

Y Pwyllgor Cyllid | Finance Committee

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Archwilydd Cyffredinol Cymru

Auditor General for Wales

Fee Scheme 2017-18



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Fee Scheme 2017-18

This is a fee scheme prepared by the Wales Audit Office under section 24 of the Public Audit (Wales) Act 2013.

This fee scheme is laid before the National Assembly under section 24(4)(c) of the Public Audit (Wales) Act 2013.

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Introduction

- 1 This Fee Scheme has been prepared by the Wales Audit Office under section 24 of the Public Audit (Wales) Act 2013 (the Act) ([Appendix 1](#)). The Fee Scheme, following approval by the National Assembly's Finance Committee, provides the basis on which the Wales Audit Office charges fees.
- 2 The Wales Audit Office Estimate (for 2017-18), considered by the Finance Committee in November 2016, included a draft Fee Scheme in full. This approach reflects the Wales Audit Office Board's determination to further enhance transparency and to demonstrate the direct relationship between our cost base and its resultant impact on fee rates.
- 3 The Board has listened carefully to stakeholder feedback in relation to our cost-efficiency agenda and the fee rates we set. In seeking the National Assembly's support for our Estimate for 2017-18, we proposed in the Estimate:
 - A **third-year** freeze of fee rates and fee scales in cash terms, which feedback told us would be welcomed. In real terms this represents a reduction of four per cent since those rates were set in 2014-15.
 - To meet cost pressures in relation to staff pay, inflation and other costs through internal savings and efficiencies so as not to affect fees.
 - To continue in line with previous National Assembly agreement to fund National Fraud Initiative (NFI) work from our charge on the Welsh Consolidated Fund rather than through fees charged to participating bodies. Feedback told us that audited bodies welcome this approach.
 - To continue to finance development work associated with the Well-being of Future Generations Act 2015 from a charge on the Welsh Consolidated Fund rather than through fees charged to affected bodies.
 - To expand public sector secondment opportunities for our accounting trainees, without impacting on fees charged for audit work.
 - To maintain capacity for transformational thinking in our approaches to audit work. Feedback reinforced the need for us to do more developmental work as part of balancing the overall cost of audit on public bodies.

- 4 This Fee Scheme reflects the approved Estimate and in broad terms sets out:
- The enactments under which the Wales Audit Office charges audit fees.
 - The arrangements for setting those fees, which comprise either:
 - fee scales that set out fee ranges for particular areas of audit work in local government; or
 - fee rates for work not covered by fee scales.
- 5 Broadly, 70 per cent of our expenditure is funded through fees charged to audited bodies and a grant from the Welsh Government to support improvement assessment work. The remaining 30 per cent is provided directly from the Welsh Consolidated Fund through vote of the National Assembly. Further information about our expenditure and funding is contained in annual estimates of income and expenditure which are laid before the National Assembly.

List of enactments

- 6 [Appendix 2](#) sets out the enactments under which the Wales Audit Office may and must charge fees.

Fee rates and fee scales

- 7 The Wales Audit Office does not generate profits on fees. Legislation requires that the fees we charge may not exceed the full cost of exercising the function to which the fee relates. Our fee rates are set at a level to recover that full cost.
- 8 There is a tension between providing audited bodies with an up-front fee for the work to be undertaken on specific audits and having a sufficiently flexible regime that recognises the inevitability of variances. We set our audit fees based on our estimated expenditure, the estimated skills mix and the estimated number of days required to complete the work. Where the required work is significantly greater than that originally estimated, as a result of complexities experienced during the audit, we may charge a higher fee, as permitted by legislation.
- 9 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.
- 10 We went beyond the statutory fee consultation requirements and, in September 2016, consulted all audited bodies and other stakeholders on our fee scales and fee rates for 2017-18. We received responses from across the sectors we audit. Those responses told us that:
 - Continued freezing of fee rates is very much welcomed as is the funding of participation in the National Fraud Initiative.
 - There is some concern, particularly amongst Welsh Government Sponsored Bodies at the potential charges for audit work required by the Well-being of Future Generations Act 2015 not being met by Welsh Government funding.
 - There is some pressure for a more streamlined audit approach, to help reduce overall fees charged for audit work. Funding identified for transformational thinking in 2016-17 is being used to review our approach. This work will continue in 2017-18.

- 11 The Board welcomed this feedback and responds to it through this Fee Scheme and our business planning framework.
- 12 **Exhibit 1** sets out the hourly fee rates for audit staff. These have remained frozen since 2014-15, representing a four per cent reduction in real terms.

Exhibit 1 – Fee rates for audit staff – on all audit work

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	43

- 13 We are required to prescribe fee scales for:
- work relating to the audit of local government bodies;
 - work under the Local Government (Wales) Measure 2009; and
 - data-matching work (NFI).
- 14 Fee scales for the audit of 2016-17 financial accounts and 2017-18 improvement audits and assessments are provided in [Appendix 3](#) in relation to work conducted at unitary authorities, fire and rescue authorities, national park authorities, police and crime commissioners and chief constables, town and community councils and local government pension funds. A separate fee scale is provided in relation to the NFI.
- 15 Fee scales are a means of regulating the cost of public audit, through setting limits and by reviewing fees against those limits. Fee scales also provide a framework for auditors to assess the amount of annual audit work necessary and the fee to be charged for that work at a particular audited body.
- 16 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 fee rates published in this Fee Scheme to the estimated team mix and hours of input required for the audit.
- 17 Auditors undertake grant certification work 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 calculated using the fee rates and reflecting the size, complexity or any particular issues in respect of the grant in question.

- 18 The fee rates apply to all audit work that the Wales Audit Office will charge for, except to the extent that the fee scales, where applicable, regulate the amount to be charged (or in the case of work done by agreements prior to 1 April 2014, rates are in terms 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.
- 19 In the case of the provision of other administrative, professional or technical services provided, fees will be charged in accordance with the relevant agreement, subject to such amounts being capped at the full cost of providing the service. To meet their statutory responsibilities, it is sometimes necessary for auditors to carry out work which goes beyond their general duties. Additional work can include reports in the public interest, extraordinary audit, special inspections and further work in relation to electors' questions and objections, and the prevention of unlawful expenditure. Charges for this type of work will reflect the nature of the work required.
- 20 Where specialist support or legal or other professional advice is required, this will be charged to audited bodies in addition to the cost of Wales Audit Office staff.

Accounting for Highways Network Assets

- 21 The Code of Practice on Local Authority Accounting in the United Kingdom 2016-17 has deferred the move to measuring the local authority highways network asset at depreciated replacement cost instead of depreciated historical cost. The Code Board will consider whether the central GRC rates and central assurance processes will be delivered in a timely manner to enable successful implementation in 2017-2018 at its meeting in March 2017. If the amended measurement requirements are introduced from April 2017 then the required additional audit work cannot be contained within existing fees. The additional audit cost will be agreed based on the quality of the council's systems and records and the availability of central assurances.

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

- 22 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.
- 23 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 have sought continued, albeit reduced, funding from the Welsh Consolidated Fund for that purpose.
- 24 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 additional costs 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.

Charging of fees

- 25 Each body's Engagement Director will explain that body's skills' mix for the audit and the factors influencing the overall fee. Charging arrangements are agreed with audited bodies and may encompass one-off, periodic, regular or annual charging, as appropriate in the circumstances.
- 26 Audited bodies are expected to pay the Wales Audit Office's invoices within their performance target for creditor payments, usually 10 days in the public sector. We may charge for the administrative costs incurred in pursuing late payments.
- 27 On completion of audit assignments, we will assess the actual costs incurred in undertaking the assignment in comparison with the fee charged. 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.

Appendix 1 – Public Audit (Wales) Act 2013 – full text of section 24

- (1) The Wales Audit Office must prepare a scheme relating to the charging of fees by the Wales Audit Office.
- (2) The scheme must include the following:
 - (a) a list of the enactments under which the Wales Audit Office may charge a fee;
 - (b) where those enactments make provision for the Wales Audit Office to prescribe a scale or scales of fees, that scale or those scales;
 - (c) where those enactments make provision for the Wales Audit Office to prescribe an amount to be charged, that amount; and
 - (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 Wales Audit Office is to calculate the fee.
- (3) The scheme may, amongst other things:
 - (a) include different provision for different cases or classes of case; and
 - (b) provide for times at which, and the manner in which, payments are to be made.
- (4) The Wales Audit Office
 - (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 Wales Audit Office, the Wales Audit Office must revise the scheme to include the scale or scales prescribed by the Welsh Ministers instead of those prescribed by the Wales Audit Office.
- (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 National Assembly.
- (8) The Wales Audit Office must publish the scheme (and any revision to it) as soon as reasonably practicable after it takes effect.

Appendix 2 – 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	
Audit of accounts by the Auditor General (other than local government accounts)	Section 23(2) Public Audit (Wales) Act 2013
Value for money studies undertaken by agreement	Section 23(3)(a)-(c) Public Audit (Wales) Act 2013
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	Section 23(3)(ba) Public Audit (Wales) Act 2013
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)	Section 23(3)(ca) Public Audit (Wales) Act 2013
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	Section 23(3)(d) Public Audit (Wales) Act 2013
An extraordinary audit of the accounts of a local government body	Section 37(8) of the Public Audit (Wales) Act 2004
Data-matching exercises	- Section 64F(A1) of the Public Audit (Wales) Act 2004 - A fee scale must be prescribed for this work
Advice and assistance provided by the Auditor General for registered social landlords	Section 145D(2) of the Government of Wales Act 1998

Nature of work	Enactments
The Wales Audit Office must charge fees for the following activities	
Work under the Local Government (Wales) Measure 2009	• Section 27 of the Local Government (Wales) Measure 2009 • A fee scale must be prescribed for this work
Grant certification services	• Section 23(4)(a) Public Audit (Wales) Act 2013
Studies at the request of educational bodies under section 145B of the Government of Wales Act 1998	• Section 23(4)(b) Public Audit (Wales) Act 2013
Auditing the accounts of a local government body and undertaking studies by agreement with a local government body	• 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
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.	• Section 45 of the Public Audit (Wales) Act 2004
Assisting Her Majesty's Chief Inspector of Education and Training in Wales with inspections of local authorities. The Auditor General for Wales shall not provide such assistance unless, before he does so, the Chief Inspector has agreed to pay the Wales Audit Office a fee.	• Section 41A of the Education Act 1997
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.	• Section 145C(3) of the Government of Wales Act 1998

Appendix 3 – Fee scales for work undertaken at local government bodies

Unitary authorities

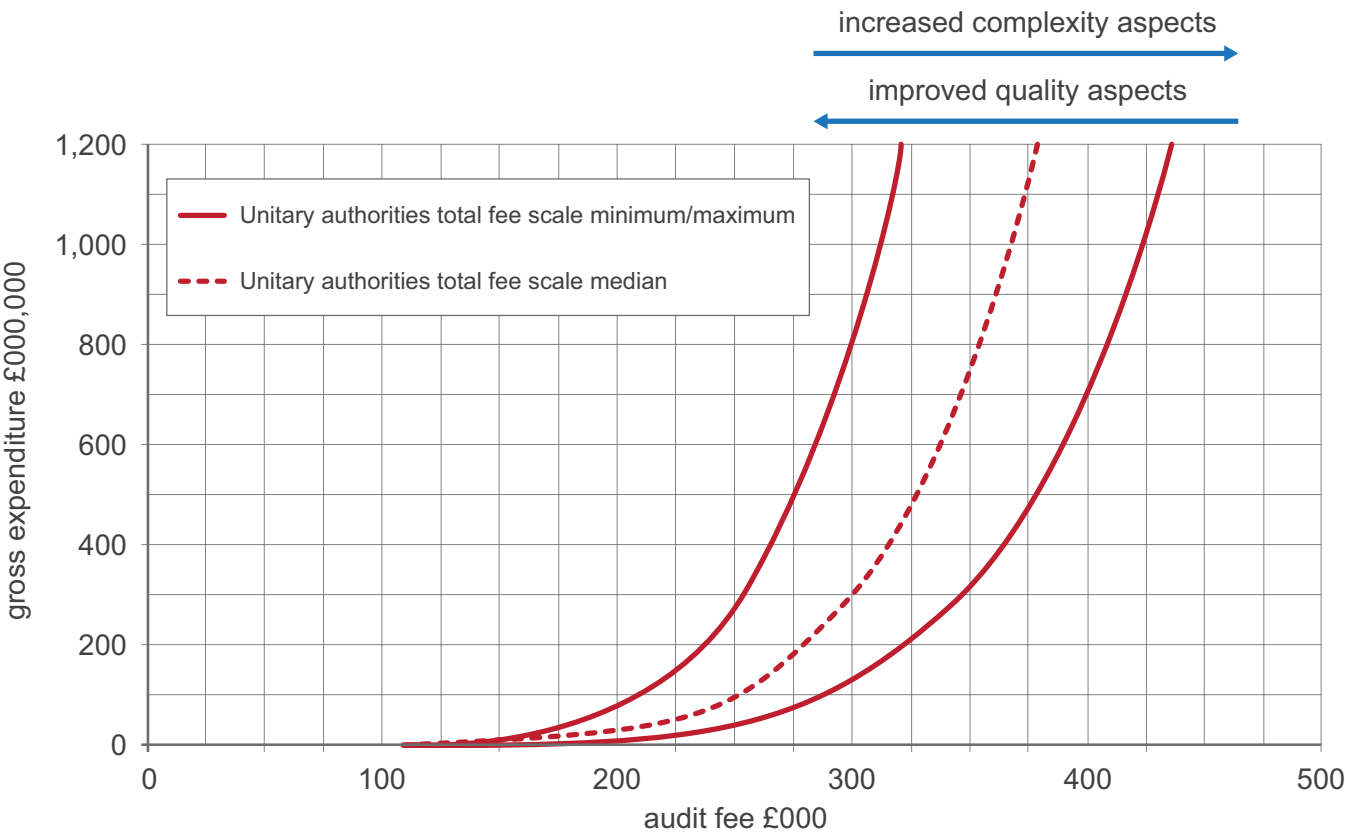
Fee scale for audit of 2016-17 accounts

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

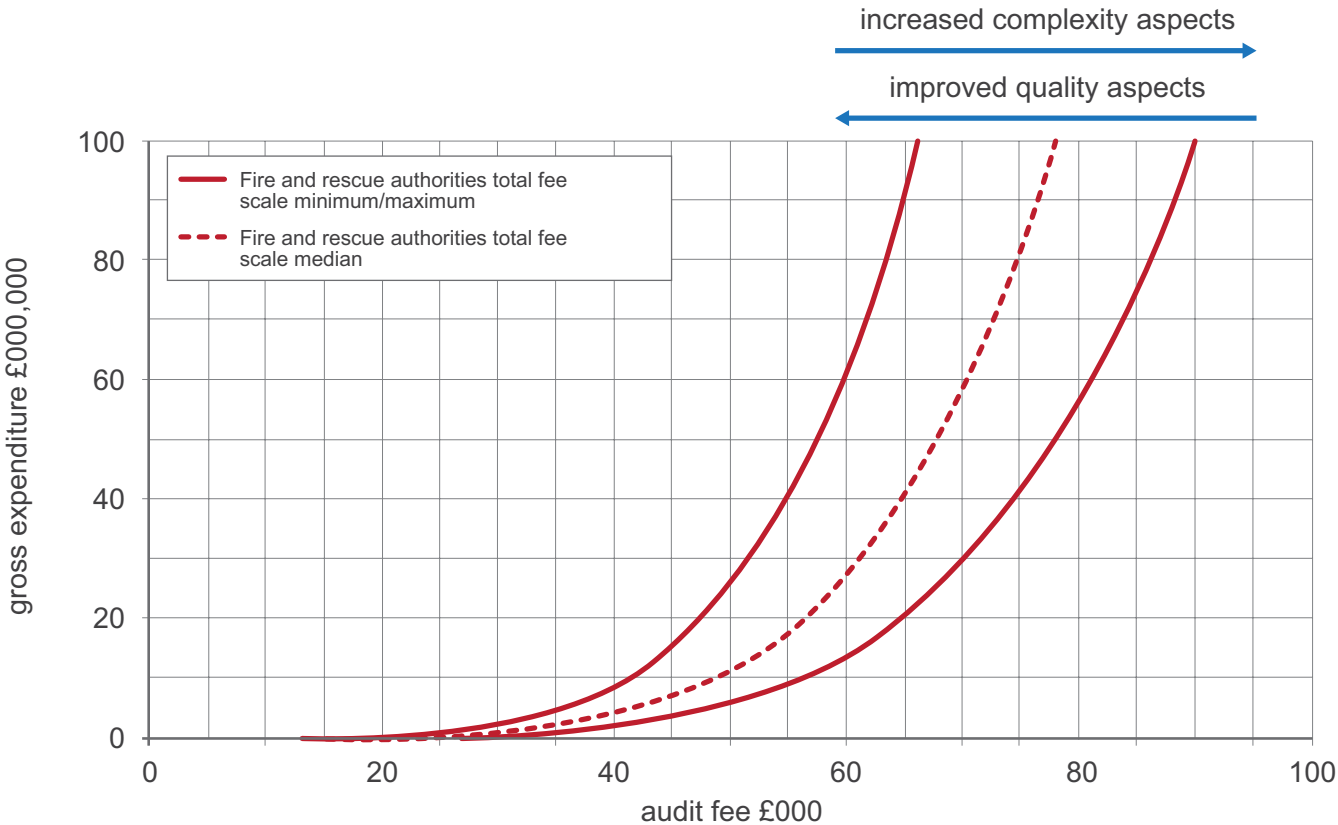
Fee scale for audit of 2016-17 accounts

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

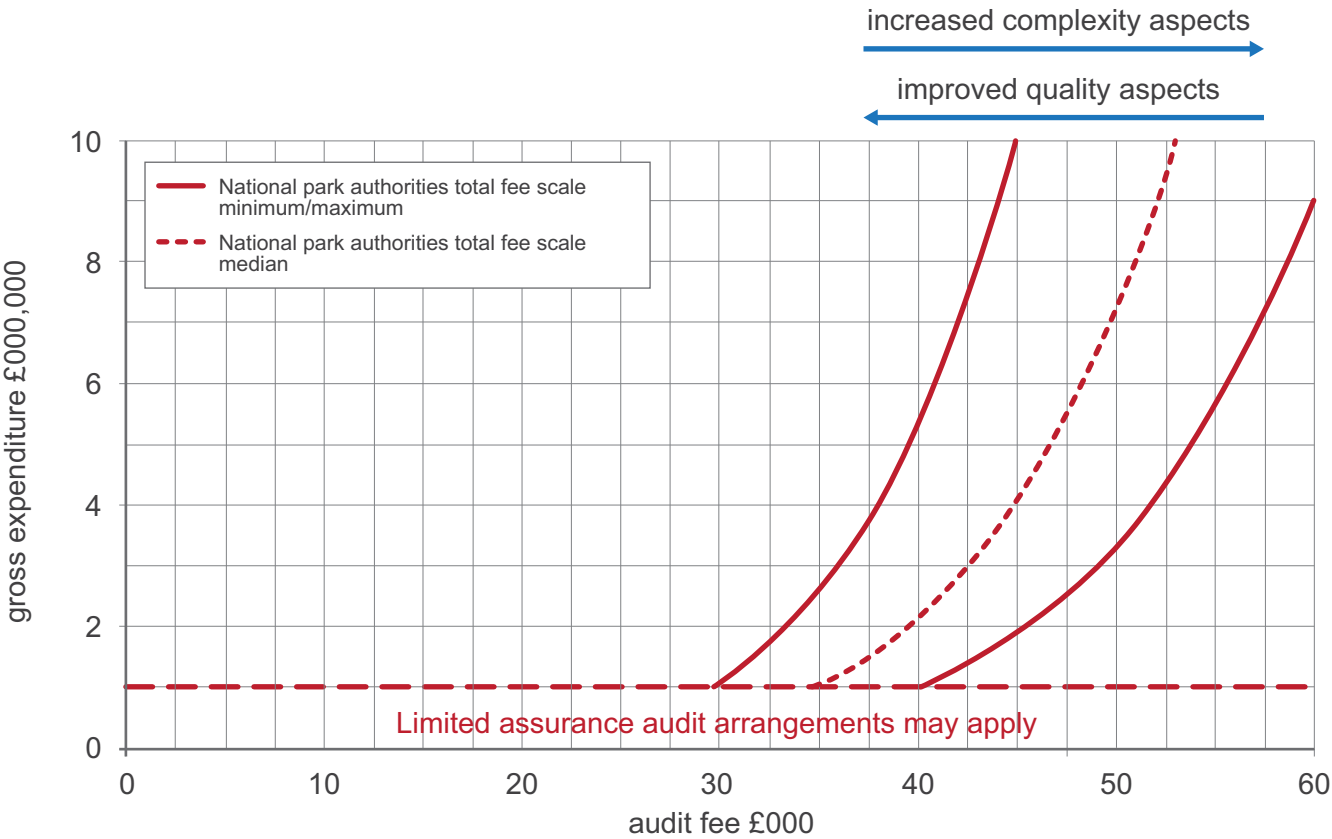
Fee scale for audit of 2016-17 accounts

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 2009

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

Graphic of total fee scale for national park authorities



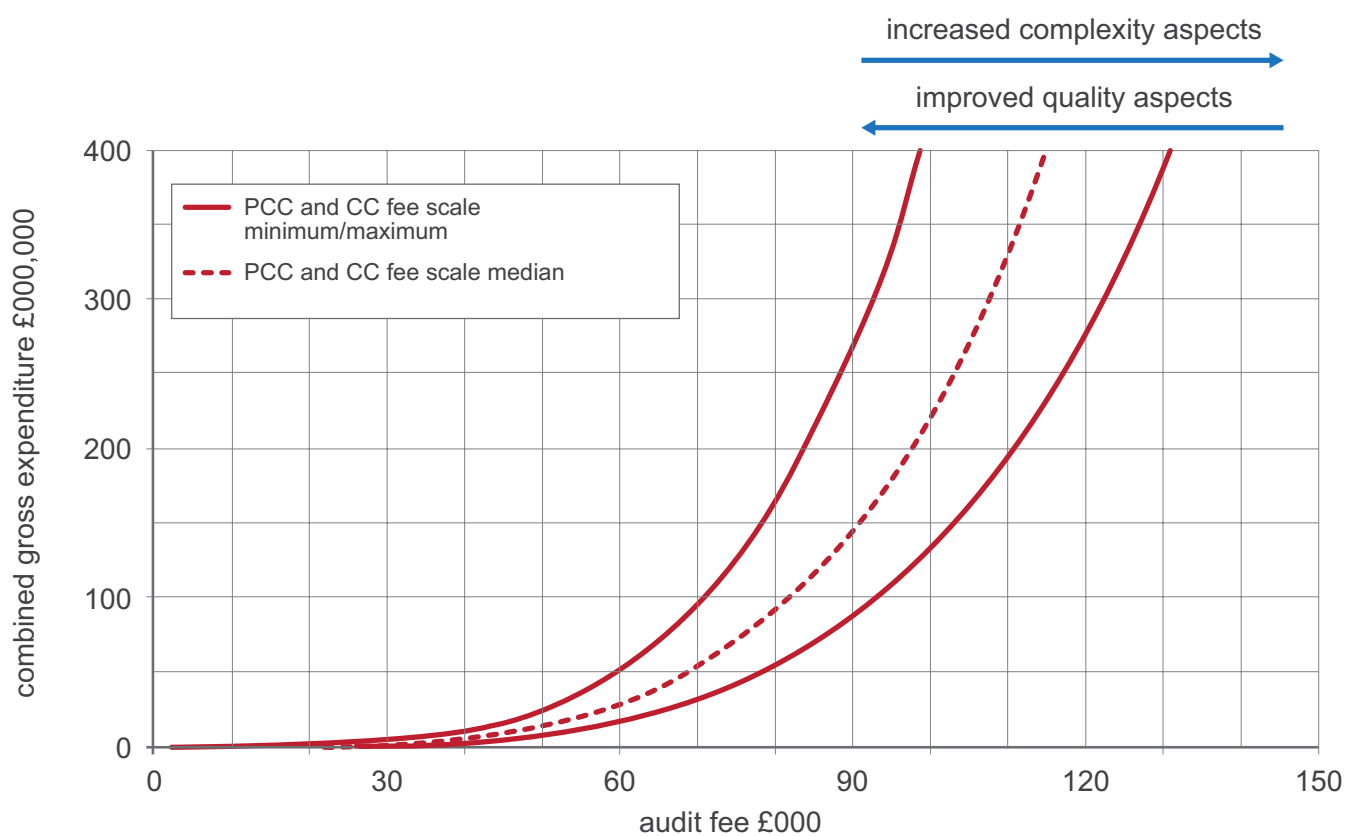
Police and crime commissioners and chief constables

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. For 2016-17 we will charge 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](#). The estimated impact of this switch is set out in the table below.

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 as shown above, there are a small number of other types of local government body where our prescription of the fee scale is a matter of converting the resource requirements into fees directly based on the costs of delivering the work or by applying the fee rates as set out in [Exhibit 1](#). It remains the case that for audits of these bodies we apply a zero-based approach to audit planning..

For all types of local government body to meet his 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 devise 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

Fee scales for work undertaken under the National Fraud Initiative (data matching)

In order to support Welsh public bodies in combating fraud, the Auditor General conducts the National Fraud Initiative (NFI) in Wales on a biennial basis. The NFI is also run in England, Scotland and Northern Ireland. 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.

The Auditor General conducts the NFI using his statutory data-matching powers under Part 3A of the Public Audit (Wales) Act 2004.

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

Mandatory participants will also be provided with access to the NFI Application Checker without charge.

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