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Town and Community Councils in Wales

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Dear Councillors

Audit fees and other matters relating to the 2015-16 audit

A number of councils have recently written to the Wales Audit Office raising questions or concerns about the 2015-16 audit fees and allocated auditors. Therefore, I thought it would be helpful to set out an explanation for all councils that addresses the general issues raised.

The new audit approach

Since 2011-12, the Auditor General for Wales has published an annual report setting out the overall findings from the audits of all town and community councils in Wales. These reports highlighted systemic weaknesses in community councils' financial management and governance arrangements. The reports can be found on the Wales Audit Office website at <http://www.audit.wales/publication/financial-management-and-governance-community-councils-2015-16>.

Following consultation and extensive publicity over the last three to four years, the Auditor General changed the audit approach for community councils for 2015-16 to assist in addressing the weaknesses. The new approach applies to all councils regardless of their income and expenditure. This is because the Auditor General identified that the systemic issues noted above affected councils of all sizes.

This change in approach was communicated via the Auditor General's annual reports, at One Voice Wales and Society of Local Council Clerks conferences and by local auditors following the completion of the 2014-15 audits. The new arrangements, in response to weaknesses, have increased the amount of work auditors complete in order to discharge the Auditor General's statutory responsibilities and this has a knock on impact on the audit fee.

In order to help councils to develop their arrangements, the Auditor General committed to identifying in advance of each financial year, the areas that auditors would focus on as part of the new arrangements. This is also intended to help minimise audit fees. The Auditor General's reports for the 2013-14 and the 2014-15 audits specified the areas that auditors would focus on for the 2015-16 audit. These areas specifically included budget setting and monitoring. The reports were published in sufficient time to ensure councils would be able to prepare 2015-16 budgets in accordance with the requirements of the Local Government Finance Act 1992. I attach an extract of the annual report which sets out the proposed themes for the next few years.

Audit fees

There are three main aspects to the questions and concerns raised regarding audit fees:

1. Why is the audit fee raised by and payable to the Wales Audit Office when the audit was conducted by an audit firm and not the Wales Audit Office?

The Public Audit (Wales) Act 2004 sets out that the Auditor General for Wales is now the statutory auditor for all town and community councils. Therefore, all audit work is carried out for and on behalf of the Auditor General. Due to complexities with VAT (the Auditor General does not charge VAT), the Wales Audit Office is raising audit fees based on information provided by the auditors. We have arrangements in place to reimburse the audit firms for the costs they incur on the Auditor General's behalf.

2. Why is no VAT charged on the audit fee this year when it has previously been charged?

The Auditor General does not charge VAT for the discharge of his statutory functions, including the audit of accounts.

3. Why has the fee changed this year compared with the 2014-15 audit?

Two factors contributed to an increase in the audit fee for 2015-16 compared with 2014-15:

- a change in the statutory framework within which fees are set; and
- the changes to the audit approach.

In previous years, auditors charged audit fees on a fixed fee scale based upon the council's income and expenditure for the year. The fees charged for the smallest councils under these arrangements did not cover the cost of the audit work. Following a change in legislation, the Auditor General now charges a fee to cover the full cost of undertaking the work but no more. The fees now being charged cover the cost of undertaking the audit at each individual council.

In 2016, the Wales Audit Office published its fee scheme which can be found at <http://www.audit.wales/publication/fee-scheme-2016-17>. The fee scheme provides an indication of the expected audit fee for town and community councils taking their size into account. For individual councils, the fee may be above or below the expected fee for a number of reasons including:

- Quality of the supporting information provided to the auditor. The better the information provided, the easier auditors will find it to review and this will usually lead to a lower audit fee;
- Timeliness and completeness of information provided. The auditors advise each council of the information needed for the audit. Where auditors have to repeat the request for information or do not receive the information, there will be an increased audit fee.

Welsh language and appointment of auditors from England

A number of councils raised concerns over the provision of services in Welsh and whether auditors based in England would be able to provide these services.

In 2015, the Wales Audit Office engaged BDO LLP and Grant Thornton LLP to provide audit services on behalf of the Auditor General for Wales for three years. The contracts were let following a procurement process as required by the Public Contracts Regulations. The contract was advertised in the EU and any interested parties were able to express an interest. We are not legally allowed to apply a geographical restriction on potential bidders. The contract award process

involved an assessment of each potential supplier against a range of pre-published criteria. Those suppliers awarded contracts scored highest in our appraisal of all tenders.

At the prequalification stage, the suppliers were required to provide evidence of experience and ability to provide services within a bilingual (Welsh/English) environment and arrangements for meeting the needs of audited bodies whose preference is to communicate in Welsh. Both suppliers provided sufficient assurances at the pre-qualification stage.

Next steps

Each year we undertake a quality monitoring assessment of our audit suppliers' work. As part of this exercise, we look at issues raised by councils including concerns over auditors' performance.

This year we will focus on the provision of services in Welsh. This appears to us to be the most efficient and effective way of identifying issues that may affect a number of councils and identifying any remedial action that may be required.

We will also look at audit fees which are outside our expectations in order to understand the reasons.

We expect to complete our reviews shortly and any lessons learned will be taken into account when the auditors undertake the 2016-17 audits.

Yours sincerely



Anthony Barrett

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