



WALES **AUDIT** OFFICE
SWYDDFA **ARCHWILIO** CYMRU

January 2014



Consultation Document

Local government audit and inspection fee scales 2014-15

Including fee scales for the audit of the 2013-14 accounts of unitary authorities, fire and rescue services, national park authorities, police and crime commissioners and chief constables, pension funds and town and community councils.

Overview

This consultation invites views and comments on the Auditor General for Wales' proposals for:

- fee scales for the audit of 2013-14 accounts of unitary authorities, fire and rescue authorities, national park authorities, police and crime commissioners and chief constables, pension funds and town and community councils;
- fee scales for 2014-15 improvement audits and assessments (fees to be charged by the Wales Audit Office); and
- fee rates for the audit of other types of local government body, for work which goes beyond the general duties of auditors, and for grant certification work.

Following consultation, final fee scales will be prescribed and published by the Auditor General.

How to respond

Please respond by 28 February 2014.

Response forms can be sent to the following address:

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

Or completed electronically and sent by e-mail to info@wao.gov.uk

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

Publication of responses – confidentiality and data protection

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

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

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

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

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Foreword by the Auditor General

Currently, 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 consultation outlines my fee scale proposals for 2014-15.

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 aim to ensure that the fees subsequently generated are sufficient to enable the Wales Audit Office to maintain financial balance in its local government work.



I would normally have launched this consultation towards the end of 2013, but I would ask you to bear with us in a slightly delayed process this year. There are a number of impending changes to the framework in which audit fees are set and other factors that have caused the delay. It may be helpful to outline them briefly.

From 1 April 2014, under the Public Audit (Wales) Act 2013 (the 2013 Act), responsibility for consulting on fee scales and for setting audit fees will transfer from the Auditor General to the Wales Audit Office. The Wales Audit Office will also be required to prepare a broader scheme for charging fees and may not charge fees until the National Assembly approves the scheme. I have had to introduce an interim arrangement this year under which I, as Auditor General, am consulting on and prescribing fee scales, which the Wales Audit Office will then inherit and include in its scheme for charging fees from 1 April 2014.

The 2013 Act also introduces a slightly revised fee-setting basis for all our audit work. The Wales Audit Office 'may not exceed the full cost of exercising the function to which the fee relates'. Full costs include direct costs such as salary, employer pension and national insurance contributions, alongside an appropriate proportion of organisational overheads. In response to these provisions, we have revised our cost allocation methodology to ensure we comply with them when exercising each audit or inspection activity at each audited body for each year of audit. The necessary revisions to our cost allocation methodology, coupled with changes made following a review of our zero-based approach to audit planning, have resulted in a number of amendments to fee scales for 2014-15.

Another significant factor has been a recent ruling in relation to the charging of VAT on audit fees. Before 1 April 2013 I charged VAT on audit fees to local government and NHS bodies with the knowledge and agreement of HMRC. In December 2012, HMRC determined that from 1 April 2013 I should not charge VAT on this work. A consequence of this is that we are unable to recover as much VAT charged to us on goods and services. The ruling has led to an unavoidable increase to our cost base of approximately £600,000 per annum, which in turn has impacted on fee scales and audit fees for 2014-15.

A further change brought about by the 2013 Act is that, from 1 April 2014, the Wales Audit Office will be unable to retain reserves generated to date in respect of local government audit activity. We are therefore proposing to refund these reserves, which totalled £1.2 million as at 1 April 2013, to local government bodies as at 31 March 2014. These refunds should help to minimise the impact of any fee increases to local government bodies in 2014-15 whether as a consequence of the VAT ruling or the necessary changes to our cost allocation methodology and our zero-based approach to audit planning.

The fees charged at individual bodies will continue to depend on each body's circumstances. The fee must be sufficient to fund the work required taking into account considerations such as the governance environment, risk, financial and performance management arrangements, size, complexity and the body's track record on improvement. 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.

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

I look forward to receiving your views on my proposals.

Huw Vaughan Thomas

Auditor General for Wales

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Fee scales for local government annual audit work



- 1 The proposed fee scales for annual audit work at local government bodies are underpinned by a zero-based approach to audit planning which takes account of variation in audited body risks and other factors that can have a bearing on auditors' abilities to properly discharge their responsibilities.
- 2 Resource requirements are converted into fee scales directly based on the costs of delivering the work, which include travel and subsistence and an appropriate proportion of organisational overheads.
- 3 The proposed fee scales, which have been benchmarked, where appropriate, against fees charged by other UK audit agencies, are presented in tabular and graphic format.
- 4 Annual audit work includes work undertaken in relation to the audit of accounts alongside, where applicable, improvement audit and assessment work carried out under the Local Government (Wales) Measure 2009.
- 5 Annual audit work fee scales do not include work that goes beyond the general duties of auditors, such as reporting in the public interest, extraordinary audit, special inspections and work in relation to elector challenge and the prevention of unlawful expenditure. Such additional work is charged on a day basis.
- 6 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.
- 7 Auditors will use their professional judgment, informed by the Auditor General's Code of Audit Practice, relevant accounting and auditing standards, and guidance issued by the Auditor General to determine where a particular audited body lies on the prescribed fee scale for that type of body.
- 8 Where proposed fees fall outside the prescribed fee scale, or have changed by more than ± 5 per cent year-on-year, the Auditor General 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.
- 9 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.
- 10 Please note that as billing arrangements for improvement audit and assessment work are already in place for the period ending 31 March 2014, those arrangements will not alter until periods from 1 April 2014 onwards.
- 11 Additional information and guidance on fee scales and fee setting is included on the Wales Audit Office website.

Unitary authorities

- 12 The 2014-15 total fee scale median for unitary authorities has been increased for smaller authorities and reduced for larger authorities to more accurately reflect the total costs of auditor input.

Fee scale for audit of 2013-14 accounts

Gross expenditure £000,000	Total fee range £000		
	Minimum	Median	Maximum
100	119	140	161
200	143	168	193
300	159	187	215
400	172	202	232
500	182	215	247
600	191	225	259
700	199	235	270
800	207	243	280
900	213	251	289
1,000	219	258	297
1,100	225	265	304
1,200	230	271	312

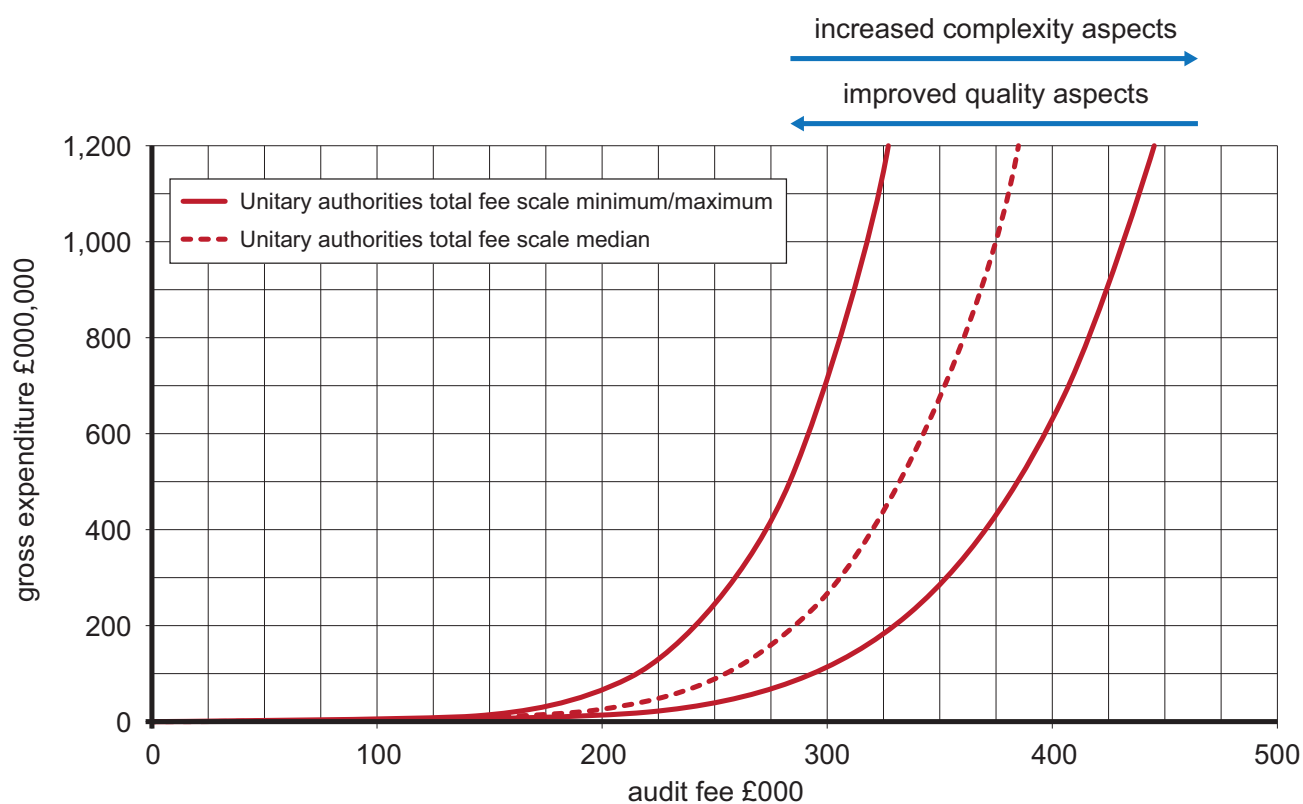
Fee scale for 2014-15 improvement audits and assessments

All unitary authorities	Total fee range £000		
	Minimum	Median	Maximum
	98	117	136

Total 2014-15 fee scale

Gross expenditure £000,000	Total fee range £000			
	Minimum	Median	Maximum	2013-14 median
100	217	257	296	196
200	241	285	329	242
300	257	304	351	273
400	270	319	368	298
500	281	331	382	319
600	290	342	395	337
700	298	352	405	353
800	305	360	415	367
900	311	368	424	380
1,000	318	375	432	393
1,100	323	382	440	404
1,200	328	388	447	415

Graphic of total 2014-15 fee scale for unitary authorities



Fire and rescue authorities

- 13 The 2014-15 total fee scale median for fire and rescue authorities has been increased for smaller authorities and reduced for larger authorities to more accurately reflect the total costs of auditor input.

Fee scale for audit of 2013-14 accounts

Gross expenditure £000,000	Total fee range £000		
	Minimum	Median	Maximum
20	35	41	47
40	42	49	57
60	47	55	63
80	50	59	68
100	53	63	72

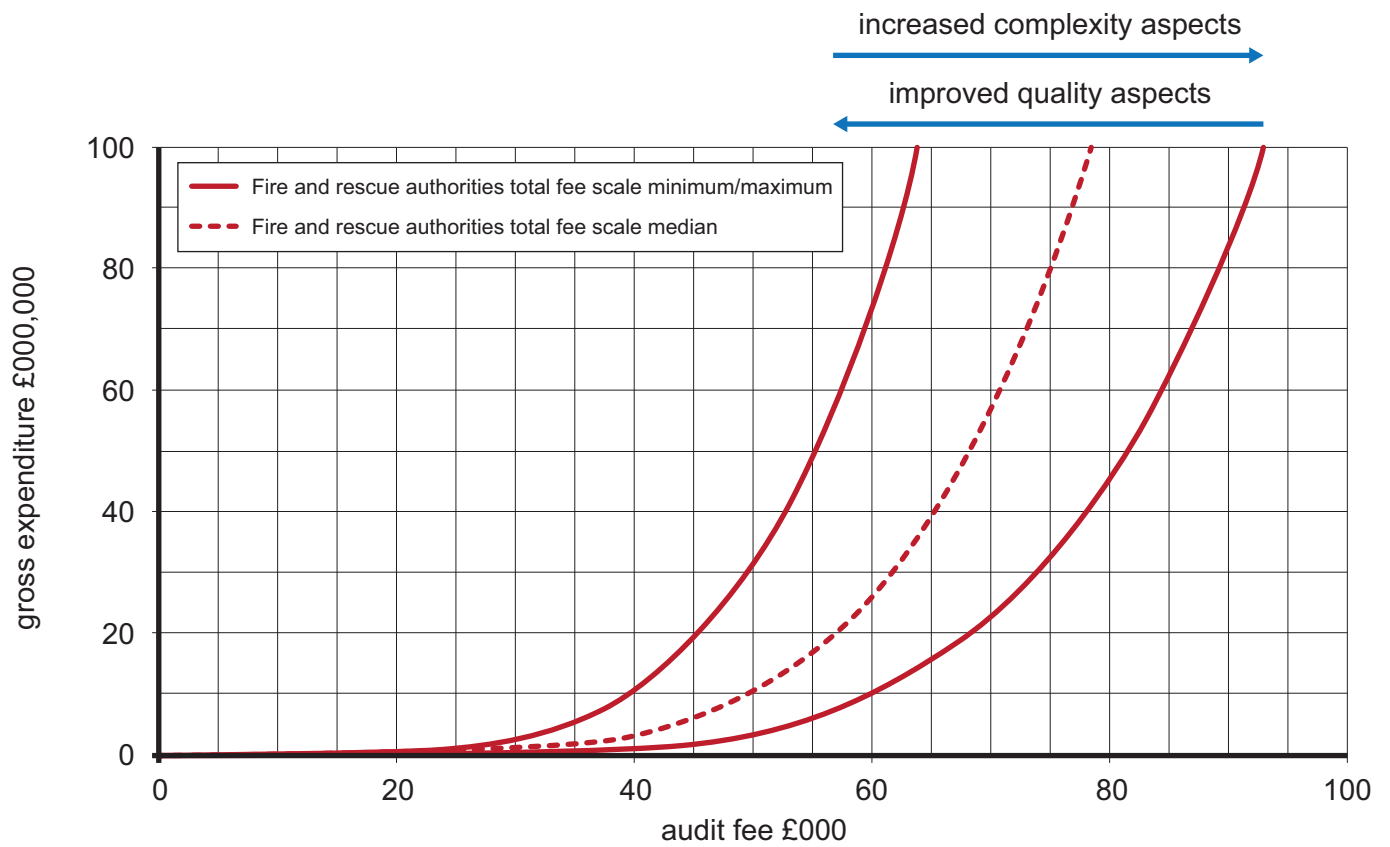
Fee scale for 2014-15 improvement audits and assessments

All fire and rescue authorities	Total fee range £000		
	Minimum	Median	Maximum
	11	16	21

Total 2014-15 fee scale for fire and rescue authorities

Gross expenditure £000,000	Total fee range £000			
	Minimum	Median	Maximum	2013-14 median
20	45	57	68	48
40	52	65	78	61
60	57	71	84	71
80	61	75	89	79
100	64	79	93	85

Graphic of total 2014-15 fee scale for fire and rescue authorities



National park authorities

- 14 The 2014-15 total fee scale median for national park authorities has been increased to more accurately reflect the total costs of auditor input to the audit of accounts.

Fee scale for audit of 2013-14 accounts

Gross expenditure £000,000	Total fee range £000		
	Minimum	Median	Maximum
2	22	25	29
4	26	31	35
6	29	34	39
8	31	37	42
10	33	39	45

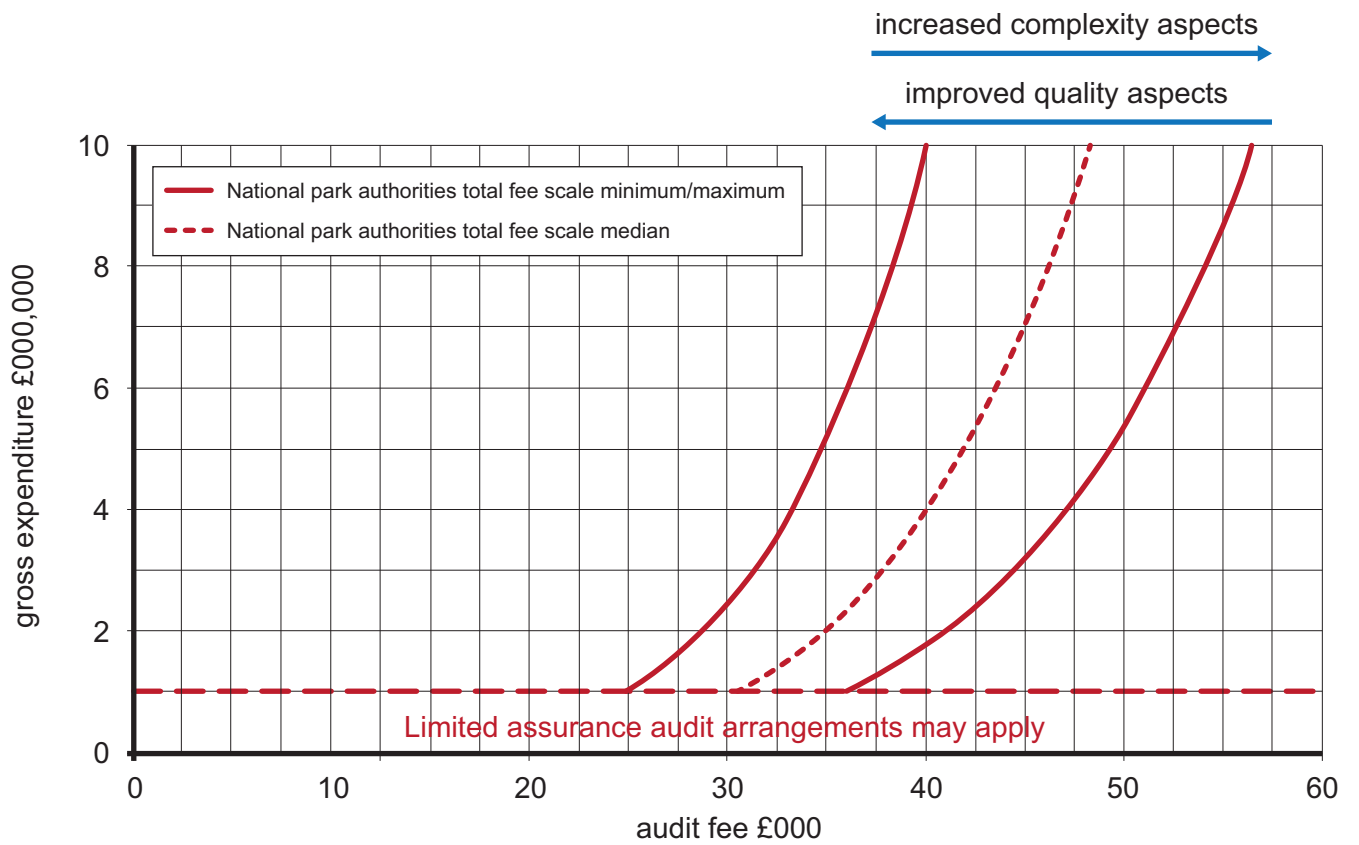
Fee scale for 2014-15 improvement audits and assessments

All national park authorities	Total fee range £000		
	Minimum	Median	Maximum
	7	10	12

Total 2014-15 fee scale

Gross expenditure £000,000	Total fee range £000			
	Minimum	Median	Maximum	2013-14 median
2	29	35	41	23
4	33	40	47	30
6	36	44	51	35
8	38	46	54	39
10	40	49	57	42

Graphic of total 2014-15 fee scale for national park authorities



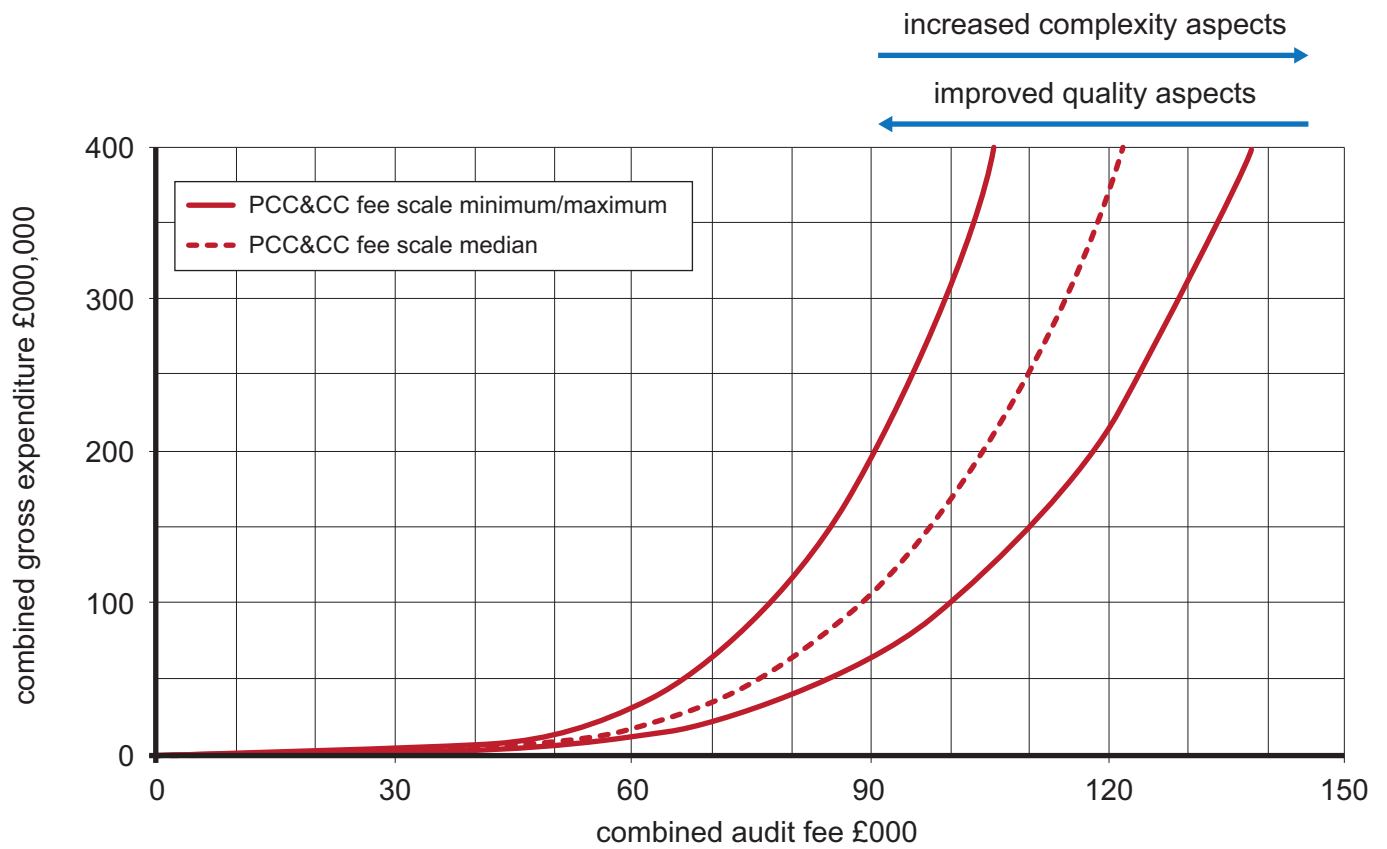
Police and crime commissioners and chief constables

- 15 The Police Reform and Social Responsibility Act 2011 abolished police authorities and established, as separate legal entities, a police and crime commissioner (PCC) and a chief constable (CC) in each local police area. Auditors now need to undertake audits of two statutory bodies in a police area, rather than one.
- 16 Last year the Auditor General was able to affirm only provisional fee scales for the audit of the accounts of police and crime commissioners and chief constables while awaiting final confirmation of accounting requirements for the two bodies.
- 17 Accounting requirements for the two bodies have now been confirmed, allowing fee scales to be finalised. Auditors have worked with chief finance officers to ensure that the increases in audit fees necessary to accommodate the additional work on the accounts have been kept to the minimum possible for auditors to discharge their responsibilities.
- 18 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.

Fee scale for audit of 2013-14 accounts

Combined gross expenditure of PCC and CC £000,000	Combined fee range for PCC and CC £000			
	Minimum	Median	Maximum	Estimated median from last year
50	67	76	85	55 to 60
100	78	89	100	73 to 79
150	85	97	110	86 to 93
200	90	104	117	96 to 105
250	95	109	124	105 to 115
300	99	114	129	113 to 123
350	103	118	134	121 to 131

Graphic of 2014-15 fee scale for police and crime commissioners and chief constables



Town and community councils

- 19 Town and community councils 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 amended for the audit of 2013-14 accounts to more accurately reflect the total costs of auditor input and align with new legal provisions. The changes will result in small fee increases for smaller town and community councils, but significant fee reductions for town and community councils with income or expenditure greater than £30,000.
- 20 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.
- 21 The Auditor General intends 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 2015-16 year of accounts onwards. The revised approach will encourage councils to focus on improving their financial management and governance arrangements, and increase the public reporting of issues arising from audit work.

Fee scale for audit of 2013-14 accounts of town and community councils with income or expenditure up to £1,000,000

Annual income or expenditure (fees are payable on whichever is the higher each year)	Type of audit	Proposed fee	Fee charged in previous year
£Nil - £1,000	Basic	£30	No fee payable
£1,001 - £5,000	Basic	£80	£60
£5,001 - £10,000	Basic	£175	£130
£10,001 - £30,000	Basic	£205	£150
£30,001 - £60,000	Basic	£295	£310
£60,001 - £100,000	Basic	£350	£425
£100,001 - £200,000	Basic	£415	£575
£200,001 - £300,000	Intermediate	£650	£920
£300,001 - £400,000	Intermediate	£650	£1,100
£400,001 - £500,000	Intermediate	£650	£1,520
£500,001 - £750,000	Intermediate	£920	£2,045
£750,001 - £1,000,000	Intermediate	£920	£2,625

Pension funds

22 The fee scale median for the audit of 2013-14 accounts of local government pension funds has been increased to more accurately reflect the total costs of auditor input.

Fee scale for audit of 2013-14 accounts

All pension funds	Total fee range £000			
	Minimum	Median	Maximum	2013-14 median
	30	40	50	28

Fee rates for other work



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

- 23 Other than those types of bodies for which fee scales have been proposed, there are a small number of other types of local government body. For audits of these bodies a zero-based approach to audit planning will still be applied, with resource requirements converted into fees directly based on the costs of delivering the work.
- 24 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 elector challenge and the prevention of unlawful expenditure. Charges for this type of work will reflect the nature of the work required.
- 25 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 diem basis and reflect the size, complexity or any particular issues in respect of the grant in question.
- 26 In each of these cases, fees will be charged based on the fee rates set out below. Higher rates may be appropriate for certain pieces of work, where specialist skills are required. In such circumstances the Auditor General must be consulted in advance by the auditor.

Fee rates for other work

Grade of staff		Fee rate per hour
Financial audit	Engagement lead	£162
	Audit manager	£111
	Team leader	£75
	Team member	£56
	Trainee	£45
	Technician	£30
Performance audit	Engagement lead	£173
	Audit manager	£111
	Performance audit lead	£93
	Performance auditor	£65

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

28 Complex grants are:

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

Estimated staff mixes for grant certification work

Grade of staff	Complex grants staff mix %	All other grants staff mix %
Engagement lead	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/technician	77 to 71	87 to 81

Ancillary work

- 29 Audited bodies and certain other types of body may make arrangements with the Wales Audit Office for the Auditor General or the Wales Audit Office to provide administrative, professional and technical services.
- 30 Such work will not be accepted if audit independence and integrity could be compromised, or could be perceived to be compromised, unless appropriate mitigation and controls can be applied.
- 31 Where such work can be carried out within these rules, the fees to be charged are, from 1 April 2014, to be set as the Wales Audit Office thinks fit, subject to the fees not exceeding the full cost of the work.