



# **Cynulliad Cenedlaethol Cymru** **The National Assembly for Wales**

## **Y Pwyllgor Cyllid** **The Finance Committee**

**Dydd Iau, 20 Mawrth 2014**  
**Thursday, 20 March 2014**

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Cofnodir y trafodion yn yr iaith y llefarwyd hwy ynndi yn y pwyllgor. Yn ogystal, cynhwysir trawsgrifiad o'r cyfieithu ar y pryd.

The proceedings are reported in the language in which they were spoken in the committee. In addition, a transcription of the simultaneous interpretation is included.

### **Aelodau'r pwyllgor yn bresennol** **Committee members in attendance**

Peter Black

Democratiaid Rhyddfrydol Cymru  
Welsh Liberal Democrats

Christine Chapman	Llafur Labour
Jocelyn Davies	Plaid Cymru (Cadeirydd y Pwyllgor) The Party of Wales (Committee Chair)
Paul Davies	Ceidwadwyr Cymreig Welsh Conservatives
Mike Hedges	Llafur Labour
Alun Ffred Jones	Plaid Cymru The Party of Wales
Ann Jones	Llafur Labour
Julie Morgan	Llafur Labour

**Eraill yn bresennol  
Others in attendance**

Isobel Garner	Cadeirydd Swyddfa Archwilio Cymru Wales Audit Office Chair
Ann-Marie Harkin	Cyfarwyddwr Grŵp (Adnoddau), Swyddfa Archwilio Cymru Group Director (Resources), Wales Audit Office
Terry Jones	Rheolwr Technegol, Swyddfa Archwilio Cymru Technical Manager, Wales Audit Office
Huw Vaughan Thomas	Archwilydd Cyffredinol Cymru Auditor General for Wales

**Swyddogion Cynulliad Cenedlaethol Cymru yn bresennol  
National Assembly for Wales officials in attendance**

Richard Bettley	Y Gwasanaeth Ymchwil Research Service
Claire Griffiths	Dirprwy Glerc Deputy Clerk
Joanest Jackson	Uwch-gynghorydd Cyfreithiol Senior Legal Adviser
Meriel Singleton	Clerc Clerk

*Dechreuodd y cyfarfod am 09:32.  
The meeting began at 09:32.*

**Cyflwyniadau, Ymddiheuriadau a Dirprwyon  
Introductions, Apologies and Substitutions**

[1] **Jocelyn Davies:** I welcome everyone to this meeting of the Assembly's Finance Committee. Please check that your mobile phones are turned off. We have received no apologies today.

**Papurau i'w Nodi  
Papers to Note**

[2] **Jocelyn Davies:** Before we move to our first substantive item, we have one paper to note, namely the minutes of the previous meeting. Is everybody content with those? I see that you are.

09:32

**Swyddfa Archwilio Cymru—Trafod Rhestr Ffioedd 2014-15**  
**Wales Audit Office—Consideration of Fees Schedule 2014-15**

[3] **Jocelyn Davies:** We will now move on to the first substantive item. This session is part of our committee's new responsibility for governance oversight of the Wales Audit Office. As part of these new arrangements, the committee is required to approve a scheme for charging fees by the Wales Audit Office. That scheme has been circulated to you all. We understand that there will be some technical modifications to the scheme after 1 April, which I think is when the board legally comes into effect. Before we move on to the scheme fees themselves, perhaps the witnesses might like to introduce themselves for the record, and then perhaps the chair and the Auditor General for Wales could give us some background on their respective roles in light of the new Act, and how the new audit office board will operate.

[4] **Mr Thomas:** Clearly, I am here in two capacities: as auditor general and as chief executive and accounting officer of the Wales Audit Office. To my right is Terry Jones, who is supporting Ann-Marie Harkin, who is the director of finance.

[5] **Ms Garner:** I am Isobel Garner, chair of the Wales Audit Office. I am here to present and take questions on the fee scheme before you today.

[6] **Jocelyn Davies:** Before we move on to that, would you like to tell us a little bit about your respective roles and how they are different to how it has been in the past? Isobel, shall we start with you?

[7] **Ms Garner:** Okay, I will start. Under the Public Audit (Wales) Act 2013, as of 1 April, all of the staff, resources and assets will be held by the board, as opposed to the auditor general. That means that the board must satisfy itself that they are sufficient to allow the auditor general to do his work programme. At the moment, we are very concerned with, and have been processing, our governance documents. We have been examining the estimates to ensure that we have the right resources. We have been bringing ourselves up to date with technical matters such as the fee scheme and understanding how it all works. We have also been learning to be very clear about the different roles that Huw and I both have, because the board cannot interfere with the auditor general's work programme. We can be consulted on the studies that he is thinking about, but we have absolutely no role in determining that programme or commenting on any form of audit judgment. So, I see my role as ensuring that the Wales Audit Office has excellent governance and does all that it can to support the auditor general in delivering his functions. However, there are two other things that the board is concerned that it spends time on. The first is the whole ethos that we all want public services to succeed, and it is about ensuring that the way that the audits are conducted—and I do not mean technically; it is about relationships—is supportive and really highlights improvements so that everything can move up in terms of its success. The other aspect is that I want the WAO to be a well-run organisation. So, we are looking internally at practices, staffing et cetera to ensure that we are a well-run organisation. So, that is a very quick oversight of where I am at.

[8] **Jocelyn Davies:** Thank you, that is very useful. Auditor general, do you have anything to add that?

[9] **Mr Thomas:** I would just like to add to that in terms of context for today. We have, with the legislation surrounding the Wales Audit Office, one of the most complex bits of legislation that an audit office has, particularly on fees. If you look at other audit offices in the UK, you will see that fees play less of a role in their financing than they do in Wales. This

partly explains the complexity we are going to look at in terms of the arrangements in front of you. Until 1 April, I have the responsibility under statute to publish the fee scales—and we will touch on that properly later on because this is not the fee scheme but fee scales—for local government. I have gone through the consultation process on that. Under existing legislation, I have consulted Welsh Ministers, and before the end of March, I will be issuing my determination in respect of the fee scales. As Isobel has highlighted, as from 1 April, they transfer to the Wales Audit Office, and the Wales Audit Office will need to adopt them. Hence, this is fee scheme 1 in front of you. Fee scheme 2 will follow very rapidly in its wake.

[10] **Jocelyn Davies:** Thank you, that has made that very clear. Isobel, would you like to introduce the scheme?

[11] **Ms Garner:** As it is quite complex, I would like to ask Ann-Marie to outline the purpose of the scheme in introduction. Then I will say a few words, if it is okay, Chair, and then I think we will open it up to questions.

[12] **Jocelyn Davies:** Yes, of course. Ann-Marie, over to you.

[13] **Ms Harkin:** Thank you. You have the fee scheme in front of you. As we have already said, it is a requirement of the new legislation. The Public Audit (Wales) Act 2013 requires the WAO to produce a fee scheme each year, and that fee scheme has to be approved by the Assembly and be in place for 1 April in order for us to be able to charge for certain work. It is a completely new requirement. As Huw has already said, there have been requirements regarding fees on him previously. For example, he has had to consult on, and then prescribe, fee scales for certain work. However, there has not been a requirement to produce a fee scheme in this way. As per the legislation, it is quite specific, and it is required to contain three main things. I have grouped them into three main things for this discussion. The first is the powers under which the WAO is able to charge fees and, as you will see, that is set out in the early part of the fee scheme. It will also have to set out fee scales for certain work, and that is for the audit of local government accounts, Local Government (Wales) Measure 2009 work and for the data-matching work that we undertake. It will also have to set out other fee arrangements, and that is mainly for work that we charge for on a daily basis. That is also contained in here.

[14] So, essentially, what you have in front of you is a scheme that contains the powers and the daily rates that we will be charging. What it cannot contain, as we have already said, is the fee scales because the WAO board cannot actually prescribe those fee scales until 1 April. That is probably enough by way of an introduction to the scheme. I do not know whether there were any questions—I am sure there are—

[15] **Jocelyn Davies:** We do have some questions, but perhaps if you would like to say a few words, Isobel, and then we will get on with the questions.

[16] **Ms Garner:** Yes. As Ann-Marie said, we have ensured that the fee scheme before you contains the relevant enactments under which we can charge audit fees and the arrangements for setting those fees. The board, after very thorough briefing and then a formal session of scrutiny and challenge, has agreed that from 1 April we will adopt the fee scales prescribed by the auditor general, and that will come back to you as fee scheme 2. However, the per diem rates, which are exhibit 2 in your paper, are the key. They have been subject to rigorous cost allocation and we have gone back to zero budgeting to ensure that those per diem rates accurately reflect the rates needed to fully recover the costs of the audit work, which is a requirement under the Public Audit (Wales) Act 2013. They will not recover more, because we are not allowed to charge more, but those are the rates that will allow us to fully recover our costs. It is those rates that were built into the estimate that you considered back in November and have been converted into our formal budget for the coming year, and all our

operational plans. So, I put them in front of you for questions and for your approval.

[17] **Jocelyn Davies:** I suppose the most—.

[18] **Alun Ffred Jones:** May I come in?

[19] **Jocelyn Davies:** Yes, Ffred.

[20] **Alun Ffred Jones:** Could you explain ‘per diem’? Was that what you said?

[21] **Ms Garner:** The per diem rate is the daily charge-out rate for different grades of staff performing different functions. Under the Act, we had to go back and separate different functions out. It could not just be for the whole audit. We had to look at the different functions. So, they have been recalculated very thoroughly, and the cost allocation methodology has been scrutinised by our external auditors, so I can assure you that they are very robust.

[22] **Mr Thomas:** May I explain? The per diem rates only apply when we are doing specific work that does not fit within the scales and fees that are otherwise charged to bodies. For example, if you wanted me to do a grant certification, here is the daily rate, and it is a daily rate that we prescribe and which governs the Wales Audit Office staff and the external firms that might work for us under contract. So, there is a statutory arrangement that actually sets these out.

[23] I would like to reflect that it also means that we do have a round of money about which I have to ask, ‘Is this the right way ahead for the future?’ If I was in the National Audit Office, the National Audit Office does not levy fees on central Government departments because it all comes from the consolidated fund, as indeed it does in Wales. So, we have the position in Wales that I charge fees, they go against a part of the Welsh Government, it then seeks it from the consolidated fund, and we engage in a merry-go-round of money. Looking ahead, we ought to be looking to try to simplify that process. However, on the scale that you have in front of you, in terms of hourly rates in this scheme, they really underpin everything. They are the ones that would apply if people want me to do some extra work or if they commission particular work from the Wales Audit Office; these would be our benchmarks in the coming year.

[24] **Jocelyn Davies:** I was going to ask you whether they were externally verified, but by the sound of it there is a rigorous assessment as to how these figures are arrived at. How do you count the hours?

[25] **Ms Garner:** We have a real-time recording system, but I would perhaps like Ann-Marie to say a little bit about that, just to give you assurance.

[26] **Ms Harkin:** What the directors and teams would do before starting off an audit is that they would estimate the number of hours that would be required at each grade in order to arrive at a fee. So, it would be an estimate, and that would be the fee that we would notify the organisation, the audited body, of. Were there any variation at the end of that, we would have to make adjustments. We would generally accept up to a certain level as just being that the team was a little bit quicker than it should be, but anything beyond that actually it is refunded to the organisation concerned, and our accounts have shown refunds in previous years.

[27] **Jocelyn Davies:** Paul, shall we come to your question?

[28] **Paul Davies:** Rwyf eisiau gofyn **Paul Davies:** I want to ask a general question cwstiwn cyffredinol ichi ynglŷn â ffioedd. to you about fees. Perhaps I should ask this

Efallai y dylwn ofyn y cwestiwn hwn pan fyddwch yn cyhoeddi'r cynllun ffioedd nesaf, oherwydd rwy'n cydnabod bod y cynllun hwn yn edrych ar awdurdodau lleol. Ond, tra eich bod gyda ni, rwyf eisiau gofyn y cwestiwn hwn ichi. Mae mudiadau cyhoeddus sy'n gorfod defnyddio eich gwasanaethau oherwydd rheolau statudol. Felly, nid oes dewis gan rai mudiadau ond i ddefnyddio eich gwasanaethau. Yn yr amgylchiadau, pa ystyriaeth a ydych yn ei rhoi i fudiadau o'r fath pan fyddwch yn penderfynu ffioedd fel hyn?

question when you publish the next fees scheme, because I recognise that this current scheme looks at local authorities. But, while you are here, I would like to ask you this question. There are public bodies that have to use your services because of statutory rules. Therefore, some organisations do not have any choice other than to use your services. In those circumstances, what consideration do you give to such organisations when you decide on fees such as these?

09:45

[29] **Mr Thomas:** Fel rydych chi'n dweud, nid y cynllun sydd o'ch blaenau chi ydyw, ond y cynllun sydd i ddod.

**Mr Thomas:** As you say, it is not the scheme that is before you, but the scheme that is to come.

[30] **Paul Davies:** Rwy'n derbyn hynny.

**Paul Davies:** I accept that.

[31] **Jocelyn Davies:** Could you hold on a second, as not everybody has the translation equipment? Sorry about that. Julie, do you have the translation? It is coming though for me.

[32] **Julie Morgan:** Yes, it is coming through.

[33] **Jocelyn Davies:** Fine, thank you. Sorry about that interruption.

[34] **Mr Thomas:** Hoffwn eich cyfeirio at y ddogfen ymgynghorol rwyf wedi ei chyhoeddi. Yr hyn rydym wedi ei wneud yw cyhoeddi *scale* sy'n dangos y math o ffioedd a gaiff eu codi yn dibynnu ar gymhlethdod yr archwiliad, a yw'r corff wedi gwneud digon i baratoi ar ein cyfer ac a ydym yn gorfod gwneud ychwaneg o waith. Felly, yr hyn rydym ni'n ei wneud yw fe fydd y ffioedd ar gyfer, dywedwch, sir Benfro, naill ai yn y fan hon ar waelod y *scale*, neu yn y fan hon ar y top. Mae trafodaeth yn cymryd lle rhwng fy nghyfarwyddwr a'r corff ynglŷn â lle yn union bydd y ffioedd yn ystod y flwyddyn. Felly, yr hyn rydych chi'n gweld yw *scale* sy'n dangos *spread* go dda o'r costau.

**Mr Thomas:** I would like to refer you to the consultation document that I have published. What we have done is publish the scale that demonstrates the kinds of fees that will be charged, depending on the complexity of the audit, whether the organisation has done sufficient preparation for us and whether we have to do extra work. Therefore, what we are doing is that the fees for, say, Pembrokeshire, would be either here on the bottom on the scale, or here on the top. A discussion takes place between my director and the organisation about where exactly we will set the fees for the year. So, what you see is a scale that shows quite a good spread of the costs.

[35] **Paul Davies:** Felly, rydych chi fel corff yn cael trafodaethau gyda rhai o'r cyrff cyhoeddus hyn cyn eich bod yn gosod y ffioedd.

**Paul Davies:** Therefore, as a body, you do have discussions with some of these public bodies before you set the fees.

[36] **Mr Thomas:** Ydym, cyn pennu'r ffioedd.

**Mr Thomas:** Yes, before we determine the fees.

[37] **Alun Ffred Jones:** Mae gennyf

**Alun Ffred Jones:** I have a question, but I

gwestiwn, ond rwyf eisiau gofyn cwestiwn arall a mynd yn ôl at rywbeth i helpu fi i ddeall hyn yn iawn. Rydych chi'n derbyn arian o'r gronfa ganolog, ac rydych chi hefyd yn codi ffioedd ar y cyrff hyn, ond roeddech yn awgrymu bod yr arian hwnnw—. A yw'n mynd yn ôl i'r gronfa ganolog honno?

[38] **Mr Thomas:** Ar ddiwedd y dydd, os oes pres ar ôl, mae'n mynd yn ôl i'r gronfa ganolog. Fodd bynnag, y pwynt roeddwn i'n trio ei wneud oedd, yng Nghymru, rwy'n codi mwy o fy mhres allan o ffioedd ar gyrff cyhoeddus, gan gynnwys y cyrff sy'n cymryd eu cyllideb o'r gronfa ganolog, o gymharu â Lloegr, lle mae'r Swyddfa Archwilio Genedlaethol yn cael y rhan fwyaf o'i phres yn syth o'r gronfa ganolog, ac mae *notional fees* sy'n mynd yn erbyn y cyrff canolog.

[39] **Alun Ffred Jones:** A oes rheswm am hynny yng Nghymru? Mae'n ddrwg gennyf; mae'n siŵr y dylwn i wybod hyn.

[40] **Mr Thomas:** Rwy'n credu ei fod yn deillio o'r ffaith bod Swyddfa Archwilio Cymru yn gwneud cyfuniad o'r gwaith a oedd yn rhan o waith y Comisiwn Archwilio. Felly, rydym wedi etifeddu strwythur, ond y pwynt sylfaenol i'w wneud yw ein bod wedi etifeddu strwythur sy'n llawer mwy cymhleth na'r hyn sydd ei angen.

[41] **Alun Ffred Jones:** Y cwestiwn roeddwn i'n mynd i ofyn yw: sut mae lefelau'r ffioedd yn cymharu â llynedd?

[42] **Mr Thomas:** Fel gwnaethom ei ddweud pan ddaethom â'r *estimates* o'ch blaenau, mae codiad o 3.8% ar gyfartaledd. Mae hynny yn bennaf oherwydd gwnaethom golli'r hawl i gael ad-daliad o dreth ar werth.

[43] **Jocelyn Davies:** Mike, you wanted to come in on this point.

[44] **Mike Hedges:** Yes. It is a presentational matter. It is the first year that we have had it, so this should not be seen as a criticism, but, in future years, I would find it helpful if the previous year's fees were put alongside it, so that we could see the comparator in front of us. That is not meant as a criticism. It is the first year that we have done it, but, in future years, I personally would prefer to see them alongside each other.

[45] **Jocelyn Davies:** Peter, shall we come to your questions?

[46] **Peter Black:** May I just go back to the question that Alun Ffred asked about the

want to ask another and go back to something to help me to understand this correctly. You receive money from the consolidated fund, and you also charge fees to these bodies, but you were suggesting that that money—. Does it go back to the consolidated fund?

**Mr Thomas:** At the end of the day, if there are surplus funds, they are returned to the consolidated fund. However, the point that I was trying to make was, in Wales, I receive more of my funding from the fees charged of public bodies, including the bodies that receive their budgets from the consolidated fund, as compared to England, where the National Audit Office receives most of its income directly from the consolidated fund, and it is notional fees that are charged to central organisations.

**Alun Ffred Jones:** Is there a reason for that in Wales? I am sorry; I suppose that I ought to know this.

**Mr Thomas:** I believe that it arises from the fact that the Wales Audit Office undertakes a combination of the work that was part of the Audit Commission's remit. Therefore, we have inherited a structure, but the fundamental point is that we have inherited a structure that is much more complicated than is required.

**Alun Ffred Jones:** The question that I was going to ask is: how do the current fee levels compared to last year's?

**Mr Thomas:** As we said when we brought the estimates before you, there is an increase of 3.8% on average. That is mainly because we lost the right to receive a repayment of value added tax.

complexity of your fees structure? You are saying that, rather than actually charging fees to central Government, you would prefer the money to come straight from the consolidated fund, thus cutting out the middle man. Is it not actually more accountable, in terms of the work that you do, to be paid for the work that you do, rather than to just have a set sum given to you?

[47] **Mr Thomas:** Yes, it is. You could argue that it actually increases accountability. It also seems to be the same pound, in the end, that ends up in the same pocket, but having gone by a different route.

[48] **Peter Black:** However, the same applies in terms of local government. Local government gets a large chunk of its money from the consolidated fund via the Welsh Government as well.

[49] **Mr Thomas:** Yes. I am only making the point in relation to central Government or Welsh Government supported bodies.

[50] **Peter Black:** I think that the point that I am making is that this money goes around anyway. In a sense, you are trying to opt out as a part of it, not all of it. Okay. That is fair enough. Let us move on to my question.

[51] **Jocelyn Davies:** I suppose that you are in a slightly different position because you are auditors.

[52] **Peter Black:** Yes.

[53] **Mr Thomas:** Yes.

[54] **Jocelyn Davies:** Your budget has to be part of the Government's budget process.

[55] **Mr Thomas:** Yes. Take one illustration this year funds that we had previously got out of the fees and the WPI grant, the Welsh Government asked us to take through the consolidated fund. So, we have shifted money. While the underlying cost remains the same, it looks as if our money has gone up.

[56] **Jocelyn Davies:** Yes. Right.

[57] **Peter Black:** Okay. We will make a note of that. [*Laughter.*] How do local government and non-local government charges differ, and how is the work different?

[58] **Mr Thomas:** In terms of the accounts work and finance work, that obviously depends on the bits of legislation that are governing those bodies. In the case of local government, our work also embraces the effect of the local government Measure in Wales. When we look in terms of comparisons with other audit offices, that actually makes for difficulty because there is no absolute comparison. However, the same principle applies. We are considering how much work needs to be done in order to satisfy the legislation and we calculate the fees on that basis.

[59] **Peter Black:** I was not trying to compare audit offices with audit offices; I am just trying to compare the fee scales within your audit office. However, in terms of local government, are you saying that that is more complex work?

[60] **Mr Thomas:** No; I am saying that it is work that reflects the requirements on us for those particular bodies. If you go to our website, you will see the scales from the current year there, and you will be able to see how they compare national parks, the police and so on.

[61] **Peter Black:** All right. So, you have different rates for different bodies.

[62] **Mr Thomas:** Yes.

[63] **Peter Black:** Ann-Marie is shaking her head.

[64] **Ms Harkin:** On the fee rates, the hourly rate would be the same. Whether an auditor was working in central Government, local government or the NHS, we charge exactly the same. Huw is saying that there are slight differences because the legislation requires—and has required in previous years—the auditor general to actually prescribe the fee scales, so that local government bodies can see where they would sit. That is not the requirement in central Government or the NHS. So, that is the slight difference. The rates are exactly the same and we do not charge any differently.

[65] **Peter Black:** So, it is a matter of how many hours you spend in the—

[66] **Ms Harkin:** That is right. We have to estimate that depending on the complexity of an audited body, the size of that body, and how much work that it does in order to prepare for us arriving. It will vary depending on circumstances.

[67] **Peter Black:** I was just trying to understand that. That is great. Why does the performance audit require higher hourly rates than the financial audit?

[68] **Ms Harkin:** There has been a redistribution this year of our overheads, as part of this cost allocation methodology, and the rates are therefore absolutely the cost of the various grades involved. The pay scales would not be identical; so, what you would have there, for example, is that the performance audit lead would not be a direct read across to a team leader in financial audit. So, they are not directly comparable grades. They receive different pay, et cetera. So, it has been very specifically calculated, depending on the cost of the grade of staff within the organisation. We have been that explicit. It is the direct cost, plus the overheads that that particular grade of staff has to bear.

[69] **Peter Black:** So, someone who is an engagement lead on performance audit will be paid more than an engagement lead on financial audit. Is that what you are saying?

[70] **Ms Harkin:** No. An engagement lead on financial audit and performance audit would be paid within the same pay scale, but this has been based on actual costs. It could be that the particular engagement leads that you have in the performance audit practice at the moment are at the top of their scale, whereas the ones in the financial audit practice are at the bottom of their scale.

[71] **Peter Black:** So, if you were doing a performance audit, you would always allocate that to someone who was at the top of their scale.

[72] **Ms Harkin:** No. What I am saying is that the total cost of performance engagement leads in general, the four or five of them, when added up, and taken on these costs, is more expensive than the four or five financial audit engagement leads added up. We do not go as specific as an individual—

[73] **Peter Black:** They seem to me to be the same scales. You have ‘engagement lead’ on both. They seem to be the same scales. I do not understand why the charges are different.

[74] **Ms Harkin:** It depends on the salaries of those individuals. What I am saying is that they are the same grade, but they are paid within a scale, so if you have five people—

- [75] **Jocelyn Davies:** Otherwise, you would not be recouping the actual costs.
- [76] **Ms Harkin:** That is right; absolutely.
- [77] **Peter Black:** So, I will go back to my original question. Therefore, you allocate different people within the same scales to do different tasks, and someone doing the performance audit is paid more because of that.
- [78] **Jocelyn Davies:** Auditor general, would you like to respond?
- [79] **Mr Thomas:** They are paid more because—. More fundamentally, the Act now requires us to charge in a particular way, so we have to reflect the actual cost as opposed to a notional cost, which might even things out.
- [80] **Jocelyn Davies:** So, if your staff change and grades change because somebody new comes in and somebody who is on a higher grade retires, your fees change.
- [81] **Ms Harkin:** Yes.
- [82] **Peter Black:** I understand that, but you have actually set out rates here that do not seem to take that into account. You have set out rates as if you are making that assumption automatically.
- [83] **Mr Thomas:** We do not make the assumption. We have calculated these based on our actual cost in the course of the year, and that is what we are required to do. In previous years, we have averaged, in reality, but now we have run this on a real-time calculation of how much staff cost. It is the case that engagement leads in performance audits have greater seniority, they have been around longer and, therefore, they cost more.
- [84] **Peter Black:** So, the assumption is that, in setting these rates, whenever you do a performance audit, you will always go to the most senior staff who are on the top of their grade.
- [85] **Mr Thomas:** No, for this year—
- [86] **Peter Black:** That is what it says here.
- [87] **Mr Thomas:** For this year, that is right, Peter, but in future years, it might change in terms of the calculation. Supposing somebody leaves in the course of the year, next year when you see these, they might be slightly lower.
- [88] **Peter Black:** No, I am talking about this rate here. In terms of this rate, that is the assumption behind this particular table.
- [89] **Mr Thomas:** It is not an assumption. This is the reality in terms of the cost of staff this year.
- [90] **Peter Black:** I am sorry; there is an assumption that you have to make because there is reality in terms of what it actually costs you, but when you are setting scales and rates, surely you must make assumptions in setting them because you are looking forward.
- [91] **Mr Thomas:** Sorry, this is the scheme. When you see the scales, you will see that they vary and, therefore, the cost of that particular audit and that particular work will fit within that scale. These underpin the scales, but they do not represent the actual cost that I

will be charging individual bodies, with the exception of people wanting to carry out a grant certification and it is likely to take an audit manager and a team member, you can calculate very roughly what one day's worth would cost.

[92] **Jocelyn Davies:** However, when an organisation receives its bill, it is the actual costs of the actual salaries of the actual people.

[93] **Mr Thomas:** Yes.

[94] **Peter Black:** The estimate is based on the scheme.

[95] **Jocelyn Davies:** On the scales.

[96] **Mr Thomas:** It is based on this and the scales. I am sorry for the way in which the legislation is drafted, but when they both come together in scheme 2, you will see how this works.

[97] **Jocelyn Davies:** That is fine. Chris, shall we come to your question?

[98] **Christine Chapman:** You have consulted on the local government fee schedule for 2014-15. I just wondered if you could explain how you identified the level of costs that go into this consultation.

[99] **Mr Thomas:** I am sorry; I have to say that that question does not follow. What this is, is the scheme. When I consult on the scale, what I am doing is setting a broad band, and in that broad band, we have taken account of our experience and of other benchmarks as best we can—and we are left, basically, with Scotland and Northern Ireland now—so that we have some sense of where fees are for, say, health bodies in that area. So, we have a sense of how many hours are needed and how many days are needed.

10:00

[100] We take account of, for example with small bodies, that there is perhaps a minimum requirement for any audit work. That then is translated into our experience of, if you are in about the middle, it would cost this, but it might be a spread up and down, depending on the complexity and the ease of that audit body, and indeed the performance of that particular audit body. However, they set the scale. The actual fee will be set by way of discussion within that scale. We will be starting before long to talk to the individual bodies and saying, 'This is where we think that we're going to be pitching the final outturn'. Even that final outturn may be different, because if we go in to conclude, as we have done in the past, the audit of a particular body and we find that it has not prepared the paperwork, we need to do extra work. Therefore, we charge for that extra work. If we do a formal inspection, for example, a corporate governance inspection of a local body, we will charge for extra work. The fees represent our estimates of what it will take for that body. As Ann-Marie has already indicated, sometimes at the end of the year, if those fees are too much in relation to the actual work, we operate refund arrangements.

[101] **Jocelyn Davies:** I hope, auditor general, that this is easier to apply than it is to explain. [*Laughter.*] However, I think that we have got there. Thanks for your patience in this, but I think that we have got there now. Christine, are you happy with that? I see that you are. Mike, shall we come on to your questions?

[102] **Mike Hedges:** I am not sure that now is the right time for it, but I will raise it now. A lot of value-for-money studies take place. They came in back in the 1980s, and prior to that, if my memory's right—they did not exist until the late 1980s or early 1990s—all audit did was

audit, until the value-for-money studies came in. Has any study been done on the value for money of value-for-money studies? *[Laughter.]*

[103] **Mr Thomas:** May I distinguish? They are value-for-money studies, and I tend to apply the term specifically to those studies that I carry out for the Public Accounts Committee, which you agree out of the consolidated fund, so that they are not charged. This scheme does not cover that. There is then a group of studies, which are possibly the ones that you are referring to, when I look across local government. When I look across local government, as I do in terms of looking across health bodies, I consult with the local government councils and with the Welsh Local Government Association and say, 'Look, these are the studies that I'd like to carry out this year'. We use some of the fees that we levy on individual councils to do that work.

[104] All I can say is that the demand for that range of studies has grown. When I arrived, I think it was one a year; we are now looking at three coming up. That is because we are getting a call for that work. So, I have not done a formal value-for-money study of the value for money to local government, but there is an increasing demand for us to look across authorities, as distinct from just looking at an authority by itself.

[105] **Mike Hedges:** Where is the demand coming from?

[106] **Mr Thomas:** When I send out to ask which study I should do, they say, 'We'd like you to do that, and we'd like you to look at the other one'. So, currently, for this year, I am consulting on four, to see which ones that local government feels happier that I do.

[107] **Mike Hedges:** Could they reply 'none'?

[108] **Mr Thomas:** That is okay. I am required by legislation to do at least one.

[109] **Mike Hedges:** I have heard people in local government—I used to be one of them—complaining that value-for-money studies cost a lot of money and did not create much benefit in the end. However, if you are saying that local government is asking for more of them, I would put that back to it. If it was only asking for one, then it would only have to pay for one.

[110] **Mr Thomas:** Mike, you and I were both in local government for a time, and I also used to complain about the value-for-money studies done by the Audit Commission at the time. I just feel that currently we are providing a more—

[111] **Jocelyn Davies:** So, it depends on which side of the fence that you are on. *[Laughter.]*

[112] **Ann Jones:** I never did when I was a councillor; I quite liked them.

[113] **Jocelyn Davies:** Okay. Julie, shall we come to your question?

[114] **Julie Morgan:** I have struggled a bit today to understand how this operates. Could we have something in writing to explain?

[115] **Jocelyn Davies:** Just a note. We will have a note, so that we can re-read it and—

[116] **Ms Garner:** Julie, could I assure all members of the committee that board members have had a number of briefing sessions to get their heads around this? The other thing that we found particularly useful was the interactive briefing with Ann-Marie and the team, to say, 'So, that means this'—

[117] **Jocelyn Davies:** We may go as far as that then.

[118] **Ms Garner:** You may want to do that, particularly if you are trying to see how that links into the estimate and this money roundabout that Huw has hinted at.

[119] **Julie Morgan:** Yes. It is, as you have said, complicated. I was going to ask whether you have actually changed your fees in the past as a result of external consultation.

[120] **Mr Thomas:** The answer is, 'yes'. Consultation takes place in terms of the scales—just to remind you on that one.

[121] **Julie Morgan:** Yes, I understand that it is the scales.

[122] **Mr Thomas:** We get responses. Currently, I am looking at three areas where the responses have come back and said, 'Look, I think that the scales are a bit on the high side'. In making my final decision in terms of the local government fee scales, I will try to take that into account. Of course, it is complex this year, because as well as the scales, we need to refund reserves that have been built up under previous legislation on the local government side. We will basically be making a one-off payment to the local government bodies and community councils, but that may well be far more than we are actually seeking to increase this year. So, it is swings and roundabouts that will take place.

[123] **Julie Morgan:** So, there is a real interaction in terms of the setting of the scales.

[124] **Mr Thomas:** Yes. There is genuine consultation in terms of how we drive up the scale, the views that we obtain and then the final decision that I will take. In future years, you will see this because, somewhere around November time, fee scheme 3, under legislation, will come to you and that will be the consultation document in relation to local government, health and other schemes.

[125] **Jocelyn Davies:** We will endeavour to understand this by November. [*Laughter.*] I am glad that you have set us a deadline. Do Members have any other questions on this? No. Well, thank you very much. That was very enlightening. You have completed all of our questions on the fee scheme for 2014. Thank you very much for your attendance here today. Obviously, we will send you a transcript and if you would check that for factual accuracy, we would be very grateful. Thank you.

10:08

**Cynnig o dan Reol Sefydlog 17.42 i Benderfynu Gwahardd y Cyhoedd o'r  
Cyfarfod**

**Motion under Standing Order 17.42 to Resolve to Exclude the Public from the  
Meeting**

[126] **Jocelyn Davies:** I move that

*the committee resolves to exclude the public from the remainder of the meeting in accordance with Standing Order 17.42(vi).*

[127] I see that Members are content.

*Derbyniwyd y cynnig.  
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 10:08.*  
*The public part of the meeting ended at 10:08.*