

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

December 2019



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

December 2019



About the Committee

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

Committee Chair:



Llyr Gruffydd AM
Plaid Cymru

Current Committee membership:



Rhun ap Iorwerth AM
Plaid Cymru



Alun Davies AM
Welsh Labour



Mike Hedges AM
Welsh Labour



Rhianon Passmore AM
Welsh Labour



Nick Ramsay AM
Welsh Conservatives



Mark Reckless AM
Brexit Party

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Conclusions and recommendations

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 session:

- Annual Report and Accounts 2018-19;
- Final Audit Findings Report - Year Ended 31 March 2019;
- Annual Plan 2019-20;
- Interim Report – An assessment of progress made against our 2019-20 Annual Plan during the period 1 April to 30 September 2019. Page 8

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Recommendation 9. The Committee recommends that the Wales Audit Office provides an update on the replacement of its financial audit system, including any expected savings and efficiencies from this investment. Page 43

Recommendation 10. The Committee recommends that, prior to the Fee Scheme 2020-21 being laid before the Assembly, details are provided to the Finance Committee as to how the £240,000 increase in fee income relates directly to the cost of delivering the Auditor General’s audit work. Page 43

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.

Accountability and Governance Arrangements

3. The Act confers a number of functions on the National Assembly for Wales (the Assembly). Under Section 28 of the Act, the Assembly 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 Assembly 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

4. On 7 November 2019, the Committee examined the following publications and took evidence from the Auditor General, Adrian Crompton, Chair of the WAO Board, Isobel Everett, and two officials from the WAO on the following publications:

- Estimate of the income and expenses for the year ended 31 March 2021;

¹ Public Audit (Wales) Act 2013

² National Assembly for Wales, Standing Orders of the National Assembly for Wales

³ Business Committee minutes, 1 October 2013

- Interim Report - An assessment of progress made against our 2019-20 Annual Plan during the period 1 April to 30 September 2019;
- Annual Report and Accounts 2018-19;
- Final Audit Findings Report - Year Ended 31 March 2019;
- Annual Plan 2019-20

5. The Committee also considered the WAO's draft fee scheme 2020-21.

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 session:

- Annual Report and Accounts 2018-19;
- Final Audit Findings Report - Year Ended 31 March 2019;
- Annual Plan 2019-20;
- Interim Report - An assessment of progress made against our 2019-20 Annual Plan during the period 1 April to 30 September 2019.

2. Annual Report and Accounts 2018-19

6. The Annual Report and Accounts for 2018-19⁴ were laid before the Assembly on 14 June 2019. The Auditor General prepared the Accounts for 2018-19 as the Accounting Officer for the WAO, in accordance with Schedule 1 of the Act. The Auditor General and the Chair of the WAO jointly prepared the Annual Report for 2018-19, in accordance with Schedule 2 of the Act.⁵

7. The Annual Report and Accounts contains the Performance Report, the Accountability Report and the Financial Statements.

8. The Auditor General's overview notes that, in 2018-19, the WAO delivered its entire programme of audit and also made substantial progress in transforming the way it delivers that programme. He goes on to say:

“Looking forward, we aim to build on the momentum gained from our work in 2018-19 and unleash our full potential as a driver of change and improvement at the heart of public services by achieving the ambitions laid out in our new Annual Plan.”⁶

9. Noting that the Auditor General is hoping to “unleash the potential” of his office, the Committee questioned what he thought was holding the organisation back. The Auditor General explained:

“I think that we do a fantastic job at the moment in terms of delivering our statutory responsibilities and delivering the suite of studies and support and programmes that we do at the moment.

Where we're less good, in my view, is seeing the synergies and connections that exist between all of that—seeing the picture that emerges because of our unique perspective across the whole of the public service...I think that there's an awful lot more that we can do in surfacing much of the richness of data and insight that exists within our audit of accounts work. So, those are the areas that I want to unleash.”⁷

10. The Auditor General highlighted that the annual plan and ambitions of the Board focus on “raising the visibility and impact of the organisation and the work

⁴ [Annual Report and Accounts 2018-19](#)

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

⁶ [Annual Report and Accounts 2018-19, page 9](#)

⁷ Finance Committee, Record of Proceedings, 7 November 2019, paragraphs 153-154

that we deliver” and doing more to support the Assembly, public bodies and the wider public. He also indicated that within the organisation the Board has received “a really positive response to that new direction”.⁸

Performance

11. The Annual Report notes that the organisation achieved 11 of its 26 performance indicators in 2018-19 (compared to 22 of 35 in 2017-18⁹).

12. Three measures are classified as “red”, meaning significant improvement is required. Five other measures require improvement and the WAO was close to achieving its target for another seven.¹⁰

13. One indicator requiring significant improvement was “Leadership and Culture” (relating to data from its staff survey conducted in October 2018). However, the Annual Report notes that the overall score from its staff survey was 67 per cent, which was “strong in comparison to the CSPS [Civil Service People Survey] average”.¹¹

14. When challenged on the organisation’s performance in 2018-19, given the achievement of only 11 of its 26 performance targets, the Chair of the WAO said:

“...inevitably, with the KPIs, some of them mean more...if we miss the target on website hits, for instance, I’m not going to worry. I’m going to worry, though, if quality dips. I’m very keen to get better KPIs around impact.”¹²

15. In relation to the indicator that only 42 per cent of staff felt positive about leadership and change management, the Chair of the WAO explained that this result was in the context of a new auditor general and in anticipation of the Board’s vision and ambitions.¹³

16. The Auditor General felt that the responses to the staff survey were underpinned by “a lack of clarity in responsibility” and “slightly cluttered structures in our leadership and management”.¹⁴

⁸ Finance Committee, Record of Proceedings, 7 November 2019, paragraphs 155-156

⁹ [Annual Report and Accounts 2017-18, page 16](#)

¹⁰ [Annual Report and Accounts 2018-19, page 14](#)

¹¹ [Annual Report and Accounts 2018-19, page 33](#)

¹² Finance Committee, Record of Proceedings, 7 November 2019, paragraph 160

¹³ Finance Committee, Record of Proceedings, 7 November 2019, paragraph 163

¹⁴ Finance Committee, Record of Proceedings, 7 November 2019, paragraph 164

17. The Auditor General explained that, as a result of the staff survey, he has changed the membership of the senior leadership team to reflect the overall balance and structure of the organisation. He continued:

“I’ve also brought onto that team a number of staff who are more junior, at below director level. Indeed, one of them is one of our graduate trainees. So, I opened up an expression of interest exercise to all staff in the organisation to join the executive leadership team—without pay, but just to contribute to the organisation. I was bowled over by the response to that, and in the early months of observing that myself, I’ve been delighted by the dynamism and energy and change of atmosphere that that’s brought.”¹⁵

18. With reference to change management, the Auditor General thought the staff survey was “absolutely right” and that the organisation has “not been great at managing change in a coherent way”, highlighting that a new change programme manager had been appointed.¹⁶

19. In terms of the survey results relating to learning and development arrangements, the Auditor General said he will be disappointed if the figures do not improve, given the effort put in over the last year.¹⁷

20. The Committee sought the Auditor General’s views on the culture of the WAO and his own leadership and management style. Acknowledging that the nature of the WAO’s work means it is a hierarchical organisation, he explained that he is trying “to empower people more to take decisions and act on their own initiative”:

“The quality of individual we have in the organisation from top to bottom is exceptional and I believe we’ve got plenty of control, structure and governance in place to trust people a little more than we have in the past, and that’s a big thrust of what we’re trying to achieve at the moment. And that, in turn, of course, delivers efficiencies.”¹⁸

¹⁵ Finance Committee, Record of Proceedings, 7 November 2019, paragraph 165

¹⁶ Finance Committee, Record of Proceedings, 7 November 2019, paragraph 167

¹⁷ Finance Committee, Record of Proceedings, 7 November 2019, paragraph 173

¹⁸ Finance Committee, Record of Proceedings, 7 November 2019, paragraph 180

Governance

WAO Board

21. The WAO Board completed a self-assessment of its effectiveness with results considered in March 2019, the Annual Report notes:

“It measured itself as moderately to highly effective across all aspects of the assessment and was satisfied overall that the results revealed nothing unexpected. A number of actions were already in hand to address some of the areas identified for improvement, notably in respect of the development of the performance management arrangements around the new Annual Plan.”¹⁹

22. The Annual Report also suggests that there is scope to improve the breadth and timeliness of the information the Board receives²⁰ (this was also stated in the Annual Report and Accounts 2017-18).²¹

23. The Chair of the WAO told the Committee that the Board’s self-assessment identified the need to further improve the link between its strategy and performance, which has resulted in a reworked annual plan and a review of key performance indicators. The self-assessment also highlighted that “the board wasn’t as clear as it could be about its risk appetite”, which has led to the agreement of a strategic risk register “that is considerably refreshed”.²²

24. The Chair of the WAO also mentioned that there have previously been tensions in relation to the Board’s role with stakeholders:

“The board was very much asked not to interact with stakeholders because it could compromise the auditor general role. Adrian is far more relaxed; he knows he has, I think, a competent board, but we’re going to try and codify that more specifically through the stakeholder strategy.”²³

¹⁹ [Annual Report and Accounts 2018-19, page 58](#)

²⁰ [Annual Report and Accounts 2018-19, page 57](#)

²¹ [Annual Report and Accounts 2017-18, page 56](#)

²² Finance Committee, Record of Proceedings, 7 November 2019, paragraph 213

²³ Finance Committee, Record of Proceedings, 7 November 2019, paragraph 219

Corporate governance

25. The Auditor General’s Management Committee provides him with advice and guidance. The Annual Report notes:

“Towards the end of the year I announced proposals to change the membership and refocus the purpose of the Management Committee and expect to implement those changes in 2019-20.”²⁴

26. The Auditor General explained that refocusing the Management Committee sought to address “cumbersome and cluttered” management structures, “slow decision making” and “a lack of clarity and accountability”, adding:

“The step that I took myself to bring in the employee membership was designed just to give me an entirely fresh set of voices around the table, some fresh perspective and a change in the environment of that group, but also the message that it sends to the organisation as a whole that the senior leadership team is not, in some way, a bunch of the senior staff who lock themselves away in a room and take great decisions.”²⁵

27. Whilst the changes have only been in place since the early part of the summer, the Auditor General signalled that the new arrangements are “moving in the right direction”.²⁶

Risk and internal audit

28. The Annual Report notes that the WAO’s internal auditors (PricewaterhouseCoopers LLP) issued six internal audit reports in 2018-19. One of those reports, “cyber security governance and ICT assets”, was rated as a high risk and the Annual Report notes:

“The cyber security governance is not formalised, and the risk is addressed in a somewhat ad hoc fashion.”²⁷

29. The Director of Corporate Services told the Committee that the recommendations from the review have resulted in the Board receiving training and establishing a risk appetite around cyber security, as well as general awareness raising and training for staff. He also highlighted a third party review of

²⁴ [Annual Report and Accounts 2018-19, page 53](#)

²⁵ Finance Committee, Record of Proceedings, 7 November 2019, paragraph 202

²⁶ Finance Committee, Record of Proceedings, 7 November 2019, paragraph 204

²⁷ [Annual Report and Accounts 2018-19, page 62](#)

systems and procedures, alongside a self-assessment against guidance from the National Cyber Security Centre. As a result, the WAO's Audit and Risk Assurance Committee determined a medium risk level overall. However, he acknowledged the "very fast moving, dynamic environment around cyber security" and the request for additional funding in the Estimate 2020-21.²⁸

Staff and Remuneration

Voluntary Exit Scheme

30. The Annual Report notes that the WAO's total gross revenue expenditure in 2018-19 was £240,000 (1.1 per cent) lower than the approved Estimate for the year, indicating that it used savings on staffing and other costs of £384,000 generated during the year to fund a voluntary exit scheme (VES). The Annual Report notes that the VES "aligned with longer-term workforce planning commitments" and estimated that future annual savings of £242,000 would be generated.²⁹

31. There were eight exit packages agreed in 2018-19 (compared with seven exit packages in 2017-18).³⁰

32. One post subject to VES was valued at £161,000. The Auditor General and WAO anticipate that savings associated with this exit will result in the cost of the compensation payment being recouped within 17 months.³¹

33. During last year's scrutiny of the Annual Report 2017-18, the former Auditor General and WAO indicated that there had been issues with exits valued above £95,000 which had impacted on the amount of Management Committee scrutiny of the decision to agree those VES packages. They explained that there would be a post-project learning exercise to consider those issues.³²

34. In terms of the objectives behind the VES and how this demonstrates the best use of resource, the Chair of the WAO said:

"...there has to be a rigorous business case produced, because any such exit has to align with the auditor general's workforce requirements. Those two senior staff left and have not been replaced. The annual savings from the two are £230,000 per year, and in both cases, payback

²⁸ Finance Committee, Record of Proceedings, 7 November 2019, paragraphs 223-228

²⁹ [Annual Report and Accounts 2018-19, page 30](#)

³⁰ [Annual Report and Accounts 2018-19, page 80](#)

³¹ [Annual Report and Accounts 2018-19, page 79](#)

³² [Finance Committee, Record of Proceedings, 5 July 2018, paragraph 39](#)

was achieved in less than 16 months. It is worth saying that all our exit packages are absolutely in line with the civil service compensation scheme.”³³

35. The Chair of the WAO confirmed that all business cases are considered by the Executive Leadership Team, with the WAO’s Remuneration and HR Committee scrutinising high-value exits and making a recommendation to the Board.³⁴

Staff structure

36. The overall number of staff at the WAO has increased by nine to 264 when compared to 2017-18. This includes a decrease in permanent staff and an increase in those on fixed-term contracts. The Annual Report notes that the overall increase in staff numbers reflects additional graduate trainees and apprentices recruited during the year on fixed-term training contracts.³⁵

37. The Annual Report states that 10 per cent of the WAO’s work programme is resourced by contractors, noting that the WAO has taken the decision not to invite tenders for this work beyond 2020.

38. The factors driving that decision include a projected reduction in the volume of public sector audit work, obligations under the Welsh Language Standards and uncertainty about local government structures.³⁶

39. The WAO also made the Committee aware in September 2019 of its intention to commission its external auditors to conduct a value for money study on its travel allowances scheme.

Committee view

40. The Committee notes that the WAO successfully delivered its audit programme in 2018-19 and welcomes the Board’s focus on raising the visibility and impact of the organisation. The Committee is encouraged by the progress made during the Auditor General’s first year in office and his approach to promoting a culture of empowerment within the WAO.

³³ Finance Committee, Record of Proceedings, 7 November 2019, paragraph 232

³⁴ Finance Committee, Record of Proceedings, 7 November 2019, paragraph 233

³⁵ Annual Report and Accounts 2018-19, page 81

³⁶ Annual Report and Accounts 2018-19, page 37

41. Whilst it is disappointing that only 11 of the 26 performance indicators were achieved in 2018-19, recognising that several were only narrowly missed, the Committee welcomes the actions taken to address the worst performing indicators. In particular, the Committee notes the re-alignment of the senior leadership team and is encouraged by the inclusion of staff below Director level and the perspective that may bring. The Committee looks forward to seeing the impact of these new arrangements.

42. Noting the results of the Board's self-assessment, the Committee acknowledges the actions taken to address issues relating to the link between its strategy and performance, risk appetite and relationship with stakeholders.

43. The Committee welcomes the measures taken to address the internal audit report, which rated cyber security governance and ICT assets as high risk, and recognises that reviewing and reinforcing cyber security is ongoing.

44. The Committee notes the evidence provided in relation to the annual savings from two high-value voluntary exits in 2018-19. The Committee believes that transparency around the objectives and savings from voluntary exit schemes is key to demonstrating the best use of resource.

Conclusion 2. The Committee is content with the Annual Report and Accounts 2018-19.

Recommendation 1. The Committee is pleased that a more inclusive approach is emerging in relation to the Board's interactions with stakeholders and would welcome an update on how the Stakeholder Strategy is improving the Board's understanding of its stakeholders.

Recommendation 2. The Committee recommends that future Annual Reports set out the long term benefits, including ongoing savings, of any voluntary exit scheme payments.

3. Final Audit Findings Report – Year Ended 31 March 2019

45. The Final Audit Findings Report³⁷ summarises the key findings of the auditors of the WAO, RSM UK Audit LLP, in connection with the audit of the financial statements of the WAO in respect of the year ended 31 March 2019. This is a requirement under Schedule 1 of the Act.³⁸

46. The external auditors' report provides a "clean" opinion of the WAO's accounts.

47. The audit considered three areas regularly considered:

- management override of internal controls;
- income recognition, work in progress and deferred income;
- reputation.

48. In addition, the audit examined Brexit financial reporting considerations and the new accounting system. No issues were identified with these areas during the course of the audit.

49. Three areas were identified by the external auditors as "deficiencies in internal control". These are outlined below, alongside the WAO's actions to address that issue:

- **Notification of fee changes:** One incidence where the finance team were not notified of an agreed fee increase resulting in an understatement of revenues. The WAO intends to strengthen this process.
- **Information held on personal laptops:** The external auditors noted that there was scope to clarify the WAO's information security policy. The WAO will review its policies and communicate to staff.
- **Register of interests:** Some declarations had been obtained but were not yet published online. The WAO's Law and Ethics Team is collating

³⁷ RSM UK Audit LLP Final Audit Findings Report - Year Ended 31 March 2019

³⁸ Public Audit (Wales) Act 2013

declarations for relevant individuals with a view to publishing in June 2019.³⁹

50. The external auditors identified misstatements with an aggregate value of £122,000 (net), adjustments for which were reflected in the financial statements 2018-19.⁴⁰

Committee view

Conclusion 3. The Committee is content with the Final Audit Findings report from RSM UK Audit LLP, which concluded that the 2018-19 accounts provide a true and fair view of the state of the Wales Audit Office's affairs.

Recommendation 3. The Committee recommends that the Wales Audit Office provides an update in its next Annual Report on the actions taken to address the issues identified in the Final Audit Findings report as deficiencies in internal control.

³⁹ RSM UK Audit LLP Final Audit Findings Report - Year Ended 31 March 2019, pages 11-12

⁴⁰ RSM UK Audit LLP Final Audit Findings Report - Year Ended 31 March 2019, page 10

4. Annual Plan 2019-20 and Interim Report 2019-20

51. The Act requires the Auditor General and the WAO to publish an Annual Plan and at least one Interim Report each year.⁴¹

52. The Annual Plan 2019-20⁴² outlines the programmes of work during the year and was laid before the Assembly on 28 March 2019.

53. The Interim Report⁴³ 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 2019-20 and provides information on key performance indicators. The Interim Report was laid before the Assembly on 25 October 2019.

Annual Plan

54. The Annual Plan 2019-20 (the first authored by the current Auditor General) sets out the ambitions and key performance indicators for the Auditor General and WAO, and details the work planned to meet objectives.

55. The WAO's press release on the publication of the Annual Plan reiterates the Auditor General's desire to "unleash" the full potential of the WAO. The Chair of the WAO also referred to the Annual Plan as the "most ambitious yet".⁴⁴

56. The Annual Plan provides details of the performance targets for the year and notes that the Auditor General and WAO intend to undertake a detailed review of performance indicators and targets during 2019-20. There are 20 indicators included within this Annual Plan⁴⁵, compared to 27 in 2018-19⁴⁶ and 35 in 2017-18⁴⁷. This includes a reduction in the number of indicators that relate to the staff survey (the worst performing area of the 2018-19 indicators).

57. The Committee queried why the key performance measures have been altered for the second consecutive year, particularly in relation to the removal of

⁴¹ [Public Audit \(Wales\) Act 2013](#)

⁴² [Auditor General for Wales and Wales Audit Office: Annual Plan 2019-20](#)

⁴³ [Interim Report, October 2019](#)

⁴⁴ [Press Release: Plan unveiled to make the Wales Audit Office bolder and more ambitious, April 2019](#)

⁴⁵ [Auditor General for Wales and Wales Audit Office: Annual Plan 2019-20, appendix 7](#)

⁴⁶ [Auditor General for Wales and Wales Audit Office: Annual Plan 2018-19, appendix 7](#)

⁴⁷ [Auditor General for Wales and Wales Audit Office: Annual Plan 2017-18, appendix 7](#)

two staff survey measures previously requiring significant improvement. The Chair of the WAO explained that eleven themes will be tracked within the twelfth indicator (Percent positive annual staff survey thematic scores) and assured the Committee that it “will have the opportunity to look at the granularity in next year’s annual report and accounts”.⁴⁸

58. In terms of trying to compare the staff survey indicators year on year following the indicator changes, the Chair of the WAO said:

“It’s not far off, because that’s the benefit of our going with the civil service staff survey, on which the board, as well as the management team, has a full in-depth session probing all of those results, seeing exactly what they mean. You’ll probably find there’s about a 95 per cent correlation with the questions, year on year.”⁴⁹

Interim Report

59. The Interim Report covers the period 1 April to 30 September 2019 and assesses the extent to which the Auditor General and WAO have been consistent with the Annual Plan 2019-20 and the progress they have made toward achieving priorities and key performance indicators.

60. The Interim Report notes that work is progressing in line with the Annual Plan:

“We confirm that there has been no need to deviate significantly from the work programmes laid out in our 2019-20 Plan. All planned work has either been delivered, or is progressing to plan, which is a credit to the professionalism, dedication and hard work of the staff of the Wales Audit Office and the cooperation that we receive from the bodies that we audit.”⁵⁰

61. The Interim Report contains some information on progress against key performance indicators (where possible). Of the new suite of 20 indicators, 18 are measurable at the point in time that the Interim Report has been produced:

- 12 (66.7 per cent) achieved;

⁴⁸ Finance Committee, Record of Proceedings, 7 November 2019, paragraphs 240-244

⁴⁹ Finance Committee, Record of Proceedings, 7 November 2019, paragraph 246

⁵⁰ [Interim Report, October 2019, page 3](#)

- 2 (11.1 per cent) close to being achieved;
- 4 (22.2 per cent) require improvement.⁵¹

62. The Committee asked whether the witnesses were satisfied with the progress in year, noting that the majority of performance indicators were on target. The Chair of the WAO stated:

“Well, for 2019-20, absolutely. I actually think it’s down to the dedication, hard work and professionalism of the staff we’ve got, and, as well, the co-operation we do receive from the bodies we do audit. But I would say, looking forward to 2020-21, our agenda is still pretty ambitious.”⁵²

Committee view

63. Whilst noting the reassurances given in relation to tracking the WAO’s staff survey results year on year, the Committee remains concerned that regularly changing key performance measures may compromise its ability to identify trends and compare the organisation’s performance between years.

64. Bearing in mind the poor performance in certain themes within the staff survey and identified in the key performance indicators for 2018-19, the Committee is keen for future annual reports to show progress in this area.

Conclusion 4. The Committee notes the Annual Plan 2019-20 and Interim Report 2019-20 and is content with both of these documents.

Recommendation 4. The Committee recommends that the Wales Audit Office’s next annual report clearly sets out comparable information for its 2018-19 indicators alongside the results for its revised indicators in 2019-20, to ensure that the worst performing measures can be tracked.

Recommendation 5. The Committee recommends that, when reviewing key performance measures, the Wales Audit Office should ensure that the ability to track future performance against the previous year is protected.

⁵¹ Interim Report, October 2019, pages 13-14.

⁵² Finance Committee, Record of Proceedings, 7 November 2019, paragraph 250

5. Estimate of the income and expenses for the year ended 31 March 2021

65. The Estimate of the income and expenses for the year ended 31 March 2021 (the Estimate) was jointly prepared by the Auditor General and the Chair of the WAO and laid before the Assembly on 26 October 2019, in accordance with Section 20(1) of the Act.⁵³

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

“The responsible committee [Finance Committee] under Standing Order 18.10(i) must consider and lay before the Assembly, no later than 22 November, a report including the estimate, with any modifications which the responsible committee, having consulted and taken into account any representations made by the Auditor General and the Wales Audit Office, considers appropriate.”⁵⁴

Context

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

⁵³ [Estimate of the Income and Expenses of the Wales Audit Office 2020-21](#)

⁵⁴ [National Assembly for Wales, Standing Orders of the National Assembly for Wales, Standing Order 20.22](#)

- 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.

68. Following the evidence session the Committee asked the Auditor General and Chair of the WAO to reflect on the initial Estimate and consider whether changes could be made to reduce the call on the WCF, closer to the level of the other directly funded bodies.

69. Subsequently, on 15 November 2019 the Auditor General and WAO submitted a modified Estimate for 2020-21, which is laid before the Assembly alongside this report (see Annex 2). Further correspondence between the Committee and Auditor General and WAO seeking clarification in relation to the modified Estimate is also included in Annex 2.

Overview of the Estimate

The original Estimate

70. The original Estimate 2020-21 requested an increase in funding from the Welsh Consolidated Fund (WCF) of £615,000 (7.8 per cent), comprising a £565,000 (7.4 per cent) increase to revenue and a £50,000 (23.8 per cent) increase to capital. If the biennial increase in National Fraud Initiative (NFI) funding of £130,000 is included, the total increase would be £745,000 (9.5 per cent). This would increase the WAO's funding from the WCF from £7.9 million in 2019-20 to £8.6 million in 2020-21.⁵⁵

71. The WAO is primarily funded via fee income from audited bodies. The original Estimate outlined that the Auditor General and WAO anticipated a reduction in fee income in 2020-21, from £14.5 million to £13.8 million. Meaning that the budget from fee income and WCF revenue funding for the WAO would reduce by £16,000 (0.1 per cent) to £22.1 million compared to 2019-20.⁵⁶

⁵⁵ Estimate of the Income and Expenses of the Wales Audit Office 2020-21

⁵⁶ Estimate of the Income and Expenses of the Wales Audit Office 2020-21, pages 12-13

72. The original Estimate noted that the Auditor General and WAO are “acutely aware of our responsibility to other parts of the public sector to contain our own operating costs and the fees we charge”.⁵⁷

73. The original Estimate requested an increase in revenue funding in the following four areas:

- £95,000 – For the transfer of audit funded work to WCF funded work
- £250,000 – Increase in data analytics and digital and cyber security
- £100,000 – Expansion of the graduate programme
- £120,000 – As a contribution to support a pay agreement.⁵⁸

74. The original Estimate included a £50,000 increase in capital funding to support corporate systems (£30,000) and the WAO’s Estates strategy (£20,000).⁵⁹

75. In terms of how the Committee’s Statement of Principles had been taken into account in formulating the Estimate, the Chair of the WAO explained:

“...the board took the principles extremely seriously when developing the estimate, and we do lay out in the appendix to the estimate how we believe we’ve met those principles. Our budget requests are limited to new initiatives and a contribution to the pay deal. There’s also a value-for-money statement in the estimate. Although we are requesting additional consolidated fund money, it should be seen in the context that our overall budget has decreased, and that’s despite inflationary pressures and the new proposals.”⁶⁰

76. When challenged on the requested increase in funding from the WCF, having acknowledged their responsibility to the public sector to contain operating costs, the Auditor General explained that they are “continually trying to make judgments about whether particular pieces of work we do are more appropriately funded through the fee regime or through the consolidated fund”. He added:

“...next year, the cost of our work will go down. Within that reduction, an increase in our call on the consolidated fund, yes, but that’s more than offset by a reduction in fees...my hope, very much, is that we deliver

⁵⁷ [Estimate of the Income and Expenses of the Wales Audit Office 2020-21, page 6](#)

⁵⁸ [Estimate of the Income and Expenses of the Wales Audit Office 2020-21, page 20](#)

⁵⁹ [Estimate of the Income and Expenses of the Wales Audit Office 2020-21, page 31](#)

⁶⁰ Finance Committee, Record of Proceedings, 7 November 2019, paragraph 13

with that money more and some different outputs that will be more impactful and important.”⁶¹

77. The WAO’s Director of Finance and HR indicated that fee income is expected to fall by £240,000, resulting in fewer charges to public services.⁶²

The modified Estimate

78. The modified Estimate reduces the call on the WCF by £395,000 compared to the original Estimate.⁶³

79. Including NFI funding, this equates to a £350,000 (4.4 per cent) increase in WCF funding compared to 2019-20, compared to an increase of £745,000 or 9.5 per cent in the original Estimate. When excluding NFI, this is a £220,000 (2.8 per cent) increase compared to the increase of £615,000 or 7.8 per cent proposed in the original Estimate.

80. The modified Estimate reduces the requested increase in revenue funding to the following:

- £95,000 – For the transfer of audit funded work to WCF funded work
- £225,000 – Increase in data analytics and digital and cyber security (£25,000 less than the original Estimate)
- £120,000 – As a contribution to support a pay agreement.

81. The modified Estimate removes the £100,000 funding requested in the original Estimate for the expansion of the WAO’s trainee and apprentices programme.

82. The capital programme has also been reviewed, with £30,000 of ICT investment being deferred to reduce the call on the WCF.

⁶¹ Finance Committee, Record of Proceedings, 7 November 2019, paragraph 21

⁶² Finance Committee, Record of Proceedings, 7 November 2019, paragraph 33

⁶³ Annex 2 – Correspondence with the Auditor General and Chair of the Wales Audit Office

Revenue allocation increases

Transfer of funding from fee funded work

83. The Auditor General and WAO are proposing a switch of £180,000 in resource from fee funded audit work to WCF funded activity. This proposal remains in the modified Estimate.

84. The Estimate notes:

“We will use that specialist capacity to provide the National Assembly and others with assurance and insight from our annual accounts work that we would otherwise not be able to deliver. Importantly, there will be no net increase in our costs or funding to achieve this.”⁶⁴

85. The Estimate states that this transfer will provide added flexibility to:

“...enable us to retain specialist audit capacity and expertise freed-up through audit efficiencies, to redeploy to new areas of work and achieve greater impact.”⁶⁵

86. The resource would enable the WAO to “undertake annual pieces of work to explore particular themes arising from [its] accounts work” and the Estimate explains that this could be examinations of voluntary severance schemes or asset management across the public sector, among other matters.⁶⁶

87. The Estimate also notes that “this means the overall cost of the work we undertake will not increase (it has no net impact on the Welsh block)”.⁶⁷

88. The Estimate outlines that “Audit work funded other than from fees” is due to increase by £95,000 compared to 2019-20.⁶⁸ The £180,000 switch from fee funded audit work to WCF funded activity is partially offset by a reduction in funding of £85,000 that was allocated for a “Brexit Review” in 2019-20.⁶⁹ The Estimate notes:

“Increasingly, other Assembly committees are drawing on, or commissioning, Wales Audit Office studies and the specialist

⁶⁴ Estimate of the Income and Expenses of the Wales Audit Office 2020-21, page 6

⁶⁵ Estimate of the Income and Expenses of the Wales Audit Office 2020-21, page 17

⁶⁶ Estimate of the Income and Expenses of the Wales Audit Office 2020-21, page 23

⁶⁷ Estimate of the Income and Expenses of the Wales Audit Office 2020-21, page 17

⁶⁸ Estimate of the Income and Expenses of the Wales Audit Office 2020-21, page 20

⁶⁹ Estimate of the Income and Expenses of the Wales Audit Office 2020-21, page 23

knowledge and expertise of our staff... Our aim is to extend further the range and depth of support we provide to the National Assembly and this Estimate includes an element of funding to enable this.”⁷⁰

89. During his pre-nomination hearing with the Committee, the Auditor General discussed his views on the relationship with the office and the Assembly. He noted:

“So, another feature that I think is a good one is the developing willingness to share examinations that emanate from the audit office with other committees so that they can use it as a platform for their work, not solely channel everything through the PAC [Public Accounts Committee].”⁷¹

90. Earlier in that session the Auditor General stated “I think we need too to look at ways to make best use of all of the resource that we already have available”.⁷²

91. When asked what the impact would be on the organisation if it did not receive the additional funding from the WCF, the Auditor General said:

“...we would be faced—the board and I—with a conversation about whether we’d simply drop some of our ambitions and not do that work, whether we’d consider shifting an element of that to the fee regime rather than the consolidated fund, or whether we’d simply rein back on our ambitions.”⁷³

92. The Committee sought clarification on the statement in the original Estimate that the resource switch will have “no net impact on the Welsh Block”, and whether this was on the assumption of an equivalent reduction in the funding for relevant audited bodies. The Auditor General explained:

“In terms of the overall impact on the block, then, for there to be absolutely zero impact on the block, then the logic would be, yes, that money is rebalanced. I think it’s important, though, to keep this in perspective. You know, the £180,000 has been arrived at by us looking hard at every one of the audits that we will undertake next year, as we always do. In around a dozen or so of the larger audits, the Welsh Government, some of the larger local authorities and health bodies, we

⁷⁰ [Estimate of the Income and Expenses of the Wales Audit Office 2020-21, page 22](#)

⁷¹ [Finance Committee, Record of Proceedings, 31 January 2018, paragraph 82](#)

⁷² [Finance Committee, Record of Proceedings, 31 January 2018, paragraph 69](#)

⁷³ [Finance Committee, Record of Proceedings, 7 November 2019, paragraph 23](#)

believe that we can deliver our audit work next year for less, and the £180,000 is the summation of those individual elements. For individual bodies, you're talking a reduction in fees of between £10,000 and £20,000."⁷⁴

93. The Auditor General went on to say that:

"Whether there is an offsetting decision in respect of the other parts of the fund is not a matter for me, clearly, but what I can guarantee is that we will be passing on those reductions to those bodies."⁷⁵

94. The Committee heard that the additional £180,000 WCF funding would allow the organisation "to surface much more of the intelligence and insight" from its audit of accounts work, which it is currently unable to undertake given the constraints of the fee regime. The Auditor General expanded further:

"Every time I sign off a set of accounts, I have members of the team that have undertaken that work coming to talk to me about it. And they will start to talk about the body in question, and that work, invariably, has told them fascinating stuff about those organisations. Often it's really positive; these are well-run, efficient organisations, well led, well governed, and so on. At other times, it's more concerning and there are important messages there about financial sustainability and governance and so on.

...I think it's a vast untapped source of information and insight that would be of value to you as Assembly Members and certainly of value to the bodies in question and to taxpayers, service users, residents and so on."⁷⁶

95. The Auditor General acknowledged that shifting resource from fee funded audit work to WCF funded activity is "an important point of principle" and he would hope to come back next year and "demonstrate exactly what you will have seen and received for that money and whether it works".⁷⁷

96. The original Estimate requested an additional £250,000 to support the WAO's work programme in relation to data analytics, digital and cyber security. The original Estimate requested an additional £180,000 for Data Analytics and

⁷⁴ Finance Committee, Record of Proceedings, 7 November 2019, paragraph 41

⁷⁵ Finance Committee, Record of Proceedings, 7 November 2019, paragraph 42

⁷⁶ Finance Committee, Record of Proceedings, 7 November 2019, paragraphs 44-45

⁷⁷ Finance Committee, Record of Proceedings, 7 November 2019, paragraph 48

£170,000 for cyber security and digital vision. This is partially offset by reallocating £100,000 from other transformation projects, therefore containing the additional funding at £250,000.⁷⁸

97. The Auditor General and WAO’s ambitions have subsequently been “scaled back”, reducing the additional funding originally requested by £25,000 in the modified Estimate.⁷⁹

98. The original Estimate requested additional funding for Data Analytics of £180,000 to enable the WAO to “take data analytics beyond the pilot and exploratory phase and to embed it into all of [its] work”.⁸⁰

99. The Committee agreed funding of £260,000 for Data Analytics in 2019-20⁸¹.

100. The Estimate notes that the funding will allow the WAO to store data securely from audited bodies and to combat increased cyber security risks.⁸²

101. In September 2019 an update on progress of the Data Analytics Programme was published, which noted that the focus of this work is “turning to financial audit”.⁸³

102. The Estimate also states that the investment will ensure that the WAO can access the data of audited bodies safely and securely for “maximum benefit”.⁸⁴ The Committee previously requested information on the benefits that might be generated from Data Analytics following last year’s scrutiny of the 2019-20 Estimate.⁸⁵ The Auditor General and WAO have not quantified this in the Estimate, but note:

“Over the medium to long term, once data analytics is fully embedded within our audit work, we believe there is potential to reduce the cost of undertaking an audit of accounts by 5-10%. While it is very difficult to say with certainty the likelihood or exact timescales for securing such

⁷⁸ [Estimate of the Income and Expenses of the Wales Audit Office 2020-21, pages 25-27](#)

⁷⁹ [Annex 2 – Correspondence with the Auditor General and Chair of the Wales Audit Office](#)

⁸⁰ [Estimate of the Income and Expenses of the Wales Audit Office 2020-21, page 25](#)

⁸¹ [Finance Committee: Annual Scrutiny of the Wales Audit Office and the Auditor General for Wales, November 2018](#)

⁸² [Estimate of the Income and Expenses of the Wales Audit Office 2020-21, page 25](#)

⁸³ [Wales Audit Office: Big data and data analytics are the future of audit, September 2019](#)

⁸⁴ [Estimate of the Income and Expenses of the Wales Audit Office 2020-21, page 25](#)

⁸⁵ [Finance Committee: Annual Scrutiny of the Wales Audit Office and the Auditor General for Wales, November 2018](#)

efficiencies, it remains a core element of our approach to benefits realisation.”⁸⁶

103. The WAO notes that, without the additional investment, it would still be able to undertake Data Analytics activity but that this would be “significantly slower and more ad-hoc”.⁸⁷

104. The Auditor General told the Committee that the Data Analytics work has so far delivered “richer, deeper insight”, using interactive data tools published alongside traditional reports, adding:

“Some of our work, though, has been focused more at the process end, automating what would have been manual processes, and those are some of the efficiencies that you’re seeing us pass on to audited bodies.”⁸⁸

105. Acknowledging that the WAO is in the second year of a three-year Data Analytics programme, the Auditor General said:

“I have seen more than enough now to be convinced that it is the way that we should be going. For us really to crack on and make this mainstream, rather than a selection of nice ad hoc stand-alone pieces of work, we need to invest in our infrastructure to create some serious secure, expandable storage capacity so we can take in large volumes of data and sensitive data, and we need to enhance some specialist capabilities around that so that we can maintain that going forward.”⁸⁹

106. In relation to the suggestion that the Data Analytics programme could generate savings of between 5-10 per cent on the cost of an audit of accounts, the Auditor General indicated that this is a very early estimate if “data enabled financial audit” can be delivered:

“We’re working very closely with the National Audit Office and our partner audit bodies in the rest of the UK on this. We’re all at more or less the same stage. But if we can achieve that, it would mean large-scale ingestion and processing of data that would make automatic what are now laborious manual tasks. If we can achieve that sort of

⁸⁶ [Estimate of the Income and Expenses of the Wales Audit Office 2020-21, page 26](#)

⁸⁷ [Estimate of the Income and Expenses of the Wales Audit Office 2020-21, page 26](#)

⁸⁸ Finance Committee, Record of Proceedings, 7 November 2019, paragraph 51

⁸⁹ Finance Committee, Record of Proceedings, 7 November 2019, paragraph 54

saving, then, yes, that would be directly passed on to the audited bodies—absolutely.”⁹⁰

107. The Committee sought clarification on the request for additional funding for Data Analytics and whether this would be a recurring cost in future years. The Auditor General said:

“...the fundamentals of the broad scale of our spend on data analytics, which is that £180,000 plus the sum that was already in there—yes, that will be rolled into our base budget. At the margin, that might differ, because, as I said, there are some specific things we need in the coming year.”⁹¹

108. The original Estimate requested an additional £170,000 for cyber security and digital vision. The original Estimate detailed that this would fund a specialist website developer, the purchase of essential software and training for improved cyber security.⁹²

109. The original Estimate noted:

“The Wales Audit Office needs to increase its preparedness on cyber security in proportion to the risk, ensuring audit data can continue to be handled safely and securely, and that Wales Audit Office is prepared to respond to any future breach that may occur.”⁹³

110. The Annual Report 2018-19 outlined issues with data protection, noting that an issue identified in-year and reported to the Information Commissioner involved the “apparent external access to electronic folders holding some personal information” on the WAO’s systems. However, the Annual Report goes on to say that:

“Our investigations, including a review by external experts, found no significant vulnerabilities in our information security arrangements.”⁹⁴

111. The Committee sought further details on the funding requested for “digital vision”. The Director of Corporate Services clarified that the digital vision

⁹⁰ Finance Committee, Record of Proceedings, 7 November 2019, paragraph 52

⁹¹ Finance Committee, Record of Proceedings, 7 November 2019, paragraph 59

⁹² [Estimate of the Income and Expenses of the Wales Audit Office 2020-21, page 26](#)

⁹³ [Estimate of the Income and Expenses of the Wales Audit Office 2020-21, page 26](#)

⁹⁴ [Annual Report and Accounts 2018-19, page 68](#)

workstream emanates from the organisation's previous transformation programme.⁹⁵ Expanding on this, he said:

"We're looking at a range of digital initiatives at the moment. One of those is we're looking at artificial intelligence and whether or not that can schedule meetings for us. We're looking at how we could use technology to record interviews as part of our audit work and then to transcribe those interviews, and we're also looking at robotic process automation to simplify and carry out basic administrative tasks, thereby freeing our staff up to do more value-added work."⁹⁶

112. The Director of Corporate Services confirmed that, of the additional £170,000 requested, one-off funding of £50,000 to £60,000 is sought for website development, to "help us to realise some of the ambitions set out in our annual plan in terms of increasing the impact of our work, increasing the reach of our work and also making sure that our work is as accessible as possible".⁹⁷

Future Finance Leaders

113. The original Estimate sought an increase of £100,000 to expand the WAO's graduate and apprenticeship programmes. This was specifically targeted at improving social diversity and inclusion as well as increasing the range of secondment opportunities for the WAO's apprentices and graduate trainees.⁹⁸

114. The Auditor General and WAO subsequently removed the £100,000 funding requested to expand the graduate and apprenticeship programmes from the modified Estimate.⁹⁹

115. The original Estimate outlined that the WAO now employs close to 50 graduates and eight apprentices, which accounts for 20 per cent of its total workforce.¹⁰⁰

116. The original Estimate also noted that, without the funding, the programme would continue to run at its current level (albeit without the benefits identified).¹⁰¹

⁹⁵ Finance Committee, Record of Proceedings, 7 November 2019, paragraph 68

⁹⁶ Finance Committee, Record of Proceedings, 7 November 2019, paragraph 69

⁹⁷ Finance Committee, Record of Proceedings, 7 November 2019, paragraph 71

⁹⁸ [Estimate of the Income and Expenses of the Wales Audit Office 2020-21, page 29](#)

⁹⁹ Annex 2 – Correspondence with the Auditor General and Chair of the Wales Audit Office

¹⁰⁰ [Estimate of the Income and Expenses of the Wales Audit Office 2020-21, page 28](#)

¹⁰¹ [Estimate of the Income and Expenses of the Wales Audit Office 2020-21, page 29](#)

117. The Auditor General told the Committee that the graduate trainee scheme, which has grown from “nine or ten” in 2015 to around 50, has become a significant part of the WAO’s delivery model. He explained that around 30 graduate trainees have undertaken secondments to other public sector organisations and it is viewed as an important part of the graduate programme. He indicated that a third of the £100,000 sought would enable the WAO to offer secondment opportunities to all of its graduates, rather than the limited number at present.¹⁰²

118. The Auditor General explained that the remaining proportion of the additional £100,000 requested would fund the development of the WAO’s apprenticeship programme. Emphasising the wider benefit for public services, he added:

“We’re picking up messages from the wider public sector that they, too, would like to see us do something similar in respect of apprentices as we do for graduate entries. And so the funding we’ve asked for would be focused next year on two things: (1) on building up that offer with partners in other parts of the public sector so that, this time next year, ideally, we would be running a recruitment campaign to take in 20 or 30 apprentices who will be focused on finance apprenticeship, who would be dotted around the public service in Wales. The other element is to enable us to work with a charity called the Social Mobility Business Partnership, who specialise in extending the reach of programmes like that to more disadvantaged communities so that we hopefully attract intake from black, Asian and minority ethnic communities, socially deprived areas and so on.”¹⁰³

119. When asked why the desired level of social diversity has not been achieved within the current programme, the Auditor General indicated that the graduate entry programme does successfully attract a diverse mix of candidates but the apprenticeship programme is much smaller. He continued:

“...there is a perception amongst some communities that a career in the public service is not one that they instinctively consider is something for them, let alone a career in finance as a profession. It’s something that simply doesn’t hit the radar. And so I think, undeniably, there is a lot of work for us to do to try to break down some of those barriers...People

¹⁰² Finance Committee, Record of Proceedings, 7 November 2019, paragraphs 74-76

¹⁰³ Finance Committee, Record of Proceedings, 7 November 2019, paragraph 77

need to know what the WAO does, because it's not transparent to a lot of people, I'm sure, and certainly a lot of younger people."¹⁰⁴

120. In terms of assessing the WAO's ability to successfully attract socially diverse apprentices, the Auditor General confirmed that the organisation does not currently have a key performance indicator but "the numbers of individuals that we have would allow us to have quite a granular feel for the backgrounds from which they come".¹⁰⁵

Running costs

121. The Auditor General and WAO are requesting a WCF increase of £120,000 towards its running costs, which the Estimate notes is "part-provision for a pay agreement".¹⁰⁶ This funding request, which remains in the modified Estimate¹⁰⁷, covers:

- a contribution to the costs of technical support, quality assurance and compliance;
- a contribution to total travel costs;
- investment in staff learning and development;
- governance costs, such as for the Wales Audit Office Board, associated support costs and other aspects of ensuring compliance with the Public Audit (Wales) Act 2013.¹⁰⁸

122. The WAO details that the £120,000 is a proportion of a £320,000 increase in pay included in the budget for 2020-21.

123. The Committee asked what proportion of the additional £120,000 increase for running costs relates to funding the pay agreement and whether alternative methods were considered to resource the agreement. The Auditor General confirmed that the £120,000 is specifically for a pay rise.¹⁰⁹

¹⁰⁴ Finance Committee, Record of Proceedings, 7 November 2019, paragraph 79

¹⁰⁵ Finance Committee, Record of Proceedings, 7 November 2019, paragraph 86

¹⁰⁶ [Estimate of the Income and Expenses of the Wales Audit Office 2020-21, page 20](#)

¹⁰⁷ Annex 2 – Correspondence with the Auditor General and Chair of the Wales Audit Office

¹⁰⁸ [Estimate of the Income and Expenses of the Wales Audit Office 2020-21, page 30](#)

¹⁰⁹ Finance Committee, Record of Proceedings, 7 November 2019, paragraph 104

124. Referring to guidance from the Minister for Finance and Trefnydd that a 2 per cent pay inflation increase is a reasonable assumption, the Director of Finance and Human Resources noted:

“Previously, increases have been funded through our savings and efficiency value for money programme; that’s set out on page 9 of the estimate in some detail. But also, we look at savings that we can generate in the year. So, even though we’re looking for this additional funding of £120,000 as a contribution to the pay settlement, there is still a savings target next year of £476,000. What the board concluded was that to put the pay increase on top of that savings target would be a high risk to our financial position and would be unaffordable.”¹¹⁰

125. The Auditor General said he was comfortable requesting these additional funds, adding:

“...it’s important to recognise that this is an apportionment to the consolidated fund; it’s not the entire cost of the rise. So, two thirds of the increase in our cost base will be passed on in those fees, but there are fees that we are capping and driving down. So, we are, through our own internal efficiencies, eating up a lot of the additional costs that come with that.”¹¹¹

Capital allocations

126. The original Estimate requested an increase of £50,000 (23.8 per cent) in capital funding compared to 2019-20 (from £210,000 to £260,000). The original Estimate included capital allocations up to 2023-24, with the budget rising to £800,000 in 2022-23.¹¹²

127. Subsequently, the modified Estimate reduced the £50,000 additional capital funding originally requested to £20,000.¹¹³

128. The original Estimate requested a £30,000 increase in capital for corporate systems, for which £50,000 was allocated in the previous year. Indications of the amount to be requested for future years up until 2023-24 are also included. The corporate systems budget could increase to £200,000 over that period. The

¹¹⁰ Finance Committee, Record of Proceedings, 7 November 2019, paragraph 91

¹¹¹ Finance Committee, Record of Proceedings, 7 November 2019, paragraph 93

¹¹² [Estimate of the Income and Expenses of the Wales Audit Office 2020-21, page 31](#)

¹¹³ Annex 2 – Correspondence with the Auditor General and Chair of the Wales Audit Office

Estimate noted that “our ways of working transformation project identified a need for better, more joined up business information systems”.¹¹⁴

129. An additional £20,000 was also requested for the WAO’s Estates strategy, this could rise by a further £40,000 in 2021-22, peaking at £500,000 in 2022-23. The original Estimate outlined that the Estates strategy includes costs for potential office moves when leases expire during that period. It suggested that changes in the way the WAO works as a result of this will release savings in accommodation costs. However, these were not explained or quantified within the original Estimate.¹¹⁵

130. The Committee requested further information on the WAO’s capital programme, noting that the capital budget could peak at £800,000. The Auditor General said:

“...that big spike in expenditure is just us flagging up to you that there will be, when the Cardiff lease expires, in particular, some significant costs associated with office relocation most probably.”¹¹⁶

131. The Director for Corporate Services explained that the leases on its three buildings are the largest element of non-pay expenditure. He expanded on the WAO’s estates strategy, noting that the Board’s “clear direction was that any future office moves should lead to reduced running costs”. Whilst alerting the Committee to this being the “best estimate at this stage” and acknowledging that the costs could be greater, he said any investment would be on the basis of invest to save.¹¹⁷

132. In terms of estimating the savings the WAO would expect to achieve, the Chair of the WAO explained:

“...when the board debated this in September, the board wanted to set exactly that target—‘You need to work on the assumption of 20 per cent cost savings.’ We were advised against it until we’d received the report about the likely footprint, the likely locations and the likely rentals that are out there, before we put an actual savings target on it, because, otherwise, we’re just shooting in the dark.”¹¹⁸

¹¹⁴ [Estimate of the Income and Expenses of the Wales Audit Office 2020-21, page 31](#)

¹¹⁵ [Estimate of the Income and Expenses of the Wales Audit Office 2020-21, page 31](#)

¹¹⁶ Finance Committee, Record of Proceedings, 7 November 2019, paragraph 107

¹¹⁷ Finance Committee, Record of Proceedings, 7 November 2019, paragraphs 108-112

¹¹⁸ Finance Committee, Record of Proceedings, 7 November 2019, paragraph 116

133. In relation to the rising capital budget for ICT and digital infrastructure renewal, the Director for Corporate Services said this includes the replacement of the WAO's financial audit system. He explained that the contract ends in 2021 and finding an effective replacement system is key to supporting the organisation's audit work. He continued:

“We're already looking at options for replacement. They range from things like internally developing a system, where we could look to extend the system that we currently use for measuring our value-for-money work. At the other end of the spectrum, we could look to procure a new system from a new provider. It's also important to say that we are working in partnership with the other UK audit bodies. We're all in the same position with this need to replace that system. And of course, working in collaboration with those bodies does give the advantages of shared experience and expertise in this area, but also there's the potential to achieve a more cost-effective solution, because the combined purchasing power of those organisations would clearly be greater than just a single procurement exercise.”¹¹⁹

Savings and efficiencies

134. The original Estimate outlined a savings target of £476,000 for 2020-21. This will be delivered by the WAO's “Smarter, Leaner, Better” value for money programme.¹²⁰

135. The original Estimate noted that the WAO anticipates savings in travel and subsistence as it implements the recommendations of its “Ways of Working” transformation project, which will “likely see more of our staff working remotely or from ‘audit hubs’ rather than travelling daily to client sites”. The WAO's Estates strategy is noted as being updated to take into account the findings of that project and future accommodation needs.¹²¹

Changes to working arrangements

136. The Estimate notes a change to contracting arrangements with private sector firms, also reported in the [Annual Report and Accounts 2018-19](#). It states:

“...following detailed consideration of an options appraisal and business case, that the Wales Audit Office would no longer contract out audit

¹¹⁹ Finance Committee, Record of Proceedings, 7 November 2019, paragraph 120

¹²⁰ [Estimate of the Income and Expenses of the Wales Audit Office 2020-21, page 6](#)

¹²¹ [Estimate of the Income and Expenses of the Wales Audit Office 2020-21, page 15](#)

work to private sector firms. Current contracts come to an end in the autumn of 2020 after which time the work will be carried out by Wales Audit Office staff. The change will in no way reduce audit quality and provides the opportunity to realise other benefits...”¹²²

137. Income from work relating to EU Agricultural funds is estimated to decline by £141,000 (15.7 per cent) from £900,000 to £759,000 in 2020-21 and the Estimate assumes “the complete elimination of this fee income stream in subsequent years”.¹²³

138. The Estimate goes on to say that with a “no deal” Brexit, the Auditor General and WAO expect EU Agricultural Funds audit work to cease by March 2020 at the latest. It details two options in the event of a “no deal” Brexit:

- to re-allocate those staff to new projects until the autumn with lost income being replaced by additional WCF funding to bridge the six-month gap in expected fee-generating workload; or
- to offer redundancy packages to a number of staff in the knowledge that additional staff would need to be recruited some six months later.¹²⁴

139. Funding associated with the audit of Welsh Government grants is also due to decline by £328,000 (27.4 per cent) from £1.2 million to £870,000, compared to 2019-20. The Estimate notes that the Auditor General and WAO “anticipate a further very substantial reduction in this fee income stream in future years”. The Estimate goes on to say that the Auditor General and WAO are conducting work to understand if, due to the changes to grant certification, further assurance work would now be required on the Welsh Government’s annual accounts.¹²⁵

140. The Committee discussed the WAO’s declining future workload and the approach taken to workforce planning and budgeting for its EU Agricultural Funds audit work. The Auditor General said the Estimate was prepared on the basis that the UK would leave the EU at the end of October [2019] with a transitional arrangement in place:

“Clearly, that’s been overtaken. If we were to leave towards the end of January, I think the broad thrust of the estimate would still hang together. So, we are faced with a conundrum. At one extreme, if we end

¹²² [Estimate of the Income and Expenses of the Wales Audit Office 2020-21, page 15](#)

¹²³ [Estimate of the Income and Expenses of the Wales Audit Office 2020-21, pages 13 and 17](#)

¹²⁴ [Estimate of the Income and Expenses of the Wales Audit Office 2020-21, page 32](#)

¹²⁵ [Estimate of the Income and Expenses of the Wales Audit Office 2020-21, page 17](#)

up leaving without a deal, and that agricultural funds work comes to a sudden end in the early part of next year, then we would be left with a funding gap.”¹²⁶

141. The Auditor General also explained that, from the start of the next financial year, audit work that has previously been contracted out to private sector firms will be undertaken internally. He suggested that there could be a neat fit between the end of the agricultural funds work and the start of the work being brought in-house. In the event of a funding gap, the Auditor General said:

“...we either have to pay off staff that we have at the moment who are no longer funded through the agricultural funds work and then, a few months later, re-employ staff to undertake work we’re taking in-house, or have funding that sees them through that period...”¹²⁷

142. The Director of Finance and Human Resources confirmed that the WAO is taking the same approach as all UK audit bodies – budgeting until autumn 2020 – indicating that the financial risk is a maximum of £760,000 if agricultural funds end sooner.¹²⁸

143. In response to a question on the WAO’s role in the auditing of future agricultural support arrangements, the Auditor General said:

“...assuming that alternative support packages are put in place, then the sums involved in my view would necessitate some form of audit. I would be very surprised, and I don’t think it would be wise, for the level and precision and depth of that audit to be the current model that we exercise, because it is exceptionally detailed. So, I think there is a lighter touch approach that we will need to have in place for any replacement regime. But, obviously, we don’t know what that will look like at the moment. We don’t know the shape of the scheme, whether audit requirements and duties on me will be placed into the legislation that underpins that, or whether I need to come at it just through my work on the wider Welsh Government account. At the moment, we just don’t have that clarity of detail.”¹²⁹

¹²⁶ Finance Committee, Record of Proceedings, 7 November 2019, paragraph 126

¹²⁷ Finance Committee, Record of Proceedings, 7 November 2019, paragraph 129

¹²⁸ Finance Committee, Record of Proceedings, 7 November 2019, paragraph 132

¹²⁹ Finance Committee, Record of Proceedings, 7 November 2019, paragraph 144

Potential changes to the Estimate

144. The original Estimate outlined a number of areas where there may be a change in requirement for funding from the WCF and which could lead to a supplementary Estimate. This includes the potential impacts of reduced EU Agricultural Funds audits, potential variations to the 2 per cent pay agreement, new reporting standards for leases (IFRS 16) if it enters into a new lease and re-prioritisation of work in the event of a “no deal” Brexit.¹³⁰

Draft Fee Scheme 2020-21

145. The WAO’s draft fee scheme 2020-21 is included in Appendix 2 of the original Estimate. Fee scales are due to reduce in 2020-21, the original Estimate notes that this is by 1 per cent compared to 2019-20.¹³¹

146. The draft Fee Scheme reiterates the central funding mechanism for the NFI and that this continues to be welcomed by audited bodies. It also notes that the fees as set allow for the continuation of secondment opportunities for accounting trainees without impacting those fees.¹³²

147. The WAO consulted 96 bodies in setting its fees for 2020-21, receiving responses from 9 of those bodies.¹³³

148. The draft fee scheme details the fee and charging arrangements. It notes the WAO will:

“...process refunds and additional charges in a manner which seeks to minimise administrative costs, such as through offsetting against future fees or fees for other aspects of audit activity.”¹³⁴

149. It is not clear how this reconciles with the provisions in the Public Audit (Wales) Act 2013¹³⁵ that require the fees for audited bodies to reflect the resources deployed by the WAO.

150. The Committee queried whether the 1 per cent reduction in fee scales will result in lower costs for audited bodies. The Director of Finance and HR said:

¹³⁰ [Estimate of the Income and Expenses of the Wales Audit Office 2020-21, pages 32-33](#)

¹³¹ [Estimate of the Income and Expenses of the Wales Audit Office 2020-21, page 18](#)

¹³² [Estimate of the Income and Expenses of the Wales Audit Office 2020-21, page 39](#)

¹³³ [Estimate of the Income and Expenses of the Wales Audit Office 2020-21, page 40](#)

¹³⁴ [Estimate of the Income and Expenses of the Wales Audit Office 2020-21, page 43](#)

¹³⁵ [Public Audit \(Wales\) Act 2013, section 23](#)

“The auditor general earlier talked about reducing fees by £180,000 for a number of local authorities and NHS boards as well. So, organisations will feel a reduction in their fee—not everyone, though, because fees are an equation of the skills mix that we need to put into an individual audit, the team that goes into that, the number of hours they need to work there, based on the risk profile of that individual audit. So, whilst our overall fee scales are coming down, it doesn’t automatically mean a fee reduction for everyone.”¹³⁶

151. The Director for Finance and Human Resources also clarified that the reference to processing refunds in a way that keeps administrative costs down simply means that the WAO will issue credit notes instead of cash refunds, unless requested.¹³⁷ Following the Committee’s request to reconsider the original Estimate and reduce the call on the WCF, the modified Estimate applies an increase in fee income of £240,000 compared to the original Estimate. Rather than a £711,000 decrease in fees included in the original Estimate, the modified Estimate indicates that fee income will reduce by £471,000. The modified Estimate notes that the Committee will be provided with an updated Fee Scheme next month.¹³⁸

Committee view

152. The Committee is supportive of the WAO’s ambitious plans and recognises the potential benefits that these plans will deliver for the wider public sector. However, the Committee must assess the funding requested against the Committee’s agreed statement of principles and consider the pressures on the WCF, and the difficult decisions being made across the public sector in Wales in the context of reducing budgets.

153. The Committee recognises the value of NFI and continues to support the initiative being centrally funded, in order to encourage participation and maximise the amount of data that can be analysed for fraud and overpayments.

154. The uncertainty surrounding the WAO’s workforce planning in relation to its EU Agricultural Funds work is also noted and the Committee acknowledges the potential requirement for a supplementary Estimate in year.

¹³⁶ Finance Committee, Record of Proceedings, 7 November 2019, paragraph 255

¹³⁷ Finance Committee, Record of Proceedings, 7 November 2019, paragraph 263

¹³⁸ Annex 2 – Correspondence with the Auditor General and Chair of the Wales Audit Office

155. The Committee notes the anticipated rise in capital funding in 2022-23 in relation to the expiration of the lease on the Cardiff Office and recognises that work is underway to consider how the WAO can reduce its office needs.

156. Whilst noting the WAO's assertion that a switch in resource from fee funded audit work to WCF funded activity will have no net impact on the Welsh block, the Committee believes an equivalent reduction in funding for relevant audited bodies should not be assumed.

157. The Committee recognises the potential benefits that Data Analytics will deliver, but is concerned that the funding requested for the programme is increasing. The Committee notes that the 5-10 per cent saving on the cost of an audit of accounts, as a result of the Data Analytics programme, is an early estimate only.

158. The Committee welcomes the WAO's collaboration with partner audit bodies in relation to the automation of certain audit tasks in order to maximise potential savings and efficiencies, and would welcome future updates on this collaboration.

159. The Committee notes that graduate trainees now account for 20 per cent of the WAO's total workforce and acknowledges that the additional funding would have facilitated more graduate trainees being seconded to public bodies in Wales. Whilst the Committee recognises the benefits of this programme, priority must be given to resourcing the Auditor General's core work during this period of continued austerity.

160. Following its annual scrutiny in 2018, the Committee made recommendations in relation to the gender and ethnicity pay gaps within the organisation. Whilst the WAO's aspirations are admirable in terms of targeting social diversity and BAME representation as part of its apprenticeship scheme, the Committee believes that under representation of these groups needs to be addressed across all levels of the organisation.

161. The Committee notes the additional capital investment requested for the replacement of its financial auditing system and welcomes the WAO's collaboration with other UK audit bodies to explore the most cost-effective solution.

162. The Committee notes that the modified Estimate includes additional fee income of £240,000 compared to the original Estimate and recognises the Auditor General and WAO's view that this is compliant with the "no more than full cost" rule required under section 23(5) of the Act. However, before approving the revised Fee Scheme required under section 24(6) of the Act, the Committee

requests details of how this additional fee income will be used to directly deliver audit work.

Conclusion 5. The Committee is content with the modified Estimate 2020-21, attached at Annex 2 to this report.

Recommendation 6. The Committee recommends that the Wales Audit Office updates the Committee as its Estates Strategy develops, including the impact on the WAO's capital programme and any agreed savings targets.

Recommendation 7. The Committee recommends that the Wales Audit Office provides further information on its work with partner audit bodies in relation the Data Analytics programme.

Recommendation 8. The Committee recommends that future Estimates and Annual Reports set out the expected and realised costs and benefits of the Data Analytics programme.

Recommendation 9. The Committee recommends that the Wales Audit Office provides an update on the replacement of its financial audit system, including any expected savings and efficiencies from this investment.

Recommendation 10. The Committee recommends that, prior to the Fee Scheme 2020-21 being laid before the Assembly, details are provided to the Finance Committee as to how the £240,000 increase in fee income relates directly to the cost of delivering the Auditor General's audit work.

Annex 1: List of oral evidence sessions.

The following witnesses provided oral evidence to the Committee on the 7 November 2019. A [transcript](#) of the oral evidence session can be viewed on the Committee's website.

Date	Name and Organisation
7 November 2019	<p>Adrian Crompton, Auditor General for Wales</p> <p>Isobel Everett, Chair, Wales Audit Office</p> <p>Kevin Thomas, Director of Corporate Services, Wales Audit Office</p> <p>Steve O'Donoghue, Director of Finance and Human Resources, Wales Audit Office</p>

Annex 2: Auditor General for Wales and Wales Audit Office – Modified Estimate 2020-21

Cynulliad Cenedlaethol Cymru
Y Pwyllgor Cyllid

National Assembly for Wales
Finance Committee

Adrian Crompton
Auditor General for Wales

Isobel Everett
Chair of the Wales Audit Office

Via Email

7 November 2019

Dear Adrian and Isobel

Estimate of the Income and Expenses for the Year Ended 31 March 2021

Thank you for attending the Finance Committee this morning to present your Estimate. I am writing to inform you that having considered your Estimate and the evidence you provided, the Committee is unable to lay your Estimate as submitted to the Committee.

You may also be aware that the Committee has already considered the funding requests from the other directly funded bodies. Those bodies have sought the following funding increases:

- Assembly Commission – cash increase of 2.7% (£1 million) (excluding Remuneration Board determination funds)
- Public Services Ombudsman – cash increase of 2.3% (£105,000) (excluding the additional costs as a result of the Public Services Ombudsman (Act) 2019)

Excluding the biennial increase in National Fraud Initiative funding of £130,000, which the Committee will continue to support, your Estimate requests an increase in Welsh Consolidated Fund (WCF) funding of 7.8% (£615,000). Whilst we are



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supportive of your ambitious plans and recognise the potential benefits that these plans will deliver for the wider public sector, we are also acutely aware of the funding pressures across the public sector in Wales. Therefore, the Committee invites you to reflect on your funding priorities and consider where changes can be made to reduce the call on the WCF, closer to the level of the other directly funded bodies.

As required by Standing Order 20.22, we are consulting with you on our requested reduction in funding and would be grateful if you could reconsider your 2020–21 Estimate and submit a modified Estimate to the Committee by Tuesday 12 November 2019. However, should you wish to make representations with regard to our request, please inform the Finance Committee Clerk (Georgina Owen, Georgina.Owen@assembly.wales) at the earliest opportunity, but no later than 12 November 2019.

Yours sincerely



Llyr Gruffydd AM

Chair of the Finance Committee





Mr Llyr Gruffydd AM
Chair of the Finance Committee
National Assembly for Wales

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Via email: SeneddFinance@assembly.wales

Reference: IE19009/AC166/caf

Date issued: 15 November 2019

Dear Llyr

Wales Audit Office Estimate of income and expenses for the year ended 31 March 2021

Thank you for your letter of 7 November 2019 setting out the Committee's position regarding our Estimate for 2020-21.

In that Estimate, Adrian set out his ambitions as Auditor General to deliver a strategic shift in the focus of his work, and we emphasised in particular the importance of having some flexibility in how the WAO deploys its resources to deliver that work efficiently and effectively.

We are pleased to see that the Committee is supportive of our plans and recognises the potential benefits that these will deliver for the wider public sector. We also warmly welcome the Committee's support for the biennial increase in our National Fraud Initiative funding, which historically has generated an excellent rate of return for the public purse. However, we are naturally disappointed that, based on its consideration of the written and oral evidence that we have provided to date, the Committee has not felt able to lay our Estimate as submitted.

In your letter, you invited us to make further representations to the Committee to assist in its ongoing consideration of our 2020-21 Estimate, and we are grateful to you for the opportunity to do so in this response.

Over the last few days, our Board and our Executive Leadership Team have given urgent consideration to your letter in which you asked that we should consider a similar percentage increase in funding to that sought by the Assembly Commission (2.7%) and the Ombudsman (2.1%).

Unlike those bodies, the Wales Audit Office funds around two-thirds of its expenditure through fee income. Of course, ultimately, virtually all of our income – from fees or WCF - flows from the Welsh block.

Whereas the Assembly Commission and Ombudsman are seeking increases in their total annual funding for 2020-21, within our Estimate we were budgeting for a net reduction in our running costs. The requested WCF increase was set against a planned reduction in our audit fee income (driven in part by our ongoing programme of audit efficiency savings).

This is a reflection of our efforts to absorb cost increases so as not to pass these on in fees to audited bodies, and, strategically, to shift funding to WCF where justifiable - such as the costs around cyber security and the digital agenda. This was an attempt to overcome some of the inflexibilities in our existing statutory funding regime and to incentivise the generation of further audit efficiency savings in 2020-21 and beyond.

Our Estimate for 2020-21 anticipates significant savings of £476,000 for the year. During the evidence session, it was suggested we should also recycle savings from staff turnover. We clarified that we already do so by setting our staff salary budgets net of staff turnover (or churn). We can confirm that these recyclable savings will amount to £870,000 next year. As our Director of Finance advised the Committee, the Board does not consider it financially sustainable to increase these targets further.

Modified Estimate for the 2020-21 financial year

You have asked that we submit a modified Estimate to the Committee, and this is attached in the form of a **revised Budget Ambit**. This replaces paragraphs 100 to 103 and Exhibits 10 and 11 in our original Estimate paper (on pages 34 and 35 of that document).

As you will appreciate, in the limited time available to us since receiving your letter, it has simply not been practicable to revise the supporting narrative set out on pages 5 to 33 of our original paper. Clearly, once the Committee has confirmed approval of our Estimate, we will do so.

As Adrian said in evidence, our options, should our original Estimate not be approved, are to scale back or drop some of our ambitions and/or to increase fee income. We set out below an explanation of the changes that we propose in this regard.

Scaling back our ambitions

In light of the Committee's request:

- We have dropped our proposals to extend the scope of our trainees and apprentices programme (exhibit 8 and paras 68 to 75 of the original paper refer), given that this is predominantly aimed at benefits to the wider public sector. This is disappointing, as we believe in the strong benefits of that initiative, but we are clear that core resourcing for the AGW's work must be prioritised. (£100,000 cost reduction)
- We have scaled back our ambitions on our digital and data analytics strategy (exhibit 7 and paras 50 to 57 of the original paper refer). (£25,000 cost reduction)
- We have reviewed our plans for capital investment in 2020-21 and will defer some of our planned ICT investment to reduce the call on WCF. (£30,000 cost reduction)

Adjusting the balance of fee income and WCF

A key factor in our original approach was to seek to reduce fees for audited bodies wherever justifiable to do so, and to switch some resource funding from fees on to WCF. Our revised position is to apply a proportionate increase in fee income given that our ambitions will directly improve the cost-effectiveness and future impacts of our audit work.

Our original paper estimated a reduction of £711,000 (5%) in total income for next year (covering both fee work and EU/Grant claim work). We are now proposing an income reduction of £471,000 (3%) instead. Our fee rates will therefore increase marginally, as set out in the attached note, though our fee scales will still be slightly lower than last year, with the audit fee for each individual audited body being dependent on local circumstances. This fully meets the 'no more than full cost' rule.

We will provide the Committee with an updated Fee Scheme next month.

Explanation of revisions to the Budget Ambit

A summary of our revised Estimate is as follows:

- Total expenditure included in our revised Estimate for 2020-21 is £121,000 less than this year (2019-20).
- Excluding the biennial costs of the National Fraud Initiative, this represents a £251,000 (1%) reduction in our spend.
- Our revenue resources are reduced from £22.127 million to £22.002 million (including NFI);
- Our capital resources are reduced from £260,000 to £230,000;

- The specific element of WCF increase (resources other than accruing resources) is now reduced from 7.8% to 2.8%;
- The net cash requirement from the WCF is reduced by £395,000, from £8.843 million to £8.448 million.

It is worth concluding by highlighting to the Committee that a relatively limited change to our revised Estimate as set out above could enable our full set of original proposals to be delivered, including the social mobility benefits of the expanded trainees/apprenticeship scheme. This would require further WCF funding of £155,000 (total £375,000 or 4.8%).

Of course, should the Committee require any further information, we stand very ready to assist.

Yours sincerely



ISOBEL EVERETT
Chair, Wales Audit Office



ADRIAN CROMPTON
Auditor General for Wales

Estimated budget requirements of the Wales Audit Office for the year ending 31 March 2021

- 1 Under Section 125 of the Government of Wales Act 2006, 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 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 2021, 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**.

Exhibit 1: summary of the estimated 2020-21 budget requirements

	£'000
Resources, other than accruing resources, for use by the Wales Audit Office on the discharge of the statutory functions of the Wales Audit Office and the Auditor General and on the administration of the Wales Audit Office:	
• Revenue	7,998
• Capital	230
Accruing resources from fees and charges for audit, grant certification and related services; other recoveries of costs associated with the functions of the Auditor General or Wales Audit Office; miscellaneous income such as from publications, conferences, provision of administrative, professional and technical services and recoveries of costs incurred for a third party– all for use by the Wales Audit Office on the discharge of the functions of the Auditor General and on related services and the administration of the Wales Audit Office.	14,004
Net cash requirement from the WCF to meet the net amounts falling due for payment in the year by the Wales Audit Office.	8,448

- 4 **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 2021.

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

	£'000
Net request for resources – revenue and capital	8,228
Non-cash adjustment – depreciation	(280)
Non-cash adjustment – movements in working capital	500
Net cash requirement from the WCF to meet the net amounts falling due for payment in the year by the Wales Audit Office	8,448

Revised Fee Rates 2020-21

	Revised rate (£ per hour) 2020-21	Draft fee scheme rate (£ per hour) 2020-21	Rate (£ per hour) 2019-20
Engagement director	162	160	161
Audit Manager	119	117	115
Principal Auditor	96	95	94
Senior Auditor	77	76	73
Auditor	59	58	57
Graduate trainee	48	48	46
Apprentice	37	36	46

Adrian Crompton
Auditor General for Wales

Isobel Everett
Chair of the Wales Audit Office

Via email

19 November 2019

Dear Adrian and Isobel

Modified Estimate of the Income and Expenses for the Year Ended 31 March 2021

Thank you for your letter of 15 November setting out a modified Estimate for the 2020–21 financial year in light of the Committee's position on your original funding request. I am grateful to you and your team for giving this matter urgent consideration and for the explanation of the proposed changes. To assist the Committee in reaching a prompt conclusion at its forthcoming meeting on 27 November, I am writing to seek some clarification on the revised proposals.

Whilst I recognise that overall fee income is due to reduce, your letter indicates that fee income would be £240,000 more under the revised proposal than your original estimate. It would be useful if you could set out whether this income is allocated for any specific activities that were previously proposed to be funded from the WCF.

Furthermore, your original Estimate proposed switching £180,000 of fee funded work to be funded from the WCF instead. I would welcome clarification on the status of this proposal and whether the revised Estimate no longer includes the transfer of fee funded activities to WCF funded activities. If this is the case, I would be grateful for clarification regarding the remaining £60,000 increase in fee



income (representing the difference between the removal of the £180,000 switch in funding and the additional fee income of £240,000).

Finally, it would greatly assist the Committee if you could summarise the revised individual increases requested from the WCF, as set out in Exhibit 5 of the original Estimate.

I would be grateful for a response by 9am on Friday 22 November in order to assist the Committee and secure approval of your Estimate as a matter of urgency. Should you require any clarification or further information, please contact: Georgina Owen, seneddfinance@assembly.wales.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Llyr', is centered within a light blue rectangular box.

Llyr Gruffydd AM

Chair of the Finance Committee





Mr Llyr Gruffydd AM
Chair of the Finance Committee
National Assembly for Wales

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Via email: SeneddFinance@assembly.wales

Reference: IE19011/AC167/caf

Date issued: 22 November 2019

Dear Llyr

Wales Audit Office Estimate of income and expenses for the year ended 31 March 2021

Thank you for your letter of 19 November 2019 which requested some further clarification on our revised Estimate proposals.

You ask whether the £240,000 increase in fee income under the revised proposal is allocated for any specific activities that were previously proposed to be funded from WCF. For the sake of simplicity and comparability the answer to this question is no – rather we are reducing the £1.8m contribution received from WCF towards our running costs by £240,000 and passing this on to our fees.

On page 30 in the Estimate document we set out that we receive a contribution of £1.8m from the WCF towards the running costs of the Wales Audit Office. This includes costs such as technical support, quality assurance and compliance, and staff learning and development – costs which can justifiably be included within our fee rates under the ‘no more than full-cost’ requirement. Despite this change, we still expect our overall fee income to reduce by £470,000 in 2020-21.

You further ask whether our revised Estimate will still include the switch of £180,000 of fee funded work to be funded from the WCF instead.

The Auditor General is committed to achieving the ambitions set out in the Annual Plan for 2019-20 and the flexibility afforded by this funding is fundamental to this. For this reason, our proposals still allow for the proposed switch. As in the original Estimate, the actual increase is limited to £95,000 after allowing for the return of £85,000 funding allocated for Brexit related work in 2019-20.

As requested, a revised ‘Exhibit 5’ from our Estimate document is provided below.

Exhibit 5: changes in WCF funding from 2019-20 to 2020-21

	Revenue £'000	Capital £'000	Total £'000
2019-20	7,668	210	7,878
Cyclical NFI Funding	130	-	130
Baseline Estimate 2020-21	7,798	210	8,008
Changes for 2020-21			
Capital programme	-	20	20
Audit work funded other than from fees (£180,000 increase less £85,000 returned)	95		95
Specific funding supporting the Wales Audit Office (reduction in planned spend on data analytics/cyber security)	225	-	225
Specific projects for wider public sector benefit (Removal of additional funding for Finance Skills Development)	-	-	-
Contribution to running costs, being part-provision for a pay agreement	120	-	120
Contribution to running costs to be recovered from fees	(240)		(240)
Total WCF Funding 2020-21	7,998	230	8,228
Change from baseline	200	20	220

Of course, should the Committee require any further information, we stand very ready to assist.

Yours sincerely

Isobel Everett

ISOBEL EVERETT
Chair, Wales Audit Office

Adrian Crompton

ADRIAN CROMPTON
Auditor General for Wales