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Dear colleagues

## **Response to the consultation on proposed local government audit and inspection fee scales for 2013-14**

I am grateful to those who responded to the consultation on my proposed local government audit and inspection fee scales for 2013-14.

Following careful consideration of all the views provided, I have decided to affirm the scales of fees as per my proposals, although at this stage I am still only able to affirm provisional fee scales for the audit of the accounts of police and crime commissioners and chief constables.

In response to comments received as part of the consultation, I have also provided some further information in the appendix to this letter, including on police and national park authority fee scales and fee setting, which I hope you will find helpful.

The prescribed fee scales and updated benchmarking data will shortly be added to our website.

As outlined in my original proposals, the fee scales framework enables me to identify and challenge fees that appear to be either too high or too low to enable auditors to properly discharge their responsibilities. It also ensures that the fees generated enable the Wales Audit Office to maintain financial balance in its local government work.

The process of checks and balances for 2013-14 fees is now nearing completion and your local audit team will be able to provide more detail on fees at a local level.

The potential for any fee reductions will depend on each body's circumstances. The fee must be sufficient to fund the work required considering local circumstances such as the governance environment, risk, financial and performance management arrangements, size, complexity and the body's track record on improvement.

On a final note, I believe that I am now close to reaching agreement with HMRC regarding my VAT status. As soon as the details are confirmed I shall be writing to you again to explain the implications of the agreement with HMRC.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Huw Vaughan Thomas'.

Huw Vaughan Thomas

Auditor General for Wales

## Appendix

### **Fee scales and fee setting for police and crime commissioners and chief constables**

As outlined in my consultation letter, auditors will now need to undertake audits of two statutory bodies in a police area, rather than one. The additional work will require some increase in audit fees, although exactly how much will depend on accounting requirements for the two bodies, on which I am still awaiting final confirmation.

In the meantime my staff have held productive discussions with police chief finance officers, and have reached a broad consensus on what form the accounts for the 2012-13 financial year are likely to take. We have also agreed to work with chief finance officers to develop a model format for the accounts and will be holding a joint workshop session in March 2013 to consider accounting and audit issues further. These actions will help ensure that the increases in audit fees necessary to accommodate the additional work on the accounts can be kept to the minimum possible for auditors to discharge their responsibilities.

Our preliminary audit plans and fee proposals will reflect the amount of work we anticipate will be required to audit the 2012-13 accounts. If, following the completion of the audit, auditors are able to properly discharge their responsibilities with lower costs than in our preliminary plans, the difference will be refunded. However, if additional work is required to enable auditors to properly discharge their responsibilities, additional fees will be charged commensurate with the additional work involved.

### **Fee scales and fee setting for national park authorities**

Individual fees for National Park Authorities (NPAs) are unlikely to change in cash terms in 2013-14 (subject to changes in local circumstances). As outlined in my consultation letter, this year (for the third consecutive year) I am not including an inflationary uplift to my fee scales. Disregarding inflation will provide local government bodies, including NPAs, with a real terms benefit of around two to three per cent on their fees (as per the latest available HM Treasury GDP deflator series data), which auditors will absorb.

However, the fee scale median (and associated minimum and maximum) for NPAs will increase for 2013-14. Fee scales 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, and to ensure the Wales Audit Office maintains financial balance in its local government work. The fee scale limits prescribed for 2013-14 more accurately reflect total Wales Audit Office input and bear better proportionate comparison to the level of direct Wales Programme for Improvement grant that supports our work at NPAs in order to meet the legislative requirements of the Local Government (Wales) Measure 2009.

## **Fee scales and tables**

Fee scales are underpinned by a zero-based approach to audit planning which takes account of variation in resource requirements. Resource requirements are then converted into fee scales directly based on the costs of delivering the work. The resultant scales are continuous and curved in shape with a diminishing dependence on the size of audited bodies.

Fee scale graphics are included on our website, alongside further information on fee scales and fee setting.

The tables included in Appendix 1 of my fee scales consultation letter provide extracts from the scales for a selection of gross expenditures appropriate to the different types of local government body, to assist year-on-year comparison.