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Mr Colin Everett  
Chief Executive  
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County Hall  
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CH7 6NB

Reference JH15/AH  
Date 13 May 2014  
Pages 1 of 2

Dear Colin

### **Wales Audit Office Fees: Local Government**

You will be aware that the Wales Audit Office (WAO) is currently setting fees for audit work at your authority. Under the Public Audit (Wales) Act 2013 (the 2013 Act) responsibility for setting audit fees transferred from the Auditor General for Wales to the WAO from 1 April this year.

That is why the process has been lengthier than usual this year. While the WAO Board has formally agreed the fee scales and fee schemes that underpin your fees, they remain indicative until the National Assembly's Finance Committee approves the WAO Scheme. The Scheme is due for consideration on 8 May and we hope to be able to formally confirm your fee shortly afterwards. We hope the hiatus has not caused undue delay to your processes and, of course, in future years we will be returning to the normal timetable.

A number of factors are affecting audit costs and fees this year:

- The 2013 Act has required us to revise our cost allocation methodology. Broadly, the impact of this exercise has been to increase the cost of financial audit work and reduce the cost of performance work. For unitary authorities, where we undertake both functions, the overall change has generally been cost neutral. For pension funds, we do not undertake performance audit work, and there has been an increase in the overall cost of work. However, the impact of this will be mitigated by the rebate set out below.
- Under the Act we are no longer able to generate reserves and we have decided to distribute the reserves we generated to 31 March 2014 in respect of our local government audit activity. Your authority will therefore receive a rebate of around 15 per cent of your previous year's audit fee, once our accounts have been audited.
- The Act has also changed the funding arrangements for Wales Audit Office studies that relate to our work in local government. This work will now be funded separately by the Welsh Consolidated Fund and therefore will no longer incur a fee.
- An HMRC VAT ruling means that the WAO cannot charge VAT on Local Government or NHS work and as our fee must cover our costs, we have had to introduce a

corresponding increase in fees for all audited public bodies of an average of 3.8 per cent.

Please be assured that I am supported by the full Board in my determination to keep the WAO's cost base under review to ensure that it continues to offer value for money. Between 2009-10 and 2012-13 we have reduced our annual expenditure by £4.6 million (18 per cent in cash terms).

To present your fees in the context of our audit work at your authority we attach to this letter:

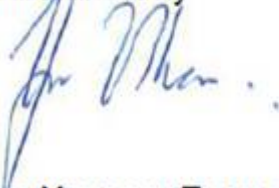
- a 2014-15 Programme of Performance Audit Work and Fees, which should be read in the context of my letter to you dated 28 April outlining the outcome of my consultation on 2014-15 Performance Audit Work; and
- revised 2014 Financial Audit Outlines for the Council and for the Clwyd Pension Fund.

The impact of the above changes on the Council's audit fees has been a decrease of 5.4 per cent from £394,565 to £373,077. A detailed breakdown is provided in [Exhibit 6](#) of the revised 2014 Financial Outline for the Council. As previously mentioned, during 2014-15 you will also be receiving a refund equivalent to around 15 per cent of your previous year's audit fees. In addition, we are in the process of aligning our planning cycles which will result in a further one-off refund, details of which will be confirmed shortly.

May I take this opportunity to thank those of you who responded to the specific consultation on fees and my work programme earlier this year.

We will shortly be seeking your views on the Wales Audit Office, its performance and the framework under which we must recover costs, in our biennial survey. In the meantime, if you have any concerns about the changes outlined in this letter please do not hesitate to contact John Herniman, or any member of our senior team.

Yours sincerely



**HUW VAUGHAN THOMAS**  
**AUDITOR GENERAL FOR WALES AND**  
**CHIEF EXECUTIVE, WALES AUDIT OFFICE**