



WALES AUDIT OFFICE  
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# Fees Consultation 2016-17 Summary

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The Wales Audit Office published its Fees Consultation for 2016-17 on 4 September 2015 and, in all, received 20 responses by the extended closing date of 16 October. Though not significant numbers, we were pleased to have coverage from across the sectors we audit.

A number of responses were content with the proposals as presented. For those that provided additional comment, the following themes emerged:

## Audit approaches

- There were some calls for better explanation of what we are doing to build a more efficient/effective audit approach. Audited bodies would like us to be more innovative in delivering our audit duties with a view to reducing costs/fees, in line with reducing client budgets.
- There were some calls for better audit planning (to allow for better client preparation) to assist in minimising costs.

## Fee rates

- There was generally a consistent message welcoming the proposed freezing for the second year of hourly rates following previous reductions, with some pressure to go further. There was widespread support for the funding of the National Fraud Initiative from the Welsh Consolidated Fund (WCF), but there were some concerns raised about its future funding and its application.
- There were concerns that the impact of the new fee approach for town and community councils would be too great on smaller councils.

## Transparency

- our more transparent approach was welcomed, but with a view that the actual out-turn costs of an audit would assist the post-audit review process; and
- the potential of reimbursement of fees was welcomed but the potential to charge further costs was of concern.

The Wales Audit Office Board considered these themes, in finalising its proposed budget for next year and its draft Fee Scheme with the Auditor General. Our 'Estimate', including the draft Fee Scheme, was laid at the National Assembly on 23 October and was scrutinised by the Assembly's Finance Committee on 5 November.

The Finance Committee's resultant report commended the Board's decision to freeze audit fee rates for a second year and commented positively on our ability to meet £1 million of cost pressures in 2016-17 through internal savings and efficiencies. The committee welcomed the inclusion of the draft Fee Scheme 2016-17, and the fee consultation feedback, alongside this year's Estimate.

Importantly, the committee is content with our [Estimate for 2016-17](#). You can read the full [report from the Finance Committee](#) on the National Assembly's website.

# Audit approaches

We put forward through our Estimate a case for transformational change in how we work, recognising that auditing in an age of austerity calls for remodelling our audit approaches.

We have reviewed our skills mix on financial audits. We plan to increase the number of audit trainees so as to reduce the extent to which we use fully qualified auditors for the more routine audit checks, helping to contain the cost of audit in the longer term.

Advances in computer technology and in computing power, together with significantly cheaper storage and processing costs, are set to transform the nature of much of our operational audit work over the next five to 10 years. The traditional annual audit of financial statements needs to evolve to keep pace with this rapid expansion in the volume of available information. In common with the other public audit bodies across the UK, we are exploring how best to take advantage of developments in this fast-moving area.

Our two operational business areas, financial audit and performance audit, are also seeking to better align audit cycles and reporting for local government audited bodies.

We have been working closely with the Welsh Government to enhance the impact of grant certification work by streamlining the requirements placed upon the Auditor General. We have agreed, in principle, 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.

Together with our Inspection Wales partners CSSIW, HIW and Estyn, we look to learn from the Scottish Crerar experience of co-ordinating the use of audit, inspection and regulatory bodies. We are committed to sharing our respective knowledge and experiences to focus our respective review activities to best effect, and maximise the impact of our collective resources.

We have secured additional funding during 2016-17 for developing our audit approaches to the Well-being of Future Generations Act. This will allow us to carry out pilot audits at some sites as we refine our approaches, without passing on the cost to these sites. We are being clear that additional fees are likely to be charged to central government bodies from 2017-18 onwards in relation to this new legislative requirement on the Auditor General. We continue to urge for the repeal of the Local Government (Wales) Measure 2009, to allow us to deliver a more effective, streamlined audit experience from the perspective of local government bodies. Going forward, we hope to apply a model that is already embedded and working well for NHS bodies. The Auditor General intends to publish a Consultation Document on this in the New Year.

# Audit fee rates

Fee rates (that is, the hourly rates we charge for all audit work) will be frozen for 2016-17, along with fee scales for local government bodies other than town and community councils. You can find our published [Fee Scheme 2016-17](#) on our website.

Participation in the National Fraud Initiative will continue on a nil-cost basis; we encourage non-mandated bodies to participate in this important initiative in reducing fraud in the public sector.

We will be pressing ahead with changes to the fee scales of town and community councils, in order to better reflect the actual costs incurred in undertaking audit work for these bodies. We have been advising of these proposed changes for some time and can no longer justify current arrangements which do not always recover the costs incurred in undertaking the work. The Auditor General's recent report on [Financial Management and Governance in Community Town Councils](#) commented that whilst the timeliness of delivering end-of-year accounts from community and town councils in Wales has improved since 2011-12, there remains scope for the sector as a whole to improve its financial management and governance.

# Transparency

We appreciated the high number of consultation responses from Welsh Government sponsored bodies and similar bodies. Next year, we will include a separate section in the Fee Scheme specifically covering these bodies. A number of those bodies currently receive a fee subsidy from us, having been introduced in 2014-15 following changes to the fees regime. We can no longer justify continuance of these anomalous subsidies so have set out in our Estimate the reasoning for drawing them to a close, against a backdrop of new priorities. We have suggested that the Welsh Government should consider providing compensating adjustments to its Grant in Aid funding to these bodies and are pleased to note the Finance Committee's recommendation on this that 'The Committee urges the Welsh Government to alleviate the financial impact on Welsh Government Sponsored Bodies of the Wales Audit Office's decision to discontinue its fee subsidy arrangement in 2016-17'.

The complexities of the fee regime under the Public Audit (Wales) Act 2013 are causing significant conflict between making fee refunds where work has cost less than expected and charging additional fees where costs have exceeded the quoted fee. We continue to actively consider how best to balance these conflicts, but the likelihood is that additional charges at the end of the audit may become more commonplace. We will liaise closely with audited bodies in this regard and will be giving further consideration to invoicing arrangements, particularly in relation to the end of audit position. We are encouraged that the Finance Committee has indicated that the complexity of this statutory fee regime will be included in its Legacy Report for further consideration in the next Assembly.

We encourage audited bodies and other stakeholders to consider our **Estimate** and Fee Scheme and raise any queries with their nominated engagement director (where relevant) or via [info@audit.wales](mailto:info@audit.wales). Engagement directors will discuss fee estimates with audited bodies in the New Year.

Our thanks once again to those who responded to the fee consultation.

**Isobel Garner**

Chair, Wales Audit Office

**Huw Vaughan Thomas**

Auditor General for Wales