

Date 27 October 2008

Pages 1 of 16

Dear colleagues

Local Government Audit and Inspection Fees 2008-09

I am grateful to those who responded to my consultation on local government audit and inspection fee scales proposals for 2008-09. I was pleased that the sentiment underlying the changes I proposed, to focus on improvement, was appreciated. I have given careful consideration to all of the points made.

A number of comments welcomed my continuing adoption of the one percent overall efficiency saving target for the Wales Audit Office, whilst also encouraging me to go further. I do recognise the difficult financial climate we all face and the changes I have made to the fee scale this year are designed to help all involved to focus on improvement. It is the circumstances of individual authorities and the quality of both their and audit and inspection work that will help to moderate costs and improve local government services.

I have decided to confirm my proposals, as set out in the consultation, subject to amending the Unitary Authority fee scale, as set out below. Auditors and Relationship Managers will include the various elements of the 2008-09 fee scale in their forthcoming fee discussions with you.

A number of responses stated that Unitary Authorities would welcome the ability to further gauge their likely fee minima and maxima within the wider fee scale. In responding to this request, I have decided to sub-divide the 2008-09 Unitary Authority fee scale into two overlapping bands. The bands will give authorities further comfort as to the upper and lower fee ranges expected for a body of their size.

The proposed Unitary Authority fee scale was set at a minimum of £218,000 and a maximum of £536,000. The revised fee scale is:

Unitary Authority minima £218,000 maxima £536,000.

Within which:

Unitary Authority Band 1: minima £218,000 maxima £448,000.

Unitary Authority Band 2: minima £333,000 maxima £563,000.

Band 1 = small/medium size authorities i.e. those with annual gross expenditure up to around £400m to £500m.

Band 2 = medium/large size authorities i.e. those with annual gross expenditure of around £400m and above.

I have instructed Auditors and Relationship Managers that I will expect the fee envelopes for small/medium and medium/large sized authorities to lie within the range of the appropriate Band. Auditors and Relationship Managers will use their judgement, in conjunction with discussions with authorities, to band authorities that have annual gross expenditure within the overlap of the two bands.

The local government fee scale will be updated on the Wales Audit Office website.

Thank you once again to all those who commented.

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 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
Band 1*	218,000	448,000
Band 2*	333,000	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

* Note:

Unitary Authority Band 1 = small/medium size authorities i.e. those with annual gross expenditure up to around £400m to £500m.

Unitary Authority Band 2 = medium/large size authorities i.e. those with annual gross expenditure of around £400m and above.

Auditors and Relationship Managers will use their judgement, in conjunction with discussions with authorities, to band authorities that have annual gross expenditure within the overlap of the two bands.

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.
-

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 fees for NFI 2008-09 are based on the number and range of core datasets applicable to each type of body. The 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 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	Core ¹ (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 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.