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Dear colleagues

### **Local government audit and inspection fee scales 2012-13**

#### **Including fee scales for the audit of the 2011-12 accounts of local authorities, criminal justice, fire and rescue services, national park authorities, pension funds and community councils**

I am required to consult on and prescribe scales of fees payable in respect of the audit of accounts of local government bodies in Wales. I am also required to consult on and prescribe scales of fees in respect of audits, assessments and special inspections carried out under the Local Government (Wales) Measure 2009.

This letter outlines my fee scale proposals for 2012-13. More detailed information is provided in the appendices to this letter.

Fee scales provide a framework within which auditors can discuss and agree fees with local government bodies. Fee scales also enable me to identify and challenge fees that appear to be either too high or too low to enable auditors to properly discharge their responsibilities.

When prescribing fee scales I endeavour to ensure that the fees generated enable the Wales Audit Office, taking one year with another, to maintain financial balance in its local government work, and that there is no cross subsidy between local government audits and those of central government and NHS Wales.

All public sector bodies, including the Wales Audit Office, face the challenge of continuing to deliver the best possible services against a background of unprecedented pressures on public finances. On a cumulative basis between 2009-10 and 2012-13, we expect to deliver a real terms reduction in total annual expenditure of close to 25 per cent. The overall level of one-off and recurring savings that we achieved in 2010-11 alone through both cost reduction and greater efficiency in areas such as staff costs and ICT

expenditure was over £1 million. Whilst this scale of in-year savings was exceptional and will not be repeatable in future years, I am committed to ongoing review and challenge of our expenditure and working practices to ensure we deliver our work as cost-effectively as possible, whilst maximising its impact.

In parallel, and in recognition of the financial constraints faced by public sector bodies, we are continuing to seek to reduce our audit fees. Between 2009 and 2011 we achieved a cash terms reduction of £1.27 million (eight per cent) in the fees we charged for our work. Whilst new accounting and disclosure requirements under International Financial Reporting Standards and the introduction of 'clarified' International Standards on Auditing are putting increased pressure on auditor workloads, we continue to mitigate the impact on audited bodies by working more efficiently, rather than raising our fees. We are also continuing to develop ways in which high levels of public assurance can be secured for less resource, including by placing further appropriate reliance on robust review by others and self-assessment by audited bodies.

For 2012-13, through making cost savings, exercising pay restraint and achieving efficiency improvements, I am able to propose the following revisions to my fee scales and associated fee rate ranges:

- lower fee scale medians and narrower fee ranges for most types of local government body (see Appendix 1);
- lower fee rate ranges for work that requires particular specialist skills, knowledge and experience (see Appendix 2);
- lower fee rate ranges for most grades of staff carrying out work in relation to the certification of claims and returns, and reductions to the relative proportion of senior staff to be used on such work (see Appendix 3); and
- no uplifts to fee scales for inflation, which despite the ongoing economic situation is running at between two and three per cent (see Appendix 4).

Taken together my proposals, as outlined in my annual estimate of income and expenses (see Appendix 4), have the potential to deliver one further round of cash terms fee reductions of up to five per cent overall over the coming year. However, I do not expect that fee reductions will be evenly spread; indeed some bodies' fees may well rise.

The potential for any fee reductions will depend on each local body's circumstances. The fee must be sufficient to fund the work required considering local circumstances such as the governance environment, risk, financial and performance management arrangements, size, complexity and the body's track record on improvement. If unplanned or additional work is required as a result of failures by audited bodies to provide what auditors need for them to do their work efficiently, additional fees will be charged commensurate with the additional work involved. In all our activities, I am determined that our work will provide the people of Wales with independent robust information on how their money is spent.

Your local audit team will be able to provide more detail on fees at a local level.

I look forward to receiving your comments on my fee scale proposals by Friday 2 December 2011.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Huw Vaughan Thomas'.

**Huw Vaughan Thomas**  
**Auditor General for Wales**

# Appendix 1

## Fee scales

The proposed fee scales for annual audit work are underpinned by a zero-based approach to audit planning. Resource requirements are converted into fee scales directly based on the costs of delivering the work, which include travel and subsistence. The proposed fee scales for 2012-13, which have been benchmarked against fees charged by other UK audit agencies, are presented in a tabular format. Additional information and guidance on fee setting, including graphical representations of fee scales, is now included on the Wales Audit Office website, as part of my commitment to demonstrating openness and transparency in the way I operate and how I communicate with the public (see Appendix 4 for links).

Annual audit work includes all work undertaken in relation to the audit of accounts, studies and assessment work carried out under the Local Government (Wales) Measure 2009, where applicable.

Annual audit work does not include that which goes beyond the general duties of auditors, such as elector challenge, reports in the public interest, extraordinary audit, special inspections and work in relation to the prevention of unlawful expenditure (see Appendix 2).

Separate fee rates also apply to work undertaken to certify claims and returns in respect of grants paid or subsidies made to local government service bodies (see Appendix 3).

Auditors will use their professional judgment, informed by my Code of Audit Practice, relevant accounting and auditing standards and guidance issued on my behalf to determine where a particular audited body lies on the prescribed fee scale for that type of body.

Where proposed fees fall outside the prescribed fee scale or have changed by more than  $\pm 10$  per cent year-on-year I will review the proposed fees to ensure that they are adequately explained by relevant circumstances. This will constrain the potential for excessive or inadequate fees to arise. Following the application of these controls the fee will be discussed with the relevant audited body and, subject to any further information arising that affects the work to be done, will be confirmed as the fee to be charged to that body.

Please note that as billing arrangements for the Measure assessment work are already in place for the period ended 31 March 2012 those arrangements will not alter until periods from April 2012 onwards.

All the 2012-13 fee scales exclude VAT which will be charged at the standard rate as appropriate.

**2012-13 fee scale for unitary authorities**

Gross expenditure £000,000	Fee range £000			
	Minimum	Median	Maximum	2011-12 median
100	157	196	235	206
200	192	242	291	256
300	216	273	330	290
400	235	298	361	317
500	251	319	387	340
600	265	337	409	360
700	277	353	429	377
800	288	367	447	393
900	298	381	464	408
1,000	307	393	479	421
1,100	316	404	493	434
1,200	324	415	507	446
1,300	331	425	519	457
1,400	339	435	531	468

**2012-13 fee scale for pension funds**

All pension funds	Fee range £000			
	Minimum	Median	Maximum	2011-12 median
	20.0	27.5	35.0	25

**2012-13 fee scale for national park authorities**

Gross expenditure £000,000	Fee range £000			
	Minimum	Median	Maximum	2011-12 median
1	10	12	15	14
2	13	17	21	18
3	15	20	24	21
4	17	22	27	23
5	19	24	30	25
6	20	26	32	27
7	21	28	35	28
8	23	30	37	30
9	24	31	38	31
10	25	32	40	32

**2012-13 fee scale for fire and rescue authorities**

Gross expenditure £000,000	Fee range £000			
	Minimum	Median	Maximum	2011-12 median
10	30	37	45	39
20	38	48	58	51
30	43	55	67	59
40	48	61	74	65
50	52	66	81	71
60	56	71	86	76
70	59	75	91	80
80	61	79	96	84
90	64	82	100	88
100	66	85	104	91

**2012-13 fee scale for police authorities, probation trusts and other types of bodies**

Gross expenditure £000,000	Fee range £000			
	Minimum	Median	Maximum	2011-12 median
1	8	10	12	11
5	15	19	23	21
10	19	25	31	27
25	28	36	45	39
50	37	48	59	52
100	48	63	78	69
150	57	75	92	82
200	64	84	104	92
250	70	92	114	100
300	75	99	122	108
350	80	105	130	115

**2012-13 fee scale for community councils and other types of bodies with income or expenditure up to £1,000,000**

The fee scale for police authorities, probation trusts and other types of bodies is applicable to community councils and other types of local government bodies where income or expenditure exceeds £1 million per annum.

Community councils and other types of local government bodies with income or expenditure up to £1 million are subject to a 'limited assurance' audit regime. Fees for these audits, which vary according to annual turnover, have been subject to only modest changes since one of our predecessor organisations, the Audit Commission, introduced the limited assurance audit arrangement in 2001. The fee scale has been fixed since 2007 and the smallest councils have in fact seen no increase in audit fees since 2001.

In order to reflect increases in delivery costs over the past five years, I have reviewed the scale of audit fees for smaller local government bodies and propose the following changes for 2012-13:

<b>Annual income or expenditure (fees are payable on whichever is the higher each year)</b>	<b>Type of audit</b>	<b>Proposed fee</b>	<b>Fee charged for the last five years</b>
£Nil – £1,000	Basic	No fee payable	<i>No fee payable</i>
£1,001 – £5,000	Basic	£60	£50
£5,001 – £10,000	Basic	£130	£120
£10,001 – £30,000	Basic	£150	£135
£30,001 – £60,000	Basic	£310	£285
£60,001 – £100,000	Basic	£425	£400
£100,001 – £200,000	Basic	£575	£550
£200,001 – £300,000	Intermediate	£920	£875
£300,001 – £400,000	Intermediate	£1,100	£1,050
£400,001 – £500,000	Intermediate	£1,520	£1,450
£500,001 – £750,000	Intermediate	£2,045	£1,950
£750,001 – £1,000,000	Intermediate	£2,625	£2,500

Fees for the limited assurance audit of the 2009-10 accounts of community councils in Wales totalled approximately £182,000, representing 0.49 per cent of their total annual expenditure. The modest increase I propose would increase total audit fees to approximately £195,000, representing 0.54 per cent of total annual expenditure.

In the next 12 months, I will review the effectiveness of the limited assurance audit regime in the light of recent issues identified by appointed auditors across Wales and will consult on audit arrangements for 2013-14 and future years. I will consider the audit fee scale for 2013-14 and future years based upon any conclusions I draw from the review.



## Appendix 2

### Fees for acquiring specialist skills, knowledge and experience

In certain circumstances it may be necessary to use individuals with specialist skills, knowledge and experience, including on work which goes beyond the general duties of auditors, such as elector challenge, extraordinary audit, special inspections and additional work in relation to the prevention of unlawful expenditure. It is essential that individuals with appropriate specialist skills, knowledge and experience are used where needed on more complex work. Additional costs will inevitably be incurred.

To facilitate the use of non-standard fees, I have set the following fee rate ranges for 2012-13 as the basis for local discussion. The actual fee rates charged will be determined in discussion between the appointed auditor/engagement lead and the body to reflect the nature of the work required.

Grade of staff	2012-13 fee rate per hour excluding VAT	2011-12 rate per hour
Appointed auditor/engagement lead	£137 to £261	£183 to £275
Audit/project manager	£98 to £131	£112 to £156
Team leader/senior auditor	£69 to £92	£80 to £97
Other staff	£54 to £67	£51 to £69

Higher rates may be appropriate for certain pieces of work. In such circumstances I must be consulted in advance by the auditor.

### Fees for ancillary work

Audited bodies may make arrangements with me for the appointed auditor (or for me directly) to carry out particular pieces of work that do not fall within the general duties.

Such work should not be accepted if the auditor's or my independence and integrity could be compromised, or could be perceived to be compromised, unless appropriate mitigation and controls can be applied.

Where such work can be carried out within these rules, the fees to be charged are a matter for negotiation between myself and the audited body and are not subject to the scales or rates set out in this letter.

## Appendix 3

### Fees for the certification of grant claims and returns

In carrying out work in relation to government grant claims and other returns under paragraph 20 of Schedule 8 of the Government of Wales Act 2006, appointed auditors act as my agents. I am required to recover, in respect of each grant or return, an amount that covers the full cost of the relevant work undertaken.

Charges for this work are made per diem and will be based on the fee rate ranges set out below. Estimates of the relative proportions of staff grades to be used for different types of grants work are also provided; the proportion of senior staff to be used on such work has reduced in accordance with my new strategy for more cost-effective external audit certification of grant-funded expenditure throughout Wales (see Appendix 4).

The auditor will discuss the actual fee to be charged with the audited body. The fee will reflect the size, complexity or any particular issues in respect of the grant in question.

Grade of staff	Complex grants staff mix %	All other grants staff mix %	2012-13 fee rate per hour excluding VAT	2011-12 rate per hour
Appointed auditor/ engagement lead	1 to 2	0 to 1	£137 to £220	£183 to £229
Audit/project manager	4 to 6	1 to 2	£98 to £123	£112 to £134
Team leader/senior auditor	18 to 21	12 to 16	£69 to £86	£80 to £89
Other staff	77 to 71	87 to 81	£54 to £67	£51 to £69

Complex grants are:

- BEN01 Housing and council tax benefits scheme;
- EUR01 2007-13 Structural Funds Programme (Convergence and Regional Competitiveness and Employment);
- HOU03 HRA subsidy (non stock transfer authorities);
- LA01 National non-domestic rates return; and
- PEN05 Teachers' pensions return.

## Appendix 4

### Inflation

This year I am not including an inflationary uplift in the proposed fee scales. Disregarding inflation as part of setting this year's fee scale will provide local government bodies with a further benefit of around two to three per cent (as per the latest available HM Treasury GDP deflator series data), which auditors will absorb.

### Useful links

Please [click here](#) for more information on fee setting and our current fee scales, including graphic versions of fee scales (overlaid with appropriate benchmarking data if required).

Please [click here](#) for a link to my *Code of Audit Practice* and associated documentation including statements of responsibilities.

Please [click here](#) for a link to my *Estimate of the income and expenses of the Auditor General for Wales for the year ending 31 March 2013*, which I presented to the National Assembly's Public Accounts Committee Task and Finish Group on 11 October 2011.

Please [click here](#) for a link to my audited *Annual Report and Accounts 2010-11*.

Please [click here](#) for a link to my consultation on the Wales Audit Office *Grants Strategy* and my response to the consultation.