

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

November 2021



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About the Committee

The Committee was established on 23 June 2021. Its remit can be found at:
www.senedd.wales/SeneddFinance

Current Committee membership:



Committee Chair:
Peredur Owen Griffiths MS
Plaid Cymru



Peter Fox MS
Welsh Conservatives



Mike Hedges MS
Welsh Labour



Rhianon Passmore MS
Welsh Labour

The following Member attended as a substitute during this inquiry.



Huw Irranca-Davies MS
Welsh Labour

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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 and the WAO, 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

5. This year's annual scrutiny of the WAO and the Auditor General took place in two parts.

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

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

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

6. The Committee examined the following publications on **29 September 2021** and took evidence from the Auditor General, Adrian Crompton, the Chair of the WAO Board, Lindsay Foyster, and two officials from Audit Wales:

- **Annual Report and Accounts 2020-21;**
- **RSM UK Audit LLP - Audit Findings Report - Year Ended 31 March 2021;**
- **Annual Plan 2021-22;**

7. On **10 November 2021**, the Committee took evidence from the Auditor General, Adrian Crompton, Chair of the WAO Board, Lindsay Foyster, and two officials from Audit Wales on the following publications:

- **Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2023;**
- **Interim Report - An assessment of progress made against our 2021-22 Annual Plan during the period 1 April to 30 September 2021;**

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 2020-21;
- Audit Findings Report - Year Ended 31 March 2021;
- Annual Plan 2021-22;
- Interim Report - An assessment of progress made against our 2021-22 Annual Plan during the period 1 April to 30 September 2021;
- Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2023.

2. Annual Report and Accounts 2020-21

8. The Annual Report and Accounts for 2020-21⁴ were laid before the Senedd on 29 June 2021. The Auditor General prepared the Accounts for 2020-21 as the Accounting Officer for the WAO, in accordance with Schedule 1 to the Act. The Auditor General and the Chair of the WAO jointly prepared the Annual Report for 2020-21, in accordance with Schedule 2 to the Act.⁵

Delivery of work plan

9. The Annual Report states that the functions of the Auditor General and WAO were “broadly consistent” with the Annual Plan 2020-21 but “with some significant changes made to planned work in response to the COVID-19 pandemic”. It also states the priorities set out in that plan have been “substantively achieved”, delivering its full programme of audit work in 2020-21.⁶

10. The Annual Report notes that, in the face of the pandemic, the Auditor General:

“...swiftly signalled to the public bodies we audit that we would be adopting alternative delivery approaches and refocusing much of our work to ensure that it did not add to the pressures faced by public service providers.”⁷

11. Some work in 2020-21 was pushed back, with other aspects scaled back (such as work on Welsh Government workforce planning). Last year, the Auditor General told the previous Finance Committee that, while there were cost savings in terms of travel, undertaking accounts work remotely was “a little less efficient”.⁸ The Annual Report reiterates this, noting the process as “more time consuming”.⁹ In subsequent correspondence, Audit Wales explained that while it had been able to gain access to NHS

⁴ [Annual Report and Accounts 2020-21](#)

⁵ [Public Audit \(Wales\) Act 2013](#)

⁶ [Annual Report and Accounts 2020-21, pages 3 and 18](#)

⁷ [Annual Report and Accounts 2020-21, page 9](#)

⁸ Finance Committee (Fifth Senedd), RoP, [2 November 2020](#), paragraph 89

⁹ [Annual Report and Accounts 2020-21, page 18](#)

systems for audit purposes, the different systems used in local government meant providing remote access for auditors there had been “mixed”.¹⁰

12. In terms of the delivery of audits, the Annual Report outlines:

“All our audits of 2019-20 NHS bodies’ accounts were completed and subsequent opinions provided by the Auditor General by 2 July. Most of our audits of 2019-20 local and central government accounts were completed by the end of September 2020. The remainder were completed by the end of October, when the next (2020-21) audit of accounts cycle began.”¹¹

13. The Auditor General expanded on the delivery and reshaping of audit work in 2021:

“...we met something like 98 per cent of all our statutory deadlines. Those are essentially for the audit of accounts work that we do, but also a very high proportion, over 90 per cent, of the other audit products that we produce—value-for-money studies and so forth—that Members will be familiar with. Over 90 per cent of those we met the timetables we set as well. And that was after we had reshaped a lot of our work to reflect the new priorities that we saw as a result of COVID. So, Members may be familiar with work that we have delivered in areas such as the vaccination programme; the delivery of the test, trace, protect programme; the procurement of personal protective equipment; and also some major pieces of work on the big financial flows and their impact.”¹²

14. The Annual Report also highlights that good practice work switched to the delivery of a COVID-learning project, including a “regular stream of tweets, blogs, fortnightly digests and periodic online webinars”, brought together in a week-long learning event in March 2021.¹³

15. The Auditor General told the Committee that staff used networks of contacts throughout the public sector to gather large volumes of information in order to establish

¹⁰ [Letter from Audit Wales – 11 November 2020](#)

¹¹ [Annual Report and Accounts 2020-21, page 23](#)

¹² Finance Committee, RoP, [29 September 2021](#), paragraph 111

¹³ [Annual Report and Accounts 2020-21, page 26](#)

how organisations were tackling issues “to look for trends, patterns or lessons to be drawn from that and played them back to our partners elsewhere in close to real time”.¹⁴

16. The Auditor General said feedback on the project from audited bodies has been very positive, with partners recognising the value in “much more immediate and real-time support and advice from us, rather than the more retrospective approach that would be traditional to our audit work”. Whilst the project has concluded, he indicated his desire to “retain some of that light touch and immediacy of response in a lot of our work”.¹⁵

17. When questioned on the impact of remote working on the work of Audit Wales, the Auditor General acknowledged that it has provided some advantages and efficiencies, such as accessing financial systems remotely and reducing the need to travel. He continued:

“That said, on the whole, we’re finding this is a less efficient way of undertaking a lot of our work. We estimate that in 2021 we saw something like a 20 per cent cost overrun that we’ve had to absorb as an organisation, and that level of overrun is very similar to that seen by our colleagues in the other public audit institutions in the UK, and, indeed, by the private sector firms. But where that bites in practical terms is just in the reality of the conversations that we have to have with colleagues in audited bodies. We pose them questions, we ask them for information and evidence to support our audit work, and that can prove tricky to do in this environment, for reasons you’ll understand.”¹⁶

18. In addition, the Auditor General highlighted that specific aspects of audit work are difficult to deliver, such as physical stocktakes. The Executive Director of Audit Services explained how they overcame this challenge:

“...instead of a member of staff being able to just walk around and physically verify an asset, we had to work very closely with the finance teams in the audited bodies to identify the assets themselves, take photos, send them over to us. So, it just all took that little bit longer, but, again, working closely with the finance teams, I think we were able to achieve

¹⁴ Finance Committee, RoP, **29 September 2021**, paragraph 124

¹⁵ Finance Committee, RoP, **29 September 2021**, paragraph 125

¹⁶ Finance Committee, RoP, **29 September 2021**, paragraph 113

*miracles, really. I think some of what we've learnt throughout the pandemic probably will remain with us.*¹⁷

19. On the delivery of accounts audit work, the Auditor General made clear that Audit Wales was able to achieve its full work programme “by delaying a lot of the planning and preparatory work for subsequent years’ audits”, signalling that “there’s a wave and a backlog of work that is proving very difficult for us to get ahead on”.¹⁸

20. The Auditor General referred to other implications of working in a remote environment:

*“...one is around learning and development for our staff... Around 60 of our staff who are graduate trainees or apprentices at a very early stage of their career, they, understandably, require quite a degree of supervision and support from more experienced colleagues. That is difficult to provide in the same way in this kind of environment. And lastly, we’re missing—like all organisations, I suspect—some of the softer side of working in the same physical space.”*¹⁹

21. In terms of supporting audited bodies going forward, the Auditor General signalled a desire to work alongside organisations whilst respecting the need for a degree of distance and independence:

“We’re weaving that into our audit programme far more than we have done previously. We’re working very closely, for instance, with local authorities and health bodies to help them through the process of restart for their services, and helping with the risk assessment and development of their plans to move forward. We’re getting a lot of positive feedback for that approach...when we’re auditing we need to audit through the lens of organisations that have been through this period. It’s easy, with the benefit of hindsight, always to criticise. Where we see things that need to be called out, we will do that, but, at the same time, we understand, just as all organisations have had to do, that at times during the pandemic exceptional measures needed to be taken. Some of what might have been

¹⁷ Finance Committee, RoP, **29 September 2021**, paragraph 122

¹⁸ Finance Committee, RoP, **29 September 2021**, paragraph 116

¹⁹ Finance Committee, RoP, **29 September 2021**, paragraph 114

usual practice, in terms of risk management and governance, for a period had to be altered.”²⁰

Transformation

22. Following the establishment of a dedicated central Change Programme team in the last 12 months, the Annual Report notes that Audit Wales has continued to take steps to improve the way its change projects are delivered. This has included:

“...bringing together a prioritised portfolio of change projects, establishing a Change Programme Board to support and oversee delivery and provide resources for implementation, and building our change skills across Audit Wales.”²¹

23. Addressing the progress made in-year, the Auditor General referred to operational projects such as the development of two new IT platforms for audit work and a better staff resourcing and time recording system. On the issue of organisational transformation, he told the Committee:

“We’re engaging staff a great deal at the moment in trying to work through what our way of working will look like in the future, so getting back the best of what we have missed from the pre-pandemic days whilst keeping all that is good from this new remote way of working. That will fundamentally change our operational model. We’re in the process, too, of developing a five-year strategic plan with the board and the organisation at the moment, which will signal no great fundamental change of direction for the organisation, but will, I hope, give a much clearer prioritisation of the key points of change and transformation that we need to undertake over the next few years.”²²

24. In subsequent correspondence, Audit Wales provided further details on the forthcoming five-year strategic plan, highlighting that the key strategic themes will be “the development of a more holistic and impactful audit programme, enhancing the impact of

²⁰ Finance Committee, RoP, **29 September 2021**, paragraph 159

²¹ **Annual Report and Accounts 2020-21, page 36**

²² Finance Committee, RoP, **29 September 2021**, paragraph 156

our communication and ensuring we create the organisational environment in which we can thrive now and in the future". The strategy is expected to be launched in April 2022.²³

25. Audit Wales has leases on three properties in Cardiff, Penllergaer and Abergele. The Annual Report notes:

"We are looking at how the changes to working practices made, of necessity, in 2020-21 will change how we work in the future and the opportunities to make savings on both travel and accommodation are foremost in our thinking".²⁴

26. Prior to the pandemic, Audit Wales set out a target of at least £1 million of savings associated with future accommodation needs over five years.²⁵

27. The Executive Director of Corporate Services confirmed that the lease on the Cardiff office has been extended by one year while new ways of working are explored. He added:

"We've got around 20 audit rooms that are used at client sites across Wales. It seems that some of those may no longer be available to us as things have changed, not just for us, but of course for our audited bodies. We're working through that at the moment, but it may actually be, that if those are unavailable, we might need more office accommodation in future. So, that's something that we're keeping under review as part of our estate strategy, and we'll be reflecting that in that five-year rolling programme that we include in our estimate."²⁶

Performance

28. Audit Wales had 18 key performance indicators (KPIs) in its Annual Plan in 2020-21.²⁷ It achieved, or was close to achieving 15 KPIs.²⁸

29. One KPI requiring significant improvement is "Percent positive annual staff survey thematic employee experience scores". The target is to achieve at least the top 25 per cent

²³ [Letter from Audit Wales, 1 November 2021](#)

²⁴ [Annual Report and Accounts 2020-21, page 49](#)

²⁵ [Part 2 – Supporting information for the Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2022, page 5](#)

²⁶ Finance Committee, RoP, [29 September 2021](#), paragraph 204

²⁷ [Annual Plan 2020-21](#)

²⁸ [Annual Report and Accounts 2020-21, pages 20-22](#)

of scores for the latest Civil Service People Survey (CSPS) but only 2 of the 10 themes scored in the top 25 per cent.²⁹ In 2019-20 the indicator “Percent positive annual staff survey thematic scores” was also rated “improvement required”.³⁰

30. The Auditor General explained that there are two employee experience indicators:

“...one is about our engagement index, which is at 70 per cent, which is in the top decile of the 100 or so organisations that undertake the equivalent civil service people survey that we do. That’s an extremely high level and speaks to a strong, healthy culture within the organisation. The other indicator is extremely demanding, and it’s what I’d describe as a stretch target for us. To see us in the upper quartile of every one of the 10 themes within that survey is exceptionally demanding. So, I’m not surprised we’re not there. I wouldn’t anticipate that we would be there this year either, because that is an exceptionally high level of performance. But, for me and the board, I think we like that, because it means that we’re always going to be pushing ourselves even when we improve.”³¹

31. Two other indicators required improvement:

- Proportion of audit products delivered by the required statutory deadline (target 100 per cent, performance 98 per cent).
- Proportion of trainees achieving first-time passes in their Professional and Advanced level examinations with the Institute of Chartered Accountants in England and Wales (target “at least” 90 per cent, performance 86 per cent).³²

32. In terms of audit quality, the Annual Report states that 100 per cent of a sample of 2019-20 accounts audits and 2020 performance audit projects met the required quality standards.³³

33. In 2020, Audit Wales also established a new Audit Quality Committee to provide advice and support to ensure that: monitoring arrangements are in line with international

²⁹ [Annual Report and Accounts 2020-21, page 22](#)

³⁰ [Annual Report and Accounts 2019-20, page 20](#)

³¹ Finance Committee, RoP, [29 September 2021](#), paragraph 130

³² [Annual Report and Accounts 2020-21, pages 20 and 22](#)

³³ [Annual Report and Accounts 2020-21, page 26](#)

quality standards; the work of the Auditor General is of appropriate quality; and that the audit quality of the organisation improves in line with best professional practice. The Committee is comprised of senior staff alongside an Independent Professional Member. Audit Wales intends to publish a new Quality Report later in 2021.³⁴

Staff well-being

34. Since the start of the pandemic Audit Wales has repeated its “maxim” of “self, family, work... in that order” in its plans, reports and evidence to the Finance Committee of the Fifth Senedd”.³⁵

35. The Auditor General told the Committee:

“It was something that, at the very start of the pandemic, I felt very strongly about. We all were alarmed and anxious about the pandemic, especially in those early days, and it felt to me the right thing to do to try to signal to the organisation that I wanted work not to be a further form of stress and anxiety for them, but actually, as best we could make it, a form of stability and support for people. And so we started to use this maxim, and we continued to do so.”³⁶

36. The Auditor General described a number of initiatives developed to support staff, such as introducing a dedicated time code for colleagues with caring responsibilities, a programme of learning and development, as well as engagement and social activities.³⁷

37. A staff survey, based on the CSPS, was undertaken in October 2020. The Annual Report states that at a “thematic level” the results were mostly in line with those from the previous year and remained reasonably strong, resulting in an engagement index score of 70 per cent. Views on the organisation’s response to COVID-19 were “overwhelmingly positive”.³⁸

³⁴ [Annual Report and Accounts 2020-21, page 35](#)

³⁵ Finance Committee (Fifth Senedd), RoP, [2 November 2020](#), paragraph 107

³⁶ Finance Committee, RoP, [29 September 2021](#), paragraph 127

³⁷ Finance Committee, RoP, [29 September 2021](#), paragraphs 128-129

³⁸ [Annual Report and Accounts 2020-21, page 50](#)

38. While the engagement score was above the CSPS median, Audit Wales reported that performance in some individual statement scores have notably declined in the following areas, and will continue to inform future planning priorities:

- Learning and development
- Change management
- Pay and benefits
- Performance management³⁹

39. Audit Wales's interactive tool⁴⁰ provides more detail on the results of the People survey, providing information on individual questions asked in the survey. In terms of specific questions around change management, only 26 per cent of responses agreed that "change is managed well in my organisation" (an increase from 2019: 21 per cent). In terms of leadership, under half (48 per cent) of responses agreed they "have confidence in the decisions made by my organisation's senior managers" (a decline from 2019: 50 per cent).

40. When questioned on staff morale, the Auditor General acknowledged that change management is a significant feature, but is "not the dominant feature in staff morale or performance".⁴¹ He highlighted the regular use of smaller pulse surveys throughout the pandemic to gauge how staff are feeling:

"What we have seen is, fundamentally, that morale has held up, but there's undeniably been waves that have been affected more by the wider environment—the lockdown situation, schools closing et cetera.

The other key feature that has come from that has been around workload. Over the last six months especially, we've seen staff reporting very high and prolonged workloads, higher than they feel they can comfortably deal with. Ordinarily, we would see peaks and troughs in people's workloads—that's to be expected—but working in this way for a prolonged period through the pandemic has meant that those peaks of workload are higher and more sustained. And that goes back to the point

³⁹ [Annual Report and Accounts 2020-21, page 51](#)

⁴⁰ [Interactive tool](#)

⁴¹ Finance Committee, RoP, [29 September 2021](#), paragraph 147

I made earlier about the backlog of work that is flowing through the system.”⁴²

Senior management restructure

41. During 2020-2021 Audit Wales completed a senior management restructure, with recruitment for the following new roles undertaken over the course of the last year:

- Executive Director of Audit Services
- Executive Director of Communications and Change
- Executive Director of Corporate Services⁴³

42. The Auditor General explained the reasoning behind his restructuring decision and the newly established Executive Director of Communication and Change:

“...I formally initiated that restructure process in February of 2020, and there were two main drivers for me at that time. No. 1, I thought there was scope for rationalisation of the team—it could be smaller than it had been. But perhaps the more significant one is the one that you’ve identified, namely that I wanted a senior leadership team that reflected the new priorities that I and the board had established for the organisation. So, perhaps the single most striking feature of those new priorities and ambitions for the organisation was the much greater focus that we now place on our external engagement, on increasing our impact, our visibility, as well as driving forward some positive internal change. So, it was those factors in particular that shaped my thinking about the need for that new post...”⁴⁴

43. Whilst he intended to complete the restructure in July 2020, the Auditor General referred to the impact of the pandemic, adding that “it felt the right thing for me to take longer over the change to give the organisation some continuity of leadership through those early months”. He confirmed that the Executive Director of Communication and

⁴² Finance Committee, RoP, **29 September 2021**, paragraphs 148-149

⁴³ **Annual Report and Accounts 2020-21, page 36**

⁴⁴ Finance Committee, RoP, **29 September 2021**, paragraph 141

Change joined the organisation at the start of the 2021 calendar year.⁴⁵ Therefore, the impact of this new role cannot be assessed until the next staff survey is undertaken.

44. When providing evidence to the previous Finance Committee, the Auditor General said the restructure would “pay for itself in two years’ time and then give ongoing savings of £120,000 a year thereafter”.⁴⁶ The accounts show that almost half (£297,000) of the £659,000 provision made in 2019-20 for the potential redundancy costs was released in-year.

45. The Auditor General confirmed that there has been a positive impact on the cost-benefit analysis undertaken prior to the restructure:

“At the start of a process like that, clearly, we would have made provision for the maximum potential cost that we could foresee. In reality, we have not incurred the same level of cost that we could have done, but we have achieved the benefits in terms of having exactly the structure and the personnel in place that we wanted to see.”⁴⁷

Financial information

46. Audit Wales presented a Supplementary Estimate for 2020-21 in January 2021. This made provision for £266,000 worth of additional fee income on the basis that Audit Wales was conducting “significant additional audit work to address issues encountered at audited bodies”.⁴⁸

47. Audit fee income (including grant certification work, but excluding other income) is £13.9 million, £348,000 less than estimated in the Supplementary Estimate⁴⁹, “largely because of inefficiencies associated with remote working both within Audit Wales and our audited bodies”.⁵⁰ However, the outturn report notes all statutory deadlines were met.

48. The expected movement in receivables and work in progress reflected in the budget was not borne out by the actual position. Audit Wales reported a decrease of £866,000,

⁴⁵ Finance Committee, RoP, [29 September 2021](#), paragraphs 143 and 145

⁴⁶ Finance Committee (Fifth Senedd), RoP, [21 September 2010](#), paragraph 172

⁴⁷ Finance Committee, RoP, [29 September 2021](#), paragraph 154

⁴⁸ [Supplementary Estimate 2020-21](#)

⁴⁹ [Supplementary Estimate 2020-21](#)

⁵⁰ [Annual Report and Accounts 2020-21, page 49](#)

when it had forecast an increase of £500,000. This resulted in a £906,000 variance, when comparing outturn to the budget.

49. Gross revenue outturn in 2020-21 was £668,000 lower than estimated at £21.6 million (capital expenditure was £1,000 lower).⁵¹

50. Travel and subsistence costs were £535,000 lower with most staff unable to travel during the pandemic. Accommodation costs were underspent by £78,000, linked to homeworking, with an additional £29,000 spent on IT to facilitate remote working. A further £160,000 of underspend associated with changes to working practices due to the pandemic are reported but not detailed. A £75,000 saving is reported against translation of documents due to “changes to the way we report our work”.⁵²

51. Addressing future savings due to new ways of working, the Executive Director of Corporate Services said:

“Into 2021-22, we’ve also got an ongoing reduction in travel costs, and we’d anticipate there’s real potential to keep those lower in future than they were at pre-pandemic levels.”⁵³

52. Proposals to reduce travel costs are also discussed in Chapter 4 (Value for money review: Travel scheme).

53. Costs associated with private-sector firms (£684,000) exceeded the budget by £86,000 due to remote working.⁵⁴ Audit Wales has been transitioning work undertaken by private-sector firms to being delivered in-house. This exercise was due to be completed this year with no expenditure of this type identified for 2021-22.⁵⁵ Around 10 per cent of audit work was carried out by private sector accountancy firms in 2019-20 (at a cost of £810,000).⁵⁶

54. On this issue, the Executive Director of Audit Services explained:

⁵¹ [Annual Report and Accounts 2020-21, pages 105-106](#)

⁵² [Annual Report and Accounts 2020-21, pages 105-106](#)

⁵³ Finance Committee, RoP, [29 September 2021](#), paragraph 204

⁵⁴ [Annual Report and Accounts 2020-21, page 105](#)

⁵⁵ [Part 2 – Supporting information for the Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2022, page 6](#)

⁵⁶ [Annual Report and Accounts 2019-20, pages 40 and 92](#)

“We brought some significant work in: the health boards, local government bodies and community council work as well, for 2020-21 audits. We did that, obviously, with board approval. It was the best approach cost wise. So, the work is being done currently in-house, but that’s something that we keep under review.”⁵⁷

55. In terms of its capital expenditure, Audit Wales invested £229,000 of £230,000 identified in the Estimate 2020-21 into the development of new audit management systems, new IT equipment (including to support staff work efficiently from home) and essential upgrade work for its offices.⁵⁸

WAO Board performance

56. As has been the case in previous years, the Annual Report states that while the Board is “satisfied with the quality of the information it receives... there is scope to improve both its breadth and timeliness”.⁵⁹

57. The Board completed a self-assessment of its effectiveness, considering the results in March 2021. It measured itself as “moderately to highly effective across most aspects of the assessment”, but also “moderately ineffective” for two of the Member experience statements:

- the Board has a good understanding of the performance of the organisation relative to other bodies where appropriate; and
- the Board has clearly defined relationships with stakeholders.⁶⁰

58. The Board agreed to develop an action plan in early 2021-22 and to commission an independent review of its effectiveness later this year (the previous being completed in 2016).⁶¹ The Board previously attempted to commission an independent review in 2019-20 but the procurement exercise “did not attract sufficient interest for the Board to award a contract”.⁶²

⁵⁷ Finance Committee, RoP, **29 September 2021**, paragraph 206

⁵⁸ **Annual Report and Accounts 2020-21, page 49**

⁵⁹ **Annual Report and Accounts 2020-21, page 70**

⁶⁰ **Annual Report and Accounts 2020-21, page 71**

⁶¹ **Annual Report and Accounts 2020-21, page 71**

⁶² **Annual Report and Accounts 2019-20, page 59**

59. The Chair confirmed that the independent evaluation of the Board is nearing completion, signalling that the overall assessment has been very positive:

*"...it describes us as an effective board with a number of clear areas of strength, but also recognising that we are very keen on continuous improvement and so it also highlights areas for continuing some of the development work that we're doing, but also some areas for further development. And as a result of that, we will establish a prioritised set of actions, following on from the recommendations that have been given to us."*⁶³

60. Reflecting on the last 12 months, the Chair of the Board spoke about the Board's focus on staff well-being, working effectively in a virtual space and delivering the work programme. She also highlighted the newly established Executive Leadership Team (ELT) and the "work being done there by me personally, but also by the board more broadly, in terms of building those relationships, not only with the individuals but as a collective leadership, working relationship between the board and ELT".⁶⁴

61. When asked whether governance around the new senior structure has changed, the Chair explained that the terms of reference for the new ELT have been updated as well as the schedule of delegation that the Board oversees. The Auditor General indicated that from his perspective it is now "crystal clear" where accountability lies.⁶⁵ He went on to explain how the ELT obtains staff input:

*"...my executive leadership team comprises myself and those three executive directors, but we have established a staff panel of seven individuals, drawn from across the organisation, of all different grades, who shadow our work, who are privy to all of the papers and discussions that we have, join us in our formal meetings, and have direct input to that. So, it's early days—we've only had that in place for two or three months—but the signs are positive so far."*⁶⁶

⁶³ Finance Committee, RoP, **29 September 2021**, paragraphs 185-186

⁶⁴ Finance Committee, RoP, **29 September 2021**, paragraphs 167-169

⁶⁵ Finance Committee, RoP, **29 September 2021**, paragraphs 173-174

⁶⁶ Finance Committee, RoP, **29 September 2021**, paragraph 174

Committee view

62. The Committee commends the hard work and commitment of Audit Wales staff throughout the pandemic, meeting 98 per cent of statutory deadlines and completing over 90 per cent of other audit products despite the challenges and inefficiencies of working remotely. In recognising this achievement, the continuing demands of dealing with a backlog of planning and preparatory work required to deliver the 2020-21 audit programme is also acknowledged. The Committee also notes the shift from good practice work toward a COVID-learning project during the pandemic and is keen to understand the results of this work.

63. While some changes to working practices have delivered benefits, it is clear that delivering certain aspects of audit work remotely has proven difficult. The Committee would like to understand further how these limitations and benefits will shape Audit Wales's future delivery model as it emerges from the pandemic and acknowledges the current engagement with staff to consider future ways of working. The Committee also notes the work underway to develop a five-year strategic plan and create a vision for Audit Wales.

64. The Committee welcomes the strong overall employee engagement index score of 70 per cent aligned with the Civil Service People Survey. However, while the Committee notes that the key performance indicator relating to employee experience is an intentionally challenging target – it still requires significant improvement. Targets should give a realistic view of what Audit Wales is aiming to achieve and, as such, the Committee expects to see improvements in this area going forward. The Committee also notes some of the lower individual scores in the survey and expects activity to address these.

65. The Committee supports Audit Wales's approach to prioritising staff well-being during the pandemic and welcomes the initiatives put in place to reduce stress and anxiety, ensure meaningful engagement and to address employee concerns. The Committee is pleased to hear that views on Audit Wales's response to COVID-19 were positive in the last staff survey but is also concerned that the results of more recent pulse surveys indicate high and prolonged workloads.

66. The Committee notes the Auditor General's rationale for restructuring his Executive Leadership Team and recognises that the cost of the restructure was lower than initially anticipated. The Committee also welcomes the decision to delay the full restructure by six months to provide continuity of leadership during the early part of the pandemic and looks forward to seeing the impact and influence the new Communication and Change

role has on the organisation going forward. However, the Committee is mindful of the impact such a significant change within the organisation could have on staff morale, bearing in mind some staff survey results and the upheaval of the pandemic.

67. The Committee notes the updates made to the terms of reference and schedule of delegation following the senior management restructure, and would welcome more information on the staff panel established to advise the Auditor General and his Executive Leadership Team.

68. The Committee welcomes the Board's commitment to following good practice by commissioning an independent Board performance and effectiveness review in addition to its self-assessment, having previously attracted insufficient interest to award the contract in 2019-20. It is pleasing to hear that the overall internal assessment has been very positive and that an action plan will be established once the recommendations from the external review are finalised.

Recommendation 1. The Committee recommends that Audit Wales shares further detail on the innovations and new ways of working that will continue to apply post-pandemic.

Recommendation 2. The Committee recommends that Audit Wales provides updates as its strategic plans develop and shares its five-year strategic plan once finalised.

Recommendation 3. The Committee recommends that Audit Wales clarifies how and the date by which it aspires to achieve its employee experience key performance indicator "Percent positive annual staff survey thematic employee experience scores" and provides further information on the actions it intends to take in this area.

Recommendation 4. The Committee recommends that Audit Wales closely monitors and takes targeted action to address excessive workload pressures, given the backlog of work and the need to sustain remote working, and provides an update to the Committee on measures it intends to take.

Recommendation 5. The Committee recommends that Audit Wales provides an updated cost benefit analysis of the senior management restructure.

Recommendation 6. The Committee recommends that the Auditor General provides further detail on the staff panel established to assist the Executive Leadership Team, such as its remit, aims and objectives, and any outputs.

Recommendation 7. The Committee recommends that Audit Wales shares the report of the external Wales Audit Office Board performance and effectiveness review once finalised and would welcome an update on any subsequent action points.

3. Audit Findings Report – Year Ended 31 March 2021

69. 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 Audit Wales in respect of the year ended 31 March 2021. This is a requirement under Schedule 1 to the Act.⁶⁷

70. RSM has provided an unqualified audit opinion of the WAO's accounts.⁶⁸

71. The report explores the following risks identified by RSM in its planning work for the audit:

- Revenue recognition, Work in Progress and deferred income;
- Management override of internal controls;
- Reputational risk;
- Changes in audit report.⁶⁹

72. The report outlines two other matters identified during the audit. One matter concerns £34,000 of Coronavirus Job Retention Scheme income received by the WAO for a "handful of contractors", which RSM notes it was not expecting given the WAO is a public sector entity.

73. The other matter relates to WAO Board quorum, with the report noting:

"...at the May 2020 board meeting, 4 non-executive directors were in attendance, plus 3 executive directors and the Auditor General. Therefore there appears to have been an equal number of executive and non-executive directors in attendance, which appears in contrary to the Public Audit (Wales) Act 2013..."⁷⁰

74. The Act states:

⁶⁷ [Public Audit \(Wales\) Act 2013](#)

⁶⁸ [Annual Report and Accounts 2020-21, page 107](#)

⁶⁹ [RSM – Audit Findings Report – Year Ended 31 March 2021, page 7](#)

⁷⁰ [RSM – Audit Findings Report – Year Ended 31 March 2021, page 7](#)

“The rules must provide that in all circumstances a quorum cannot be met unless a majority of the members present are non-executive members.”⁷¹

75. The report notes that legal advice was sought by the Chair which concluded that the Act requires non-executive members to be “Present” rather than “Present and voting”. Going forward the advice recommends that the WAO updates procedures to ask one or more employee members not to attend each meeting if needed.⁷²

76. The Chair explained that a non-executive member was unable to attend an extraordinary meeting to understand Audit Wales’s response to the COVID-19 pandemic due to serious illness and reassured the Committee that no formal decisions were made at the meeting. She continued:

“...it’s not something that we can always promise to avoid because sometimes, particularly if a non-executive member is unable to be there for unavoidable reasons, we do have to look through the agenda and the items and look at what items are for noting and what items are for decision. We do try and adjust the agenda around unavoidable absence, if you like. But it’s the need to have the non-executive members in the majority at a meeting, and so we operate that by enabling one of the employee members to stand down, but be in attendance at the meeting. We’ve had a change to our terms of reference to reflect that.”⁷³

77. The Finance Committee of the Fifth Senedd considered previous representations from the WAO regarding the quorum provision in the Act, which the WAO finds problematic as a non-executive majority of one means that any non-executive absence can lead to the Board being inquorate. At that time, the WAO highlighted that it had obtained independent legal advice confirming that removal of an employee member from an inquorate meeting is required to prevent decisions being invalid.⁷⁴

78. In its report ‘Consideration of proposals to amend the Public Audit (Wales) Act 2013’, the Committee concluded that a non-executive majority is entirely appropriate but believed that requiring an elected employee member to leave an inquorate Board meeting

⁷¹ [Schedule 1, paragraph 28\(3\), Public Audit \(Wales\) Act 2013](#)

⁷² [RSM – Audit Findings Report – Year Ended 31 March 2021, page 7](#)

⁷³ Finance Committee, RoP, [29 September 2021](#), paragraph 197

⁷⁴ [Written evidence: Wales Audit Office and the Auditor General for Wales](#)

in order to preserve a non-executive majority was unduly strict. To resolve the issues, the previous Committee proposed and consulted on an amendment to the Act to enable any executive member to continue in a non-voting capacity in order to satisfy the quorum requirement.⁷⁵

Committee view

79. Whilst noting the reassurances that no formal decisions were taken at the Board meeting concerned, the Committee is unclear why this approach was taken, particularly as previous evidence suggests that the WAO has received advice confirming that removal of employee members from an inquorate meeting is required to achieve quoracy.

80. The Committee will shortly be considering the Fifth Senedd Finance Committee's work on a draft Public Audit (Amendment) (Wales) Bill, including the WAO quorum issue.

Recommendation 8. The Committee recommends that measures are put in place to ensure that the requirement for a majority of non-executive members is complied with at all Wales Audit Office Board meetings, and that these are outlined to the Committee.

⁷⁵ [Consideration of proposals to amend the Public Audit \(Wales\) Act 2013](#)

4. Annual Plan 2021-22 and Interim Report 2021-22

81. The Act requires the Auditor General and the WAO to publish an Annual Plan and at least one Interim Report each year.⁷⁶

82. The Annual Plan 2021-22⁷⁷ outlines the programmes of work for the year and was laid on 30 March 2021.

83. The Interim Report⁷⁸ 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 2021-22 and provides information on key performance indicators. The Interim Report was laid before the Senedd on 27 October 2021.

Annual Plan 2021-22

84. The Annual plan highlights that the resources of Audit Wales have been “stretched” and that the focus of Audit Wales’s work in 2021-22 remains, “to deliver our statutory responsibilities in ways which are sensitive to the pressures that services are under”, with flexibility built into the programme.⁷⁹

85. The Annual Plan sets out key performance indicators (KPIs) and notes Audit Wales’s intention to undertake a review of KPIs in 2021 to inform the 2022-23 Annual Plan and five year strategic vision. KPIs broadly measure the same areas as 2020-21, with alterations to some targets (for example, KPIs associated with online presence have larger targets).⁸⁰

86. Much of Audit Wales’s work already in progress relates to non-COVID-19 activity, however there are various COVID-19 related elements, including work on procurement of Personal Protective Equipment and the vaccination programme. New work to be undertaken in 2021-22 includes work on the COVID-19 response and recovery.⁸¹

⁷⁶ [Public Audit \(Wales\) Act 2013](#)

⁷⁷ [Annual Plan 2021-22](#)

⁷⁸ [Interim Report, October 2021](#)

⁷⁹ [Annual Plan 2021-22, pages 6-7](#)

⁸⁰ [Annual Plan 2021-22, page 26](#)

⁸¹ [Annual Plan 2021-22, page 32](#)

87. The Annual Plan also highlights Audit Wales’s good practice work, the focus of which has switched to Audit Wales’s **COVID-learning project**.⁸²

Interim Report

88. The Interim Report notes there has been “no need to deviate significantly from the work programmes laid out in our 2021-22 Plan”. It goes on to say:

“The COVID-19 pandemic has continued to cause interruptions to our on-site audit work, but we have been able to manage the position by adopting flexible working arrangements across teams as well as extending some of our planned completion deadlines.”⁸³

89. The Interim Report indicates that Audit Wales’s “overall audit work programme remains broadly on track”.⁸⁴

90. In terms of delivery of KPIs, at 30 September the proportion of audit products delivered by the required statutory deadline was 98 percent against a target of 100 per cent.⁸⁵

91. Addressing the 98 per cent delivery of audit products by the statutory deadline, the Executive Director of Audit Services referred to the target as being very challenging, particularly given the current ways of working. She confirmed that there was one audit that did not meet the statutory deadline, adding:

“...we chose not to issue the certificate, and that was because there was other work ongoing that we wanted to see through to the end before we issued it... it wasn’t that work wasn’t done, it was that we took a conscious decision. So, I have to say, I’m really proud of the staff, I think, in very difficult circumstances there, meeting all of these deadlines, and that’s really quite incredible.”⁸⁶

⁸² [Annual Plan 2021-22, page 35](#)

⁸³ [Interim Report, October 2021, pages 4-5](#)

⁸⁴ [Interim Report, October 2021, page 7](#)

⁸⁵ [Interim Report, October 2021, page 19](#)

⁸⁶ Finance Committee, RoP, [10 November 2021](#), paragraphs 127-128

Committee view

92. The Committee recognises the dedication and perseverance of Audit Wales staff in successfully supporting the organisation through the ongoing COVID-19 pandemic, highlighted by the in-year progress in delivering on the objectives and priorities set in the Annual Plan.

5. Estimate of the income and expenses for the year ended 31 March 2023

93. The Estimate of the income and expenses for the year ended 31 March 2023 (“the Estimate”)⁸⁷ was jointly prepared by the Auditor General and the Chair of the WAO and laid before the Senedd on 1 November 2021, in accordance with Section 20(1) of the Act.⁸⁸

94. 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 Senedd, 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.”⁸⁹

Context

95. In May 2019, the previous Finance Committee issued a Statement of Principles to bodies directly funded from the Welsh Consolidated Fund (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.

⁸⁷ [Part 1 - Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2023](#)

⁸⁸ [Public Audit \(Wales\) Act 2013](#)

⁸⁹ [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.

96. In July 2021, the Committee agreed that DFBs should continue to follow the current Statement of principles⁹⁰ when preparing their budget documentation.

97. The Minister for Finance and Local Government's ("the Minister") wrote to the Committee setting out information to support the forward financial planning of DFBs. This correspondence was noted by the Committee on 29 September 2021 and circulated to DFBs.⁹¹

Overview of the Estimate

98. At the request of the previous Finance Committee following its scrutiny and modification of the Estimate for 2020-21⁹², the Estimate is presented in two parts:

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

99. Audit Wales is seeking to increase its call on the WCF by 3.1 per cent or £250,000 in 2022-23 (this includes a £290,000 increase to revenue and a £40,000 decrease to capital).⁹³

100. Audit Wales is requesting £8.3 million of revenue resources and £310,000 of capital. At £8.6 million this is a total increase of 5.6 per cent compared to the Estimate for 2021-22 (£8.1 million). The difference between this figure and the 3.1 per cent quoted in the Estimate is the increase in the National Fraud Initiative (NFI) funding (combined with an

⁹⁰ [Statement of principles, July 2021](#)

⁹¹ [Letter from the Minister for Finance and Local Government, 2 August 2021](#)

⁹² [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](#)

⁹³ [Part 1 Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2023, page 4](#)

increase of £80,000 related to NFI pilots) of £210,000 and which Audit Wales treats separately to its other resource requests.⁹⁴ This funding is provided to allow both mandatory and voluntary participants in the NFI to do so free of charge. The Finance Committee of the Fifth Senedd has previously supported the NFI being centrally funded in this way, which means that every other year the cost increases when certain activities are undertaken.⁹⁵

101. In addressing how Audit Wales has taken into account the funding pressures in the wider public sector when preparing the Estimate, the Auditor General referred to the need to balance a number of competing pressures:

"...like any organisation, we face our own inflationary pressures, but we're also constantly striving to work more efficiently. And as Audit Wales, given our remit, we take that particularly seriously. We are very conscious, as the Minister's letter says, of the pressure that audited bodies are under, and the wider state of the public purse, and that's why, for several years now, we've managed to keep our fees pretty static and to minimise our draw on the related fund."⁹⁶

102. The Auditor General emphasised the "very challenging savings targets" and the need to provide the necessary assurance on the use of public funds, with funding and associated risk for the public sector increasing significantly through the pandemic.⁹⁷

103. The Auditor General explained that the additional £80,000 requested for NFI pilots will enable the roll out of some Wales-specific enhancement:

"Specifically, we're looking to enable public bodies to undertake bank verifications and trading status checks on organisations that have applied for COVID business support funding. Pilot work of that elsewhere in the UK has identified some very significant volumes of error and fraudulent applications. So, within the £80,000, that would include a one-off cost of

⁹⁴ [Part 2 Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2023, Exhibit 1](#)

⁹⁵ [Annual Scrutiny of the Wales Audit Office and the Auditor General for Wales, November 2020, page 45](#)

⁹⁶ Finance Committee, RoP, [10 November 2021](#), paragraph 12

⁹⁷ Finance Committee, RoP, [10 November 2021](#), paragraph 13

£35,000, but then an ongoing annual request of £45,000 to keep that element of the work going on an annual basis.”⁹⁸

104. The net cash requirement from the WCF is £9.1 million, an increase of 8.5 per cent compared to 2021-22⁹⁹ (£8.4 million), which accounts for a non-cash adjustment of £280,000 (negative) for depreciation and a non-cash adjustment for “movements in working capital” of £750,000 (positive). Audit Wales has described this movement in the past, noting £500,000 linked to year-end accruals in its 2020-21 Estimate¹⁰⁰, and suggesting this was “extremely difficult to forecast”. While depreciation costs have been relatively stable compared to previous years, movements in working capital are estimated to increase by £250,000 compared to 2021-22.¹⁰¹

105. The Head of Finance explained that it is “notoriously difficult to estimate” movements in working capital so Audit Wales usually allows a non-cash adjustment of £500,000. She expanded on the reasons for the increase to £750,000 in 2022-23:

“For next year, we’ve increased that by £250,000 in anticipation of the supplementary estimate for the T&S buy-out. So, although we would need the additional resource cover in the current financial year, we won’t need the cash until next year, and we won’t need as much because we’ve already got, within the estimate, budget for, effectively, one year’s payment of the travel allowance. So, if everybody took up the buy-out, then we would need double. We’d assumed the buy-out wouldn’t be as much as that.”¹⁰²

106. Around 35 per cent of the Audit Wales’s running costs are met from the WCF, with the remainder funded from fees. The majority of those running costs relate to staff. Audit Wales estimates that fee income in 2022-23 will stand at £15.1 million – an increase of £621,000 (4.3 per cent) compared to 2021-22.¹⁰³ Total revenue expenses are therefore

⁹⁸ Finance Committee, RoP, [10 November 2021](#), paragraph 25

⁹⁹ [Part 1 Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2022](#)

¹⁰⁰ [Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2021, page 33](#)

¹⁰¹ [Part 1 Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2022](#)

¹⁰² Finance Committee, RoP, [10 November 2021](#), paragraphs 22-23

¹⁰³ [Part 1 Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2022](#)

estimated to be £23.4 million – an overall increase of £1.1 million (5 per cent) compared to the previous year (or 4.8 per cent including capital).¹⁰⁴

107. The largest increases in expenditure relate to staff, including £718,000 (3.9 per cent) for staff costs and £268,000 for short-term contract staff (86.2 per cent). No costs are included for private sector firms, the work from which was due to be brought in-house in 2020-21, with a cost reduction of £598,000 in 2021-22.¹⁰⁵ Legal and professional fees are also set to rise by £152,000 (68.5 per cent).¹⁰⁶

108. When asked for more information on the overall 3.9 per cent increase in staff costs, the Auditor General referred to “a relatively prudent 2 per cent increase for pay and price inflation”; an increase in National Insurance contributions; £200,000 resource linked to a change in case law; as well as the need to increase capacity to address new auditing standards and quality expectations.¹⁰⁷

109. As Audit Wales staff are not currently travelling, the Auditor General indicated that the simplest way to address capacity issues in the short term will be to utilise contractors, with the possibility of making changes to the permanent staffing structure “if it settles into a regular pattern”.¹⁰⁸

110. The Estimate outlines “challenging savings targets from both staff vacancy management and other areas of expenditure including our travel costs”.¹⁰⁹ The Estimate 2022-23 includes £939,000 savings from expected staff turnover and £500,000 from other costs reductions, including travel and subsistence.¹¹⁰

Use of WCF funding

111. The Estimate requests an increase to revenue resource of £290,000 (3.7 per cent) and an additional £210,000 (2.7 per cent) for the NFI, compared to 2021-22.¹¹¹

¹⁰⁴ [Part 2 Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2023, page 10](#)

¹⁰⁵ [Part 2 Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2022, pages 6 and 17](#)

¹⁰⁶ [Part 2 Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2023, page 22](#)

¹⁰⁷ Finance Committee, RoP, [10 November 2021](#), paragraph 16

¹⁰⁸ Finance Committee, RoP, [10 November 2021](#), paragraph 19

¹⁰⁹ [Part 1 Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2023, page 5](#)

¹¹⁰ [Part 2 Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2023, page 22](#)

¹¹¹ [Part 2 Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2023, page 3](#)

112. Audit Wales identifies specific areas of WCF funding in 2022-23, including:

- **Audit work funded from WCF (£4.0 million):** this includes national local government studies as well as “other audit related work”. Increases in this area in 2022-23 are linked to pay and price increases.
- **WCF contribution to running costs (£2.8 million):** these are costs to Audit Wales that are not passed on to audited bodies through fees. An increase of £15,000, in line with potential pay increases is requested.
- WCF funding for wider public sector benefit, including various programmes:
 - **Pan-Wales financial skills development (£580,000):** Audit Wales’s graduate and apprenticeship programme. Audit Wales currently employs around 60 graduate and trainees. WCF funding provides for secondment opportunities, improves diversity and supports training costs.
 - **Good practice exchange (£550,000):** this supports the sharing of best practice across public bodies, including through online resources, facilitation and webinar learning while on-site events remain suspended.
 - **NFI (£310,000):** central funding of the scheme to enable participation for all public bodies in Wales at no cost to those bodies. This year that includes the use of additional products, meaning in addition to the normal £130,000 biannual increase there is an additional cost in 2022-23 of £80,000. These additional elements are due to be trialled for a one-year period and then reviewed.¹¹²

Increased cost of audit work

113. Audit Wales requests £74,000 for the “increased cost of audit work”.¹¹³ The Estimate does not specify what this will fund, but notes a number of areas that may influence the increase, particularly around audit work funded from the WCF.

¹¹² [Part 2 Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2023, pages 11-14](#)

¹¹³ [Part 2 Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2023, page 3](#)

114. Elaborating on the £74,000 requested, the Chair referred to the Board’s savings target of over £1.4 million in-year savings, made up of about £940,000 from expected staff turnover and £0.5 million in other cost reductions. She went on to say:

“So, when we think about the £74,000 figure, that reflects the proportion that’s funded, through WCF, of our audit work, covering the rising cost of audit work—the rising staff costs that we face—that we can’t meet, even after meeting those substantial savings targets... for many years, we’ve held our fees static. But, of course, the highest proportion of our expenditure is going on our staff, so there’s a limit, really, in terms of our ability to absorb inflationary costs by cutting elsewhere. So, the board’s very clear that, unfortunately, the inflationary pressures we face have to be reflected in the request to WCF as well as, proportionately, in fees to audited bodies, whilst we’re also doing all that we can to absorb additional costs internally as well.”¹¹⁴

Audit quality

115. The Estimate notes that recent UK wide reviews have potentially wide-ranging implications for the audit profession. Regulators have issued “new and complex” auditing and quality standards to be implemented by 2023. Audit Wales is also adopting new standards for performance audit work to ensure it is carried out “in line with best professional practice”. The Estimate notes complexities associated with the pandemic and the structures audited bodies are organising themselves within. The overall investment in audit quality is due to be £230,000 per year for the next two years. This year, £80,000 of that will be requested from the WCF, with the remainder met from fees charged to audited bodies.¹¹⁵

116. The Executive Director of Audit Services indicated that the £80,000 will fund two temporary posts to respond to significant changes in audit quality arrangements and two new auditing standards. It will also double external quality reviews of accounts work and include examining the quality of performance audit work for the first time.¹¹⁶

¹¹⁴ Finance Committee, RoP, [10 November 2021](#), paragraph 34

¹¹⁵ [Part 2 Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2023, page 7](#)

¹¹⁶ Finance Committee, RoP, [10 November 2021](#), paragraphs 37-38 and 40

Travel in work time

117. The Estimate notes that recent case law has suggested that when audit staff travel to client sites, Audit Wales’s practice of the first hour of travel there and back being a part of the individual’s time is unlawful. All travel for work purposes (other than a regular commute) should be included within the working day. Audit Wales is calculating an increase in costs of £200,000 in 2022-23 to address this shortfall. While the majority of this increase will be met from fees, £70,000 is requested from the WCF.¹¹⁷

118. On this issue, the Auditor General indicated that legal advice suggested the risk of historic liability is “very low”:

“It advised that we should indeed change our practice so that travel to sites other than to our main offices would be in work time—something that’s affected all of the national audit bodies in the UK. So, the risk is low because, firstly, we have proactively sought that legal advice, and so our legal advisers indicate that any tribunal would be pretty sympathetic to an employer who adopted that practice. And we’ve also moved swiftly, in collaboration with our trade union partners, to implement a change to policy, which they support.”¹¹⁸

National Insurance increase

119. In September 2021 the UK Government announced a 1.25 per cent increase in National Insurance Contributions for employees and employers from April 2022. The Estimate indicates that the total cost of this increase for Audit Wales is £145,000, £51,000 of which is requested to be funded through the WCF with the remainder through fees.¹¹⁹

120. The Estimate notes that Audit Wales understands “that additional funding will be made available from the UK Government to the Welsh public sector to meet the cost of this increase”.¹²⁰

121. The command paper linked to the increase states:

¹¹⁷ [Part 2 Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2023, page 8](#)

¹¹⁸ Finance Committee, RoP, [10 November 2021](#), paragraph 47

¹¹⁹ [Part 2 Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2023, page 8](#)

¹²⁰ [Part 2 Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2023, page 8](#)

“...the [UK] Government intends to compensate departments and other public sector employers in England at the Spending Review for the increased cost of the Levy and provide Barnett consequential on this funding to the devolved administrations. If the Government did not take this step then the spending power of public services, including the NHS, would be reduced.”¹²¹

122. The Auditor General confirmed that this approach has been taken in anticipation that the costs of the National Insurance increase will be provided in full to the Welsh block:

“What’s included in our estimate is the element of that that is proportionate to WCF-funded work. The balance we would include in our fees so that there’s an appropriate balance between the two funding streams.”¹²²

Contribution to operating costs

123. The Estimate indicates that minimal provision has been made for pay and price increases and assumes that other cost pressures will be managed within existing budgets. In 2022-23, Audit Wales has assumed that pay and price increases elsewhere are unlikely to result in equivalent increases in the public sector.¹²³

124. The Estimate includes an increase in the “WCF contribution to operating costs”, those are costs that Audit Wales does not pass on through fees to audited bodies, of £15,000 for “potential pay increases”.¹²⁴

Fee income

125. 65 per cent of Audit Wales’s income comes from fees, and it proposes an increase of 4.3 per cent in this area, subject to the approval of the Estimate. The Estimate notes that the increase will fund the additional investment in Audit Quality and the legal requirement for Audit Wales staff to carry out business travel in work time as well as anticipated pay and price increases and the increase in National Insurance Contributions.¹²⁵

¹²¹ [UK Government, Build Back Better: Our plan for health and social care, September 2021, paragraph 86](#)

¹²² Finance Committee, RoP, [10 November 2021](#), paragraph 64

¹²³ [Part 2 Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2023, page 9](#)

¹²⁴ [Part 2 Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2023, page 12](#)

¹²⁵ [Part 2 Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2023, page 14](#)

126. Audit Wales intends to consult on the fee scheme once the Estimate has been considered by the Committee and plans to lay that scheme in early 2022.¹²⁶ Last year, the previous Finance Committee was not provided with a draft fee scheme at the time of the Estimate being laid.¹²⁷ However, it has generally been the case that a draft fee scheme has been provided to the Committee alongside previous estimates – providing information on changes to fee rates and scales.

127. The Auditor General confirmed that Audit Wales will be consulting on next year’s fee scheme in the next few weeks.¹²⁸ He also indicated the reasons for the 4.3 per cent increase in fee income:

“The things that are driving the increase in our fees are exactly those that we’ve already mentioned, namely the change in auditing standards. That means more work, and more work means more time, and, I’m afraid, more cost—general inflationary pressures, which everybody faces, I know... we do everything that we can to absorb as much of that internally as we are able. And, in addition, there are simply new public bodies being created and requiring audit. So, we have, for instance, the new corporate joint committees. There are simply more audits for us to do that mean the fee income that we generate will be higher as well.”¹²⁹

Capital

128. Audit Wales has generally provided a longer term view of its capital investment programmes in its estimates. It is seeking less funding in 2022-23¹³⁰ than in 2021-22 (£310,000 compared to £350,000), significantly less than it was previously forecasting to request in 2022-23 in its 2021-22 Estimate (£800,000).¹³¹

¹²⁶ [Part 2 Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2023, page 14](#)

¹²⁷ [Part 2 Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2022, page 14](#)

¹²⁸ Finance Committee, RoP, [10 November 2021](#), paragraph 66

¹²⁹ Finance Committee, RoP, [10 November 2021](#), paragraph 62

¹³⁰ [Part 2 Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2023, page 15](#)

¹³¹ [Part 2 Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2022, Exhibit](#)

129. The capital programme is split between costs of the change programme and costs of the ICT strategy. Long term costs of the ICT strategy have decreased from a forecast of £150,000 to £110,000 each year to 2024-25.¹³²

Digital and ICT

130. The Estimate provides some information on the £110,000 ICT expenditure. Investment in 2022-23 is for financial and performance audit software as well as development of “automated audit quality tools”. Audit Wales also has a rolling programme of PC/IT equipment renewal, with investment continuing in that area.¹³³

Future workplaces

131. While change programme costs are lower in 2022-23 than forecast last year, this is due to costs being delayed a year rather than a reduction. Audit Wales is outlining capital costs in this area of £650,000 in 2023-24 and £400,000 in both 2024-25 and 2025-26. The Estimate refers to this pause to allow Audit Wales to consider its future office accommodation. It also indicates that, due to the changing requirement for office accommodation, it may be that Audit Wales is “not able to realise the savings previously anticipated”. The Estimate also suggests that it is “difficult to estimate costs at this time” but that an investment is anticipated.¹³⁴

132. There may also be a potential requirement for additional non-cash costs associated with the implementation of accounting changes if new lease agreements are entered into, which Audit Wales is not able to currently estimate.¹³⁵

133. The Auditor General explained that Audit Wales is in dialogue with audited bodies about the future availability of audit rooms:

“As that unravels, that is going to impact on our potential office space for ourselves, because whereas before I think we anticipated moving to smaller premises, paradoxically the loss of audit rooms might lead us actually to have rather more space than we have had in the past, if that’s how we need to bring our staff together to work in teams. So, I’m afraid

¹³² [Part 2 Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2023, page 15](#)

¹³³ [Part 2 Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2023, page 16](#)

¹³⁴ [Part 2 Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2023, Exhibit 5 and page 16](#)

¹³⁵ [Part 2 Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2023, page 16](#)

it's a very fluid picture at the moment; we're exploring all options actively at the moment. And so I guess that the best I can offer to the committee is just to keep you in the picture as that evolves over the coming year, so that you're fully sighted on any potential capital requirements that we might need."¹³⁶

134. In terms of future funding, the Auditor General indicated that the significant investment would fund moving to new premises or remaining at the current premises with adaptations. He confirmed that the £200,000 requested in 2022-23 will fund preparatory work to explore different office options as well as investing in changes to the existing premises to enable a trial of new working patterns. Funding is also set aside for a new IT platform for performance audit work and a new time-recording system.¹³⁷

135. In relation to the previous target set by the Board of 20 per cent savings on estate costs, the Auditor General said "there is now some doubt at least" about achieving these savings, though the target has not yet been revisited.¹³⁸ He went on to say:

"We would certainly like to make some financial savings. It's one of our biggest areas of non-staff costs, so we have to keep that as an objective if at all possible. Large premises don't necessarily mean higher costs; it depends what sort of premises we're talking about, their location and so forth. So, we're exploring a range of options. We're looking at any potential for sharing and collaboration with other bodies, if that is appropriate. We're also looking at the use of hubs elsewhere in Wales, where our staff could come together at good cost to work in an efficient way. I think most likely at the moment is that we're going to see a hybrid solution to reflect the changing work patterns that we've seen over the last 18 months."¹³⁹

Travel and subsistence

136. The Estimate discusses the travel and subsistence review commissioned by Audit Wales and undertaken by RSM UK LLP (the auditors of the WAO) in 2020-21. The previous

¹³⁶ Finance Committee, RoP, **10 November 2021**, paragraph 72

¹³⁷ Finance Committee, RoP, **10 November 2021**, paragraphs 74-75

¹³⁸ Finance Committee, RoP, **10 November 2021**, paragraph 77

¹³⁹ Finance Committee, RoP, **10 November 2021**, paragraph 82

Finance Committee considered and endorsed the proposal to undertake a study on 19 September 2019.¹⁴⁰

137. In response to the report's findings, the Board decided that the travel allowance for WAO staff should be brought to an end and HMRC mileage rates adopted instead. It established a staff Task and Finish Group to develop proposals for a 'fit for the future' travel and expenses scheme. This included proposals that incentivise greener travel, smarter ways of working (including lessons learned from lockdown) and deliver £1 million of savings over five years.¹⁴¹

138. The Estimate notes that a Task and Finish Group has made recommendations, on which the Board is consulting with trade unions and staff.¹⁴² When the Auditor General discussed this with the Committee in September he noted that he was looking to "reinvest a significant portion of the savings" into remuneration or a revised travel and subsistence scheme.¹⁴³

139. The budget outlined in the Estimate for 2022-23 makes no assumption for any reduction in travel allowance in 2022-23, as Audit Wales continues to consult with staff.

140. The Estimate also suggests an overall reduction in the amount of travel required in 2022-23 and assumes some savings but notes that there may be scope for future savings as "new working patterns become embedded".¹⁴⁴

141. Audit Wales wrote to the Committee on 1 November to provide a progress update on the Travel and Subsistence review, outlining proposals for reinvesting a portion of savings through a salary uplift, and detailing a proposal to offer staff the option of an up-front £7,000 payment (with an incentive of £300 more than the value of two years allowance) to buy-out the travel allowance in 2022 (rather than continuing to pay it until 2024). To fund the up-front payment, Audit Wales would require a Supplementary Estimate in 2021-22 of up to £1.48 million.¹⁴⁵

¹⁴⁰ [Finance Committee \(Fifth Senedd\), 19 September 2019, Item 6](#)

¹⁴¹ [Letter from Audit Wales – Value for money review of Audit Wales travel and expenses scheme, 1 September 2020](#)

¹⁴² [Part 2 Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2023, page 6](#)

¹⁴³ Finance Committee, RoP, [29 September 2021](#), paragraph 176

¹⁴⁴ [Part 2 Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2023, page 6](#)

¹⁴⁵ [Letter from Audit Wales, 1 November 2021](#)

142. The letter also outlined a £26 per month home working allowance, which had been paid since the start of the pandemic and the Board has supported continuing.

143. The Auditor General told the Committee he was unable to confirm the costs and savings associated with the successor scheme, as Audit Wales remains “in the thick of negotiations” with trade unions about the final shape of the proposals.¹⁴⁶

144. He explained that RSM’s report demonstrated that removing the fixed allowance and replacing it with the standard HMRC mileage rates of 45p a mile, would “save in the region of £0.5 million a year at pre-pandemic levels”. He went on to say:

“...our board has been clear that we need to balance those potential savings with recognition of the very real and significant financial impact that removal of the allowance will have on many of our staff, and we need to protect as best we can staff morale and retention. So, the board set aside a reinvestment fund, as it were, of £300,000 of those potential savings to put back into the system in some way. The net effect of that, once we have a new scheme in place, is to deliver savings of £1 million over five years, once we have a new scheme in place from 2024.”¹⁴⁷

145. In terms of the salary uplift being considered, the Auditor General exercised caution in disclosing numbers given the current stage of negotiations but referred to a figure of £750 salary uplift proposed for all staff as part of a consultation earlier in the summer. He indicated that a salary uplift would be funded from the £300,000 reinvestment fund, signalling “a reduction in our need to increase fees or the funds that we request from the consolidated fund as a result of the savings that would be generated from the change”.¹⁴⁸

146. The Auditor General confirmed that the £26 per month home working allowance costs Audit Wales around £90,000 a year and has been made available since the early days of the pandemic. He added:

“It was certainly a recommendation of our staff task and finish group, who drew up proposals for the new scheme, that that should continue, and the board is supportive of doing that, certainly all the time when we’re working in this way. It seems an entirely appropriate allowance to

¹⁴⁶ Finance Committee, RoP, [10 November 2021](#), paragraph 88

¹⁴⁷ Finance Committee, RoP, [10 November 2021](#), paragraphs 89-90

¹⁴⁸ Finance Committee, RoP, [10 November 2021](#), paragraph 92

be making to our staff, who are, I'm sure, incurring costs of their own at home through working in this way on our behalf.”¹⁴⁹

147. On the proposed travel allowance buy-out provision, the Auditor General suggested that should it go ahead, it would start to generate “much more significant savings” from 2022 onwards (subject to the level of take-up), with those savings being returned to the WCF either at year end or through a supplementary Estimate mid-year.¹⁵⁰

Uncertainties

148. Audit Wales notes a number of areas that could result in future changes to the Estimate, including:

- **Pay and price inflation:** If inflationary pressure is significantly greater than Office for Budget Responsibility predictions, Audit Wales may need to revisit this aspect of its budget on the basis of attracting and retaining staff.
- **Recruitment and retention:** Audit Wales notes a shortage of audit professionals in the UK, resulting in increased staff turnover. It suggests that if this trend continues it may need to review its pay and reward strategy during 2022-23.
- **Travel and subsistence:** Audit Wales has not included any assumptions for a potential reduction in travel costs if staff choose to accept the proposed up-front payment. It notes that any resulting underspend will be returned to the WCF and if the impact is likely to be significant then a Supplementary Estimate will be prepared in year.
- **Fee income:** The Estimate states that there is “significant uncertainty” in terms of the volume of audit work required in 2022-23. Audit Wales suggests it may need to return to the Finance Committee should that work exceed current expectations.
- **New reporting standards:** The changes to accounting requirements for leases (International Financial Reporting Standard (IFRS) 16) is to be introduced from 2022-23, having been delayed. No related adjustments are required to the Estimate for 2022-23, but there may be a change to capital expenditure in 2023-

¹⁴⁹ Finance Committee, RoP, **10 November 2021**, paragraph 101

¹⁵⁰ Finance Committee, RoP, **10 November 2021**, paragraph 97

24 if Audit Wales enters into a new lease arrangement. However it is unable to estimate this at present.¹⁵¹

149. The Auditor General told the Committee there are “some early signals” of recruitment and retention issues but a fundamental review of terms and conditions in the coming year is “highly unlikely”.¹⁵²

150. The Executive Director of Audit Services highlighted that the trainee and apprenticeship programme has protected Audit Wales to some extent, although a higher percentage of final-year trainees left Audit Wales once qualified last year.¹⁵³ She indicated that around half of the trainees have been retained over the last few years and it has always been the intention “to be a bit of a pipeline for the wider public sector”, adding:

“We aren’t seeing huge swathes of our trainees yet leaving to go to private sector firms. Having said that, I am acutely aware, as I’m sure you are, of the challenges in recruiting auditors to firms in England to undertake mostly local government audit, for example, public audit, and we’re just watching to see what happens. UK Government, I think, has provided additional money to local authorities in England to fund increased fees, so there is a possibility, I suppose, that the firms will start to pay more to trainees when they’re newly qualified and that some of our trainees might be attracted by that.”¹⁵⁴

151. In terms of the uncertainty surrounding the volume of audit work required in 2022-23, the Head of Finance explained:

“Where there’s uncertainty is if something happens during the year and we have to do significant extra audit work, which we would charge fees for, but we would also need the resources to deliver. That’s currently not covered in the accruing resources figure within the estimate. We’ve done it in previous years, where we’ve come back to the committee to say, ‘We know we’re going to generate more income, we need to spend more money to generate that income. So, it’s no additional cost to the

¹⁵¹ **Part 2 Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2023, pages 17-18**

¹⁵² Finance Committee, RoP, **10 November 2021**, paragraph 104

¹⁵³ Finance Committee, RoP, **10 November 2021**, paragraph 105

¹⁵⁴ Finance Committee, RoP, **10 November 2021**, paragraph 107

consolidated fund, but we need to increase our recruitment resources.’ We think we’ve allowed enough headroom for next year, but there is always a risk of something unexpected happening.”¹⁵⁵

Funding switch proposal 2023-24

152. The Estimate outlines a proposal to switch some currently fee funded performance audit work to be funded through the WCF. This work relates to:

“...the delivery of “thematic” or topic specific reviews that typically involves audit work across a number of audited bodies - this work could be at the all Wales and/or regional level, often with a cross sector or whole system focus; we also tend to want to look at issues such as Welsh Government’s system leadership on the particular theme we are examining, which can’t be funded from the fee.”¹⁵⁶

153. Audit Wales highlights that the current funding approach leads to some inflexibility in the way findings are disseminated, with contributors expecting outputs specific to them – which may or may not be the case. It suggests that taking fees from a number of bodies creates “significant transactional complexity in planning these pieces of work and charging the time back to individual audited bodies”.¹⁵⁷

154. Audit Wales indicates that it has discussed this approach with Welsh Government officials who “broadly” support the proposal.¹⁵⁸

155. The 2020-21 Estimate also included a switch of fee funded resource to WCF funded.¹⁵⁹ During scrutiny of that Estimate, the Auditor General acknowledged that switching resources from fee funded audit work to WCF funded activity is “an important point of principle”.¹⁶⁰

¹⁵⁵ Finance Committee, RoP, [10 November 2021](#), paragraph 107

¹⁵⁶ [Part 2 Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2023, page 19](#)

¹⁵⁷ [Part 2 Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2023, page 19](#)

¹⁵⁸ [Part 2 Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2023, page 20](#)

¹⁵⁹ [Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2021, pages 16-17](#)

¹⁶⁰ Finance Committee (Fifth Senedd), RoP, [7 November 2019](#), paragraph 48

156. The Estimate indicates that Audit Wales will discuss this approach with affected audited bodies over the coming months and invites the Committee's views on the proposal.¹⁶¹

157. The Executive Director of Audit Services said that discussions have taken place with a number of Welsh Government senior officials and are "broadly supportive", adding:

*"...what they did say was to just reiterate really that this was something, clearly, that we would want to and need to be totally transparent about and discuss with the audited bodies, and that will be something that we'll be flagging in the fee consultation..."*¹⁶²

158. In terms of ensuring fair deductions from audited bodies' budgets if activities are not undertaken on a consistent annual basis amongst all relevant bodies, the Executive Director of Audit Services confirmed that the funding switch would support its discretionary work, rather than its accounts audit work.¹⁶³

Committee view

159. The Committee recognises the challenging savings targets set for 2022-23 and accepts that the Estimate requested is necessary to respond to the demands placed on Audit Wales, particularly given the increased focus on the state of Welsh public finances as a result of the pandemic. However, with over a decade of austerity and constraints on public sector finances, no Welsh public sector organisation can be shielded from these financial pressures.

160. Although the Committee recognises the value in dynamically managing the budget in response to external factors and changing priorities, it believes that Audit Wales should focus in the first instance on making savings and efficiencies to cover in-year pressures, and only use supplementary budgets as a last resort.

161. The previous Finance Committee's Legacy Report¹⁶⁴ suggested that looking at how financial performance and efficiencies are monitored and reported in-year will be

¹⁶¹ [Part 2 Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2023, page 20](#)

¹⁶² Finance Committee, RoP, [10 November 2021](#), paragraph 117

¹⁶³ Finance Committee, RoP, [10 November 2021](#), paragraph 121

¹⁶⁴ Finance Committee, [Fifth Senedd Legacy Report](#), March 2021, paragraph 99

important in the Sixth Senedd, and the Committee wishes to establish an open dialogue with Audit Wales from the outset to ensure that this is achieved.

162. The Committee notes the increase in funding for the NFI, as well as the additional costs associated with undertaking Wales-specific pilots, and supports the previous Finance Committee's view that the NFI should be centrally funded. However, it feels that there could be benefit in clearly identifying all NFI costs separately in supporting information accompanying the Estimate.

163. The Estimate identifies a number of specific areas of WCF funding in 2022-23, such as pay and price increases, the increased cost of audit work and new audit and quality standards. Reflecting on its first consideration of an Audit Wales estimate, the Committee would welcome more detail in the supporting narrative on how the specific elements of funding will be spent, for example – additional staff, training or other resources should all be clearly identified within the Estimate, to ensure meaningful and effective scrutiny.

164. The Committee notes the £70,000 costs associated with the recent case law relating to travel in work time is noted and is reassured by the legal advice that the risk of historic liability is very low given the proactive change in policy.

165. While acknowledging the uncertainties faced by Audit Wales when setting budgets and plans for 2022-23, the Committee is keen to understand what assumptions have been made when estimating travel costs and the use of short-term contractors.

166. There are also significant uncertainties regarding future accommodation needs, leading to the one year lease extension on the Cardiff office to allow Audit Wales time to explore its future estate requirements. The Committee notes the significant increases identified in this area for future work. However, without further detail the Committee cannot commit to this level of funding at this stage.

167. Given the significant capital investment proposed in future years, it is vital that the Committee is fully engaged with future accommodation proposals as they develop, particularly if the level of capital identified in the Estimate will be required. This must include information on any changes to the savings targets previously identified by the Board.

168. The Committee acknowledges the early warning from Audit Wales of a possible review of pay and conditions due to market pressures, a shortage of audit professionals and increased staff turnover. While noting that a fundamental review of terms and conditions is unlikely in the short-term, with the organisation's graduate and trainee

programmes offering some protection, the Committee is concerned with Audit Wales's ability to retain staff given that a higher percentage of last year's trainees left the organisation once qualified than in previous years. Any review of pay and conditions must take account of the constraints on public sector finances.

169. The Estimate makes no assumption for any reduction in travel allowance next year, as Audit Wales continues to consult with staff on future travel and subsistence arrangements. The Committee is therefore surprised that the Estimate features a £250,000 working capital adjustment in anticipation of a supplementary estimate for the proposed buy-out of the fixed travel allowance. The Estimate does not include an explanation of this adjustment and the Committee considers this was needed to enable it to have a full understanding of the financial implications of the proposal. In order to improve transparency, as well as assist its understanding and subsequent scrutiny, the Committee would benefit from a fuller description of this specific adjustment. In terms of the adjustment for estimates of movements in working capital more generally, and considering Audit Wales's comments on the difficulty of estimating this aspect of the Estimate, a fuller description of this element would also be helpful.

170. As Audit Wales has not included details of the changes to the Travel and Subsistence scheme in the Estimate presented to Committee, any agreement of the Estimate 2022-23 should not be inferred as agreement of changes to the Travel and Subsistence scheme as a whole. The Committee notes that agreement of the scheme is subject to an internal Audit Wales process and also anticipates being provided with further detail regarding the scheme before any Supplementary Budget is considered. The Committee would expect relevant adjustments to be made to the working capital adjustment, included in the Estimate 2022-23, in the event that changes to the Travel and Subsistence scheme do not go ahead.

171. Audit Wales is yet to provide an estimate of the successor scheme costs and there remains uncertainty of the level of savings that will be returned to the WCF. It is also not clear how the "reinvestment" fund will be used, aside from a potential salary uplift, or whether the continuation of the £26 home working allowance is a cost directly associated with the scheme. The Committee accepts that there are issues in discussing these matters as negotiations with trade unions and staff continue, but it would have preferred an earlier discussion on these matters.

172. The Committee also notes that the Auditor General suggested the report of the external auditors, which has informed the proposals, was "commissioned by the

predecessor Finance Committee". The Committee considered Audit Wales's proposals for the review on 19 September 2019 and endorsed the approach to the review. The details and scope of that review, as well as engagement with RSM on the review, have been a matter for Audit Wales. While the Committee and its predecessor have welcomed a review of the existing arrangements and the broad objectives it explores, it is unable to provide its support or otherwise to Audit Wales's proposal until it receives further information.

173. The Committee notes that Audit Wales has been paying staff a home working allowance of £26 per month throughout the pandemic at a cost of around £90,000 and would like to understand how this decision was reached.

174. The Estimate is not accompanied by a draft fee scheme for the second successive year, though the Committee accepts that there were exceptional reasons for delaying the fee consultation last year. Except in extenuating circumstances, the Committee believes that the fee scheme should be included alongside estimates in future, given the direct link between WCF funding and fees. Not including details of this significant element of Audit Wales's funding means the Committee is unable to fully scrutinise Audit Wales's budget for 2022-23. The Committee is keen to understand the feedback from audited bodies in light of the proposed 4.3 per cent increase in fee income.

175. The Committee would also benefit from further detail as to what this increase in fee income comprises, what proportion is from additional work and whether there will be an increase to fee rates. While the Committee accepts that there is a link between increases in costs requested in the WCF element of funding and fee income in 2022-23, it is not in a position to agree or disagree with the increased fee income without further detail on the composition of that increase.

176. The Committee also acknowledges the proposal to switch some currently fee funded performance audit work to be funded through the WCF from 2023-24 and notes the broad support of the Welsh Government. Understanding the views of audited bodies will be crucial to gaining the Committee's support.

Recommendation 9. The Committee recommends that Audit Wales clearly demonstrates how it adheres to the statement of principles when formulating future budgets beyond 2022-23, and that, in particular, it should not assume an increase in funding from one year to the next.

Recommendation 10. In line with the statement of principles, the Committee recommends that Audit Wales funds in-year pressures by making in-year savings and efficiencies, rather than through supplementary budgets.

Recommendation 11. The Committee recommends that Audit Wales provides an update bi-annually on the efficiency savings made in-year.

Recommendation 12. The Committee recommends that future estimates include a breakdown of all National Fraud Initiative costs to enable the identification of one-off and annual increases.

Recommendation 13. The Committee requests that Audit Wales reflects on the information it provides in its Estimate and considers how it can ensure it provides a detailed view of its funding requests going forward.

Recommendation 14. The Committee recommends that Audit Wales clarifies how it has estimated travel costs in 2022-23 and how those costs interact with the use of short-term contract staff.

Recommendation 15. The Committee recommends that Audit Wales provides regular updates on its estate strategy and associated savings targets as ways of working are reviewed, and before the Estimate for 2023-24 is formulated.

Recommendation 16. The Committee recommends that Audit Wales provides further information on overall staff turnover (and specifically for staff completing the graduate and trainees programmes), including historic trends and any comparison with similar organisations.

Recommendation 17. The Committee recommends that Audit Wales provides further information about the estimate of movements in working capital and be prepared to make the relevant adjustments should the change to Travel and Subsistence arrangements not go ahead in 2022-23.

Recommendation 18. The Committee recommends that Audit Wales provides further information on its decision to introduce a home working allowance and its justification for retaining the payment going forward.

Recommendation 19. The Committee recommends that future estimates are accompanied by a draft fee scheme to ensure that the Committee is able to consider the complete funding position.

Recommendation 20. In the absence of the draft fee scheme, the Committee recommends that Audit Wales provides further detail on the composition of its increase to fees in 2022-23 before a Final Fee Scheme is laid.

Recommendation 21. The Committee recommends that Audit Wales provides detailed feedback from its consultation on fees, particularly in relation to the proposed funding switch in 2023-24.

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
29 September 2021	<p>Adrian Crompton, Auditor General for Wales Audit Wales</p> <p>Lindsay Foyster, Chair of the Wales Audit Office Board Audit Wales</p> <p>Kevin Thomas, Executive Director of Corporate Services Audit Wales</p> <p>Ann-Marie Harkin, Executive Director of Audit Services Audit Wales</p>
10 November 2021	<p>Adrian Crompton, Auditor General for Wales Audit Wales</p> <p>Lindsay Foyster, Chair of the Wales Audit Office Board Audit Wales</p> <p>Ann-Marie Harkin, Executive Director of Audit Services Audit Wales</p> <p>Nicola Evans, Head of Finance Audit Wales</p>

Annex B: Estimate of Income and Expenses for Audit
Wales for the year ended 31 March 2023



Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2023

October 2021

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
Cardiff
CF11 9LJ

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.

Our Estimate for 2022-23 is the Budget Ambit contained in this document. We will provide separately supporting information on the Estimate for Finance Committee to understand how we will use the funding requested.

The Minister for Finance and Local Government set out the continuing uncertainty around future spending in her letter of 2 August 2021. We recognise this; but are also cognisant of recent UK-wide reviews of audit which have potential wide-ranging implications for the whole audit profession, increasing expectations of audit and of the quality of that audit.

For these reasons, our Estimate is seeking to limit the increase in our call on WCF for Audit Wales to 3.1%. This will allow us to fund essential additional investment in audit quality as well as meeting pay and price pressures and the cost of the recently announced increase in employer's National Insurance contributions.

With the vast increase in public expenditure in response to the global COVID-19 pandemic, our work is more important than ever. Ensuring that the Welsh taxpayer is obtaining the best possible value from the public pound and that services are provided seamlessly and efficiently with the service user at the forefront will be even more important as we recover from the COVID pandemic. Our work will play an important part in supporting public bodies in Wales to achieve this.

Our wide-ranging programme of value for money work is vital to robust parliamentary accountability through the Senedd Public Accounts and Public Administration, 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 2022-23 we have set challenging savings targets from both staff vacancy management and other areas of expenditure including our travel costs.

We are in the process of finalising a significant review of our travel scheme which we expect to deliver savings in future years. We are also reviewing our use of office accommodation in the light of lessons learned from the COVID pandemic. We will continue to update the Committee on progress with, as well as the outcome from, these exercises.

Our [Annual Report and Accounts for 2020-21](#) sets out our record of achievement for the last financial year. In March this year we laid our [Annual Plan for 2021-22](#) at the Senedd. This Estimate secures funding for our forward priorities for 2022-23, and our Annual Plan for that year will then be laid before the Senedd in March 2022.

We look forward to discussing our Estimate with the Finance Committee in due course.



Lindsay Foyster

Chair, Wales Audit Office



Adrian Crompton

Auditor General for Wales

Budget Ambit 2022-23

Estimated budget requirements of the Wales Audit Office for the year ending 31 March 2023

- 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 2023, 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 2022-23 are set out in our supporting information.

Exhibit 1: summary of the estimated 2022-23 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	8,298
• Capital	310
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.	15,082
Net cash requirement from the WCF to meet the net amounts falling due for payment in the year by the Wales Audit Office.	9,078

- 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 2023.

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

	£'000
Net request for resources – revenue and capital	8,608
Non-cash adjustment – depreciation	(280)
Non-cash adjustment – movements in working capital	750
Net cash requirement from the WCF to meet the net amounts falling due for payment in the year by the Wales Audit Office	9,078



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