunity for simplification in Wales by bringing aspects of the fee regime into line with those governing other parts of the UK, per [paragraph 8](#). In particular, we see potential advantages:
- providing greater certainty to audited bodies of the fee to be charged and overcoming the lack of incentive to drive efficiency in audit delivery at ground level;
 - ending the circulation of fee money across central government bodies and the NHS; and
 - enabling the Wales Audit Office to make better use of agreement work as part of our financial strategy.

Case for change: provide greater certainty of fees to be charged to audited bodies and incentivise efficiency in audit delivery at ground level

- 10 Our fees are based on the hourly rates for each auditor role multiplied by the estimated hours to be worked on the audit. The calculation is a best estimate made when the audit is planned, though we use past experience and our knowledge of each audited body to inform that calculation. Understandably, the actual mix of staff used and time taken can differ.
- 11 Section 23 of the Public Audit (Wales) Act 2013 requires that fees ‘in relation to the audit of a person’s accounts... [and]... in relation to...the provision of services to a body...may not exceed the full cost of exercising the function to which the fee relates’.
- 12 The specific terms ‘full cost’ and ‘function’ are not defined in our context and may therefore give scope for legal challenge. To assist our interpretation of the legislation, we obtained independent legal advice. Following that advice, we had to conclude that the legislation means that the ‘may not exceed the full cost’ constraint applies to each particular function we undertake at each particular audited body. (The audit of accounts is an example of one particular function, and improvement assessments of a ‘Welsh improvement authority’² – an aspect of performance audit – is an example of another.)

2 Welsh improvement authorities are county councils, county borough councils, national park authorities, and fire and rescue authorities. In other words, the term applies to a subset of local government bodies.

- 13 Section 23 allows no regard to be given to work we may do for a particular body in the round. The scenario does therefore easily arise where we have to refund costs for some aspects of our work while raising additional invoices for others – all for the same audited body.

A commonly occurring scenario:

At Authority A, we undertake the audit of its financial accounts and a performance assessment for its Annual Improvement Report.

We estimate the fees as follows:

Exhibit 3: estimated fees for Authority A

Audit Function	Estimated Fee
Financial accounts audit	£100,000
Performance audit	£50,000
Total fee	£150,000

On completion of the work, our actual costs are calculated as follows:

Exhibit 4: final cost of audit work, at Authority A

Audit Function	Actual Cost
Financial accounts audit	£80,000
Performance audit	£70,000
Total fee	£150,000

- 14 Legislation requires us to refund any surplus where the **actual cost of a function** is less than estimated. That means, we will have delivered £150,000 worth of work for the audited body, but will have to refund £20,000 as our cost for the financial audit work was less than the estimated fee charged.
- 15 To ensure that our overall financial position is not compromised, in other words to ensure that we balance the books of the Wales Audit Office, we have to decide whether to enter potentially difficult discussions with the audited body for billing the additional fees, in this case for a £20,000 increase in the cost of the performance audit work.
- 16 In some cases, the reasoning for the increase will be clear cut – an organisation’s poor preparedness for audit or response to queries can significantly increase the cost of that audit. We would raise this during the audit process. However, we know that our audited bodies cannot easily accommodate increases in their budgeted audit fee; certainly not without notice of that need.
- 17 In other cases, the cost overrun could be down to the Wales Audit Office:
- we might have taken longer to audit a particular aspect than we had expected.
 - one of the team might have been taken unwell, and we had to replace them with a colleague unfamiliar with that audit, or with a more senior colleague than planned. Both could affect the time taken and the cost of the work, and some of the work may need to be redone.
 - particular complexities identified during the audit might have required more senior input than originally envisaged.
- Or:
- a mix of all of the above. As in a commercial situation, the audited body might reasonably say, ‘that’s your problem not mine’ and would certainly not expect us to raise an additional fee to cover these costs.
- 18 **What the ‘must not exceed full cost’ rule creates is a disincentive to be more efficient in delivering the audit – if we complete an audit for less than estimated, it risks compromising our overall financial position in that year. If we run over the estimated costs, it potentially puts us in conflict with the audited body if we advise of the fee increase.**

- 19 From the audited bodies' perspective, they face the risk of surprise additional bills. This leads to those bodies putting pressure on the audit team to justify all the additional work undertaken and hence potentially compromises the auditor's independence. More often, it means that discussions between the audit team and the audited body focus on the time taken to do the work rather than the audit findings we identify.
- 20 In terms of the impact in managing the overall Wales Audit Office budget, gaps between staff cost and fee income over just a few audited bodies can compromise the overall financial position of the Wales Audit Office and the strict requirement for us to work within the approved budgets set by the Assembly. Understandably, a risk averse approach has developed against that backdrop – we simply cannot be in the position of breaching our approved Estimate.
- 21 No sensible business model would work in such a complicated way. When we look to our counterparts in Scotland, their legislative provisions for 'break even on fee-related work taking one year with another' enable them to look at the whole audit and make adjustments as appropriate from one year to the next rather than in that same financial year.

Preferred solution: aim to ensure that fees charged to a person do not exceed the full cost of the work undertaken, taking one year with the next

- 22 We do not believe that the 2013 Act was intended to cause the level of complexity now experienced nor risk compromising the overall financial position of the Wales Audit Office. Nor do we believe the 'may not exceed the full cost' constraint was intended to be a disincentive to be more efficient in delivering audits. This disincentive occurs because the 'may not exceed the full cost' constraint has been included in section 23 of the Act (provisions relating to fees, and in certain places in other legislation) rather than section 24 (provisions for a scheme relating to the charging of fees). The positioning in section 23 results in a strict liability in relation to individual payments for specific aspects of our work, rather than requiring fee scales and fee amounts to be set at an appropriate level in the Fee Scheme for the overall amount of audit work we undertake.

23 To address this problem, we suggest that the Act is amended so that the ‘may not exceed the full cost’ constraint applies to the setting of fee scales and fee amounts in the section 24 Scheme for charging fees, rather than the fees actually charged under section 23 (and relevant provisions in other legislation). We also suggest removing the reference to cost ‘of a function’³ and including provision for ‘taking one year with the next’. Making these changes would retain the discipline of requiring fee scales and fee amounts to be set with a view to recovering no more than the full cost of the work undertaken, but in a less prescriptive and inflexible way than is currently the case. A provision along the following lines in section 24 of the Act should provide sufficient flexibility to improve the cost effectiveness of our management and processing arrangements:

‘In setting fee scales, amounts to be charged and means by which the Wales Audit Office is to calculate fees included in a scheme under this section, the Wales Audit Office must aim to ensure that fees charged to a person do not exceed the full cost of the work undertaken, taking one year with the next.’

Exhibit 5: advantages and disadvantages of preferred solution, to aim to ensure that fees charged to a person do not exceed the full cost of the work undertaken, taking one year with the next

Advantages	Disadvantages
<ul style="list-style-type: none"> • provides greater certainty to audited bodies in relation to the fees we will charge in any one year – reduces the risk of surprise additional bills as fees would be adjusted from year to year instead of in year; • retains assurances around audited bodies only paying for the work undertaken for them; • encourages efficiency in audit delivery on the ground, which could lead to reductions in the cost of audit; • allows the Wales Audit Office to better manage its overall financial position more efficiently; • reduces the risk of legal challenge to interpretations of ‘full cost of a function’; and • comparable with Audit Scotland and the Northern Ireland Audit Office. 	<ul style="list-style-type: none"> • requires legislative change

3 By omission of subsection 23(5)(b) of the 2013 Act, together with omission of subsection 20(5A) of the Public Audit (Wales) Act 2004 and subsection 27(4A) of the Local Government (Wales) Measure 2009.

Case for change: cease the circulation of fee money amongst central government and NHS bodies and bolster audit independence

24 The charging of fees for central government bodies and the NHS represents a circulation of funds within the same sector amounting to c£4.9 million annually. The central government and NHS bodies covered under this definition are as follows:

- Welsh Government
- Arts Council for Wales
- National Assembly for Wales Commission
- Local Democracy and Boundary Commission for Wales
- Children's Commissioner for Wales
- Commissioner for Older People in Wales
- Her Majesty's Chief Inspector of Education & Training Wales (Estyn)
- Education Workforce Council
- Future Generations Commissioner for Wales
- Higher Education Funding Council for Wales
- National Library for Wales
- National Museum and Galleries of Wales
- Natural Resources Wales
- Public Services Ombudsman for Wales
- Qualifications Wales
- Social Care Wales
- Sports Council for Wales
- Welsh Language Commissioner
- Abertawe Bro Morgannwg University Health Board
- Aneurin Bevan University Health Board
- Betsi Cadwaladr University Health Board
- Cardiff and Vale University Health Board

- Cwm Taf University Health Board
- Hywel Dda University Health Board
- Powys Teaching Health Board
- Velindre NHS Trust
- Public Health Wales NHS Trust
- Welsh Ambulance Service NHS Trust

- 25 The Auditor General is charged with reporting to the Assembly in relation to the audit work undertaken at these bodies. In other words, the audit work is undertaken primarily for the Assembly rather than the audited body. These bodies fund the audit fees from their funding secured through Assembly Budget Motion.
- 26 Looking at our counterparts in the other UK audit bodies, we see that such circular cash funding is avoided for government departments – no cash fee is charged (although a notional charge is included in the accounts of those bodies) and the funding for that work is provided to the audit office concerned direct from the relevant Consolidated Fund.
- 27 Such an approach in Wales would enhance audit independence, as auditors would not be subject to undue pressure to curtail their work simply to reduce fees. This would help ensure that sufficient work was undertaken to support the audit opinion and ensure adequate scrutiny. The Auditor General would still be subject to the monitoring and advice of the Wales Audit Office and the legal requirement to exercise functions cost effectively. Furthermore, the Wales Audit Office would still be subject to the Assembly’s scrutiny through the Finance Committee.

Preferred solution: central government and NHS audit work to be cash funded from the Welsh Consolidated Fund (following approval of the Estimate of the Wales Audit Office) instead of fees

- 28 In considering whether to move to this approach for Wales, we see scope to extend the approach to cover the NHS, Welsh Government sponsored bodies and the Commissioner bodies. For all these bodies, the Auditor General also undertakes their work for the Assembly rather than for the audited body. It is therefore arguably also appropriate for the cost of the audits to be funded directly by the Assembly through the Wales Audit Office's budget scrutiny and approval process rather than by the audited body. This approach bolsters audit independence from the body being audited.
- 29 The estimated total cost of the audit work across these bodies (in the order of £4.9 million) would be included in the annual Estimate of the Wales Audit Office, to be funded from the Welsh Consolidated Fund. It would be balanced by a one-off adjustment to the Welsh Government's budget and other relevant bodies.
- 30 We would provide relevant audited bodies with a notional fee cost, for inclusion in their Resource Budget and Annual Accounts, per Financial Reporting Manual requirements. The key change is that we would no longer physically raise invoices for that work nor have transfers between bank accounts for the sums invoiced.

Exhibit 6: advantages and disadvantages of preferred solution, for central government and NHS audit work to be cash funded from the Welsh Consolidated Fund instead of fee invoices

Advantages	Disadvantages
<ul style="list-style-type: none"> • puts Wales more in line with arrangements in Audit Scotland, the National Audit Office and the Northern Ireland Audit Office; • ceases the circulation of c£4.9 million cash amongst the central government/ NHS sector and provides for funding through the Wales Audit Office Estimate instead; • links Assembly funding more directly to the audit work reported to the Assembly in relation to these audited bodies; • enhanced audit independence; • improved efficiency at the Wales Audit Office and relevant audited bodies by cutting out some transaction processing; and • can be introduced without change to legislation. 	<ul style="list-style-type: none"> • potential increased complexity for the Welsh Government in reconciling entries for resource budgets and the Whole of Government Accounts across relevant bodies.

Case for change: give the Wales Audit Office full discretion in determining payment for agreement work so as enable it to use any surpluses as part of its financial strategy

- 31 Our fee regime is such that we may not charge more than the full cost of the work that we do – whether done under statute or by agreement. This is unfortunate, as, on occasion, there may be opportunities for us to undertake work by agreement where, if we were allowed to charge for that work on a competitive basis, we believe we could secure a better overall financial position and one which could actually reduce our call on public funds (that is, the funding we receive from the Welsh Consolidated Fund or through audit fees charged to public bodies) by reducing our net operating costs.
- 32 Such a change would enable us to retain funds where a surplus is made rather than the current situation where, even with a competitive tender in place, if our actual costs at the end of a project are less than the quoted/tendered fee, we have to refund the difference.
- 33 We see potential to use this greater discretion as part of our financial strategy in the long-term.

Preferred solution: legislative change to enable the Wales Audit Office to fully determine payment terms for agreement work

- 34 We believe that adopting a model where the payment terms of agreement work can be fully determined by the Wales Audit Office, rather than being constrained in legislation, would enable greater economy in the cost of public audit in Wales. We have faced the position of having to part-refund fees because the final cost of the work came out less than the figure agreed through a competitive tender process; this seems nonsensical.

Exhibit 7: advantages and disadvantages of preferred solution, for legislative change to enable the Wales Audit Office to fully determine payment terms for agreement work

Advantages	Disadvantages
<ul style="list-style-type: none">• Reflects the National Audit Office, Audit Scotland and Northern Ireland Audit Office models;• increases flexibility for the Wales Audit Office to make decisions in the best interests of resource usage; and• potential to reduce our net operating cost, resulting in a lower overall cost of public audit to be recovered through fee rates.	<ul style="list-style-type: none">• requires legislative change.

Other options considered then ruled out

- 35 In reaching our preferred solutions set out above, we also considered and ruled out the following options, explained further in [Appendix 3](#):
- Do nothing and continue with the complexities as they stand; and
 - Instead of having some funding from fees, fund the Wales Audit Office entirely from the Welsh Consolidated Fund.
- 36 Doing nothing would leave us to grapple with the current complexities, with continued uncertainty in the actual fees charged to an audited body and the continued perverse incentive against improving efficiency in audit delivery on the ground.
- 37 We do not consider that funding the Wales Audit Office entirely from the Welsh Consolidated Fund would be appropriate, as it would lead to the Welsh Consolidated Fund bearing the cost of agreement work done outside Wales. It would also be at odds with the funding of the other UK audit bodies and would require more extensive legislative change.

Discussion questions

We would welcome your responses in the following areas, as relevant to you:

- question 1: with the assurance that audited bodies would not be charged more than the audit has cost taking one year with the next, would you be supportive of simplification in the audit fee regime in Wales to support audit efficiency?
- question 2: for central government bodies and the NHS in Wales, would you like to move to a position where fees are set notionally for the audited body but are not physically billed? Instead the fee would be cash funded through the Wales Audit Office Estimate.
- question 3: do you think the Wales Audit Office should be able to determine what to charge for non-statutory audit work, where others commission us for work by agreement?

We would welcome your responses by 28 July 2017.

The Wales Audit Office will share the consultation responses with the Assembly's Finance Committee as part of ongoing discussions seeking simplification of the fee regime.

Thank you for taking the time to respond. We will let you know when we publish a summary of the responses.

Appendices

Appendix 1: Extracts of legislation governing the fee regime amongst UK audit bodies

Wales Audit Office: Section 20 of the Public Audit (Wales) Act 2004

20 Fees in respect of functions exercised by the Auditor General for Wales

- A1 The Wales Audit Office must, in accordance with a scheme for charging fees prepared under section 24 of the Public Audit (Wales) Act 2013, charge a fee in respect of functions exercised by the Auditor General for Wales—
- a in auditing the accounts of local government bodies in Wales under this Chapter, and
 - b in undertaking studies at the request of a local government body under section 44.
- 1 The Wales Audit Office must prescribe a scale or scales of fees payable for one or more financial years in respect of the audit of accounts of local government bodies in Wales under this Chapter.
- 2 Before prescribing a scale of fees under subsection (1) the Wales Audit Office must consult -
- a any associations of local government bodies in Wales which appear to the Wales Audit Office to be concerned, and
 - b such other persons as the Wales Audit Office thinks fit.
- 3 [repealed]
- 4 A local government body in Wales must, subject to subsection (5), pay to the Wales Audit Office the fee payable in respect of the audit in accordance with the appropriate scale.
- 5 If it appears to the Wales Audit Office that the work involved in a particular audit differed substantially from that envisaged by the appropriate scale, the Wales Audit Office may charge a fee which differs from that referred to in subsection (4).
- 5A But a fee charged under this section may not exceed the full cost of exercising the function to which it relates.
- 6 [repealed]

Sections 23 and 24 of the Public Audit (Wales) Act 2013

23 General provision relating to fees

- 1 Fees and other sums received by the Auditor General must be paid to the WAO.
- 2 The WAO may charge a fee in relation to the audit of a person's accounts or statement of accounts by the Auditor General.
- 3 The WAO may charge a fee in relation to -
 - a an examination, certification or report under paragraph 18(3) of Schedule 8 to the Government of Wales Act 2006 (certain examinations into the economy etc with which a person has used resources);
 - b an examination under section 145 of the Government of Wales Act 1998 (examinations into the use of resources) or a study under section 145A of that Act (studies for improving economy etc in services), where undertaken at a person's request;
 - c an examination or study undertaken by the Auditor General at a person's request under section 46(4) of the Environment Act 1995;
 - d any services provided or functions exercised under section 19.
- 4 The WAO must charge a fee in relation to -
 - a the provision of services to a body under paragraph 20 of Schedule 8 to the Government of Wales Act 2006 (certification of claims, returns etc at the request of a body);
 - b a study at the request of an educational body under section 145B of the Government of Wales Act 1998.
- 5 Fees under this section -
 - c may only be charged in accordance with a scheme prepared by the WAO under section 24;
 - d may not exceed the full cost of exercising the function to which the fee relates;
 - e are payable to the WAO by the person to whom the function being exercised relates.

24 Scheme for charging fees

- 1 The WAO must prepare a scheme relating to the charging of fees by the WAO.
- 2 The scheme must include the following -
 - a a list of the enactments under which the WAO may charge a fee;
 - b where those enactments make provision for the WAO to prescribe a scale or scales of fees, that scale or those scales;
 - c where those enactments make provision for the WAO to prescribe an amount to be charged, that amount;
 - d where no provision is made for a scale or scales of fees or for an amount to be prescribed, the means by which the WAO is to calculate the fee.
- 3 The scheme may, amongst other things -
 - a include different provision for different cases or classes of case, and
 - a provide for times at which and the manner in which payments are to be made.
- 4 The WAO -
 - a must review the scheme at least once in every calendar year,
 - b may revise or remake the scheme at any time, and
 - c must lay the scheme (and any revision to it) before the National Assembly.
- 5 Where the Welsh Ministers prescribe a scale or scales of fees under -
 - a section 64F of the Public Audit (Wales) Act 2004 (fees for data matching), or
 - b section 27A of the Local Government (Wales) Measure 2009 (Welsh Ministers' power to prescribe a scale of fees), to have effect instead of a scale or scales prescribed by the WAO, the WAO must revise the scheme to include the scale or scales prescribed by the Welsh Ministers instead of those prescribed by the WAO.

- 6 If a revision made in accordance with subsection (5) is the only revision to a scheme, it does not require the approval of the National Assembly.
- 7 The scheme takes effect when approved by the National Assembly or, in the case of a revision made in accordance with subsection (5), once it has been laid before the Assembly.
- 8 The WAO must publish the scheme (and any revision to it) as soon as reasonably practicable after it takes effect.

National Audit Office: Paragraph 8 of schedule 3 to the Budget Responsibility and National Audit Act 2011

8 Audit fees etc(1) NAO may charge fees for audits carried out by the Comptroller and Auditor General.

- 1 Any fees must be charged in accordance with a scheme prepared by NAO.
- 2 The scheme (including any revision) must be approved by the Public Accounts Commission.
- 3 The agreement of a Minister of the Crown is required for the charging of a fee if the accounts to be audited are the accounts of a body or other person who acts on behalf of the Crown.
- 4 Sub-paragraphs (1) to (4) do not apply in relation to an audit carried out as part of any NAO-approved services.
- 5 The Comptroller and Auditor General may charge fees and other amounts in relation to NAO-approved services, but only in accordance with the agreement or other arrangements under which the services are provided.
- 6 Fees and other amounts received by the Comptroller and Auditor General must be paid to NAO.
- 7 Fees and other amounts received by NAO under this paragraph must be paid into the Consolidated Fund.

Northern Ireland Audit Office: Article 7 of the Audit (Northern Ireland) Order 1987

7 Audit fees

- 1 Subject to paragraph (2), the Comptroller and Auditor General may charge a fee for auditing the accounts of any person or body.
- 2 The Comptroller and Auditor General shall not without the consent of a Northern Ireland department charge a fee for auditing the accounts of a person or body whose functions are discharged on behalf of the Crown; and this Article shall not be construed as authorising the charging of a fee for the audit by agreement of the accounts of any other person or body unless the agreement so provides.
- 3 Any fee received by the Comptroller and Auditor General by virtue of this Article shall be paid by him into the Consolidated Fund.

Article 8 of the Local Government (Northern Ireland) Order 2005

8 Audit fees

There shall be paid to the Comptroller and Auditor General for Northern Ireland by every body whose accounts are audited by the local government auditor such fees as the local government auditor may determine.

Audit Scotland: Section 11 of the Public Finance and Accountability (Scotland) Act 2000

11 Audit Scotland: financial provisions

- 1 Audit Scotland may impose reasonable charges in respect of the exercise of its functions in connection with—
 - a the provision of services under arrangements made in pursuance of section 10(5),
 - b the audit under sections 21 and 22 of an account, other than one prepared in pursuance of section 19(1) to (3) or 20(1),
 - c the carrying out under section 23 of an examination, other than one in respect of an office-holder in the Scottish Administration or a body or other office-holder to whom sums are paid out of the Fund,
 - ca carrying out a data matching exercise under section 26A,
 - d the audit of an account in pursuance of Part VII of the Local Government (Scotland) Act 1973 (c.65),

- e the undertaking or promotion of any study under section 97A or 105A of that Act,
 - f the giving of directions under section 1 of the Local Government Act 1992 (c.19).
- 2 Charges under subsection (1) may be determined by reference to particular cases or classes of case.
 - 3 In determining the amounts of those charges Audit Scotland must seek to ensure that the total sum received in respect of the charges is, taking one year with another, broadly equivalent to its expenditure in connection with the matters mentioned in subsection (1)(a) to (f).
 - 4 Charges under subsection (1)(b) to (f) are payable by the body or office-holder whose account is audited or, as the case may be, in respect of whom the examination is carried out, the study undertaken or promoted or the direction given.
 - 5 Where a charge under subsection (1)(c), (e) or (f) relates to an examination, study or direction in respect of more than one body or office-holder, each body or office-holder is to pay such proportion of the charge as is determined by Audit Scotland.
- 5A Charges under subsection (1)(ca) may be imposed on (either or both) -
 - a persons who disclose data for a data matching exercise,
 - b persons who receive the results of such an exercise.
 - 6 Sums received by Audit Scotland in respect of charges under subsection (1) are to be retained by it and applied to meet the expenditure mentioned in subsection (3).
 - 7 Any other sums received by Audit Scotland are to be paid into the Fund, subject to any provision made by any enactment for such sums to be applied for any purpose instead of being paid into the Fund.
 - 8 Any expenditure of Audit Scotland, so far as not met out of sums received and applied in accordance with subsection (6), is payable out of the Fund.
 - 9 Audit Scotland must, for each financial year, prepare proposals for its use of resources and expenditure and send the proposals to the Scottish Commission for Public Audit (constituted under section 12), which is to examine the proposals and report to the Parliament on them.

Appendix 2: List of enactments under which the Wales Audit Office may and must charge fees

Exhibit 8: list of enactments under which the Wales Audit Office may and must charge fees

Nature of work	Enactments
The Wales Audit Office may charge fees for the following activities:	
<ul style="list-style-type: none"> audit of accounts by the Auditor General (other than local government accounts). 	<ul style="list-style-type: none"> section 23(2) Public Audit (Wales) Act 2013
<ul style="list-style-type: none"> value-for-money studies undertaken by agreement. 	<ul style="list-style-type: none"> section 23(3)(a)-(c) Public Audit (Wales) Act 2013
<ul style="list-style-type: none"> an examination, certification or report under section 31 of the Tax Collection and Management (Wales) Act 2016 in respect of the Welsh Revenue Authority's Tax Statement. 	<ul style="list-style-type: none"> section 23(3)(ba) Public Audit (Wales) Act 2013 (Not yet commenced. Date to be appointed.)
<ul style="list-style-type: none"> an examination under section 15 of the Well-being of Future Generations (Wales) Act 2015 (anaw 2) (examinations of public bodies for the purposes of assessing the extent to which a body has acted in accordance with the sustainable development principle). 	<ul style="list-style-type: none"> section 23(3)(ca) Public Audit (Wales) Act 2013
<ul style="list-style-type: none"> any functions of a relevant authority exercised by the Wales Audit Office or the Auditor General and undertaken by agreement, and any administrative, professional or technical services to be provided by the Wales Audit Office or the Auditor General by arrangement under section 19 of the Public Audit (Wales) Act 2013. 	<ul style="list-style-type: none"> section 23(3)(d) Public Audit (Wales) Act 2013
<ul style="list-style-type: none"> an extraordinary audit of the accounts of a local government body. 	<ul style="list-style-type: none"> section 37(8) of the Public Audit (Wales) Act 2004
<ul style="list-style-type: none"> data-matching exercises. 	<ul style="list-style-type: none"> section 64F(A1) of the Public Audit (Wales) Act 2004 a fee scale must be prescribed for this work

Nature of work	Enactments
The Wales Audit Office may charge fees for the following activities:	
<ul style="list-style-type: none"> advice and assistance provided by the Auditor General for registered social landlords. 	<ul style="list-style-type: none"> section 145D(2) of the Government of Wales Act 1998
<ul style="list-style-type: none"> work under the Local Government (Wales) Measure 2009. 	<ul style="list-style-type: none"> section 27 of the Local Government (Wales) Measure 2009 a fee scale must be prescribed for this work
<ul style="list-style-type: none"> grant certification services. 	<ul style="list-style-type: none"> section 23(4)(a) Public Audit (Wales) Act 2013
<ul style="list-style-type: none"> studies at the request of educational bodies under section 145B of the Government of Wales Act 1998. 	<ul style="list-style-type: none"> section 23(4)(b) Public Audit (Wales) Act 2013
<ul style="list-style-type: none"> auditing the accounts of a local government body and undertaking studies by agreement with a local government body. 	<ul style="list-style-type: none"> section 20(A1)(a)-(b) of the Public Audit (Wales) Act 2004 a fee scale must be prescribed for the audit of the accounts of local government bodies
<ul style="list-style-type: none"> benefit administration studies for the Secretary of State. The Auditor General may conduct or assist the Secretary of State in conducting a benefit administration study only if the Secretary of State has made arrangements for the payment to the Wales Audit Office of a fee in respect of the study. The amount of the fee must be a reasonable amount agreed between the Secretary of State and the Wales Audit Office. 	<ul style="list-style-type: none"> section 45 of the Public Audit (Wales) Act 2004
<ul style="list-style-type: none"> assisting Her Majesty's Chief Inspector of Education and Training in Wales with inspections of local authorities. The Auditor General shall not provide such assistance unless, before he does so, the Chief Inspector has agreed to pay the Wales Audit Office a fee. 	<ul style="list-style-type: none"> section 41A of the Education Act 1997

Nature of work	Enactments
The Wales Audit Office may charge fees for the following activities:	
<ul style="list-style-type: none"> programmes of studies relating to registered social landlords undertaken by agreement between the Welsh Ministers and the Auditor General. It shall be a term of every such programme that the Welsh Ministers must pay to the Wales Audit Office a sum in respect of the costs incurred. 	<ul style="list-style-type: none"> section 145C(3) of the Government of Wales Act 1998

Appendix 3: Alternative options considered then ruled out

Exhibit 9: option – do nothing and continue with the complexities as they stand

This option would see no changes made to the fee regime in Wales.

Advantages	Disadvantages
<ul style="list-style-type: none">• Would not require any legislative change.	<ul style="list-style-type: none">• we will continue to grapple with the complexities explained in this discussion paper, with continued perverse incentives to deliver audit work to the agreed fee instead of securing greater efficiency on the ground.

Exhibit 10: option – funding the Wales Audit Office entirely from the Welsh Consolidated Fund instead of having some funding from fees

This option would provide a fundamentally different funding regime in Wales to the rest of the UK.

Advantages	Disadvantages
<ul style="list-style-type: none"> • simplification of the whole fee regime with no fee charged for statutory audit work across all sectors; • good for audit independence and ensuring the accountability of audited bodies – avoids protracted discussions around fees; and • potential savings in relation to efficiency in management and administrative processes, so reducing the overall cost of public audit. 	<ul style="list-style-type: none"> • Requires extensive legislative change. • differs to arrangements for public audit in the rest of the UK; • would not be appropriate for the Welsh Consolidated Fund to bear the cost of agreement work done outside Wales; • dilutes the accountability of audited bodies in terms of preparing good quality accounts (ie not incurring additional audit fee because of poor quality); • local government is not wholly funded through the Welsh Consolidated Fund, yet its audit fees would become so; • reduces scope to adjust one funding source to offset changes in another; • extent of audit work could be influenced through funding decisions of the Assembly’s Finance Committee, which is counter to the independence of the Auditor General; and • potential increased complexity for the Welsh Government in reconciling entries for resource budgets and the Whole of Government Accounts across relevant bodies.

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