

Annual Scrutiny of the Wales Audit Office and the Auditor General for Wales

November 2020



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November 2020



About the Committee

The Committee was established on 22 June 2016. Its remit can be found at:
www.senedd.wales/SeneddFinance

Committee Chair:



Llyr Gruffydd MS
Plaid Cymru

Current Committee membership:



Alun Davies MS
Welsh Labour



Siân Gwenllïan MS
Plaid Cymru



Mike Hedges MS
Welsh Labour



Rhianon Passmore MS
Welsh Labour



Nick Ramsay MS
Welsh Conservatives



Mark Reckless MS*
Independent

*Mark Reckless was elected to the Finance Committee as a member of the Brexit Party until 16.10.2020. He was then elected to the Finance Committee on 4.11.2020 as an Independent Member.

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Recommendations and conclusions

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Recommendation 2. The Committee recommends that the Annual Report for 2020-21 includes details on the impact of the senior leadership team restructure and the activities undertaken to improve the employee experience at Audit Wales..... Page 26

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Recommendation 5. The Committee recommends that RSM UK Audit LLP puts measures in place to ensure that the final version of its Audit Findings report is laid before the Senedd in future, and keeps the Committee informed of any issues in meeting its statutory obligations under paragraph 35(2), Schedule 1 of the Public Audit (Wales) Act 2013..... Page 29

Recommendation 6. The Committee recommends that RSM UK Audit LLP updates references in future audit findings reports from "National Assembly for Wales Commission" to "Senedd Commission". The National Assembly for Wales Commission was renamed "Senedd Commission" by virtue of section 6 of the Senedd and Elections (Wales) Act 2020, effective 6 May 2020, and formal documentation should recognise this..... Page 29

Recommendation 7. The Committee recommends that an update is provided as the project to review the travel scheme progresses, including the outcome of discussions with staff and Trade Unions on the changes proposed, as well as the timelines for implementation and projected savings.....Page 32

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Conclusion 1. Subject to the conclusions and recommendations in this report, the Committee is content with the following publications provided by the Auditor General for Wales and the Wales Audit Office during the annual scrutiny sessions:

- Annual Report and Accounts 2019-20;
- Audit Findings Report - Year Ended 31 March 2020;
- Annual Plan 2020-21;
- Interim Report - An assessment of progress made against our 2020-21 Annual Plan during the period 1 April to 30 September 2020;
- Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2022.....Page 10

Conclusion 2. The Committee is content with the Annual Report and Accounts 2019-20..... Page 26

Conclusion 3. The Committee is content with the Audit Findings report from RSM UK Audit LLP, which concluded that the 2019-20 accounts provide a true and fair view of the state of the Wales Audit Office's affairs. Page 29

Conclusion 4. The Committee notes the Annual Plan 2020-21 and Interim Report 2020-21 and is content with both of these documents.....Page 37

Conclusion 5. The Committee is content with the Estimate 2021-22, attached at Annex B to this report.Page 52

1. Introduction

Background to the Public Audit (Wales) Act 2013 and the Auditor General for Wales

- 1.** The Public Audit (Wales) Act 2013 (the Act) received Royal Assent on 29 April 2013.¹ The Act continued the office of the Auditor General for Wales (Auditor General) and created a new body known as the Wales Audit Office (WAO). It also set out accountability and governance arrangements relating to the Auditor General and the WAO.
- 2.** The Auditor General is the statutory external auditor for most of the Welsh public sector, and is Chief Executive of the WAO and its Accounting Officer. The WAO monitors and advises the Auditor General, holds and provides resources and charges fees for the Auditor General and the WAO's work. The WAO is represented by a Board, which includes a non-executive Chair, other non-executive members, the Auditor General, an appointed employee member and two elected employee members.
- 3.** Audit Wales is the non-statutory collective name for the Auditor General for Wales and the Wales Audit Office, which are separate legal entities with their own legal functions. Audit Wales is not a legal entity.

Accountability and Governance Arrangements

- 4.** The Act confers a number of functions on the Welsh Parliament (the Senedd). Under Section 28 of the Act, the Senedd may make provision through Standing Orders regarding the exercise of the functions conferred upon it by the Act, including “delegating functions to the Presiding Officer, the Deputy Presiding Officer, a committee or sub-committee of the Senedd or the chair of such a committee or sub-committee”.² In accordance with Standing Order 18.10, oversight of the WAO has been delegated to the Finance Committee (the Committee).³

¹ [Public Audit \(Wales\) Act 2013](#)

² [Standing Orders of the Welsh Parliament](#)

³ [Business Committee minutes, 1 October 2013](#)

5. This year's annual scrutiny of the WAO and the Auditor General took place in two parts, to allow the Committee to hear from both the outgoing and incoming Chair of the WAO Board.

6. The Committee examined the following publications on 21 September 2020 and took evidence from the Auditor General, Adrian Crompton, the outgoing Chair of the WAO Board, Isobel Everett, and an official from Audit Wales:

- Annual Report and Accounts 2019-20;
- Audit Findings Report - Year Ended 31 March 2020;
- Annual Plan 2020-21;
- Value for Money Review of the Wales Audit Office's Travel and Subsistence arrangements.

7. The Committee also took the opportunity to discuss the outgoing Chair's valedictory reflections.⁴ The Committee would like to thank Isobel Everett for the feedback on her term of office and for her invaluable contribution to the establishment and development of the WAO Board.

8. On 2 November 2020, the Committee took evidence from the Auditor General, Adrian Crompton, incoming Chair of the WAO Board, Lindsay Foyster, and an official from Audit Wales on the following publications:

- Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2022;
- Interim Report - An assessment of progress made against our 2020-21 Annual Plan during the period 1 April to 30 September 2020.

Conclusion 1. Subject to the conclusions and recommendations in this report, the Committee is content with the following publications provided by the Auditor General for Wales and the Wales Audit Office during the annual scrutiny sessions:

- Annual Report and Accounts 2019-20;
- Audit Findings Report - Year Ended 31 March 2020;

⁴ Letter from Isobel Everett, Chair of the WAO Board – Valedictory reflections, 10 September 2020

- Annual Plan 2020-21;
- Interim Report - An assessment of progress made against our 2020-21 Annual Plan during the period 1 April to 30 September 2020;
- Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2022.

2. Annual Report and Accounts 2019-20

9. The Annual Report and Accounts for 2019-20⁵ were laid before the Senedd on 19 June 2020. The Auditor General prepared the Accounts for 2019-20 as the Accounting Officer for the WAO, in accordance with Schedule 1 of the Act. The Auditor General and the outgoing Chair of the WAO jointly prepared the Annual Report for 2019-20, in accordance with Schedule 2 of the Act.⁶

10. The introduction to the Annual Report and Accounts states that functions undertaken by the Auditor General and WAO have been consistent with the annual plan, and that priorities set out in that plan have been substantively achieved.⁷

11. The Annual Report outlines four overarching objectives of Audit Wales, to:

- Fully exploit its unique perspective, expertise and depth of insight
- Strengthen its position as an authoritative, trusted and independent voice
- Increase its visibility, influence and relevance
- Be a model organisation for the public sector in Wales and beyond⁸

12. The Annual Report and Accounts 2019-20 is the first presented under the 'Audit Wales' identity – previously the report was presented as a product of the WAO and Auditor General. This change was outlined in a letter to Committee on 5 May 2020.⁹ The introduction notes:

“Audit Wales is the non-statutory collective name for the Auditor General for Wales and the Wales Audit Office, which are separate legal entities with their own legal functions. Audit Wales is not a legal entity.”¹⁰

13. The Auditor General explained that the new identity resulted from a review of the organisation's communications work:

⁵ [Annual Report and Accounts 2019-20](#)

⁶ [Public Audit \(Wales\) Act 2013](#)

⁷ [Annual Report and Accounts 2019-20, page 3](#)

⁸ [Annual Report and Accounts 2019-20, page 16](#)

⁹ [Letter from Audit Wales, 5 May 2020](#)

¹⁰ [Annual Report and Accounts 2019-20, page 3](#)

“...leading up to the new identity, we undertook a lot of research with our stakeholders, our staff, the public at large, and that told us that we needed to improve the way in which we communicated with them, and, in particular, they told us that we needed to be clearer in our reporting style, shorter, more succinct, more accessible, and also that the multiple identities that we had in our published outputs as Auditor General for Wales and Wales Audit Office often caused some confusion in their minds, and so diluted the impact of our work. So, that really was the main driver for the change to the new identity as Audit Wales, which we felt was clear, simple, it does what it says on the tin, is in line with our colleagues in Scotland, who operate as Audit Scotland, as you know.”¹¹

14. He added that the costs associated with implementing the Audit Wales identity amounted to approximately £20,000 and included developing the new visual identity, signage and commissioning a video to explain the new identity.¹²

15. The Auditor General acknowledged the importance of differentiating the statutory roles of the Auditor General and the WAO:

“...clearly, when we are entering into anything contractual or with a legal ramification, or when we are very clearly operating in one guise or the other, then we continue to make clear the distinction that exists. But the cases where that is relevant are relatively small; they're significant, but few and far between. For the overwhelming majority of our externally facing outputs, the single, umbrella identity as Audit Wales is more appropriate.”¹³

Performance

16. The Annual Report and Accounts 2019-20 notes that Audit Wales achieved, or was close to achieving, its targets in 15 of its 20 indicators, with performance against the remaining five indicators being a focus for its improvement work in 2020-21.¹⁴

¹¹ Finance Committee, Record of Proceedings, 21 September, paragraph 120

¹² Finance Committee, Record of Proceedings, 21 September, paragraph 121

¹³ Finance Committee, Record of Proceedings, 21 September, paragraph 122

¹⁴ [Annual Report and Accounts 2019-20, page 17](#)

17. Audit Wales has included targets categorised as “close to achieving” within those that are considered “target achieved”. Previously, these were two separate categories. When asked why Audit Wales felt it was appropriate and transparent to combine these categories, the Auditor General said:

“...in terms of transparency, we continue to publish the precise figures that we are achieving and the targets that we're aiming for. So, I am comfortable it's entirely transparent. The red, amber, green system that we use, frankly, is simply to make sure that we focus on the big stuff, so we know where the areas are where we may need to make some significant improvement and that we don't dance on the head of a pin in areas where we're already performing well. That doesn't mean we don't give it any attention at all in my executive leadership team and at board. We have a frequent and regular assessment of our performance against all our KPIs and I press, and the board presses me very hard, to ensure that we're delivering as best we can on all fronts.”¹⁵

18. Following last year's scrutiny of the Annual Report 2018-19, the Committee expressed concerns that regularly changing key performance measures may compromise the ability to identify trends and compare the organisation's performance between years. Subsequently, the Committee recommended that comparable performance information for its 2018-19 indicators be provided alongside the results for its revised indicators in 2019-20. The Committee also recommended that the WAO should ensure that the ability to track future performance against the previous year is protected if measures are changed.¹⁶

19. The 2019-20 results are not directly comparable with 2018-19 as indicators have changed between years. Last year Audit Wales achieved its target in 11 of 26 indicators (or 18 out of 26, if “close to achieving” the target is included with “achieved”).¹⁷

20. Of the five targets not achieved this year, two required “significant improvement”:

¹⁵ Finance Committee, Record of Proceedings, 21 September, paragraph 129

¹⁶ Finance Committee, Annual Scrutiny of the Wales Audit Office and Auditor General for Wales, December 2019 (Recommendations 4 and 5)

¹⁷ Annual Report and Accounts 2018-19

- Making a Difference: Percent positive stakeholder survey score for how well the WAO is perceived to be delivering its ambitions - Target: 85 per cent, result: 61 per cent.
- Website visits (proportion): Proportion of website visits where at least one action is performed e.g. download a report, click on a video - Target: 50 per cent, result 25 per cent.¹⁸

21. In 2018-19, Audit Wales achieved only one of eight targets in the “leadership and culture” category, with significant improvement required in respect of employees’ learning and development and the organisation’s leadership and change management.¹⁹ The indicators in this category for 2019-20 appear to have been significantly changed, with fewer relating to employee experience. However, the one measure included in this respect – Employee experience – is rated “improvement required”. This measure relates to the positive annual staff survey thematic scores. The Annual Report signposts readers to the Audit Wales website for further details on the annual staff survey thematic scores. The scores demonstrate that, in terms of employee engagement, there has been improvement in all but one of the five areas compared to 2018.²⁰

22. The Auditor General told the Committee that last year’s score of 69 per cent on the employee engagement index (up from 67 per cent in 2018²¹) placed Audit Wales in the upper quartile of all organisations participating in the Civil Service People Survey (CSPS) and signalled “an engaged workforce and a healthy organisational culture”.²²

23. The Auditor General highlighted some significant improvements in the leadership measures but recognised that “there is clearly more to be done on that front”. He added:

“...I’m in the middle of a complete overhaul of the senior structure of the organisation, so I’m confident that that will contribute to continued improvement in our leadership matrix. We’re also conscious, though, that there are other elements within the people survey where we clearly need to do more to improve the employee experience, most

¹⁸ [Annual Report and Accounts 2019-20, page 19](#)

¹⁹ [Annual Report and Accounts 2018-19, page 16](#)

²⁰ [Annual Report and Accounts 2019-20, page 20](#)

²¹ [Annual Report and Accounts 2018-19, page 33](#)

²² Finance Committee, Record of Proceedings, 21 September, paragraph 124

notably in respect of the way that we manage change, in the way that we support staff in their learning and development, and also in performance management.”²³

24. The Auditor General outlined a number of actions undertaken to seek improvements in these areas, including:

- putting in place a professionally driven change programme and team to provide the board with a transparent picture of all of the organisation’s change projects and programmes;
- a raft of activities to improve learning and development and performance management, including finding innovative ways to deliver these to staff in a virtual environment.²⁴

25. Referring to the Transparency Statement²⁵ prepared by the WAO and Auditor General, the Annual Report notes that its quality reviews show 100 per cent of sampled audits of 2018-19 accounts and performance audit projects in 2019 met the required quality standards. The Auditor General is also in the process of establishing a formal Audit Quality Committee, which will include an independent professional member (the first of which will be the Chief Operating Officer of the Northern Ireland Audit Office).²⁶

26. When questioned on the need to establish an Audit Quality Committee, the Auditor General said:

“...we have seen the result from audit failures in the private commercial sector in the last few years, and you may have seen the Redmond review of audit in local government in England that came out a fortnight ago. These give us salutary lessons on the need never to take our eye off the ball in terms of quality. And quality for us comes in a range of different steps. It's not just about the technical expertise of our auditors, it's about how we recruit staff, how we develop them, the culture within the organisation that keeps that continuous focus, as well as some of the external assessment of the quality of our work that

²³ Finance Committee, Record of Proceedings, 21 September, paragraphs 125-126

²⁴ Finance Committee, Record of Proceedings, 21 September, paragraphs 126-127

²⁵ Wales Audit Office and the Auditor General for Wales – Transparency Statement, January 2020

²⁶ Annual Report and Accounts 2019-20, page 22

we can draw in. The new quality committee is an important part of that.”²⁷

27. The Executive Director of Corporate Services expanded on the functions of the Audit Quality Committee:

“The committee itself has three key areas within its remit: firstly, we look at the arrangements that Audit Wales has got in place to manage and monitor audit quality, to make sure that they're effective, that they're in line with international standards on quality control; secondly, to make sure that the work that we deliver is of an appropriate quality standard and it meets not just the requirements set out in our own guidance and code of audit practice, but also relevant professional auditing standards; and also that things don't stand still, that audit quality continues to improve in line with best professional practice, because inevitably it's an evolving and improving thing. We are also, of course, charged with making sure that we are investing the right level of resource to ensure all of that audit quality is actually happening.”²⁸

Governance

The WAO Board

28. The Board completed a self-assessment of its effectiveness and considered the results in March 2019. It rated itself as moderately to highly effective across all aspects of the assessment. The Board agreed to commission an independent review of its effectiveness, however, the procurement exercise did not attract sufficient interest for the Board to award a contract.²⁹

29. The Chair of the Board told the Committee that it is considered good practice to undertake a board effectiveness review with independent input every five years, indicating that the deadline for the next review is summer 2021. Given the disappointing response to the tender exercise, she explained:

“...we took the decision that we would have to get that independent input in another way. So, as well as doing our regular internal board effectiveness reviews every year, this March we actually undertook

²⁷ Finance Committee, Record of Proceedings, 21 September, paragraph 133

²⁸ Finance Committee, Record of Proceedings, 21 September, paragraph 135

²⁹ Annual Report and Accounts 2019-20, page 59

some board development days with independent input, which also looked at some of our effectiveness in that respect.

That's not good enough going forward, and, right now, the specification for an independent review of board effectiveness is being prepared. But we took the decision that it might be best to do when the new chair was established in post, so it will be done in the next financial year.”³⁰

30. The Annual Report repeats a statement from the 2018-19 Annual Report, regarding information provided to the Board:

“The Board is satisfied with the quality of the information it receives, although there is scope to improve both its breadth and timeliness and to ensure that the focus of the work of the Executive Leadership Team and the Board is more closely aligned; work is in hand to address these points.”³¹

31. The Chair of the Board explained why the statement remained in the Annual Report 2019-20:

“...we've heavily invested in data analytics, not just to improve our audit processes, but we've also driven that it be used internally as part of our governance tools as well. So, we have now started, over the last year, to move to a real-time interactive management information dashboard, Microsoft Power BI. That covers not only our KPI tracker, our annual plan and areas of focus, but also our strategic and operational risk registers, as well as our equality objectives tracker. The comment was really about embedding that even further. So, we're hoping that our financial reporting tool will also be able to be shortly added to that dashboard. So, it isn't anything sinister; it's just about driving that interactive management information, which is going very well.”³²

Risks

32. The Annual Report notes the risk appetite for each assurance area and shows that Audit Wales is cautious or averse to risk, in seven of the eleven assurance areas. However, it has an “open” appetite in terms of:

³⁰ Finance Committee, Record of Proceedings, 21 September, paragraphs 149-150

³¹ Annual Report and Accounts 2019-20, page 57

³² Finance Committee, Record of Proceedings, 21 September, paragraph 143

- Strategic Direction;
- Operating model/approach to resource deployment;
- Workforce and people strategy;
- Effectiveness of business systems.³³

33. It also details six key strategic risks:

- the Wales Audit Office's longer-term financial position given the deficits identified in the medium-term financial plan;
- information governance arrangements being sufficiently robust to protect data and ensure GDPR compliance;
- responding appropriately, through its audit work, to the immediate and longer-term implications of Brexit for Welsh public services;
- the HR team having sufficient capacity and capabilities to support its ambitious change agenda;
- its broader workforce having the necessary skills, experience, capabilities and diversity to achieve our overall ambitions; and more recently; and
- the COVID-19 outbreak.³⁴

34. The Annual Report states that a number of new risks have been identified for 2021-22, mostly linked to COVID-19. Audit Wales has commissioned work to mitigate these new risks and has prepared a detailed assessment of the likely impact of COVID-19 on its work programme.³⁵

35. On the risk relating to the longer-term financial position of Audit Wales, the Executive Director of Corporate Services explained that significant deficits had been identified over the medium term, such as inflationary pressures and the anticipated loss of agricultural funds grants audits by the end of 2020 (which has since been extended by three years). He went on to say that the risk is being addressed by identifying cost savings and efficiencies, such as reviewing the skills

³³ [Annual Report and Accounts 2019-20, page 64](#)

³⁴ [Annual Report and Accounts 2019-20, page 67](#)

³⁵ [Annual Report and Accounts 2019-20, page 66](#)

mix and travel and subsistence arrangements as well as driving efficiencies through Data Analytics and the Our Future Workplaces project.³⁶

36. The Auditor General added that the constant focus on driving efficiencies means “when we get to the board or to the finance committee, or to our stakeholders, contemplating any increase either in a draw on the fund or an increase in fees, we’ve done everything we need in the lead-up to that to make sure that that is minimised”.³⁷

Staff and Remuneration

Senior Management Restructure and Voluntary Exit Scheme

37. Audit Wales has utilised savings on staffing and other costs during the year to fund a Voluntary Exit Scheme (VES). Nine voluntary exits were agreed in 2019-20. The scheme is due to deliver annual savings of £332,000, will cost £639,000 and payback is expected to be achieved within 19 months.³⁸

38. The Annual Report sets out the single total figure of remuneration for senior managers. In 2018-19 this shows five individuals, including one who has received a VES payment of £161,000.³⁹ In 2019-20 there continues to be five members of the Executive Team, with a member appointed in July 2019. However, it is noted that “no additional remuneration was payable for her role on the Executive Leadership Team”.⁴⁰

39. The Annual Report outlines a senior management restructure and associated compensation. The Auditor General commenced consultation on the restructure on 24 February 2020 and, following expressions of interest in voluntary exit, mutually agreed exits for two senior directors were considered by the Remuneration and HR Committee on 19 March 2020 and approved by the Board.⁴¹

40. The Board delegated to the Chief Executive the authority to finalise terms of departures. The two senior directors received compensation of £178,449 and

³⁶ Finance Committee, Record of Proceedings, 21 September, paragraphs 158-159

³⁷ Finance Committee, Record of Proceedings, 21 September, paragraph 161

³⁸ Annual Report and Accounts 2019-20, pages 72 and 80

³⁹ Annual Report and Accounts 2018-19, page 79

⁴⁰ Annual Report and Accounts 2019-20, page 76

⁴¹ Annual Report and Accounts 2019-20, page 77

£140,000. The Annual Report notes that “savings associated with these exits will result in the cost of the compensation payments being recouped within 22 months”.⁴²

41. The Annual Report contains an estimated cost of £659,000 for the Senior Team Restructure. This also includes estimates for two further roles impacted by the restructure (the Director of Corporate Services and the Director of Finance and Human Resources) based on the potential cost of voluntary or compulsory redundancy for those roles.⁴³

42. In August 2020, Audit Wales commenced a recruitment exercise for an Executive Director of Audit Services and an Executive Director of Communication and Change.

43. The Auditor General explained the purpose of the senior management restructure to the Committee:

“The senior structure that I inherited, I would say, I'm sure had been right for the time, but it did not feel right for me in terms of the way that I wanted to take the organisation forward. So, there were a number of features with the previous scheme that I wanted to address. I wanted to have a smaller senior team in place, so to make it a little leaner, to give a much clearer distinction for the organisation about where accountability and responsibility for strategic leadership in the organisation lay, and also to ensure that the senior structure that I had in place reflected the things that kept me awake and, therefore, the things that I needed in place to drive the organisation forward. So, the structure that I'm putting in place has three roles at the top of the organisation that reflect those three themes: first and foremost, our ability to deliver our audit work; secondly, to reflect the ambition that we have to be a model public service organisation and therefore to run a very tight corporate ship ourselves; and thirdly to reflect the change of emphasis that we touched on at the very start of the session in terms of having far greater impact in the way that we communicate with the outside world and the way that we manage change in the organisation.”⁴⁴

⁴² Annual Report and Accounts 2019-20, page 77

⁴³ Annual Report and Accounts 2019-20, pages 118 and 120

⁴⁴ Finance Committee, Record of Proceedings, 21 September, paragraph 170

44. In terms of the costs and payback of the restructure, the Auditor General referred to his predecessor's work on managing early departures across Welsh public bodies:

“One of his recommendations was that they should provide payback to the public purse within three years. This restructure in its entirety will pay for itself in two years' time and then give ongoing savings of £120,000 a year thereafter. So, I'm comfortable that it stands up to scrutiny in terms of cost and payback, but, as I said at the start, its primary motivation was not as an efficiency drive; it was to ensure that I'd got the leadership structure in place to take the organisation forward.”⁴⁵

45. The Auditor General subsequently wrote to the Committee to provide clarification on how payback from the VES was calculated, confirming that:

- payback across the nine members of staff who agreed exit terms in 2019-20 is 19 months;
- payback associated with exit payments to the two senior directors is 22 months.⁴⁶

46. The letter also explained that while both senior directors were contractually entitled to leave under voluntary rather than compulsory terms:

- one individual accepted a payment significantly below the maximum sum to which they would have been entitled under voluntary exit terms;
- the other individual accepted a payment that was equivalent to the compulsory payment that they were entitled to (again less than the maximum sum to which they would have been entitled under voluntary exit terms).⁴⁷

Outsourcing audit work

47. The Annual Report 2018-19 highlighted that the Board had taken the decision not to invite tenders for additional external audit resource going forward,

⁴⁵ Finance Committee, Record of Proceedings, 21 September, paragraph 172

⁴⁶ Letter from the Auditor General and Chair of the WAO, 1 October 2020

⁴⁷ Letter from the Auditor General and Chair of the WAO, 1 October 2020

with those firms' contracts running until 31 March 2020.⁴⁸ The first account of this change, with all audits being conducted solely by Audit Wales staff, will be reflected in the next Annual Report for the period 2020-21. However, the Annual Report 2019-20 notes that WAO staff delivered 90 per cent of the Auditor General's work programme, complemented by a further 10 per cent of audit resource contracted mainly from private sector accountancy firms in 2019-20.⁴⁹

48. When questioned on the decision to no longer outsource audit work to private firms, the Auditor General said:

"I certainly think it was the right decision. It was a decision that the board took at the tail end of last year, so we're still just about winding up the work that our private-sector contractors are doing in respect of last year's accounts. We keep it under review and will do, in years going forward, to make sure that it remains appropriate for us. It's a big change of operational arrangement for us, but we're very confident of our ability to deliver all of the work in-house, and, first and foremost, our ability to do that to ensure that the quality of what we're doing is consistent across the board, and provides value for money for the taxpayer."⁵⁰

Financial information

49. The Annual Report notes that Audit Wales has reduced its expenditure by 11 per cent in real terms since 2013-14, detailing that savings over that period amount to £13.2 million.⁵¹

50. In 2019-20, total gross revenue expenditure was £107,000 (0.5 per cent) lower than the approved estimate. Capital expenditure was also £22,000 (10.5 per cent) underspent.⁵²

⁴⁸ [Annual Report and Accounts 2018-19, page 37](#)

⁴⁹ [Annual Report and Accounts 2019-20, page 40](#)

⁵⁰ Finance Committee, Record of Proceedings, 21 September, paragraph 188

⁵¹ [Annual Report and Accounts 2019-20, page 35](#)

⁵² [Annual Report and Accounts 2019-20, pages 35 and 89](#)

51. The Annual Report notes that £31,000 of accruing resource will be surrendered to the Welsh Consolidated Fund (WCF) as well as the balance of cash (£1.6 million).⁵³

52. Overall savings identified for 2019-20 total £681,000, including savings from the previous VES, transformation programmes and review of audit approaches.⁵⁴

53. The Annual Report outlines a number of capital projects aimed at delivering efficiency. Investment of £188,000 in five areas includes:

- £69,000 on additional video conferencing equipment;
- £63,000 on new hybrid laptops;
- £15,000 on developing use of SharePoint;
- £14,000 on IT network improvements;
- £27,000 for essential repairs to office accommodation.⁵⁵

54. In 2019-20, income from Financial Audit fees was £10.8 million and from Performance Audit £4.0 million. Expenditure on Financial Audit was £11.4 million and on Performance Audit was £3.4 million. This means that expenditure on Financial Audit was £606,000 higher than income, while expenditure on Performance Audit was £606,000 lower than income.⁵⁶

55. The Committee queried the income and expenditure figures for the two categories of audit work and the methodology for calculating audit fees, given the requirement in the Act⁵⁷ that the fees charged may not exceed the full cost of exercising the function to which the fee relates.

56. The Executive Director of Corporate Services explained that the no more than full cost rule is calculated within the fee rates set. He continued:

“The difference you refer to is largely due to timing of when our fee-earning work is delivered. It reflects the way that the costs are allocated between the two practices at a high level. We apply that ‘no more than

⁵³ [Annual Report and Accounts 2019-20, page 90](#)

⁵⁴ [Annual Report and Accounts 2019-20, page 36](#)

⁵⁵ [Annual Report and Accounts 2019-20, page 36](#)

⁵⁶ [Annual Report and Accounts 2019-20, page 107](#)

⁵⁷ [Public Audit \(Wales\) Act 2013, section 23\(5\)\(b\)](#)

full cost' rule on a project-by-project basis rather than between the two practices – financial and performance audit.”⁵⁸

57. The presentation of income and expenditure figures in Note 1(a) of the Accounts was subsequently clarified in correspondence:

“The income figures are the summation of hours worked x approved fee rates then adjusted for the year-end ‘cost to complete’ accounting adjustment, to ensure we properly apportion income across the financial years to which the audit work relates.

The expenditure figures represent the high-level summation of entries in the chart of accounts, not adjusted on the basis of the fee rate calculations, for the purposes of simplicity. Were costs to be adjusted on that basis, it would add a further complication to the already complicated year-end process, but without adding any value or assurance.”⁵⁹

58. The letter acknowledged the potential confusion this presentation causes and indicated that Audit Wales will reflect on the presentation as part of its learning for next year’s year-end process.⁶⁰

59. The amount owed to Audit Wales has risen from £26,000 to £192,000 at the end of March 2020. Subsequent correspondence confirmed:

“This increase was as a result of instalment invoices being sent out slightly later than had been the case the previous year. There is no cause for concern and all outstanding amounts have subsequently been received.”⁶¹

Committee view

60. The Committee notes the introduction of the Audit Wales identity and the work being undertaken by the Auditor General and WAO to improve communication of the organisation’s aims and objectives. However, the Committee emphasises the need to ensure that this change fully reflects and

⁵⁸ Finance Committee, Record of Proceedings, 21 September, paragraph 193

⁵⁹ [Letter from the Auditor General and Chair of the WAO, 1 October 2020](#)

⁶⁰ [Letter from the Auditor General and Chair of the WAO, 1 October 2020](#)

⁶¹ [Letter from the Auditor General and Chair of the WAO, 1 October 2020](#)

adheres to the principles and aims of the division in roles and responsibilities instigated by the Act.

61. The Committee has previously highlighted the difficulties in tracking Audit Wales' performance when indicators are restructured each year, and is disappointed that the Annual Report 2019-20 does not include comparative information for 2018-19, as recommended by the Committee following last year's annual scrutiny.

62. Furthermore, Audit Wales has taken the decision to adjust the way in which it reports its performance measures in its Annual Report 2019-20, combining measures achieved and close to being achieved in one category. The Committee acknowledges the Auditor General's explanation for adopting a traffic light system to focus the Board's internal discussions, and his reassurances that precise performance figures are still included. However, the Committee questions whether this is the most transparent way to report these measures to external stakeholders, particularly when this is combined with an overall reduction in indicators since 2018-19 (from 26 to 20).

63. Whilst the indicator relating to employee experience continues to be rated "improvement required", the increased score in the CSPS employee engagement index is encouraging. The Committee notes that Audit Wales is undertaking a number of activities to improve the employee experience and would welcome an update on the impact of these targeted actions. The anticipated positive impact of the senior leadership team restructure on future staff survey scores is also acknowledged. Information relating to employee wellbeing will be particularly important in monitoring the impact of COVID-19 on staff.

64. The Committee notes the establishment of a formal Audit Quality Committee to monitor and identify improvements in audit quality at Audit Wales and looks forward to seeing the impact of its work.

65. Whilst it is disappointing that an independent review of the Board's effectiveness could not be completed before the inaugural Chair stood down, the Committee recognises that the delay offers the incoming Chair an opportunity to shape the specification for an independent review in her first year in office.

66. The Committee acknowledges the Auditor General's justification for a management restructure, reducing his senior management team by one and aligning those roles with strategic priorities. However, the Committee is also mindful of the extent of these changes, in terms of losing the knowledge and experience of those individuals and concluding the recruitment for two newly

created positions. The Committee is also conscious that these changes are being undertaken at a time of significant disruption for staff. Furthermore, the Committee is keen to understand how the changes will impact on the remaining staff structure going forward, including the Auditor General's scheme of delegation work.

67. The Committee is grateful for the clarification provided on the reporting of income and expenditure for its audit and performance work and notes that the approach will be reviewed ahead of the next Annual Report and Accounts.

Recommendation 1. The Committee recommends that Audit Wales reviews its approach to measuring performance, ensuring that measures are capable of comparison with previous years and avoiding any potential ambiguity in reporting its performance results publicly.

Recommendation 2. The Committee recommends that the Annual Report for 2020-21 includes details on the impact of the senior leadership team restructure and the activities undertaken to improve the employee experience at Audit Wales.

Recommendation 3. The Committee welcomes the Auditor General's decision to establish an Audit Quality Committee and recommends that an update on the Committee's work is included in next year's Annual Report.

Recommendation 4. The Committee recommends that the Auditor General outlines what steps have been taken to mitigate the loss of institutional knowledge and provides an update on the implications of the leadership changes on staffing structures, objectives and any change in focus of Audit Wales once the new structure is in place.

Conclusion 2. The Committee is content with the Annual Report and Accounts 2019-20.

3. Audit Findings Report – Year Ended 31 March 2020

68. The Audit Findings Report summarises the key findings of the auditors of the WAO, RSM UK Audit LLP ('RSM'), in connection with the audit of the financial statements of the WAO in respect of the year ended 31 March 2020. This is a requirement under Schedule 1 of the Act.⁶²

69. The Audit Findings Report was laid before the Senedd on 19 June 2020.⁶³ However, the Committee received correspondence from RSM on 11 November 2020 detailing changes it had made to the final version of its report.⁶⁴ The initial version of the report stated "Our audit work is substantially complete and subject to the successful resolution of outstanding matters, we anticipate issuing an unmodified audit opinion on the group's financial statements in line with the agreed timetable". The correct report was laid before the Senedd on 11 November 2020.⁶⁵ The correspondence from RSM does not detail how or why two versions of the report have been laid.

70. In its final report, RSM has provided an unqualified or "clean" audit opinion of the WAO's accounts.⁶⁶

71. There were no non trivial audit adjustments identified by RSM. The risks explored reflect those identified by RSM in its planning work for the audit:

- Revenue and Work in Progress recognition;
- Management override of internal controls;
- Reputational risk;
- Brexit financial reporting considerations.⁶⁷

⁶² [Public Audit \(Wales\) Act 2013](#)

⁶³ [RSM UK Audit LLP Audit Findings Report - Year Ended 31 March 2020](#)

⁶⁴ [Letter from RSM UK Audit LLP, 11 November 2020](#)

⁶⁵ [RSM UK Audit LLP Audit Findings Report - Year Ended 31 March 2020](#)

⁶⁶ [RSM UK Audit LLP Audit Findings Report - Year Ended 31 March 2020](#)

⁶⁷ [RSM UK Audit LLP Audit Findings Report - Year Ended 31 March 2020, pages 3-6](#)

72. COVID-19 financial reporting considerations was also added to the risks.⁶⁸

73. There were no significant control recommendations. Two control issues were identified. The first relates to payroll, with RSM identifying that there is no line by line review of the payroll. Audit Wales is putting a process in place to flag variances over a set amount to be checked and documented. The second issue related to procurement procedure, with the required number of quotes not obtained for one procurement exercise. Audit Wales intends to conduct training of staff involved and a periodic review of arrangements for compliance.⁶⁹

74. The payroll process for expenses incurred by the Chair of the WAO Board was also highlighted. RSM notes that:

“An agreement has been reached with the Assembly Commission to amend the payment process. The Chair’s expenses are now directly charged on the Welsh Consolidated Fund, rather than being indirectly recovered through the Estimate. It has been agreed with the Assembly that the 2021 estimate will be reduced by the value of the Chair’s expenses, approximately £5,000, as part of the year end outturn. No adjusting corrections are needed in respect of previous years because there is no consequential misstatement in any accounts.”⁷⁰

75. The RSM report summarises two errors or mis-statements identified in the course of the audit, both related to the accounting for audit fee and accrued/deferred income.⁷¹

76. The first relates to charge out rates used in calculating the cost to complete assessments relating to the audit fee and accrued income for which the draft accounts were adjusted (to increase both audit fee income and accrued income by £21,000).

77. The second relates to a judgemental element added to costs to complete assessments for COVID-19 impacts. The Audit Findings Report notes that the finance team adds 5 per cent to the cost to complete assessment made by project managers, as an estimate of the additional costs as a result of COVID-19.

⁶⁸ RSM UK Audit LLP Audit Findings Report - Year Ended 31 March 2020, pages 3 and 7

⁶⁹ RSM UK Audit LLP Audit Findings Report - Year Ended 31 March 2020, page 9

⁷⁰ RSM UK Audit LLP Audit Findings Report - Year Ended 31 March 2020, page 8

⁷¹ RSM UK Audit LLP Audit Findings Report - Year Ended 31 March 2020, pages 5 and 13

This amounts to an increase in audit fee income of £55,000 and is not considered material, or necessarily an error.

78. The Auditor General clarified that this is a technical adjustment, which is necessary at the end of any year in relation to carrying work forward into a subsequent reporting year, rather than an additional cost placed on audited bodies.⁷²

Committee view

79. The Committee notes RSM's final audit opinion presented in its revised report. Whilst recognising the steps taken to present the final version of the report, it is disappointing that this oversight has occurred and was not identified sooner.

80. The issue highlighted in relation to the payment of expenses incurred by the Chair of the WAO Board is also noted and will be considered by the Committee in due course.

Recommendation 5. The Committee recommends that RSM UK Audit LLP puts measures in place to ensure that the final version of its Audit Findings report is laid before the Senedd in future, and keeps the Committee informed of any issues in meeting its statutory obligations under paragraph 35(2), Schedule 1 of the Public Audit (Wales) Act 2013.

Recommendation 6. The Committee recommends that RSM UK Audit LLP updates references in future audit findings reports from "National Assembly for Wales Commission" to "Senedd Commission". The National Assembly for Wales Commission was renamed "Senedd Commission" by virtue of section 6 of the Senedd and Elections (Wales) Act 2020, effective 6 May 2020, and formal documentation should recognise this.

Conclusion 3. The Committee is content with the Audit Findings report from RSM UK Audit LLP, which concluded that the 2019-20 accounts provide a true and fair view of the state of the Wales Audit Office's affairs.

⁷² Finance Committee, Record of Proceedings, 21 September, paragraph 208

4. Value for money review: Travel scheme

81. Audit Wales engaged RSM to undertake a Value For Money (VFM) review of its travel and expense handbook. The Committee considered and endorsed the study on 19 September 2019.⁷³ The review of the travel scheme cost £24,000.⁷⁴

82. RSM's study was undertaken prior to the coronavirus pandemic and compiles an analysis of the core travel and expenses data, meetings with senior directors, a staff survey, focus groups, Trade Union discussions and benchmarking.⁷⁵

83. The study notes that Audit Wales has a fixed travel allowance, rather than being based on HMRC mileage rates, and also pays a mileage allowance. The study notes that expenditure is £643,000 (at March 2020) and £193,000 (for 2018-19) for the fixed travel and mileage allowances respectively. The allowances account for just over 70 per cent of Audit Wales travel and subsistence expenditure. The study considers a number of changes and options, including options for how the scheme can contribute to Audit Wales environmental objectives.

84. The study also includes some information on staff salaries and notes that graduate salaries are lower than benchmarked organisations. The survey conducted by RSM highlights that 68 per cent of staff at least partly agreed that the travel allowance was part of their salary package.

85. In correspondence to the Committee, Audit Wales notes:

“In response to the report's findings, the Board is of the view that the Travel Allowance should be brought to an end and HMRC mileage rates be adopted instead. We recognise, though, that the allowance has been in place for a long time and many staff view it as part of their overall remuneration rather than as reimbursement for the cost of

⁷³ [Finance Committee, 19 September 2019, Item 6](#)

⁷⁴ [Annual Report and Accounts 2019-20, Page 110](#)

⁷⁵ [Letter from the Auditor General and Chair of the WAO, Value for money review of Audit Wales travel and expenses scheme, 1 September 2020](#)

business travel. Indeed, pay levels for some staff have been set mindful of the fact that the allowance will also be paid.”⁷⁶

86. The letter goes on to say that a staff Task and Finish Group has been established to develop proposals for a ‘fit for the future’ travel and expenses scheme. This includes proposals that incentivise greener travel, smarter ways of working (including lessons learned from lockdown) and £1 million of savings over five years.⁷⁷

87. Audit Wales has indicated that the group tasked with devising a new travel scheme will work “at pace” and report back to the Remuneration and HR Committee in March 2021, with “touch points” in November and January.⁷⁸

88. In terms of what actions Audit Wales will take as a result of the study and the impact changes will have on staff remuneration, the Auditor General said:

“...over the years, we have been travelling less and less, and, obviously, over the last six months we've travelled not at all. Having such a large fixed element within the regime therefore starts to become increasingly anomalous. In reviewing it, I'm very conscious, as you suggest, it's not making me the most popular auditor general in the world, because this has very real personal financial consequences for a lot of our staff. My approach, therefore, is to be as open and honest with staff as I possibly can be. The RSM report demonstrates that if we were to replace the allowance with a more traditional mileage sum that the bulk of the rest of the public sector would adopt, we would save significant sums every year.”⁷⁹

89. He indicated that, as well as delivering significant financial savings, some of the funds could be used to “give ourselves a system that is right for the shape of the organisation in the future”.⁸⁰

⁷⁶ [Letter from the Auditor General and Chair of the WAO, Value for money review of Audit Wales travel and expenses scheme, 1 September 2020](#)

⁷⁷ [Letter from the Auditor General and Chair of the WAO, Value for money review of Audit Wales travel and expenses scheme, 1 September 2020](#)

⁷⁸ [Letter from the Auditor General and Chair of the WAO, Value for money review of Audit Wales travel and expenses scheme, 1 September 2020](#)

⁷⁹ Finance Committee, Record of Proceedings, 21 September, paragraph 215

⁸⁰ Finance Committee, Record of Proceedings, 21 September, paragraph 216

Committee view

90. The Committee welcomes the value for money study and the establishment of a Task and Finish Group to take the outcome forward, particularly given the impact COVID-19 has had in terms of accelerating business transformation and changing the way we work. However, the Committee is also mindful of the direct financial consequences for employees and the need to ensure that due consideration is given to salaries and staff retention when proposals to change the Travel Allowance Scheme are developed.

Recommendation 7. The Committee recommends that an update is provided as the project to review the travel scheme progresses, including the outcome of discussions with staff and Trade Unions on the changes proposed, as well as the timelines for implementation and projected savings.

5. Annual Plan 2020-21 and Interim Report 2020-21

91. The Act requires the Auditor General and the WAO to publish an Annual Plan and at least one Interim Report each year.⁸¹

92. The Annual Plan 2020-21⁸² outlines the programmes of work for the year and was laid on 31 March 2020.

93. The Interim Report⁸³ provides an assessment of the extent to which the Auditor General and WAO are delivering on the objectives and priorities set in the Annual Plan 2020-21 and provides information on key performance indicators. The Interim Report was laid before the Senedd on 23 October 2020.

Annual Plan

94. The Annual Plan sets out the Audit Wales' workplan for the year, including national audit work and national value for money examinations and studies. It also includes information on other work, such as good practice and support for scrutiny.⁸⁴

95. It also includes information on Audit Wales' ambitions, sets out its anticipated working environment and the key performance indicators (KPIs) for the year. The number of KPIs continue to reduce, with 18 KPIs detailed in the Annual Plan 2020-21. There were 27 KPIs in the Annual Plan 2018-19 and 20 KPIs in the Annual Plan 2019-20. As well as slightly reducing the number of indicators this year, the focus and wording of some of those indicators have also changed compared to the previous year.⁸⁵

96. The Annual Plan notes:

“Shortly before publication, however, we were overtaken by the extraordinary circumstances of the Covid-19 outbreak. Like everyone, our immediate priorities have been fundamentally altered as we focus

⁸¹ [Public Audit \(Wales\) Act 2013](#)

⁸² [Annual Plan 2020-21](#)

⁸³ [Interim Report, October 2020](#)

⁸⁴ [Annual Plan 2020-21](#)

⁸⁵ [Annual Plan 2020-21](#)

on the well-being of our employees, maintaining business continuity and supporting the wider public sector and community.

We have already communicated to the bodies that we audit that we have scaled down our work and are adopting alternative delivery approaches, to ensure that audit does not in any way add to the huge pressures currently faced by public service providers.”⁸⁶

Interim Report

97. The Interim Report indicates that Audit Wales remains on track to deliver its full programme of 2019-20 audit of accounts work, “albeit to a more elongated timescale”. It states that the national work programme “has always retained a degree of flexibility” but goes on to say that flexibility has been exercised “this year more than ever before”.⁸⁷

98. It summarises the changes made in the last six months in response to the pandemic:

- All on site work stopped and offices closed;
- All staff working from home;
- Engagement with audited bodies remotely;
- Established new ways of working to deliver audit work;
- Reshaped value for money programme;
- Established a COVID-19 learning project;
- Prepared for the safe return of staff to the office;
- Put in place a system of support for staff and established the maxim “self, family, work ... in that order”.⁸⁸

99. Whilst Audit Wales has not yet published any reports focused specifically on COVID-19, its work has been re-shaped to support the public sector’s response to the pandemic. Planned work relating to broadband infrastructure, affordable

⁸⁶ [Annual Plan 2020-21, Foreword](#)

⁸⁷ [Interim Report, October 2020, page 8](#)

⁸⁸ [Interim Report, October 2020, Foreword](#)

housing and coastal flood and erosion risk management will now be revisited as part of 2021-22 planning. Other work, for example on Welsh Government workforce planning, has been scaled back. However, Audit Wales still intends to deliver 18 national outputs in 2020-21, as anticipated in the Annual Plan.⁸⁹

100. Much of Audit Wales' good practice work is conducted via shared learning seminars, all of which have been cancelled for 2020-21. This work has switched to a COVID-learning project, through which Audit Wales staff "gather novel and other practice as it emerges and analyse it rapidly to draw out relevant points of learning". This is shared with key contacts across Welsh public services.⁹⁰

101. Audit Wales notes that it has significantly reshaped its governance and value for money audit plans at individual NHS and local government audited bodies to concentrate on issues most relevant. Work on Test, Trace and Protect and COVID-learning work is being undertaken and sustainable development examinations are not being carried out in 2020-21.⁹¹

102. The Auditor General told the Committee that, whilst the pandemic has "undoubtedly saved money" in travel costs, undertaking accounts work remotely takes longer and is "a little less efficient". He continued:

"During the pandemic, we worked really closely with the NHS in particular. They were fantastic in securing direct access for our staff to the financial systems on which all parts of the NHS operate. Unfortunately, we've not been able to do the same in local government and elsewhere, in part because they use myriad different systems. The NHS is all on the same core system. So, in local government and elsewhere, by and large, we're having to rely on alternative ways of secure file transfer on specific files and questions that we would pose, rather than having direct access to the whole systems. Longer term, as I say, I would love to get to the position where we are in that position to be able to access entire financial ledgers and so on to undertake our audit work."⁹²

⁸⁹ Interim Report, October 2020, Foreword and pages 9-10

⁹⁰ Interim Report, October 2020, Foreword

⁹¹ Interim Report, October 2020, page 8

⁹² Finance Committee, Record of Proceedings, 2 November 2020, paragraphs 89-90

103. Audit Wales subsequently wrote to the Committee to explain the challenges involved in gaining remote access to client systems.⁹³

104. When questioned on the reshaping of the audit work programme, the Auditor General said that it is “now focussed on the issues that are of most relevance and priority to our partner elsewhere in public service” and expressed a desire to deliver audit work that is “far more present and immediate in its focus”. He expanded on this using the COVID-learning project as an example:

“This is relying on our network of staff in every part of the public service in Wales and the relationships that we have through them to Hoover up information about the novel and innovative practice that is taking place in Wales, to analyse that ourselves and then to play it back in close to real time to our colleagues across the public service.”⁹⁴

105. Whilst recognising the benefits of working remotely, the Auditor General acknowledged the limitations this presents, particularly when planning and scoping projects and for the graduate trainees and apprentices “who need and deserve a lot of guidance and support from their line managers and colleagues”.⁹⁵

106. The Auditor General emphasised the importance of the 'self, family, work' maxim adopted since lockdown in March 2020 and expressed his determination to look after people's emotional and mental well-being first. Paying tribute to Audit Wales staff, he added:

“I hope you'll have seen from the interim report that this is an organisation that I believe has absolutely stepped up during the pandemic and has delivered fantastic things for us all. But I keep saying to the team that I want us to come out of this not only having survived it, but, actually, having grown and, if anything, in a better place than when we went into it.”⁹⁶

Committee view

107. The Committee commends Audit Wales on its response to the coronavirus crisis, finding innovative ways to deliver its statutory financial audit work remotely

⁹³ Letter from the Auditor General and Chair of the WAO, 11 November 2020

⁹⁴ Finance Committee, Record of Proceedings, 2 November 2020, paragraphs 24-25

⁹⁵ Finance Committee, Record of Proceedings, 2 November 2020, paragraph 28

⁹⁶ Finance Committee, Record of Proceedings, 2 November 2020, paragraphs 107-108

and reshaping its work programme to deliver more real-time performance audit work in order to support the public sector's COVID-19 response and to provide effective scrutiny. The Committee notes that, whilst new working arrangements may not work as efficiently as a traditional approach, Audit Wales intends to deliver its full programme of accounts audit work.

108. This could not be achieved without the resilience and commitment demonstrated by Audit Wales staff and the Committee echoes the importance of prioritising their well-being first and foremost, particularly in these challenging and uncertain times.

Recommendation 8. Recognising that it is not traditional audit work, the Committee welcomes more information on the work of the COVID-learning project.

Conclusion 4. The Committee notes the Annual Plan 2020-21 and Interim Report 2020-21 and is content with both of these documents.

6. Estimate of the income and expenses for the year ended 31 March 2022

109. The Estimate of the income and expenses for the year ended 31 March 2022 (the Estimate)⁹⁷ was jointly prepared by the Auditor General and the Chair of the WAO and laid before the Senedd on 20 October 2019, in accordance with Section 20(1) of the Act.⁹⁸

110. Under Standing Orders, the Auditor General and WAO are required to lay their joint estimate of income and expenses before the Senedd no later than 1 November. Standing Order 20.22 states:

“The responsible committee [Finance Committee] under Standing Order 18.10(i) must consider and lay before the Assembly, no later than 22 November, a report including the estimate, with any modifications which the responsible committee, having consulted and taken into account any representations made by the Auditor General and the Wales Audit Office, considers appropriate.”⁹⁹

Context

111. In May 2019, the Committee issued a Statement of Principles to bodies directly funded from the WCF (directly funded bodies (DFBs)) to consider when formulating budget requests:

Statement of Principles for directly funded bodies

- Budget requests should be set in the context of the long term financial funding situation in Wales and funding pressures in the wider public sector.
- Requests should show how annual and multi-annual objectives will be prioritised, monitored and achieved.

⁹⁷ Part 1 - Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2022

⁹⁸ Public Audit (Wales) Act 2013

⁹⁹ Standing Orders of the Welsh Parliament, Standing Order 20.22

- DFBs should not assume an increase in funding, regardless of the block grant change as any increase to their funding reduces resources available to other devolved public bodies.
- DFBs should continually seek to improve processes and accrue efficiencies.
- Where any increases in funding are requested, these should be backed by evidence both of the need, benefit and attempts that have been made to reduce such costs. Also, the consequences of not obtaining the requested increase in resource should be made clear and quantified.

Overview of the Estimate

112. At the request of the Finance Committee following its scrutiny and modification of the Estimate for 2020-21¹⁰⁰, this year's Estimate is presented in two parts:

- Part 1 - Budget ambit
- Part 2 - Supporting information

113. The Estimate recognises the “unprecedented uncertainty” around future funding set out by the Minister for Finance and Trefnydd in her letter of the 11 August 2020.¹⁰¹ It notes a reduction in Audit Wales' call on revenue funding from the WCF of £200,000 in 2021-22 (including an £80,000 reduction in the bi-annual National Fraud Initiative (NFI) funding).¹⁰²

114. However, the Estimate includes an equivalent increase in capital:

- Revenue funding will decrease by £120,000 to £7.8 million
- Capital funding will increase by £120,000 to £350,000¹⁰³

¹⁰⁰ Letter from the Finance Committee - Modified Estimate of the Income and Expenses for the Year Ended 31 March 2021 and Fee Scheme 2020-21, 15 January 2020

¹⁰¹ Letter from the Minister for Finance and Trefnydd – Future financial planning for directly funded bodies, 11 August 2020

¹⁰² Part 1 - Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2022

¹⁰³ Part 2 – Supporting information for the Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2022, page 7

115. The decrease in revenue funding relates to Audit Wales' project work implementing the early closure of accounts with Local Government bodies, completed in 2020-21.¹⁰⁴

116. Excluding NFI funding, the total revenue and capital resources requested is £8.1 million – the same as 2020-21.¹⁰⁵

117. The overall budget of Audit Wales is £22.2 million (including fee income and excluding NFI funding). This represents an increase of £337,000 compared to 2020-21. Within this, fee income is due to increase by £457,000, reflecting an increase in audit fee income of £646,000, which is offset by an aggregate reduction to EU Agricultural Funds Audit and Grant Certification fees of £189,000. The increase in audit fees relates to additional work (rather than increased fee rates), including work arising from COVID-19.¹⁰⁶

118. Addressing how COVID-19 has influenced this Estimate, the Auditor General said it reflected some of the lessons learnt during the pandemic and the changing nature of the audit work programme next year.¹⁰⁷ He continued:

“We've put it together, though, very mindful of two things. On the one hand, there are huge flows of public money going through the system at the moment and, with that, associated risk and an understandable increased appetite for risk within the public service, and the need for novel and innovative practice across the public sector. So, if ever there is a need for high-quality public audit, I would say it is right now and into next year. But in putting the estimate together, we've sought to balance that against the reality of the state of the public finances and the need for us to operate as an organisation in a prudent and an efficient way.”¹⁰⁸

119. The Auditor General explained that detailed planning of specific audit programmes will be undertaken in Spring 2021, but said “it's safe to assume that

¹⁰⁴ [Part 2 – Supporting information for the Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2022, page 7](#)

¹⁰⁵ [Part 2 – Supporting information for the Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2022, page 7](#)

¹⁰⁶ [Part 2 – Supporting information for the Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2022, pages 14 and 17](#)

¹⁰⁷ Finance Committee, Record of Proceedings, 2 November, paragraph 6

¹⁰⁸ Finance Committee, Record of Proceedings, 2 November, paragraph 8

there is new and different audit work that it is important for us to undertake next year”.¹⁰⁹

120. He also referred to an exchange he has had with his New Zealand counterpart:

“He has signalled to the public service there that he is anticipating that some of the audits that he undertakes in the public service in New Zealand will take up to 40 per cent longer, with a commensurate increase in cost. Now, I don't anticipate that we'll be seeing the same order of magnitude here, but I think it does give you a flavour for the fact that where there is greater risk, there is an important need for public audit.”¹¹⁰

121. The Chair explained that she had “hit the ground running” and “been fully involved at board level in both shaping and finalising the estimate”, adding:

“It's also my view that the estimate will enable us to do all the things we want to achieve. However, I'm also very clear that this is a prudent budget. It's going to be tight, and although I'm confident that we can make this work, it will not be easy by any means.”¹¹¹

Savings

122. The Estimate states that Audit Wales has set “challenging savings targets from both staff vacancy management and other areas”.¹¹²

123. The Estimate includes a savings target of £400,000 along with £911,000 of savings from vacancy management. This savings target is £76,000 lower than 2020-21, although savings from vacancy management are due to increase by £45,000.¹¹³

¹⁰⁹ Finance Committee, Record of Proceedings, 2 November, paragraph 10

¹¹⁰ Finance Committee, Record of Proceedings, 2 November, paragraph 11

¹¹¹ Finance Committee, Record of Proceedings, 2 November, paragraphs 14 and 16

¹¹² Part 1 - Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2022, Foreword

¹¹³ Part 2 – Supporting information for the Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2022, page 17

124. The Estimate also refers to the VFM travel scheme study conducted by RSM (discussed in Chapter 3), noting that the Board has set a target of £1 million savings over five years from this review.¹¹⁴

125. Costs of travel and subsistence are estimated to decrease by £236,000 for 2021-22 and travel allowance costs are due to increase by £34,000.¹¹⁵

126. Audit Wales also has a project underway to review its future workplace requirements – exploring future accommodation needs once existing leases come to an end in 2023. The Estimate notes that the Board has set a further £1 million savings target for this activity.¹¹⁶

127. The Auditor General said the additional £400,000 savings target “will be tough” and will not be met through reductions in travel and subsistence alone. Alongside a working assumption of 50 per cent less travelling next year, budget holders will be asked to review non-pay budgets next spring and efficiencies will continue to be sought through reassessing the skills mix for audit and increasing the use of technology.¹¹⁷

128. During 2020-21, Audit Wales has completed the transition of work previously undertaken by private sector firms to all audit work being carried out in-house. The Estimate notes “significant efficiencies of scale” from this change.¹¹⁸

129. Though partially offset by the elimination of £598,000 private sector firm costs, staff costs are estimated to increase by £969,000 in 2021-22.¹¹⁹ The Auditor General confirmed that the other increases are more general staff costs, such as pay increments.¹²⁰

¹¹⁴ [Part 2 – Supporting information for the Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2022, page 5](#)

¹¹⁵ [Part 2 – Supporting information for the Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2022, page 17](#)

¹¹⁶ [Part 2 – Supporting information for the Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2022, page 5](#)

¹¹⁷ Finance Committee, Record of Proceedings, 2 November, paragraph 23

¹¹⁸ [Part 2 – Supporting information for the Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2022, page 6](#)

¹¹⁹ [Part 2 – Supporting information for the Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2022, page 17](#)

¹²⁰ Finance Committee, Record of Proceedings, 2 November, paragraph 20

130. Audit Wales also identify annual savings of £75,000 already being achieved from the outsourcing of payroll and internal audit functions. A review is due to be undertaken in 2021-22 of the payroll provision to “determine if this remains the cost-effective solution”.¹²¹

131. The Head of Finance clarified that payroll will remain outsourced but “we think we've identified scope for even further efficiencies by outsourcing it in a slightly different way”.¹²²

Revenue budget

Audit work funded other than from fees

132. In 2020-21, Audit Wales included a provision to switch £180,000 of audit resource from fees to WCF funding, to strengthen support of scrutiny and to allow Audit Wales to undertake annual pieces of work to explore themes arising from accounts work. This resource was used for the production of infographics associated with key data on accounts work and additional commentary for the Public Accounts Committee on the Welsh Government accounts.¹²³

133. The Auditor General indicated that this funding will be used for “more of the same”, explaining that the funding in 2020-21 delivered a number of web-based infographics and data products, providing greater insight and clarity on the state of NHS accounts and on the position for local authorities and the wider sector.¹²⁴

134. In terms of monitoring the impact of these products to ensure they represent value for money, the Auditor General said:

“We're getting a lot of feedback, based on the website hits and so on, that suggests these are being used. We've had very positive feedback from those who are charged with governance within those individual parts of the public service who themselves have found it of value—so, audit committees and the like are making use of this to increase their own understanding of the financial health of different parts of the public service. I certainly believe that there is very definitely value for

¹²¹ [Part 2 – Supporting information for the Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2022, page 6](#)

¹²² Finance Committee, Record of Proceedings, 2 November, paragraph 33

¹²³ [Part 2 – Supporting information for the Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2022, page 8](#)

¹²⁴ Finance Committee, Record of Proceedings, 2 November, paragraphs 14 and 16

money to be derived from this, because I am privileged to have a line of sight on all of the work that sits beneath our accounts work. It is there to provide you with assurance that public money is being well used and well managed.”¹²⁵

Contribution to running costs

135. This funding is associated with costs to Audit Wales that are not passed on through fees to audited bodies, such as technical support, quality assurance, staff learning and development and governance.¹²⁶

136. In 2021-22, this category includes funding to allow for two projects (Data Analytics and Cyber Security) to transition to ‘business as usual’ (these were previously included within the Change programme and ‘supporting the WAO’ categories).¹²⁷

137. From 2021, the costs of Data Analytics will be funded from a combination of fees and the WCF. The Estimate does not set out how much resource will be used in total for Data Analytics for 2021-22 or the proportion to be funded from the WCF.¹²⁸

138. The Estimate states that “Analytics Assisted Audit” is the main project being explored in terms of financial accounts audit work and has “significant potential for generating efficiencies”. It goes on to say that this could reduce audit costs by 5-10 per cent.¹²⁹

139. The Auditor General said that the Data Analytics project is estimated to drive efficiencies in the order of 5-10 per cent of the audit fees once Audit Wales can access large volumes of data directly from audited bodies, particularly in its audit-of-accounts work. However, he emphasised that Data Analytics was not just about

¹²⁵ Finance Committee, Record of Proceedings, 2 November, paragraph 38

¹²⁶ [Part 2 – Supporting information for the Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2022, page 8](#)

¹²⁷ [Part 2 – Supporting information for the Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2022, page 9](#)

¹²⁸ [Part 2 – Supporting information for the Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2022, page 9](#)

¹²⁹ [Part 2 – Supporting information for the Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2022, page 5](#)

driving efficiencies but also improving the quality, robustness and communication of this audit work.¹³⁰

140. On the decision to transition the Data Analytics team to ‘business as usual’, the Head of Finance explained:

“The board considered a business case back in the summer looking at the current make-up of the data analytics team and the specialist software that they use and agreed that, going forward, we would pass just under 70 per cent of those costs on through our fees as an overhead on our fee rates, with the balance being met as a contribution from the consolidated fund. That's based on our overall spending split of about 38 per cent consolidated fund and 62 per cent coming from fees.”¹³¹

141. The Estimate also details a project to replace the existing Financial Audit Management System of Audit Wales with SharePoint in 2021-22. This is being developed in response to a shortage of suitable systems in the marketplace. No details of the related costs are set out.¹³²

Funding for wider public sector benefit

142. The Estimate includes funding of £1.23 million for initiatives “designed to benefit the wider public sector in Wales”. The Estimate reflects a reduction compared with 2020-21, mainly relating to the annual reduction in NFI costs.¹³³

143. Since 2015, the Committee has supported participation in the NFI for all public bodies in Wales. The Estimate includes a reduction of £80,000 associated with the bi-annual NFI scheme. Audit Wales requested £130,000 in 2020-21 for these purposes. It also notes that the UK Cabinet Office has introduced an annual charge of £1,200 per participating organisation, which has increased annual costs

¹³⁰ Finance Committee, Record of Proceedings, 2 November, paragraphs 42-43

¹³¹ Finance Committee, Record of Proceedings, 2 November, paragraph 44

¹³² [Part 2 – Supporting information for the Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2022, page 6](#)

¹³³ [Part 2 – Supporting information for the Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2022, pages 10-11](#)

from £50,000 to £100,000 and £230,000 in alternate years (and accounts for the reduction of £80,000 rather than £130,000 for 2021-22).¹³⁴

Change programme

144. Audit Wales has included costs of £238,000 associated with its change programme, noting that it has undertaken “several successful transformation projects” since 2016. Some of those projects have now transitioned to ‘business as usual’ (e.g. Data Analytics).¹³⁵

145. Work associated with early closure of local government accounts will be completed in 2020-21, therefore, the Estimate includes a reduction of £120,000 in this area for 2021-22.¹³⁶

146. The Estimate states that Audit Wales has recently changed the way it manages transformational change, with a “co-ordinated Change Programme overseen by the senior team acting as a Change Programme Board”. Audit Wales suggests that this strengthens its governance arrangements. Projects for 2021-22 include:

- ‘Our Future Workplaces’: By 2023 leases at the three office buildings occupied by the WAO will be either up for renewal or ending. The Board has set a target of £200,000 a year savings. The Estimate notes that investment proposals will be provided in next year’s estimate.
- ‘Audit of Accounts 2022’: This project will establish a replacement for Audit Wales’ current audit platform, the contract for which expires in 2022. An in-house system developed through SharePoint is being developed. The new system will be available for use by October 2022.
- ‘Our Digital Strategy’: This includes ‘several pipeline projects’ targeted at future efficiencies. Including enhancing the performance audit

¹³⁴ [Part 2 – Supporting information for the Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2022, page 11](#)

¹³⁵ [Part 2 – Supporting information for the Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2022, page 11](#)

¹³⁶ [Part 2 – Supporting information for the Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2022, page 11](#)

management system, resourcing and time recording systems and re-procurement of payroll provision.¹³⁷

147. When asked whether a cost/benefit analysis of the projects outlined in the change programme has been conducted, the Chair of the Board explained:

“We've been very keen as the board to improve our approach to change management, particularly as this was identified as an area for improvement within previous staff survey results, recognising that we need that coherent approach for implementation across Audit Wales, together with improving the pace of change. In driving improvements to the governance of change initiatives, a standardised approval framework has been introduced, ensuring that the strategic viability, resourcing and the costs and benefits are re-evaluated at key decision-making points throughout the life cycle of the project, so not just at the point of approving the business case.”¹³⁸

Capital expenditure

148. Audit Wales is requesting an increase to capital funding of £120,000, from £230,000 in 2020-21 to £350,000 in 2021-22. This increase was identified in last year's Estimate, which also outlined a further increase to £800,000 in 2022-23 and a capital requirement of £550,000 in 2023-24 and 2024-25 (reiterated in the Estimate 2021-22).¹³⁹

149. The capital funding sought includes £200,000 for Audit Wales' change programme (previously divided between 'Corporate Systems' and Estates Strategy categories of expenditure).¹⁴⁰

150. As identified in last year's Estimate, £150,000 is included for 'ICT Strategy'. This strategy is an established rolling programme of PC/IT equipment renewal. Audit Wales notes that it has “increased the allocation for this priority from 2021-22 to ensure that we are able to make best use of improvements in technology to

¹³⁷ [Part 2 – Supporting information for the Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2022, page 11](#)

¹³⁸ Finance Committee, Record of Proceedings, 2 November, paragraph 49

¹³⁹ [Part 2 – Supporting information for the Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2022, page 12](#)

¹⁴⁰ [Part 2 – Supporting information for the Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2022, page 12](#)

support our digital strategy ambitions”. The Estimate also notes that more investment is required (including in equipment) to allow more staff to work remotely and is closely linked to the ‘Future Workplaces’ project.¹⁴¹

151. In relation to the ICT capital programme, the Auditor General said the strategy is:

“...to enable our staff to work as flexibly as possible and to reduce our reliance on directly hosted services and move to cloud-based services wherever possible. Our experience over the last six, eight months I think has both shown the wisdom of that approach in previous years but has also accelerated us further down that path. So, some of what is reflected there is a continuous ongoing need that any organisation will have to keep its ICT infrastructure up to date and replaced year on year, to some degree.”¹⁴²

Potential changes in the Estimate 2021-22

152. Audit Wales notes three factors that may lead to a change in its Estimate:

- **Pay and price inflation:** In the event that inflationary pressure is significantly greater than Office for Budget Responsibility predications it could become necessary to revisit this with the Committee.
- **Fee income:** It is noted that there is significant uncertainty in Audit Wales’ estimates for additional work related to COVID-19 at this time. If the volume of this work cannot be managed within the proposed Estimate, Audit Wales notes that it would need to return to Finance Committee to adjust the amount of accruing resources it is able to utilise.
- **New reporting standards:** IFRS 16 is to be introduced from 2020-21. This is not a significant impact for Audit Wales, no adjustments are therefore required for 2021-22. However, there will potentially be a change to

¹⁴¹ Part 2 – Supporting information for the Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2022, page 13

¹⁴² Finance Committee, Record of Proceedings, 2 November, paragraph 49

capital requirements in 2022-23 if new agreements are entered into for office accommodation when the lease on existing buildings expire.¹⁴³

153. On the uncertainties surrounding fee income, the Head of Finance explained:

“...the biggest reason we would be looking to change the estimate next year is if we find out that we've actually got to do a lot more fee-earning work. So, we wouldn't be looking necessarily for additional money from the consolidated fund, but we'd want to increase our fee income estimates to allow us to identify the resources to deliver that additional work.”¹⁴⁴

Draft Fee Scheme

154. Audit Wales has generally included a draft fee scheme as an annex to its Estimate. However, it notes that the pandemic has prevented it from doing so this year. It states:

“The legal requirement to consult on fees for Local Government bodies prior to these being included in the Fee Scheme, along with the consequences of the COVID-19 pandemic means that timing has not allowed for this to be included for 2021-22.

Instead, we will consult widely on our proposed fees once this Estimate has been considered by Finance Committee and then lay our Fee Scheme for Finance Committee consideration early in 2021.”¹⁴⁵

155. Though Audit Wales does not expect there to be any increase in its fee rates for 2021-22, it notes an expected increase in fees of £457,000 compared to 2020-21:

“...this reflects expected increases in the amount of audit work we will be required to deliver in that year both from expected new audited

¹⁴³ [Part 2 – Supporting information for the Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2022, page 15](#)

¹⁴⁴ Finance Committee, Record of Proceedings, 2 November, paragraph 74

¹⁴⁵ [Part 2 – Supporting information for the Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2022, page 15](#)

bodies and additional work arising linked to additional COVID-19 related expenditure in 2020-21.”¹⁴⁶

156. The audit fee increase includes a £646,000 increase in Audit Fee income, a £109,000 reduction in EU Agricultural Funds Audit and a £80,000 reduction in Grant Certification fees.¹⁴⁷

157. Addressing the decision taken to delay the summer consultation on the draft fee scheme, the Chair of the Board said:

“Clearly, at that time, we did not want to overburden public bodies, and the board considered that that wasn't really a priority, either for ourselves or for public bodies at that point, and, whilst we have to lay a fee scheme annually, we can be flexible about when we do this. Therefore, given the pandemic, the board agreed to carry out the consultation later in the year, which meant it would be after the Finance Committee had considered the estimate. But, of course, once the consultation has been completed, we will lay our fee scheme for Finance Committee consideration early in 2021. It is just worth noting, as Adrian said earlier, that, as set out in the estimate, we anticipate that this will be on the basis of no increase in either our fee rates or our fee scales.”¹⁴⁸

Committee view

158. The Committee welcomes the change in presentation of the Estimate, which separates the narrative on the budget allocations from the budget ambit required to comply with the Senedd's Standing Orders.

159. The Committee also commends the prudent approach taken in the preparation of this Estimate and notes Audit Wales' approach to savings delivery.

160. The Committee acknowledges that the pandemic has resulted in an increased focus on the state of public finances, highlighting the significance of Audit Wales' work. Noting that detailed planning of the 2021-22 work programme

¹⁴⁶ [Part 2 – Supporting information for the Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2022, page 14](#)

¹⁴⁷ [Part 2 – Supporting information for the Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2022, page 17](#)

¹⁴⁸ Finance Committee, Record of Proceedings, 2 November, paragraph 78

will not be undertaken until the Spring, the Committee is keen to understand how the work programme develops.

161. The potential need for a supplementary budget given the uncertainty around fee earning work is noted and the Committee recognises that this is beyond Audit Wales' control.

162. Whilst noting that the provision to switch audit resource from fees to WCF funding (as agreed last year) will be used to deliver "more of the same" in 2021-22, the Committee would like a better understanding of how this funding will be used.

163. The Committee notes Audit Wales' strategy to bring private sector work in-house and the cost savings of £598,000 identified in the Estimate. However, the increased staff costs of £969,000 in 2021-22 is also noted. Therefore, the Committee is interested in a breakdown of these staff costs and is keen to understand what efficiencies Audit Wales expects to make from bringing work in-house.

164. The Committee notes the decision taken to transition the Data Analytics project to 'business as usual', with just under 70 per cent of costs being passed on through fees. However, the Estimate does not detail how much resource will be allocated to Data Analytics.

165. The Committee supports the decision taken by the Board to delay the consultation on its draft fee scheme given the immediate pressures faced by public bodies in responding to the pandemic. Whilst noting that the Committee will not be invited to consider and approve the fee scheme until early 2021, the indication that fee rates and scales are unlikely to increase is welcomed.

Recommendation 9. The Committee recommends that an update on savings and efficiencies is provided following the review of non-pay budgets in Spring 2021.

Recommendation 10. The Committee recommends that further information is provided on the level of savings Audit Wales is seeking to achieve in outsourcing its payroll function in a different way.

Recommendation 11. The Committee requests an update on the development of Audit Wales' work programme for 2021-22, including any impact this will have on the Estimate.

Recommendation 12. The Committee recommends that further detail is provided on how the £180,000 resource, switched in 2020-21 from fees to Welsh Consolidated Fund funding, will be used in 2021-22.

Recommendation 13. The Committee recommends that Audit Wales provides a note on the efficiencies associated with bringing audit work in-house and how this has impacted on staff costs at Audit Wales.

Recommendation 14. The Committee recommends that Audit Wales confirms its budget for Data Analytics in 2021-22, including a breakdown of funding from fee income and the Welsh Consolidated Fund.

Conclusion 5. The Committee is content with the Estimate 2021-22, attached at Annex B to this report.

Annex A: List of oral evidence sessions.

The following witnesses provided oral evidence to the committee on the dates noted below. Transcripts of all oral evidence sessions can be viewed on the Committee's [website](#).

Date	Name and Organisation
21 September 2020	Adrian Crompton, Auditor General for Wales Audit Wales Isobel Everett, Chair of the Wales Audit Office Board Audit Wales Kevin Thomas, Executive Director Corporate Services Audit Wales
2 November 2020	Adrian Crompton, Auditor General for Wales Audit Wales Lindsay Foyster, Chair of the Wales Audit Office Board Audit Wales Nicola Evans, Head of Finance Audit Wales



Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2022

October 2020

Jointly prepared and laid before the Senedd for Wales
under Section 20(1) of the Public Audit (Wales) Act 2013

Adrian Crompton
Auditor General for Wales
Audit Wales
24 Cathedral Road
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For each financial year, Section 20 of the Public Audit (Wales) Act 2013 requires the Auditor General and Audit Wales jointly to prepare an estimate of the income and expenses of Audit Wales and to lay that estimate before the Senedd at least five months before the beginning of the financial year to which it relates.

In accordance with Section 20 of the Act, each estimate must cover (amongst other things) the resources required by the Auditor General for the exercise of his statutory functions.

The Finance Committee of the Senedd may make any modifications to the estimate which it considers appropriate, but no modification can be made unless:

- the Auditor General and Audit Wales have been consulted; and
- any representations that either may make have been taken into account.

The Welsh Ministers must each year move a motion in the Senedd under Section 125 of the Government of Wales Act 2006 that includes authorisation of the resources to be used (including accruing resources) and payments to be made by Audit Wales. This Estimate sets out the amounts to be included in respect of Audit Wales.

We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

Mae'r ddogfen hon hefyd ar gael yn Gymraeg. This document is also available in Welsh.

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Foreword

Audit Wales exists to give the Senedd and the people of Wales confidence in a high-performing and accountable public sector.

In response to a request from Finance Committee we have significantly simplified the format of our Estimate for 2021-22. Our Estimate is the Budget Ambit contained in this document. We will separately provide supporting information on the Estimate for Finance Committee to understand how we will use the funding requested.

The Minister for Finance and Trefnydd set out the unprecedented uncertainty around the future funding availability in her letter of 11 August 2020. We recognise this and are responding by reducing our call on WCF revenue funding by £120,000 in 2021-22 along with a further £80,000 being the bi-annual reduction in funding for the National Fraud Initiative. Further, we recognise the unprecedented pressure being faced by the bodies that we audit and are responding by proposing no increase in our fee rates in 2021-22.

With the vast increase in public expenditure in response to the global COVID-19 pandemic, our work will be more important than ever. Our Interim Report sets out how we have responded to this challenge in 2020-21 – this Estimate explains how we propose to use funding agreed by the Senedd to support our future work.

Our wide-ranging programme of value for money work is vital to robust parliamentary accountability through the Senedd's Public Accounts, Finance and other Committees. We audit the accounts and governance of over 800 public bodies across Wales, providing the principal means of assurance about how public money in Wales is being managed. From the Welsh Government itself to the smallest community council, through almost every area of public service delivery, the Auditor General can follow the public pound wherever it is spent.

We are acutely aware of our responsibility to other parts of the public sector to contain our own operating costs and the fees we charge, provided that does not risk audit quality and the assurance we can provide. Our supporting information sets out details of our own value-for-money programme and the savings targets set by the Board to fund our medium-term financial outlook.

In 2021-22 we have set challenging savings targets from both staff vacancy management and other areas of expenditure including our travel costs. This will be tough to achieve but will mean that we can deliver our ambitions whilst reducing our call on WCF and containing the fees that we charge to audited bodies.

The Finance Committee has previously supported our ambitious transformation proposals including our move to greater use of Data Analytics in our work. Our supporting document sets out how we have transitioned this work to 'business as usual' and how we have established a formal Change Programme to drive forward further improvements and efficiencies in the way that we work.

Our Annual Report and Accounts sets out our record of achievement for the last financial year. In March this year we laid our Annual Plan for 2020-21 at the Senedd. This Estimate secures funding for our forward priorities for 2021-22, and our Annual Plan for that year will then be laid before the Senedd in March 2021.

We look forward to discussing our Estimate with the Senedd's Finance Committee.



Lindsay Foyster

Chair, Wales Audit Office



Adrian Crompton

Auditor General for Wales

Budget Ambit 2021-22

Estimated budget requirements of the Wales Audit Office for the year ending 31 March 2022

- 1 Under Section 125 of the Government of Wales Act 2006, Ministers must move a Budget Motion in the Senedd to authorise the use of resources, retention of income and drawings of cash from the WCF for certain relevant persons, including the Wales Audit Office.
- 2 In respect of the services and purposes of the Wales Audit Office and the Auditor General in the year ending 31 March 2022, the Budget Motion will authorise:
 - the amount of resources which may be used in the financial year by the Wales Audit Office (in line with the budget for the year);
 - the amount of resources accruing to the Wales Audit Office in the financial year, which may be retained rather than being paid into the WCF; and
 - the amount which may be paid out of the WCF to the Wales Audit Office.
- 3 These requirements, which due to the variability of income streams can only be estimates, are summarised in **Exhibit 1**.
- 4 Details of how we propose to use this funding to deliver public audit in Wales in 2021-22 are set out in our supporting information.

Exhibit 1: summary of the estimated 2021-22 budget requirements

	£'000
Resources, other than accruing resources, for use by the Wales Audit Office on the discharge of the statutory functions of the Wales Audit Office and the Auditor General and on the administration of the Wales Audit Office:	
• Revenue	7,798
• Capital	350
Accruing resources from fees and charges for audit, grant certification and related services; other recoveries of costs associated with the functions of the Auditor General or Wales Audit Office; miscellaneous income such as from publications, conferences, provision of administrative, professional and technical services and recoveries of costs incurred for a third party – all for use by the Wales Audit Office on the discharge of the functions of the Auditor General and on related services and the administration of the Wales Audit Office.	14,461
Net cash requirement from the WCF to meet the net amounts falling due for payment in the year by the Wales Audit Office.	8,368

- 5 **Exhibit 2** provides a reconciliation of the Wales Audit Office's total resource request with its net cash requirement for the year ended 31 March 2022.

Exhibit 2: reconciliation of resource requirement to cash drawing requirement from the WCF

	£'000
Net request for resources – revenue and capital	8,148
Non-cash adjustment – depreciation	(280)
Non-cash adjustment – movements in working capital	500
Net cash requirement from the WCF to meet the net amounts falling due for payment in the year by the Wales Audit Office	8,368



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