

Dear Colleague

Date 4 July 2008

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Local Government Audit and Inspection Fees 2008-09

Including fee scales for the Audit and Inspection of Housing, Criminal Justice, Fire and Rescue Services, National Park Authorities, and Pension Funds

As part of regulating the external audit of local government bodies in Wales I am required to prescribe a 'scale of fees'. This letter discharges my responsibility to consult on my proposals and, as in previous years, I am writing to chief executives of all local government bodies in Wales in addition to associations of local authorities and bodies of accountants.

The Wales Audit Office's mission is to promote improvement, so that people in Wales benefit from accountable, well-managed public services that offer the best possible value for money. The fee scales proposed in this letter are necessary to facilitate the funding required to properly resource the work required to deliver the Wales Audit Office's mission. Due to the changes discussed in this letter I am not promulgating a blanket percentage increase this year. Your body's fee will be bespoke, considering the factors set out in this letter, and within the scale I prescribe. The fee scales are contained in the appendix to this letter.

For the last three years the main factors affecting my fee scale proposals have been general, professional remuneration inflation, and my commitment to absorb a one per cent overall efficiency saving in line with the Welsh Assembly Government's efficiency agenda. Both of these factors feature in this year's fee scale consultation. This year other important factors have arisen or are on the horizon: some relate to feedback on previous fee scale consultations, and others are in response to developments in public audit in the UK. Changes to accounting and auditing standards' requirements are outside my control, but can be expected to have some impact this year and greater impact in the future. All of these matters are addressed in this consultation.

A further change from previous years is that from 2008, I will conduct data matching exercises under new statutory powers inserted into the Public Audit Wales Act 2004 by the Serious Crime Act 2007. My aim will remain that of safeguarding public money against losses from fraud or misappropriation, while making an effective contribution to the wider fight against fraud and, potentially, other crime. Further details on data matching and the National Fraud Initiative together with the proposed fees are contained in the appendix to this letter.

A fee scale is one of my regulatory tools, and has two purposes. A scale provides a framework within which Appointed Auditors, and where appropriate Relationship Managers, can discuss and agree fees with local government bodies. It also enables me to identify and challenge fees that appear to be either too high, or too low, to enable the

auditor to properly discharge his/her responsibilities. The changes I have made this year meet these two purposes and are intended to encourage a greater focus on improvement.

A change in the fee scale does not automatically mean that an individual body's fee will change. The agreed fee must be sufficient to fund the work required considering local circumstances such as size, the governance environment, risk, complexity, financial and performance management arrangements, and track record on improvement. It must also take into account statutory and other requirements. The detailed work programme and consequent fees will be agreed with the body by the Appointed Auditor, or the Relationship Manager at bodies subject to inspection, as part of the Regulatory Plan. My prescribed fee scales should guide this agreement.

When prescribing fee scales I must ensure that the fees generated from local government bodies enable the Wales Audit Office to maintain financial balance in its local government work. I also take account of the expenses I expect to incur in relation to value for money studies of services and studies on the impact of statutory provisions on value for money of local government functions.

Views on this year's local government settlement have been widely publicised. I remain very aware of the cost pressures on audited bodies as I seek to improve the value for money of local government bodies and the efficacy of the audit and inspection process. My investment in the Good Practice Exchange website, for example, provides a valuable, free at the point of use, resource for all bodies in Wales. The recently added Grants Good Practice area could enable many local government bodies to markedly reduce their grant certification fees by improving their processes.

However, I also have a statutory responsibility to maintain and regulate the public sector audit and inspection market in Wales. My audit and inspection regime operates in a market place that competes for resources with the much more lucrative financial and consulting services sectors. In the same way that local government bodies must comply with national and international accounting standards, so Appointed Auditors must comply with national and international auditing standards. Standards change from time to time – invariably to increase rather than reduce the workload required to ensure compliance. I remain committed to maintaining the difficult balance of prescribing fee scales that represent a considerable discount on commercial service rates whilst still attracting high class service suppliers to my regime.

This year I am prescribing a scale rather than a formula which should encourage a greater focus on improvement. The formula approach sought to mechanise what should be a bespoke assessment of a body's circumstances and the amount and cost of work required in those circumstances. This has often resulted in protracted discussions around percentage point increases in fees that detracted from discussions on potential improvements. The new format should help facilitate more constructive discussions around fees and improvement.

This is how the scale will operate. Appointed Auditors, Relationship Managers and bodies should agree a 'fee envelope' for the year based on the work necessary for the auditor to discharge his/her responsibilities, and for inspection and other work required at the body to be undertaken. The steps to follow are set out in the appendix to this letter. I have also set out below the impact on the work volume and cost that I expect to arise from specific factors, and which Appointed Auditors and Relationship Managers must consider when planning work and agreeing fees.

As a consequence of changing the fee scale I have removed the +15 per cent/-30 per cent intervention thresholds. In future I will review all fees that are proposed to fall outside of the scale I prescribe. I will also review any fee proposals that vary by more than +/-10 per cent to the previous year. This will constrain the potential for excessive or inadequate fees to arise.

In the remainder of this letter I discuss a number of important factors that will impact on the work required at local government bodies in Wales. In each case I set out my expectations for how Appointed Auditors and Relationship Managers should take these factors into account when agreeing fees. This year I am not setting an expected maximum percentage fee increase, rather I expect Auditors/Relationship Managers to agree bespoke fees using the information provided in this letter to guide that agreement.

I have reconsidered, and decided to continue, my voluntary adoption by the Wales Audit Office of the Welsh Assembly Government's efficiency agenda. Accordingly I have, again this year, instructed that a one per cent overall efficiency requirement be included in the fee setting process as part of my response to that agenda.

Professional remuneration inflation has for many years exceeded local government fee scale increases – a reality that is sometimes not fully appreciated. I estimate that remuneration costs are rising by around 4.8 per cent across the financial and consulting services sectors. However, I consider that this inflationary increase should be capped when agreeing fees. Appointed Auditors and Relationship Managers should therefore include not more than 3.3 per cent for professional remuneration inflation in their fee calculations – a 1.5 per cent saving for local government bodies to be found from audit and inspection efficiency gains.

Local Government Pension Schemes are significant public interest entities in their own right and I am minded to amend the audit arrangements. The current arrangement is for pension funds to be audited as part of the audit of the administering authority. This means that pension fund related work is planned, undertaken and reported in the context of the audit issues identified across the authority as a whole rather than in its own right.

Reflecting the importance of pension schemes I am proposing that local government pension funds will be treated as separate audit engagements. The change will improve the audit's contribution to maintaining high standards of governance and ensure that undivided attention is given to pension fund specific accounting and auditing requirements. The audit work will continue to be undertaken by the auditor of the administering authority to safeguard the efficiency of the process.

The auditor will be required to prepare and agree a separate audit plan for the audit of the pension fund accounts and to issue a separate auditor's report to those charged with the governance of the pension fund. Issues relating to the pension fund will be reported through an annual audit letter and other reports to the administering authority, copied to all admitted bodies.

This change of arrangements will result in enhanced governance of pension schemes and improved accountability and clarity of information made available to the members of the schemes. My proposals are in line with those recently announced for local government pension schemes in England and my view is that local government pension schemes in Wales should not be subject to a lesser standard of audit attention. My proposals will

minimise the additional cost to pension funds through efficiencies in the process of appointing the auditor, and reduce the overall audit fee payable by the administering authority by the amount previously included for the audit of the pension fund.

The fee for the audit of the pension fund will be agreed separately and be payable by the fund in line with the scale included in this consultation.

Housing benefit inspection and housing benefit grant claim audit work. On 1 April 2008, I took on Benefits Inspection in Wales, and responsibility for benefit services inspection and assurance. This new role is another step in streamlining regulation and I intend that it will help encourage improvement in the delivery of benefit services. During the year I shall review the strands of audit and inspection work for benefit services to deliver an efficient and effective assurance framework. I estimate that this change and changes I am making to housing benefit grant claim certification arrangements will offset one another resulting in no additional cost to benefit administration authorities.

Grants claim certification. I have reconsidered, but do not propose changing the per-diem approach to charging for the certification of grant claims. Setting a fee scale for grant work would be impractical as the volume and variety of grants certified vary significantly between authorities and within an authority in different years.

Claims for European Funds and Housing and Council Tax Benefits often account for the majority of auditors' work on grants. Developments arising from the roll-out of the new Structural Funds and changes to Benefits Inspection mean that a change to the per-diem approach would not be appropriate.

Auditor's work also depends heavily on control environments for grants which vary significantly between authorities and between departments within an individual authority. My Good Practice Exchange contains a wide range of grants good practices, and those authorities that have applied those good practices to improve their control and processing environments have seen their grant certification fees fall over time, in some cases by tens of thousands of pounds.

Many auditors currently do, but in the interests of transparency I will make it a requirement that all auditors will provide an estimate of the total cost of grant claim certification at the planning stage of the audit. The estimate will identify where improvements to arrangements across the board or for particular grants could reduce the estimated fee. I will also require specific commentary about grant management to be included in Relationship Managers' Annual Letters.

The introduction of International Financial Reporting Standards (IFRS) will have a significant impact on workloads and fees. The Government announced in the 2007 Budget that with effect from 2008-09 the 'Whole of Government Accounts (WGA)' would be compiled on the basis of IFRS. I flagged this issue in last year's letter, and have since written to the WLGA, the Society of Welsh Treasurers and CIPFA, and encouraged auditors to discuss matters with directors of finance. The situation is fluid and developments are continuing to arise, but I outline below my current understanding of the proposals and best estimate of their impact on workload and fees.

The CIPFA/LASAAC Local Authority SoRP Board (SoRP Board), which is responsible for compiling the Accounting Code of Practice for Local Authorities in the United Kingdom (the Code) announced in December 2007 that, given the short timescale available to

revise the Code, individual local authorities will not be required to produce IFRS based accounts until 2010-11.

However, in his March 2008 budget report, the Chancellor announced that following consultations on the technical work needed to implement IFRS based accounts: *'The Government now intends to move to IFRS from 2009-10 to minimise burdens and to ensure a smooth transition. Whole of Government Accounts (WGA) will now also be published for the first time for 2009-10 to allow time to complete the alignment of local and central government accounting policies and to enable WGA to be published on an IFRS basis.'*

To allow the WGA to be compiled on an IFRS basis, in accordance with the Government's timetable, for 2009-10 local authority accounts would be converted into IFRS, but only for the purposes of WGA. No prior year comparators are required for the 2009-10 WGA, and so local government bodies will only need to produce an IFRS version of their 31 March 2009 balance sheet, not a full set of 2008-09 accounts. The SoRP Board has not decided how this conversion is to be achieved, but suggests that a 'central adjustment', made by the Treasury, should be possible, thus alleviating the workload on individual local authorities. Following deferral of the IFRS agenda in central government bodies that central adjustment (if indeed it can be made) will now only be required for 2009-10.

The introduction of accounts based on IFRS standards in 2010-11 (and the necessary restatement of 2009-10 comparative figures on an IFRS basis) will have a significant impact on workloads and therefore, unavoidably, on fees. I will continue to review the impact on fees as further details of the changes to the Code are available.

The implementation of IFRS is a fundamental change of approach not simply a presentational matter. Work pressure will be particularly acute in the first years for bodies to restate their previous year's accounts on the new basis and establish opening balances and provide prior year comparatives. There will be an ongoing requirement for additional accounting and audit work as a result of the more onerous IFRS accounting and disclosure requirements.

Public sector bodies, and their auditors, cannot be immune from the workload and fee implications of fundamental changes to the accounting requirements applied in the UK. Notwithstanding reports of IFRS having increased financial audit fees by 20 per cent in the commercial sector, and by around 10 per cent elsewhere in the UK public sector, my current estimate is that the introduction of IFRS will add between 6 per cent and 8 per cent to the financial audit fee for local government bodies in Wales. I will update this estimate as developments arise.

IFRS will also impact on accounting for PFI. I understand that the SoRP Board is considering introducing the principles of IFRIC 12 into the 2009 Code, which will impact on the 2009-10 accounts. IFRIC 12 is an interpretation of IFRS requirements relating to service concessions. It is generally accepted that applying IFRIC 12 will result in most PFI schemes appearing 'on' the balance sheets of local government bodies in contrast to the current position, where most are 'off' balance sheet.

The adoption of IFRIC 12 will mean that each PFI arrangement entered into by a local government body will need to be reviewed against IFRIC 12 requirements (and, subject to early adoption, included in the 2009-10 balance sheet). Where schemes become 'on'

balance sheet, complex prior period adjustments from the inception of the scheme will also be required.

If IFRIC 12 is introduced into the Code I estimate that it will result in one-off additional audit charges:

- Initial review of on/off balance sheet treatment £1,500 to £3,000 per PFI scheme.
- Review of opening balances and prior year adjustment £4,000 to £10,000 per authority overall. The costs here will be driven largely by the complexity of the unwinding of the PFI deal(s) at each body. A key factor will be the length of time that a contract has already run, since every year's transactions will need to be unwound.

These estimates will need to be reviewed and refined by auditors in light of developments and any further guidance I issue as and when more information becomes available.

Other ongoing developments in accounting and auditing professional standards continue to impact on audit workloads. Aside from the introduction of IFRS across the UK public sector, audit workload continues to increase as auditors are required to comply with changes to professional standards and the introduction of more complex audit and accounting requirements. Barring changes to current implementation timetables, my view is that the level of development applicable during 2008-09 is such that any additional work and cost should be absorbed by auditors as an efficiency measure. Auditors and Relationship Managers will therefore be instructed not to include any percentage increase in fees due to developments in accounting and auditing standards. The next significant changes to international auditing standards are expected to come through from 2010-11, which I will consider as part of that year's fee scale.

Direction of travel – part of the VFM Conclusion. The Value for Money Conclusion (the requirement for auditors to satisfy themselves that a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources) has become an established part of the Annual Audit Letter/Relationship Manager Annual Letter.

I am minded to develop this reporting arrangement by requiring auditors to also provide an indication of the body's 'direction of travel'. The direction of travel, in respect of its arrangements, would be drawn from the VFM Conclusion taking one year with another, and would be reported in the Annual Audit Letter/Relationship Manager Annual Letter alongside the VFM Conclusion. I propose a brief narrative to reflect the progress, or direction of travel, by the audited body since the previous year's conclusion was provided. The direction of travel narrative would comment on the body's arrangements in relation to the previous year ie, whether they have improved, been maintained or deteriorated. Specifically for a body where there has been deterioration or previous weaknesses remain unaddressed the narrative would encourage the body to take action to improve the situation. If adopted, I would require auditors to produce the direction of travel narrative from the information already available to them and without incurring further cost to the body.

I want bodies to engage with the audit and inspection planning process from the perspective of the work needed given their circumstances. Discussion should be about what the work represents in terms of the body's circumstances and arrangements, and how improvements to its arrangements can be achieved. This approach will have a

greater impact on improvement than a sterile debate around fractions of percentage points.

I look forward to receiving your comments on my proposals by Friday, 15 August 2008, which should be sent to my Chief Operating Officer, Anthony Snow, at the address/email noted above.

Yours sincerely

Jeremy Colman
Auditor General for Wales

Appendix

Local Government audit fee scales, value for money studies and inspection 2008-09 including fee scales for the Audit and Inspection of Housing, Criminal Justice, Fire and Rescue Services, National Park Authorities, and Pension Funds

The Auditor General requires auditors, and Relationship Managers (RMs), to explain clearly the basis for the proposed fees at individual bodies, including:

- the specific factors which have been taken into account in proposing the fee, including the weighting given to each;
- the assumptions upon which the fee is based in terms of, for example, the standard of the body's control environment, coverage of internal audit, quality of working papers etc;
- what is included in the fee and what is not included;
- specific improvement actions that the audited body could take to reduce the level of its fee in the future;
- the grant certification workload known to the auditor and the body at the time of compiling the plan; and
- the processes for agreeing additional fees if circumstances change or the assumptions upon which the fee is based are not met.

The audit and inspection fees for all bodies are agreed with the body by the Appointed Auditor, and where appropriate Relationship Manager, within the following scales:

Body	Scale Minima £	Scale Maxima £
Unitary Authorities	218,000	563,000
National Park Authorities	28,000	38,000
Police Authorities	60,000	94,000
Probation	16,000	28,000
Fire and Rescue Authorities	49,000	62,000
Pension Fund Authorities	15,000	35,000

Fees are determined on the basis of work necessary to discharge audit and inspection responsibilities following an assessment of the risks, complexity and other local circumstances, including track-record on performance improvement, of the individual body, and any specified studies work notified to the auditor/RM and bodies by the Auditor General at the time of agreeing the fee. For pension funds the diversity of investment portfolios will also be a consideration. Where fees fall outside of the scale or have changed by more than +/-10 per cent year-on-year they will be reviewed by the Auditor

General to ensure that they are adequately explained by relevant circumstances. If it is not possible to agree a fee, either the auditor, RM or the body can ask the Auditor General to determine the audit fee.

Agreeing an audit and inspection fee and using the fee scale

Appointed Auditors/RMs and bodies should agree a 'fee envelope' for the year based on the work necessary for the auditor to discharge his/her responsibilities, and for inspection and other work required at the body to be undertaken. Auditors, RMs and audited bodies should work together to identify what actions can be taken to reduce risk, or improve arrangements that will reduce the work required and therefore the resulting fees. The basic steps that the auditor/RM should follow, including how to use the fee scale to check the overall fee, are:

Audit fee envelope

1. Use the risk-based planning approach to arrive at a fee for the financial and non-financial audit work required to discharge Code responsibilities.
2. State the fee for known, specified studies work (VFM audit) or make a reasonable allowance for such work if not known at the time of agreeing the fee envelope.
3. Use the appropriate fee scale and check the total of steps 1 and 2, when combined with inspection fees, in relation to the range expected by the Auditor General. Discuss and agree the audit fee envelope (total and makeup) with the body.
4. Arrange billing on the basis of an agreed number of monthly instalments.
5. Monitor work and billing in relation to the audit fee envelope during the year and provide position reports as agreed with the body.
6. Each year the auditor/RM will report the planned audit fee envelope and out-turn fee to the body – agreeing alternative or additional work, or additional invoice, or rebate to the body as appropriate.

Inspection fee envelope

7. Inspection work is funded by a combination of direct grant to the Wales Audit Office and fees levied on the body. The detailed work programme and cost to individual bodies is determined through the Improvement Planning and Joint Risk Assessment processes by the RM, in conjunction with the body in agreeing the Regulatory Plan.
8. Use the appropriate fee scale and check the total of step 7, when combined with audit fees, in relation to the range expected by the Auditor General. Discuss and agree the inspection fee with the body.
9. Arrange billing on the basis of an agreed number of monthly instalments.
10. Monitor work and billing in relation to the inspection fee during the year and provide position reports as agreed with the body.

The combined audit and inspection fee envelope

11. Audit fees are combined with inspection fees by the RM to produce the overall fee envelope for the body. If the agreed fee is outside the expected fee scale or varies by more than +/- 10 per cent compared to the previous year, inform the Auditor General together with the reasons why.
 12. Each year the auditor/RM will report the planned fee envelope and out-turn fee to the body – agreeing alternative or additional work, or additional invoice, or rebate to the body as appropriate.
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The steps set out above will produce a fee envelope that provides reasonable fee certainty for bodies, and for auditors and inspectors in performing their work.

Community Councils

Community councils where income or expenditure exceeds £1 million will be subject to the full Code audit regime. Fees for these councils are agreed by negotiation between the auditor and the Council – subject to review for reasonableness by the Auditor General if requested by either the Council or the auditor. Community Councils where income or expenditure up to £1 million are subject to a 'limited assurance' audit regime. Fees for these councils, which vary according to the turnover of the Council concerned, remain fixed until the audit of the financial year 2010-11:

Council's budgeted annual income/expenditure (fees are payable on whichever is the higher each year)	Type of audit	Total fee charged to the local council
£Nil - £1,000	Basic	No fee payable
£1,001 - £5,000	Basic	£50
£5,001 - £10,000	Basic	£120
£10,001 – £30,000	Basic	£135
£30,001 - £60,000	Basic	£285
£60,001 - £100,000	Basic	£400
£100,001 - £200,000	Basic	£550
£200,001 - £300,000	Intermediate	£875
£300,001 - £400,000	Intermediate	£1,050
£400,001 - £500,000	Intermediate	£1,450
£500,001 - £750,000	Intermediate	£1,950
£750,001 - £1,000,000	Intermediate	£2,500

Other Bodies

The fees to be charged to other bodies, such as internal drainage boards and small joint committees, will be determined in discussions between the auditor/RM and the body concerned, following the principles set out in this document. The fees agreed will depend on local circumstances (in particular the size, complexity and role of the body concerned and the risks identified) and will be reviewed for reasonableness by the Auditor General if requested by either the body or the auditor/RM.

Skill-related fee scales

In certain circumstances auditors/inspectors may need to use staff with specialist skills. It is essential that appropriate senior and specialist staff are used where needed on more complex work. Additional costs will inevitably be incurred.

To facilitate the use of non-standard fees, the Auditor General has set the following skill-related fee scales for 2008-09 as the basis for local discussion. The actual fee rates charged will be determined in discussion between the auditor/inspector and the body to reflect the nature of the work required. The skill-related fee scales for 2008-09 are:

Grade of staff	Range £ per hour
Appointed Auditor (1)	£226 to £288
Client/Project Manager	£133 to £159
Audit staff	£79 to £97
Other staff	£50 to £68

For additional inspection work the RM will agree a fee with the body based on the standard inspection work fee rate which is £115 per hour of which, after allowing for the application of WPI grant, £74 per hour is chargeable to the body.

Note (1) Appointed Auditors may be staff of the Wales Audit Office or private firms of accountants.

The Auditor General recognises that these fee scales represent a significant discount on the standard commercial rates charged by the larger firms of auditors. Higher rates may be appropriate for certain pieces of work in order to obtain individuals with specialist knowledge. In such circumstances the Auditor General must be consulted in advance by the auditor.

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, the Auditor General's appointed auditors act as agents of the Auditor General. The Auditor General is 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 will be based on the skill-related fee scales set out above. The actual fees to be charged will be determined in discussion between the auditor and the audited body to reflect the size, complexity or any particular issues in respect of the grant in question.

National Fraud Initiative

The Auditor General intends that bodies in Wales should continue to take part in the National Fraud Initiative (NFI) – a computerised data-matching exercise. The NFI has shown that data matching is a powerful tool in reviewing local government bodies' arrangements to prevent and detect fraud. For the first time, NFI 2008-09 will be undertaken under the Auditor General's new statutory data matching powers contained in the Public Audit (Wales) Act 2004, as amended by the Serious Crime Act 2007. Under the new legislation the Auditor General may:

- carry out data matching exercises for the purpose of assisting in the prevention and detection of fraud, as part of an audit or otherwise;
- require certain bodies to provide data for data matching exercises. These comprise all local government bodies as defined by section 12 of the 2004 Act which includes, among others, unitary authorities, police authorities, fire and civil defence authorities, probation boards and probation trusts (and all NHS bodies); and
- charge a fee to any body participating in a data matching exercise and must set a scale of fees for bodies required to participate.

I am required to prepare and publish a Code of Data Matching Practice. All bodies conducting or participating in its data matching exercises must have regard to the Code, including the Wales Audit Office.

Considerable progress has already been made to prepare for these new powers. Consultation on the new Code of Data Matching Practice is underway. The Audit Commission has also begun discussions, on their own and my behalf, with stakeholders such as the Pensions Regulator, the Council for Mortgage Lenders and the Insurance Fraud Bureau to develop NFI to help all sectors in the fight against organised fraud.

In addition, in response to the Welfare Reform Act 2007, which gives local authorities powers to investigate and prosecute Income Support (IS)/Job Seeker's Allowance (JSA) benefit offences, responsibility for assessing and determining the way forward for housing benefit cases involving IS/JSA will be passed back to local authorities. In order to allow a more effective assessment of NFI matches the Audit Commission is in discussion with the Department for Work and Pensions about integrating key intelligence given by the IS/JSA claimant, for example income declared and student status, into NFI.

The aim under the new arrangements is to ensure that while at all times upholding and protecting individuals' rights in relation to their personal data, the NFI continues to serve the public interest by:

- safeguarding public money against losses from fraud or misappropriation; and
- making an effective contribution to the wider fight against fraud and, potentially, other crime.

The proposed fees for NFI 2008-09 are based on the number and range of core datasets applicable to each type of body. The proposed fees also reflect inflationary pressures and the Auditor General's proposal to expand the scope of the exercise by making mandatory those data matches which in NFI 2006-07 were optional and consolidating them into the set of core datasets for NFI.

Under these proposals local authorities (and NHS bodies) that have not taken up the optional matches in the past will face higher percentage increases in fees (although the nominal amounts will generally remain small), while most authorities that have taken them up will experience only an inflation uplift. However, for some types of body the minimum percentage increase will be higher (although, again, the nominal amounts are relatively small) as the opportunity has been taken to realign the relative fees for different types of body. The Auditor General believes that the fee increases are both reasonable and appropriate.

The report summarising the findings of NFI 2006-07 demonstrates how effective these optional data matches have been in identifying fraud. Fraud is a waste of public money that could otherwise be used to improve public services or reduce the call on taxpayers. It is therefore inappropriate to allow some audited bodies to continue to opt out of the fight against fraud by choosing not to take up these data matches.

NFI Proposed Fees

As in previous years an NFI fee is set for each type of audited body based on the number and range of core datasets applicable. The full list of core datasets for each type of participating body is:

Body	Core¹ (where applicable)
Unitary Authorities	<ul style="list-style-type: none"> • Payroll. • Pensions payroll. • Trade creditors' payment history and standing data. • Housing. • Housing benefits². • Council tax. • Electoral register. • Students eligible for a loan³. • Private supported care home residents. • Transport passes and permits (including residents' parking, blue badges and concessionary travel). • Insurance claimants. • Licences – Market trader/operator, Taxi driver and (new) Personal licences to supply alcohol.

Body	Core ¹ (where applicable)
Probation Boards and Probation Trusts Police Authorities Fire and Civil Defence Authorities	<ul style="list-style-type: none"> • Payroll. • Pensions payroll. • Trade creditors payment history and standing data.
Pension Authorities	<ul style="list-style-type: none"> • Payroll. • Pensions payroll. • Trade creditors payment history and standing data.

Notes:

- ¹ - Data should only be provided from agencies where it has been previously authorised by that organisation.
- ² - Provided by the Department for Work and Pensions (DWP).
- ³ - Provided by the Student Loan Company (SLC).

The proposed scale of fees is designed to recover the full costs of carrying out the proposed data matching, and to make a reasonable contribution to the overheads. If it appears to the Auditor General that the work involved in a data matching exercise is substantially more or less than that envisaged by the appropriate scale, the Auditor General may charge the body a fee that is larger or smaller.

As noted earlier in this letter, costs are rising by around 4.8 per cent across the financial and consulting services sectors but the Auditor General consider that this inflationary increase should be capped when agreeing fees. Recognising the specialist nature of data matching work the Auditor General proposes to increase the scale of fees for NFI 2008-09 by 4 per cent.

However, as noted above, it is proposed that the relative fees for different types of body are realigned and other changes will result in real terms increases in fees for some types of body, although the nominal amounts involved are relatively small. Specifically the Auditor General proposes to:

- Consolidate the previously optional modules into core NFI, namely residential care homes, blue badges, insurance and licences, following their highly successful introduction as risk based modules in NFI 2006-07. These extra datasets will incur extra handling and processing costs and these have been reflected in the new fee levels.
- Integrate the fee for the council tax single person discount module into the core NFI fee. In order to balance the workload for NFI participants these matches, which will now form a core NFI matching module, will be run in the year between the main matching exercise within the two yearly NFI cycle.

The NFI process has received significant investment to enhance the service provided to users, for example through:

- Enhanced security arrangements, by integrating a new electronic data file transfer facility into the secure web application, totally eliminating the need to submit CDs.
- Responding to requests from participating bodies for improved functionality of the NFI web application. These developments include improved management information, new facilities to share comments directly with matched bodies, and simplified presentation with key matches more prominent.
- The introduction of a new online interactive training facility, making relevant material, including demonstrations and tutorial exercises, available for the duration of the initiative. Not only does this avoid the cost and environmental impact of audited bodies hosting and/or sending employees to training events, it also allows training to be undertaken at a time and place that is convenient to the user. In addition, unlike group training events, the interactive training software will be available throughout the NFI cycle and will allow all users to select the modules most relevant to them.

The proposed fees for NFI 2008-09 are:

Type of body	£
Unitary Authority	3,650
Pension Authority (stand alone)	3,000
Police Authority	1,000
Fire and Civil Defence Authority	1,000
Probation Board or Probation Trust	1,000

The NFI is run over a two year period, so the scale of fees covers the two financial years 2008-09 and 2009-10. Fees will be billed in two equal, annual installments.

Indicative fees for NFI 2010-11

The Auditor General envisages that fees for NFI 2010-11 will be increased in line with inflation. However, the Auditor General may wish to include new modules for the 2010-11 exercise, subject to obtaining Parliamentary approval of Orders to extend the Auditor General's data matching function into new non-fraud related areas and the completion of successful pilot exercises.

Fees for specified work

Work funded by grants

The Auditor General will receive grants towards the costs of the Wales Audit Office's involvement in WPI in local authorities, Fire and Rescue Services and Registered Social Landlord inspections.

Additional work

Audited bodies may ask auditors to carry out particular pieces of work that do not fall within their Code responsibilities. The Auditor General requires that such work should not be accepted if by doing so the auditors' independence could be compromised, or could be perceived to be compromised, or if the integrity of the audit regime could be similarly compromised. Where such work can be carried out within these rules, the fees to be charged are a matter for negotiation between the auditor and the audited body and are not subject to the scales set out in this letter.

VAT

All the 2008-09 fee scales exclude VAT which will be charged at the standard rate (currently 17.5 per cent) on all work done.