

24 Cathedral Road / Heol y Gadeirlan
Cardiff / Caerdydd
CF11 9LJ
Tel / Ffôn: 029 20 320500
Fax / Ffacs: 029 20 320600
Email / Epost: wales@wao.gov.uk
www.wao.gov.uk

Date: 07 December 2012
Our ref: 621A2012
Pages: 1 of 11

Dear colleagues

Local government audit and inspection fee scales 2013-14

Including fee scales for the audit of the 2012-13 accounts of unitary authorities, fire and rescue services, national park authorities, probation trusts, pension funds and town and community councils, and estimates for police and crime commissioners and chief constables

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 2013-14. I am only able to provide estimated provisional fee scales for the audit of the accounts of police and crime commissioners and chief constables at this stage. More detailed information is provided in the appendices to this letter.

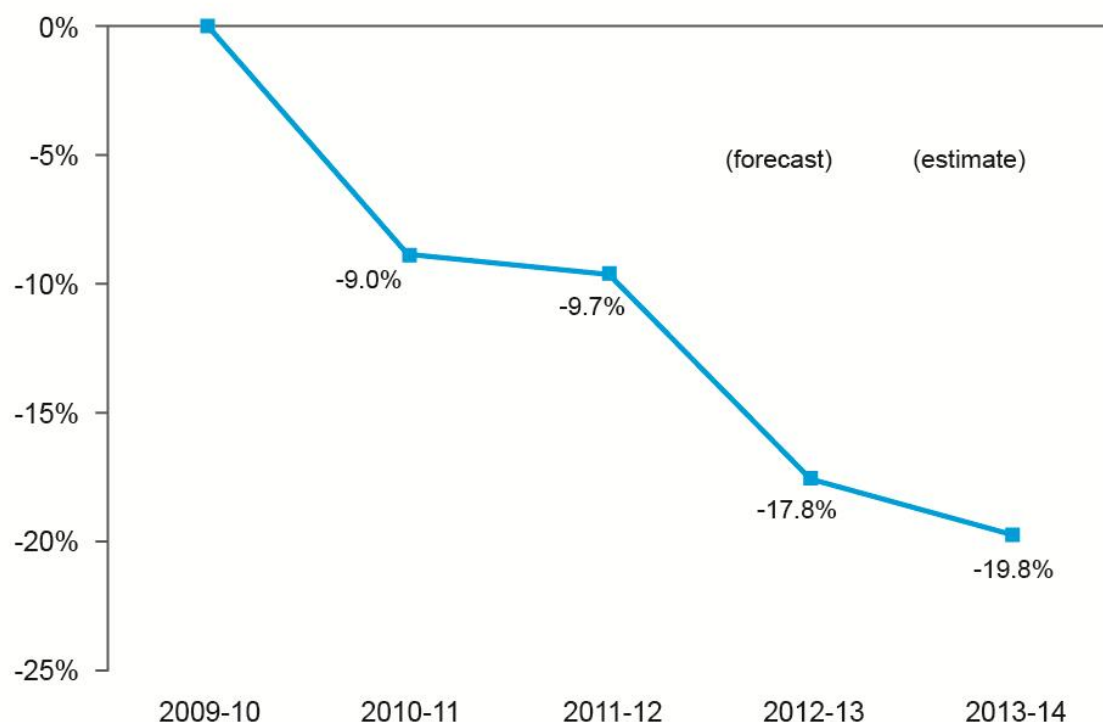
Fee scales provide a framework within which auditors can discuss fees with local government bodies. Fee scales also enable me to identify and challenge fees that appear to be either too high or too low to enable auditors to properly discharge their responsibilities.

When prescribing fee scales I am under a duty to ensure that the fees subsequently generated are sufficient to 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 21 per cent. We will continue to seek further savings and efficiencies wherever possible in 2013-14, which will require some difficult decisions being taken as is the case across the whole of the public sector. However, these savings will not be at the level achieved in previous years, as outlined in my annual estimate of income and expenses (see Appendix 4).

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 in the fees we charged for our audit work, and on a cumulative basis between 2009-10 and 2012-13, we expect to deliver a real terms reduction in fees charged annually to audited bodies of close to 20 per cent (see Exhibit 1).

Exhibit 1: Cumulative real terms reduction in fees charged annually to audited bodies between 2009-10 and 2013-14



For 2013-14, through making further internal efficiencies and exercising pay restraint, I am able to propose the following revisions to my fee scales and associated fee rate ranges:

- lower fee scale medians in real terms for all types of local government body other than national park authorities and police bodies (see Appendix 1);
- lower fee rate ranges in real terms for work that requires particular specialist skills, knowledge and experience (see Appendix 2);
- lower fee rate ranges in real terms for all grades of staff carrying out work in relation to the certification of grant claims and returns (see Appendix 3); and
- no uplifts to any fee scales for inflation, which despite the ongoing economic situation is running at between two and three per cent (see Appendix 4).

In addition, for the duration of the period of austerity, I will halve the threshold (from ± 10 per cent to ± 5 per cent year-on-year) at which I call-in auditor's fee proposals for review to ensure that they are adequately explained by relevant circumstances.

Taken together my proposals have the potential to result in an average real terms decrease in local government audit fees in 2013-14, through fees being held, on average, at the same cash level as for 2012-13.

However, 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 18 January 2013**, following receiving your views on our proposed approach to our work for the period 2013-2016 (see Appendix 4 for link).

Yours sincerely



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 2013-14, which have been benchmarked, where appropriate, 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 included on the Wales Audit Office website (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 ± 5 per cent year-on-year (a reduction on the ± 10 per cent threshold applied in previous years) 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 2013, those arrangements will not alter until periods from April 2013 onwards.

All the 2013-14 fee scales exclude VAT which will be charged at the standard rate as appropriate.

As reported in Auditor General estimate papers submitted to the Public Accounts Committee for every year since the creation of the Wales Audit Office in 2005, discussions are continuing with HMRC on my Value Added Tax (VAT) position. During 2011-12 HMRC made a ruling on my VAT status but discussions are continuing regarding the VAT treatment of work completed for me. It is possible that I may have to change the way in which I charge VAT in the future, and this in turn may affect the amounts paid by audited bodies.

2013-14 fee scale for unitary authorities

Gross expenditure £000,000	Fee range £000			
	Minimum	Median	Maximum	2012-13 median
100	155	196	238	196
200	190	242	293	242
300	215	273	332	273
400	234	298	362	298
500	250	319	388	319
600	264	337	410	337
700	276	353	429	353
800	287	367	447	367
900	297	380	464	381
1,000	307	393	479	393
1,100	315	404	493	404
1,200	324	415	506	415
1,300	331	425	518	425
1,400	339	435	530	435
1,500	346	444	541	444

2013-14 fee scale for pension funds

All pension funds	Fee range £000			
	Minimum	Median	Maximum	2012-13 median
	20.0	27.5	35.0	27.5

2013-14 fee scale for fire and rescue authorities

Gross expenditure £000,000	Fee range £000			
	Minimum	Median	Maximum	2012-13 median
20	37	48	58	48
40	47	61	75	61
60	54	71	87	71
80	60	79	97	79
100	66	85	105	85

2013-14 fee scale for national park authorities

Gross expenditure £000,000	Fee range £000			
	Minimum	Median	Maximum	2012-13 median
2	18	23	28	17
4	24	30	36	22
6	28	35	42	26
8	31	39	47	30
10	33	42	52	32

Whilst individual fees are unlikely to change (subject to changes in local circumstances), the fee scale median for national park authorities (NPAs) will increase for 2013-14. The fee scale proposed now more accurately reflects total Wales Audit Office input and bears better proportionate comparison to the level of direct Wales Programme for Improvement grant that supports our work at NPAs in order to meet the legislative requirements of the Local Government (Wales) Measure 2009.

Estimated 2013-14 fee scale for police and crime commissioners and chief constables

The Police Reform and Social Responsibility Act 2011 abolishes police authorities and establishes, as separate legal entities, a police and crime commissioner (PCC) and the chief constable (CC) in each local police area. This means that auditors will now need to undertake audits of two statutory bodies in a police area, rather than one. The additional work will require some increase in audit fees. At present I am only able to provide a provisional estimate of the extent of this increase (between 15 and 25 per cent in total on the former police authority fee scale) as I am awaiting final confirmation of accounting requirements for the two bodies. 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.

Combined gross expenditure of PCC and CC £000,000	Estimated combined fee range for PCC and CC £000			
	Minimum	Median	Maximum	2012-13 median for police authorities
50	43 to 47	55 to 60	68 to 74	48
100	56 to 61	73 to 79	90 to 97	63
150	66 to 72	86 to 93	105 to 115	75
200	74 to 81	96 to 105	118 to 129	84
250	81 to 88	105 to 115	130 to 141	92
300	87 to 95	113 to 123	139 to 152	99
350	93 to 101	121 to 131	148 to 161	105

2013-14 fee scale for probation trusts and other types of bodies

Gross expenditure £000,000	Fee range £000			
	Minimum	Median	Maximum	2012-13 median
1	8	10	12	10
2	10	13	16	13
10	20	25	31	25
20	26	33	40	33
30	30	39	48	39
40	34	44	54	44
50	37	48	59	48
60	40	51	63	52

2013-14 fee scale for town and community councils and other types of bodies with income or expenditure up to £1,000,000

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

Town and 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, remain fixed for 2013-14. However, 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, and additional fees will be charged commensurate with the additional work involved.

In February 2012 I consulted on changing the current limited assurance audit approach to promote improved governance across all town and community councils (see Appendix 4 for link). The responses to the consultation have been considered and my proposals have been modified, taking account of feedback received from the sector and audit suppliers. I intend to replace the current two-tier (basic/intermediate) approach with a single form of audit for all town and community councils, similar to the current intermediate audit, from the 2013-14 year of accounts onwards. These changes to audit requirements are likely to result in additional audit work related to good governance arrangements at many councils from late 2014. Although the changes to the limited audit regime have been developed with the need to constrain fee increases firmly in mind, they will lead to an increase in fees for some councils compared to the current fee scale. I will consult on the revised fee tables in next year's fee scales consultation.

Annual income or expenditure (fees are payable on whichever is the higher each year)	Type of audit	Proposed fee	Fee charged in 2012-13
£Nil – £1,000	Basic	No fee payable	No fee payable
£1,001 – £5,000	Basic	£60	£60
£5,001 – £10,000	Basic	£130	£130
£10,001 – £30,000	Basic	£150	£150
£30,001 – £60,000	Basic	£310	£310
£60,001 – £100,000	Basic	£425	£425
£100,001 – £200,000	Basic	£575	£575
£200,001 – £300,000	Intermediate	£920	£920
£300,001 – £400,000	Intermediate	£1,100	£1,100
£400,001 – £500,000	Intermediate	£1,520	£1,520
£500,001 – £750,000	Intermediate	£2,045	£2,045
£750,001 – £1,000,000	Intermediate	£2,625	£2,625

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 2013-14 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	2013-14 fee rate per hour excluding VAT	2012-13 rate per hour
Appointed auditor/engagement lead	£137 to £241	£137 to £241
Audit/project manager	£98 to £131	£98 to £131
Team leader/senior auditor	£69 to £92	£69 to £92
Other staff	£54 to £67	£54 to £67

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 was reduced for 2012-13 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 %	2013-14 fee rate per hour excluding VAT	2012-13 rate per hour
Appointed auditor/ engagement lead	1 to 2	0 to 1	£137 to £220	£137 to £220
Audit/project manager	4 to 6	1 to 2	£98 to £123	£98 to £123
Team leader/senior auditor	18 to 21	12 to 16	£69 to £86	£69 to £86
Other staff	77 to 71	87 to 81	£54 to £67	£54 to £67

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 (for the third consecutive 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 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

For a link to my consultation on our proposed approach to our work for the period 2013-2016, 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 2014*, included as Annex 1 to the Public Accounts Committee's subsequent report which endorses my estimate, please [click here](#)

For a link to my audited *Annual Report and Accounts 2011-12*, please [click here](#)

Please [click here](#) for a link to my consultations on:

- the Wales Audit Office *Grants Strategy*; and
- a Contracting Strategy and the Audit of Town and Community Councils.