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WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Estimate of income and expenditure of the Wales Audit Office for the year ending 31 March 2010

**Submitted to the Audit Committee of the National Assembly
for Wales under Paragraph 12 of Schedule 8 of the
Government of Wales Act 2006**

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Summary

1. Under Section 125 of the Government of Wales Act 2006 (the 2006 Act), Ministers must move a Budget Motion in the National Assembly to authorise the use of resources, retention of income and drawings of cash from the Welsh Consolidated Fund for certain relevant persons, including the Auditor General. The Auditor General's budget is determined, under Paragraph 12 of Schedule 8 of the 2006 Act, after the Audit Committee has examined his annual estimate of income and expenses, and laid it before the National Assembly.
2. The Audit Committee is therefore invited to endorse this estimate of the income and expenses of the Auditor General for the year ending 31 March 2010.
3. The proposed estimate balances known cost pressures with increased efficiency in excess of the one per cent annual improvement expected of public bodies under Making the Connections. The Auditor General is seeking in this 2009-10 estimate an overall increase of £147,000, from £4.90 million to £5.047 million (3 per cent increase). This figure takes account of additional audit work required in 2009-10 and of the expected cost pressures. The increased work includes:
 - a support for increased scrutiny of the Welsh Assembly Government (the Assembly Government) by the National Assembly through its Audit Committee and the new scrutiny committees;
 - b increased demand for reports and other work of a cross-cutting or whole service nature, which is inappropriate to fund through fees from individual bodies;
 - c the further development of shared learning of good practice across public services, including conferences, seminars and reports; and
 - d strengthening corporate governance, by for example, developing enhanced anti-money laundering arrangements and dealing with Freedom of Information requests.
4. In respect of the services and purposes of the Auditor General in the year ending 31 March 2010, the Budget Motion will authorise:
 - a the amount of resources to be used by the Auditor General;
 - b the amount of resources accruing to the Auditor General which may be retained by him (rather than paid into the Welsh Consolidated Fund); and
 - c the amount which may be paid out of the Welsh Consolidated Fund to the Auditor General.

5. These requirements are summarised in the table below.

Table 1: Summary of the 2009-10 budget requirements

	£million
Resources other than accruing resources for use by the Auditor General on the administration of the Wales Audit Office, and the discharge of the statutory functions of the Auditor General and local government appointed auditors [1].	5.047
Accruing resources from fees and charges for audit and related services (excluding income under Part 1 and Section 33 of the Local Government Act 1999, and Part 2 of the Public Audit (Wales) Act 2004); other recoveries of costs associated with the functions of the Auditor General; miscellaneous income from publications, conferences, provision of administrative and professional and technical services etc; recoveries of costs of seconded staff; repayments of staff loans; recoveries of car leasing payments; and interest received on working balances fees for use by the Auditor General on related services and the administration of the Wales Audit Office [2]. (See Note (xi) Table 3)	9.75
Net cash requirement from the Welsh Consolidated Fund to meet the net amounts falling due for payment in the year by the Auditor General [3].	5.02

[1] This is the net revenue and capital expenditure in resource terms that the National Assembly will be requested to authorise by Budget Motion under Section 125(1)(a) of the 2006 Act.

[2] This is the income accruing to the Auditor General (other than that arising from local government activities) that the National Assembly will be asked to authorise by Budget Motion under Section 125(1)(b) for use on related services rather than being paid into the Welsh Consolidated Fund.

[3] This is the cash needed from the Welsh Consolidated Fund to meet the Auditor General's estimated net payments (payments less receipts) falling due in the year for authorisation by the National Assembly by Budget Motion under Section 125(1)(c) of the 2006 Act.

6. In addition to the amounts shown in Table 1, the Auditor General accrues resources from local government activities under Part 1 and Section 33 of the Local Government Act 1999, and Part 2 of the Public Audit (Wales) Act 2004 which he is permitted to retain for use in connection with the exercise of functions under those statutory provisions. During 2009-10 these are estimated to amount to £11.9 million (2008-09 £11.4 million). Under Paragraph 9(3) of Schedule 8 to the 2006 Act, the Auditor General is authorised to retain such income rather than paying it into the Welsh Consolidated Fund. As in previous years it does not therefore form part of the amount to be authorised by Budget Motion under Section 125(1)(b) of the 2006 Act and is included for information.

The role of the Auditor General

7. The Auditor General:
 - a **Audits the accounts** of the Assembly Commission, the Welsh Consolidated Fund, the Assembly Government, Assembly Government public bodies, and all NHS Wales bodies. He also appoints auditors to local government bodies (including fire and rescue authorities, police authorities, probation services, national park authorities and community councils).
 - b Has the power to undertake examinations and publish **reports on economy, efficiency and effectiveness** and make recommendations for improvement in all parts of the Welsh public sector.
 - c Is required to undertake **inspection of local government bodies** under the Wales Programme for Improvement.
 - d Has powers to undertake **paid advisory assignments** for public bodies whether within or outside Wales.
8. The 2006 Act re-established the role and functions of the Auditor General on a slightly revised basis. It introduced some new functions of the Auditor General, including that of granting **approvals to draw** from the Welsh Consolidated Fund.

How the work of the Wales Audit Office is funded

9. The Wales Audit Office undertakes a wide variety of audit and inspection work at Welsh public sector organisations. The main elements, together with the sources of funding, are set out in Table 2.

Table 2: Main activities of the Wales Audit Office and sources of funding

Activity	Scale	How funded
Value for money/performance audit work on the Assembly Commission, Assembly Government, Assembly Government sponsored and related public bodies, NHS Wales, and the further and higher education sectors. Support to the Audit Committee and other National Assembly committees. Correspondence from National Assembly members and from members of the public.	Total expenditure subject to value for money/performance audit approximately £15 billion. Briefing the Audit Committee in advance of its 20-24 meetings during the year; supplying draft reports; and advising on Assembly Government responses.	From the Welsh Consolidated Fund.

Activity	Scale	How funded
Audit of accounts prepared by the Assembly Commission, Assembly Government and Assembly Government sponsored and related public bodies, Local Health Boards (LHBs) and NHS trusts.	Nine accounts prepared by the Assembly Government. Over 60 other accounts, including 22 LHBs and 15 NHS trusts. (The expected NHS reconfiguration details are not known but any in-year change will lead to an increase in the accounts in the short term).	Fees charged to audited bodies.
Financial, value for money/performance audit and inspection (Wales Programme for Improvement) work on local government bodies.	Twenty-two unitary authorities; four police authorities; three fire and rescue authorities; four probation boards; three national park authorities; and around 750 community councils.	Fees charged to audited and inspected bodies. The Assembly Government part funds Wales Programme for Improvement work.
Grant certification work and other work undertaken by agreement.	Work predominantly undertaken at 22 unitary authorities, the Assembly Government and several Assembly Government sponsored bodies.	Funded by fees.

Note

Work of a cross-cutting nature, such as a study covering the Assembly Government and local government, could fall under more than one of the above activities and be funded by a combination of fees and money from the Welsh Consolidated Fund.

10. Around four fifths of the work is funded by fees charged to audited and inspected bodies. These fees are set so as to recover the full cost of the work involved.
11. The audit of NHS bodies is likely to change in consequence of the major reconfigurations announced by the Health Minister in September. There are very great uncertainties about the details of the reconfiguration and its impact on audit. The table above reflects therefore the information available at the time of writing.

Additional audit work arising in 2009-10

Constitutional arrangements

12. The 2006 Act created an executive government for Wales that is accountable to but legally separate from the National Assembly. This separation of the executive and legislative/scrutiny arms has given rise to new demand for the Auditor General to take reports and provide other evidence to the various scrutiny committees. The Audit Committee has increased its activity and is now meeting twice monthly compared to once a month previously. This increase in workload can be expected to continue and is absorbed within the request for resources for 2009-10.

Cross-cutting and whole service projects

13. The rationale for creating the Wales Audit Office as the single public audit body in Wales was to facilitate audit and scrutiny and to support improvement across sectors and across the whole of Wales. Recent examples include work on *Making the Connections*, delayed transfers of care, and promotion of physical activity. Such projects focus on themes or whole services – not on institutions. However, the funding for such work can be complex because a fee, or proportion of a fee, might have to be negotiated with numerous public bodies, all of whom play a part in delivering the whole service under review. The inadequacies of this funding mechanism constrain the Auditor General's ability to undertake such crucial projects.

Shared learning of Good Practice

14. The importance of shared learning within public services in Wales is clearly recognised in the Wales Audit Office Strategy. The work to share learning has generated a great deal of interest and support from public bodies in Wales. The concept is simple, the execution difficult, but the impact can be enormous – our approach involves identifying good practice, evaluating its transferability and facilitating implementation to improve public services in Wales.

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15. Work of this kind is not only beneficial in itself, but also demonstrates that the function of audit is by no means restricted to examining past mistakes and apportioning blame for them.
 16. Work done to date combined with the resulting guidance can be found on the Wales Audit Office website at the Good Practice Exchange and includes:
 - a occupational health;
 - b smarter ways of working;
 - c grants management;
 - d managing sickness absence; and
 - e fleet management.
 17. More good practice products covering topics such as land and buildings management, faster closure of financial accounts and governance arrangements in community councils are due to be issued in the near future.

Enhancement of IT

18. By nature of the work it undertakes, the Wales Audit Office has access to confidential and highly sensitive information. There are stringent measures already in place to protect such data but there is a need to constantly review and improve, as appropriate, the facilities to ensure that such data remains secure.
19. As part of this review, there is a need to upgrade the Wales Audit Office IT equipment to provide sophisticated encryption for all laptops and memory sticks. The cost of such an upgrade, approximately £65,000, is absorbed within the request for resources for 2009-10.

Responding to short-notice requests

20. The Auditor General has been able to respond promptly at very short notice to the National Assembly's request to undertake various reviews such as the inquiry into the ambulance services and participation in an observer capacity in the major programme of NHS restructuring. He has done so without seeking any additional funding but has had to postpone other important work. The ability to continue responding promptly to similar short-notice requests is something he regards as very desirable and this estimate reflects that continuing desire.

Introduction of International Financial Reporting Standards

21. At the behest of the Treasury, International Financial Reporting Standards (IFRS) are being introduced across the UK public sector over the next two years, bringing public accounts into line with the private sector. The introduction process itself and the continuing use of the new standards both involve significant additional work by auditors. The restatement of each public body's annual accounts must be audited on the new IFRS-compliant basis. Audit advice must also be provided on the appropriate accounting treatment for each extant Private Finance Initiative (PFI)/Public Private Partnerships (PPP) scheme and so on. Even after the complex initial conversion work is completed, the continuing application of the IFRS requirements each year will be more demanding than current standards and is therefore expected to add to annual financial audit costs (as has been the experience in the private sector).

Stronger corporate governance

22. The Auditor General has also made arrangements as to meet the requirements of existing anti-money laundering legislation and the Money Laundering Regulations 2007, which implement the Third Money Laundering Directive. The new regulations have placed the Auditor General under a specific obligation (enforced by criminal sanctions) to report suspicions and knowledge of dealings in the proceeds of crime to the Serious Organised Crime Agency. All client-facing staff of the Wales Audit Office therefore have to be thoroughly trained in the recognition of, and response to, instances of suspicion or knowledge of dealings with the proceeds of crime and in the operation of reporting systems.

Progress on the financial issues identified in last year's estimate submission to the Audit Committee

23. Last year's estimate outlined the critical issues impacting on the costs expected to be incurred by the organisation. This section presents an updated picture of the position in respect of those cost pressures and highlights areas of new or ongoing uncertainty.

Job evaluation

24. As the final stage in absorbing staff from the Audit Commission in Wales and the National Audit Office Wales, into a single framework of pay and conditions of service, the Wales Audit Office staff are going through a process of job evaluation. This process will formally assess salaries against the market and ensure that staff are treated fairly and equally. Phase 1 was completed in May 2008 and costs relating to the job evaluation to date were absorbed within the day-to-day operations of the organisation. The whole process should be completed by the end of the current financial year. Any costs relating to this process will also be absorbed within day to day operations.

Accommodation and facilities

25. Wales Audit Office staff are located throughout Wales, some at the offices of most local authorities, and others in our own offices in Carmarthen, Ewloe, Swansea and Cardiff. When the Wales Audit Office was established in 2005 the two separate buildings in Cardiff occupied by the National Audit Office and the Audit Commission in Wales were transferred to the Auditor General together with associated contractual commitments (eg, facilities management arrangements). The existing leases on both buildings will either expire, or breakout clauses can be exercised, by the end of 2009. It is prudent to avoid running such leases to the last moment and the Auditor General therefore acquired a new building during 2007-08, on a leasehold basis, to consolidate the existing Cardiff offices. The relocation happened in March 2008. The move has led to operational efficiency savings and cash savings (approximately £30,000 a year) in servicing one rather than two buildings.
26. The move to one Cardiff office has led to a number of wider benefits such as:
- Improved communication between all Cardiff-based staff and between them and those visiting Cardiff.
 - More efficient use of internal meetings: fewer formal meetings needed because informal communication has improved; those that are needed are quicker to convene and no longer involve staff walking from one building to another. Such gains are real, but, of their nature, unquantifiable.
 - A positive environmental impact. The Wales Audit Office has applied for the new office to be assessed using the Building Research Establishment Environmental Assessment Method (BREEAM) and although a very good result is expected nevertheless this is still subject to official confirmation. In addition the Wales Audit Office, as part of its environmental management system, is working towards the Green Dragon environmental standard.
 - Reduced energy consumption and water usage based on a single site occupancy.
27. Negotiations are currently underway to either sub-let or to withdraw from the existing leases. There may be dilapidation charges as a result of the leases ending. It is anticipated that these costs will be absorbed within day to day operations.
28. The estimate provides for some ongoing costs, such as lease costs, that may arise in 2009-10 due to transfer of operations from the existing buildings to the new building.

Staff pension costs

29. Auditor General staff are not civil servants but, in common with the staff of a number of other public sector bodies not staffed by civil servants, they are eligible for membership of the Principal Civil Service Pension Scheme (PCSPS). The scheme's managers finalised their quadrennial review, to 31 March 2007, of financing for the pension scheme, in January 2008. This has led to a reduction in the employer's pension contribution with effect from April 2009, which amounts to £120,000 and is recorded within the estimate.

Value Added Tax

30. As in last year's estimate submission, HM Revenue & Customs has yet to rule on the Audit Commission's practice of adding Value Added Tax (VAT) to its inspection fees chargeable to local government and NHS bodies, and offsetting this against VAT payable on supplies and services.
31. As an interim measure, HM Revenue & Customs has agreed that the existing arrangements can continue pending review. As last year, the Auditor General has therefore assumed that the existing arrangements will continue unchanged for the purpose of compiling the 2009-10 estimates and has not included any provision for additional irrecoverable VAT. Should any changes be necessary, the Auditor General will need to discuss with the Audit Committee whether the increased costs should be financed through additional fees, further funding from the Welsh Consolidated Fund or by a combination of both.

New uncertainties affecting the Wales Audit Office

32. The proposals from the Health Minister regarding the reconfigurations within the Health sector mean that it is likely that in the short term a large amount of additional work will be required. The work will arise due to the one-off creation of a number of part-year accounts and the impact of IFRS introduction. After the initial years of reorganisation, when audit work and therefore the associated fees are expected to rise, it might be expected that the income levels would fall back, but to what level is as yet uncertain. At present, it is very difficult to estimate what the impact of the NHS reconfiguration will be on fee income. The financial uncertainty resulting from the situation described above may have implications for future estimate submissions.

Efficiency gains absorbed within the estimate

33. The Auditor General has voluntarily adopted an annual one per cent efficiency gain target for the Wales Audit Office for the period 2006-07 to 2010-11, in line with that set for public sector bodies by the Assembly Government. Consistent with the interpretation of that target throughout the public service, the Auditor General has interpreted the target as being one per cent a year of expenditure. By the end of the 2007-08 financial year, cumulative audited savings of £545,000 had been generated, exceeding the target by £80,000.
34. The main areas of efficiency gains include the introduction of a new accounting and resource management system, and an integrated HR and Payroll system. These systems are delivering recurring cash savings of approximately £100,000 a year and have improved the quality of services provided. Also, the Wales Audit Office has converted a number of agency staff onto permanent flexible staff contract terms. Not only does this provide for greater continuity, efficiency, and a more highly trained pool of staff, it has also delivered savings in the amounts which would otherwise have been payable in commission to recruitment agencies. Included in the cumulative audited savings, as noted above, are the one per cent efficiency savings which have been absorbed in the daily fee rate increases, which has amounted to approximately £170,000 a year.

Detailed analysis of estimated income and expenditure for 2009-10

35. Table 3 provides a detailed estimate of the Wales Audit Office's income and expenditure for 2009-10 compared with estimated figures for 2008-09, including a breakdown of the main areas of expenditure.

Table 3: Detailed estimate of Wales Audit Office income and expenditure 2009-10

		2008-09		2009-10	
Income		£million	£million	£million	£million
Audit and inspection of local government bodies	(i)		9.60		10.05
Wales Programme for Improvement grant			1.50		1.40
Certification of grant claims	(ii)		2.30		2.40
Audit of the Assembly Government, Assembly Government sponsored and related public bodies	(iii)		1.20		1.25
Audit of NHS Wales bodies	(iv)		5.70		5.95
Other	(v)		0.40		0.60
Total income			20.70		21.65
Expenditure					
Staff costs and related costs	(vi)		15.70		16.287
Fees payable to appointed auditors, agency contractors and consultants	(vii)		5.00		5.23
Accommodation and related costs	(viii)	1.30		1.38	
Supplies and services	(ix)	1.30		1.40	
Corporate services	(x)	2.10		2.20	
Capital charges		0.20	4.90	0.20	5.18
Total revenue expenditure			25.60		26.697
Capital expenditure			0		0
Net request for resources			4.90		5.047
Net cash requirement			4.90		5.02

Notes

(i) Audit and inspection income is expected to rise in line with inflation, plus relatively uncertain additional amounts for new accounting requirements, dependent on the performance of local government bodies.

(ii) Grant certification is expected to increase in line with inflation.

(iii) The Audit of the Assembly Government, Assembly Government sponsored and related public bodies is expected to increase broadly in line with inflation.

(iv) The audit fee is expected to be in line with inflation.

(v) Other income is expected to rise due to higher cash balances and investment rates.

(vi) Staff costs and related costs are expected to increase in line with the anticipated consumer price index of around 3.7 per cent. This figure should not be interpreted as a forecast of pay settlements because it includes wider costs going beyond payroll.

(vii) Fees payable to appointed auditors and contractors are expected to increase in line with inflation, plus relatively uncertain additional amounts for new accounting requirements dependent on the performance of local government bodies.

(viii) Accommodation costs are anticipated to increase overall by £80,000 even though savings have been realised due to transferring to one headquarters (paragraph 25) due to the expected higher energy costs.

(ix) Supplies and services are expected to increase in real terms by £70,000 due to forecast increases in work volumes.

(x) Corporate services costs are expected to increase in line with inflation.

(xi) Reconciling income to Table 1.

Accruing resources other than under Part 1 and Section 33 of the Local Government Act 1999, and Part 2 of the Public Audit (Wales) Act 2004 consists of:

	2008-09 £million	2009-10 £million
Certification of grant claims	2.30	2.40
Audit of the Assembly Government, Assembly Government sponsored and related public bodies	1.20	1.25
Audit of NHS Wales bodies	5.70	5.95
Other	0.10	0.15
Total	9.30	9.75

Table 4: Reconciliation of resource requirement to cash drawing requirement from the Welsh Consolidated Fund

	2008-09 £million	2009-10 £million
Net request for resources	4.90	5.047
Movement in year-end debtors, creditors and deferred income	0.20	0.173
Capital charges (interest and depreciation)	(0.20)	(0.20)
Net cash requirement	4.90	5.02

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