

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

November 2018



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

November 2018



# About the Committee

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

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## Committee Chair:



**Llyr Gruffydd AM**  
Plaid Cymru  
Mid and West Wales

## Current Committee membership:



**Rhun ap Iorwerth AM**  
Plaid Cymru  
Ynys Mon



**Neil Hamilton AM**  
UKIP Wales  
Mid and West Wales



**Mike Hedges AM**  
Welsh Labour  
Swansea East



**Jane Hutt AM**  
Welsh Labour  
Vale of Glamorgan



**Nick Ramsay AM**  
Welsh Conservatives  
Monmouth



**David Rees AM**  
Welsh Labour  
Aberavon

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The following Member was also a member of the Committee during this inquiry:



**Steffan Lewis AM**  
Plaid Cymru  
South Wales East

The following Member attended as a substitute during this inquiry:



**Mark Reckless AM**  
Welsh Conservative Group  
South Wales East

Simon Thomas AM was a member of the Finance Committee during this inquiry.

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# 1. Introduction

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

**1.** The Public Audit (Wales) Act 2013 (the Act) received Royal Assent on 29 April 2013.<sup>1</sup> 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 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. Under Section 28 of the Act, the National 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 National Assembly or the chair of such a committee or sub-committee".<sup>2</sup> In accordance with Standing Order 18.10, oversight of the WAO has been delegated to the Finance Committee (the Committee).<sup>3</sup>

**4.** This year's annual scrutiny of the Wales Audit Office and the Auditor General took place in two parts, to allow the Committee to hear from both the outgoing and incoming Auditor General.

**5.** The Committee examined the following publications on 5 July 2018 and took evidence from Huw Vaughan Thomas, the outgoing Auditor General for Wales, Alison Gerrard, Wales Audit Office Board Member, and two officials from the WAO:

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<sup>1</sup> [Public Audit \(Wales\) Act 2013](#)

<sup>2</sup> [National Assembly for Wales, Standing Orders of the National Assembly for Wales](#)

<sup>3</sup> [Business Committee minutes, 1 October 2013](#)

- [Annual Report and Accounts 2017-18;](#)
- [Final Audit Findings Report - Year Ended 31 March 2018;](#)
- [Making public money count: Auditor General for Wales and Wales Audit Office Annual Plan for 2018-19.](#)

**6.** On [7 November 2018,](#) the Committee took evidence from the incoming Auditor General for Wales, Adrian Crompton, Chair of the Wales Audit Office Board, Isobel Garner, and two officials from the WAO on the following publications:

- [Estimate of the income and expenses for the year ended 31 March 2020;](#)
- [Interim Report – An assessment of progress made against our 2018-19 Annual Plan during the period 1 April to 30 September 2018.](#)

## 2. Annual Report and Accounts 2017-18

**7.** The Annual Report and Accounts for 2017-18<sup>4</sup> were laid before the National Assembly on 8 June 2018. The previous Auditor General, Huw Vaughan Thomas, prepared the Accounts for 2017-18 as the Accounting Officer for the WAO, in accordance with Schedule 1 of the Act. The previous Auditor General and the Chair of the Wales Audit Office jointly prepared the Annual Report for 2017-18, in accordance with Schedule 2 of the Act.<sup>5</sup>

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

**9.** The Annual Report notes that the programme of work laid out in the Annual plan was “successfully delivered” and the WAO was on track to deliver all three-year priorities.<sup>6</sup>

**10.** Detailed information on the programmes of work delivered in 2017-18 and the progress made towards achieving the three-year strategic priorities is appended to the Annual Report and Accounts. The previous Auditor General told the Committee:

“You now have a report of the accounts of the Wales Audit Office that is far more comprehensive than the ones I inherited. So, it allows you to see what our priorities are and where we’re going. We have received national approval of the standards of our accounts.”<sup>7</sup>

### Performance

**11.** The Annual Report includes information on organisational performance against 35 performance indicators and notes that targets were “subject to further scrutiny and refinement during the year to ensure they remained suitably challenging but achievable within the specified timescales”.<sup>8</sup>

**12.** In 2017-18, 22 of the 35 performance measures were achieved, compared to 24 of 35 in 2016-17.

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<sup>4</sup> [Annual Report and Accounts 2017-18](#)

<sup>5</sup> [Public Audit \(Wales\) Act 2013](#)

<sup>6</sup> [Annual Report and Accounts 2017-18, page 20](#)

<sup>7</sup> Finance Committee, Record of Proceedings, 5 July 2018, paragraph 10

<sup>8</sup> [Annual Report and Accounts 2017-18, pages 16-19](#)

**13.** The Committee questioned the measures that have shown decline when compared to 2016-17, for instance the number of staff who feel their performance is evaluated fairly has decreased by 18 per cent. The previous Auditor General explained:

“With the staff ones, we changed the basis under which we were measuring them. In prior years, we developed our own, and there’s always a challenge when you’ve got something that you can’t compare with others. So, this year, we went for the civil service scheme, and therefore have adapted the civil service answers to our own. And I think, basically, we’ve got comparators on that one. On ‘their performance evaluated fairly’, 81 per cent agreed with the statement in the civil service one; 13 per cent said ‘neither agree nor disagree’. But that response was 16 per cent higher than the civil service average and 11 per cent higher than what the civil service will regard as their upper quartile. So, we are performing well, and I think, therefore, we’ve got a more realistic measure than we had previously.”<sup>9</sup>

**14.** The Director of Finance and Human Resources added that the WAO “recognise that there’s a degree of dissatisfaction around our annual appraisal process, so we’re currently looking at switching to an ongoing process through the year and we’d certainly hope then to be able to improve that indicator further”.<sup>10</sup>

## Governance

**15.** The Annual Report notes that the WAO Board continued to implement an action plan developed from the report of an independent evaluation of its effectiveness completed in 2016.<sup>11</sup> Alison Gerrard told the Committee that:

“there were just a couple of outstanding actions, one of which was about making sure that board member appraisals were properly undertaken, which is now completed, and also making sure that our board discussions had a strategic focus.”<sup>12</sup>

**16.** The Annual Report and Accounts for 2017-18 notes that the Management Committee of the WAO, working with the Audit and Risk Assurance Committee,

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<sup>9</sup> Finance Committee, Record of Proceedings, 5 July 2018, paragraph 15

<sup>10</sup> Finance Committee, Record of Proceedings, 5 July 2018, paragraph 16

<sup>11</sup> [Annual Report and Accounts 2017-18, page 58](#)

<sup>12</sup> Finance Committee, Record of Proceedings, 5 July 2018, paragraph 25

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completed development of an assurance map, which was adopted by the WAO Board in September 2017.<sup>13</sup>

**17.** When questioned on the Board’s utilisation of the assurance map, Alison Gerrard said:

“We use it at our audit committee in terms of making sure that we are also deep-diving in particular areas where we think we need to actually have a look whether we’ve got full assurance.

Also, the board looks at it to determine its agenda to make sure that we are giving all aspects, aligned to risk, of where we need to focus on. And also, for this coming year, our internal audit programme now is also aligned to making sure that, where we need more independent assurance, that’s also built into a key part of the internal audit programme, going forward. But it’s very much a working document, a working tool, which we see as something live rather than a glossy, published document.”<sup>14</sup>

**18.** The Annual Report and Accounts 2017-18 show that, following a self-assessment of its effectiveness, the Remuneration and HR Committee concluded that it needed to “maximise the value that the elected employee member’s perspective can bring to its work and the Board has approved changes to the terms of reference to clarify the role”.<sup>15</sup>

**19.** The Director of Finance and Human Resources clarified that the Remuneration and HR Committee’s terms of reference have changes, rather than the employee board members’ role. He continued:

“The remuneration committee felt that it could move from the position of approving every single HR policy change to one of just considering novel and contentious changes to policies, which makes a lot of sense in terms of the committee’s workload, and again freeing up the organisation to just crack on with more simple changes. But, as part of that, the committee realised that the elected member—or the employee member—was excluded from a lot of the discussions the committee was having due to conflicts of interest. The committee wanted to be clearer that it was only where there’s a direct conflict of

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<sup>13</sup> [Annual Report and Accounts 2017-18, page 59](#)

<sup>14</sup> Finance Committee, Record of Proceedings, 5 July 2018, paragraphs 27-28

<sup>15</sup> [Annual Report and Accounts 2017-18, page 61](#)

interest that the employee member would be excluded from the discussions, and that means that the employees' voice will be heard a lot more in future meetings."<sup>16</sup>

**20.** The Remuneration and HR Committee's self-assessment also noted that guidance is needed to ensure that its assurance role is not undermined.<sup>17</sup> The Director of Finance and Human Resources explained:

"It was linked to some of the discussions that were had around the voluntary exit scheme that we ran at the end of last year, in accordance with good practice. In fact, one of the auditor general's own reports said that any exit payments above £95,000 should quite rightly get considerable scrutiny. Those went through the committee, but because we weren't expecting to receive exit applications above that value, a committee meeting hadn't been scheduled. So, a lot of the discussion happened outside of a formal meeting through correspondence and telephone calls. I think the committee quite rightly said, 'We need to rethink that for the future'. The committee is now undergoing a post-project learning exercise, taking views from staff through to management through to the committee's own views, and we'll build that into any future schemes we run."<sup>18</sup>

**21.** The Annual Report contains the WAO's strategic risk profile, which includes one risk classified as "likely" with a major "impact", and another identified as "possible" with a "severe" impact.<sup>19</sup> Alison Gerrard told the Committee that one is to "realise the benefits of a diverse workforce and the second one is about insufficient funds through the Wales consolidated fund".<sup>20</sup>

**22.** In relation to the risk regarding workforce diversity, the Head of Planning and Reporting said:

"In terms of mitigating action we're taking, in April 2018 we published our strategic equality plan on our website. If you look in there, objective 5—one of our strategic equality objectives—is focused specifically on taking a strategic approach to addressing our gender pay gap and other structural pay gaps. In terms of mitigating action, it's listed there.

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<sup>16</sup> Finance Committee, Record of Proceedings, 5 July 2018, paragraph 37

<sup>17</sup> [Annual Report and Accounts 2017-18, page 61](#)

<sup>18</sup> Finance Committee, Record of Proceedings, 5 July 2018, paragraph 39

<sup>19</sup> [Annual Report and Accounts 2017-18, page 65](#)

<sup>20</sup> Finance Committee, Record of Proceedings, 5 July 2018, paragraph 50

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We'll review our recruitment and assessment approaches. We're going to advertise all management band and senior leadership team vacancies on an external basis. We're developing coaching and mentoring opportunities for all staff, including particularly aspiring managers and leaders, with a particular focus on under-represented groups and giving further consideration to other potential actions we can take."<sup>21</sup>

**23.** The Director of Finance and Human Resources added:

"We've got a real tension in that there has to be the opportunity. So, we're taking all of these steps, but, at the same time, over the last three years, we've reduced senior posts by six posts in three years. So, those opportunities have been taken away."<sup>22</sup>

## Staff and Remuneration

**24.** In 2017-18, the average days of sickness absence per employee was 7.6. This is over a day higher than the previous year (6.5 days), but lower than the public sector average (**8.5 days**). The total days lost includes short-term absences (which reduced slightly compared to 2016-17) and long-term absences for periods of 21 days or more, which increased compared to 2016-17. The Annual Plan 2017-18 shows that the overall target was less than 6.5 days.<sup>23</sup>

**25.** When asked what factors might reduce this figure in future, the Director of Finance and Human Resources said:

"...we've got a range of measures in place to support staff—our employee assistance programme and our health screening that includes mental health assessment. We were delighted earlier this year to secure a bronze standard in the corporate health standard. We've signed the Time to Change pledge and we've introduced both mental health champions and a well-being officer role into our health and safety adviser's role. So, I feel we're doing all the best practice work that we can to support staff, but inevitably there are occasions when staff are unwell."<sup>24</sup>

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<sup>21</sup> Finance Committee, Record of Proceedings, 5 July 2018, paragraph 53

<sup>22</sup> Finance Committee, Record of Proceedings, 5 July 2018, paragraph 54

<sup>23</sup> Annual Report and Accounts 2017-18, pages 37 and 84

<sup>24</sup> Finance Committee, Record of Proceedings, 5 July 2018, paragraphs 59-60

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**26.** The Annual Report notes that there have been seven voluntary exits, but also that the average number of full-time equivalent staff increased by three compared to 2016-17.<sup>25</sup>

**27.** The previous Auditor General confirmed that two exit payments were agreed above £95,000. The first, relating to the departure of a financial audit director, has resulted in the work being redistributed around the organisation. The departure of a senior manager was also agreed “because we had run short of Welsh-speaking senior managers, and we will be replacing with a particular requirement that Welsh is essential”.<sup>26</sup> When challenged on the approval of an exit payment over £95,000 to facilitate replacing a non-Welsh speaking post with a Welsh speaker, the previous Auditor General said:

“We agreed somebody’s request for voluntary early retirement. The payment was within the civil service terms. But the reason that we agreed to that was to allow us to effectively perform, because we were getting criticism from some of our local councils. So, that was the basis on which that person was agreed.”<sup>27</sup>

**28.** The Committee sought assurances that new roles are not being created that could either directly or indirectly replicate those roles subject to voluntary exit. The previous Auditor General explained:

“I can assure you in terms of the roles that, with the exception of the one that I talked about, we’ve always looked for payback in terms of the months before we can recover cost and add it to our overall savings target. You talked about the contrast between the numbers increasing and people being allowed to depart. We actually now have far more trainees than we’ve had in the past. We’re moving, as I mentioned last year, into the apprenticeship areas. I recall you asked me in terms of apprentices about making sure that we reached out to the—shall I say non-usual market? We are doing that. We’re aiming to get to the harder-to-reach people who wouldn’t perhaps have considered careers in professional accountancy, and we are talking to an organisation, a charity, that does this particularly in relation to legal services, and they are moving into looking at making sure that they’re going to [correction: at how they’re going to] operate in Wales. So, we’re talking to them about making sure that we can take advantage of their skills in

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<sup>25</sup> [Annual Report and Accounts 2017-18, pages 80-81](#)

<sup>26</sup> Finance Committee, Record of Proceedings, 5 July 2018, paragraphs 42-43

<sup>27</sup> Finance Committee, Record of Proceedings, 5 July 2018, paragraph 47



reaching out and bringing in apprentices. I think it is a real challenge in the future.”<sup>28</sup>

## Equality

**29.** Following last year’s scrutiny of the Annual Report and Accounts 2016-17, the Committee recognised the work undertaken to address the barriers to women progressing within the WAO. However, the Committee noted that the 2017-18 Annual Report does not contain the same level of analysis as 2016-17. The Head of Planning and Reporting assured the Committee that a full breakdown of employment information in relation to workforce diversity and structural pay gaps would be included in the annual equality report due to be published in October 2018. He explained that, in the interest of streamlined reporting, a decision had been taken not to duplicate this information in the annual report and accounts.<sup>29</sup>

**30.** The Director of Finance and Human Resources told the Committee that the four-year Strategic Equality Plan sets out a medium to long-term commitment to improve the diversity of the organisation.<sup>30</sup> Alison Gerrard added:

“...we have got this obviously in-built dilemma, when there’s low staff turnover, about how you particularly increase gender mix at senior management level. And, as I say, we described it as sort of a medium to long-term plan in terms of the actions, but how long are we, I guess, prepared to wait, and what is the medium to long term if there are no natural staff movements? And, on this, I guess it comes back, almost, to the Welsh language issue, about: would you be looking, potentially, for voluntary exits to speed those processes up? But there would obviously be a cost to that. So, that is something I think the board is going to have to take some significant discussion on if there isn’t natural turnover in that medium term.”<sup>31</sup>

**31.** The Director of Finance and Human Resources indicated that, whilst the WAO has not signed-up to the Chwarae Teg fair work initiative, it has prioritised talking to Chwarae Teg and other organisations.<sup>32</sup>

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<sup>28</sup> Finance Committee, Record of Proceedings, 5 July 2018, paragraph 70

<sup>29</sup> Finance Committee, Record of Proceedings, 5 July 2018, paragraph 82

<sup>30</sup> Finance Committee, Record of Proceedings, 5 July 2018, paragraph 84

<sup>31</sup> Finance Committee, Record of Proceedings, 5 July 2018, paragraph 85

<sup>32</sup> Finance Committee, Record of Proceedings, 5 July 2018, paragraph 87

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**32.** The Equality Report 2017-18 notes that the WAO has progressed from 251st to 110th in the Stonewall Workplace Equality Index (in which it has participated for two years), but also acknowledges that it has more work to do to narrow pay gaps, particularly in relation to gender and ethnicity, as well as encouraging a higher number of job applications from people with impairments. The report identifies a gender pay gap of 17.4 per cent and an ethnicity pay gap of 33.7 per cent (as at 31 March 2018). Amongst the activities and issues identified in that report, the WAO notes:

“Since 31 March 2016, our overall negative pay gap for staff who identify themselves as being from a non-white background has risen from 25.2% to 33.7%... By comparison, the mean ethnicity pay gaps reported by the accountancy firms PwC, Deloitte, KPMG and EY in their 2017 UK pay gap reports were 12.8%, 12.9%, 13.9% and 17.3% respectively...”<sup>33</sup>

**33.** It goes on to say:

“While acknowledging that, due to the small numbers involved in categories other than White, the data is sensitive to even small changes in these cohorts, we consider that the extent of this pay gap is a particular cause for concern as it is relatively high compared to pay gaps for different ethnic groups in the UK identified by the Equality and Human Rights Commission.”<sup>34</sup>

**34.** During the evidence session with the new Auditor General, the Committee asked what action the WAO was taking to address these concerns. The Director of Corporate Services said the Board “has a very strong view that there are moral, legal, and there are business benefits of having a more diverse workforce”.<sup>35</sup>

**35.** In addition to the initiatives outlined to the Committee on 5 July (paragraph 22), the Director of Corporate Services confirmed that the Board has endorsed a more targeted approach to recruitment, welcoming expressions of interest from the Black, Asian, and minority ethnic community or from people seeking part-time/job share positions, and offering guaranteed interviews to candidates from underrepresented groups who meet the minimum criteria.<sup>36</sup>

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<sup>33</sup> Equality Report 2017-18, October 2018, page 16

<sup>34</sup> Equality Report 2017-18, October 2018, page 16

<sup>35</sup> Finance Committee, Draft Record of Proceedings, 7 November 2018, paragraph 119

<sup>36</sup> Finance Committee, Draft Record of Proceedings, 7 November 2018, paragraph 120

## Committee view

**36.** The Committee notes the progress made in implementing the action plan developed following the independent evaluation of the WAO Board's effectiveness in 2016 and the Board's adoption and utilisation of the assurance map.

**37.** In considering the early exit payment, the Committee is mindful of the Auditor General's guidance "Managing early departures across Welsh public bodies", which states:

"Scrutiny of early departures is important in ensuring that proposals for both schemes and individual early departures represent value for money. We found that more than three quarters of public bodies had councillors or board members involved in some way in ensuring value for money for their early departures (paragraphs 2.25-2.26).

R3 We recommend that public bodies:

- Ensure that councillors or board members have the opportunity to examine the value for money of early departure schemes through established scrutiny/governance arrangements.
- Ensure that councillors and/or board members approve higher value packages, such as those for senior management.
- Consider using internal audit to provide assurance on overall management of early departure schemes."

**38.** The Committee is concerned that exit payments above £95,000 do not appear to have been subject to the established formal scrutiny and governance arrangements advocated in the Auditor General's guidance on managing early departures across Welsh public bodies.

**39.** The Committee is disappointed that the average days of sick absence per employee has increased, but acknowledges the longer term nature of some cases and notes the actions taken to reduce sick levels.

**40.** The Committee notes the actions taken to address concerns around gender and ethnicity pay gaps and recognises the tension between creating a more diverse workforce, securing the right skills mix and delivering savings through the use of voluntary exit schemes. However, the Committee believes that the WAO

could become a more progressive organisation, for example, by formally engaging with Chwarae Teg to support women in career development.

**Recommendation 1.** The Committee is content with the Annual Report and Accounts 2017-18.

**Recommendation 2.** The Committee recommends that the Wales Audit Office provides an update on the outcome of the post-project learning exercise undertaken by the Remuneration and HR Committee in relation to early exit payments.

**Recommendation 3.** The Committee recognises the work undertaken so far to address the gender and ethnicity pay gaps and recommends that further progress updates are provided to the Committee.

**Recommendation 4.** The Committee recommends that the Wales Audit Office gives further consideration to signing-up to Chwarae Teg's FairPlay Employer service.

## 3. Final Audit Findings Report – Year Ended 31 March 2018

**41.** The Final Audit Findings Report<sup>37</sup> summarises the key findings of the auditors of the WAO, RSM UK Audit LLP, in connection with the audit of the financial statements of WAO in respect of the year ended 31 March 2018. This is a requirement under Schedule 1 of the Act.<sup>38</sup>

**42.** RSM has provided an unqualified or “clean” audit opinion of the WAO’s accounts. RSM’s Final Audit Findings Report for the year ended 31 March 2018 provides details of issues raised during the audit.

**43.** In previous years, RSM has recommended that the WAO should consider the outturn on projects and factor this into the stage of completion for revenue recognition. The WAO had recognised £98,000 of income related to a 2015-16 project previously undertaken by a contractor which had encountered “difficulties”. This amount is included as an adjustment in section 5 of the RSM report, as “concerns remain over its value and recoverability”.<sup>39</sup>

**44.** During the audit, RSM identified four audit and accounting issues:

- **Rates repayment and accrual** - an adjustment of £162,000 relating to “council rates” for 31 March 2019 year end;
- **HMRC death in service** - an adjustment of £58,000 in relation to an issue regarding tax on death in service;
- **Firms’ actual outturn position** - the WAO includes overhead costs in its fees, however, there is no review of how these overhead costs are allocated. RSM has recommended that any amendments to the Public Audit (Wales) Act 2013 also consider the definition of cost within the context of indirect cost allocation.
- **Procurement** - RSM states that further training is needed to ensure greater consistency in application of the processes around storing and accessing procurement information. This is not considered material.<sup>40</sup>

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<sup>37</sup> [Final Audit Findings Report – Year Ended 31 March 2018](#)

<sup>38</sup> [Public Audit \(Wales\) Act 2013](#)

<sup>39</sup> [Final Audit Findings Report – Year Ended 31 March 2018, page 4](#)

<sup>40</sup> [Final Audit Findings Report – Year Ended 31 March 2018, pages 6-7](#)

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**45.** The WAO's Annual Report and Accounts 2017-18 includes £143,000 under "provision for liabilities and charges", which represents "a refund of fees due to two audited bodies as a result of over-invoicing in prior periods by a contractor firm".<sup>41</sup> This is identified in RSM's Final Audit Findings Report as a significant deficiency in internal control. RSM notes that management within the WAO were aware that the costs appeared to be high for these audits, but no action was taken to investigate the costs.<sup>42</sup> When asked why there was not a more detailed examination of the invoices, the previous Auditor General told the Committee:

"There are, in fact, three areas that have arisen here, which, if I was still here, I'd be taking into account in the contracting strategy next year. There are three areas and they all concern the big four firms. I think, in one case, there's an issue that we have relied on the big four having their own quality processes that are overseen by professional bodies and our lesson from that is that we will not, in future, rely on that; we will subject them to our own quality processes. In this case, we should have taken action earlier. I'll be quite clear: we should have taken action after month 1, when we thought, 'This is a bit high for two councils.' Month 2 came in and it should have been stopped at month 2, by saying, 'This is exactly the same as the previous month.' But it wasn't until month 3 that actually action was taken. Now, we're clearly taking steps internally to prevent that happening. It does mean that we have a complicated bit of us, in the first instance, reimbursing the authorities concerned and, secondly, recovering costs from the external firm of accountants."<sup>43</sup>

## Committee view

**46.** The Committee is concerned by RSM's finding that there was a significant deficiency in internal control and notes the steps taken by the previous Auditor General to address this. However, it remains concerning that management was aware of the high costs but did not investigate these costs.

**Conclusion 1.** The Committee is content with the Final Audit Findings report from RSM UK Audit LLP, which concluded that the 2017-18 accounts provide a true and fair view of the state of the Wales Audit Office affairs.

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<sup>41</sup> [Annual Report and Accounts 2017-18, pages 115-116](#)

<sup>42</sup> [Final Audit Findings Report - Year Ended 31 March 2018, page 10](#)

<sup>43</sup> Finance Committee, Record of Proceedings, 5 July 2018, paragraph 112

**Conclusion 2.** The Committee notes the issues raised by RSM in its audit of the WAO, and recognises that the RSM report identifies that steps are being taken to address these issues.

**Recommendation 5.** The Committee notes RSM's recommendation that any amendments to the Public Audit (Wales) Act 2013 should also consider the definition of cost within the context of indirect cost allocation. The Committee will be considering proposals to amend the Public Audit (Wales) Act 2013 in the New Year and recommends that the Auditor General gives further consideration to this and provides an update to the Committee.

**Recommendation 6.** The Committee recommends that the Auditor General provides assurances that effective internal controls are in place to avoid a recurrence of overpayment of fees, as raised by RSM, and an update on this should be provided in the Annual Report for 2018-19.

## 4. Annual Plan 2018-19 and Interim Report 2018-19

**47.** The Act requires the Auditor General and the WAO to publish an Annual Plan and at least one Interim Report each year.<sup>44</sup>

**48.** The Annual Plan 2018-19<sup>45</sup> covers the delivery of the programmes of work during the respective year and was laid before the National Assembly on 29 March 2018. The Committee considered the Annual Plan during its evidence session with the outgoing Auditor General, Huw Vaughan Thomas, on 5 July 2018.

**49.** The Interim Report<sup>46</sup> 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 2018-19 and provides information on key performance measures. The Interim Report was laid before the National Assembly on 25 October 2018. The Committee scrutinised the Interim Report during its evidence session with the new Auditor General, Adrian Crompton, on 7 November 2018.

### Annual Plan

**50.** The Annual Plan, published under the outgoing Auditor General, outlines a number of areas that the WAO and Auditor General believe will have the greatest influence over the way work is delivered over the next three years:

- Remaining in a period of financial constraint
- The continuing evolution of the political and policy landscape, including:
  - Implications of Brexit
  - Fiscal devolution
  - Proposals for local government reform
  - Requirement for earlier closure of local government accounts
  - Introduction of the General Data Protection Regulation (GDPR)

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<sup>44</sup> Public Audit (Wales) Act 2013

<sup>45</sup> Making public money count: Auditor General for Wales and Wales Audit Office Annual Plan for 2018-19

<sup>46</sup> Interim Report, October 2018



- Developments in Health and Social Care
- Governance arrangements are now required to have a wider scope
- Living in an increasingly networked society<sup>47</sup>

**51.** The Committee asked what flexibility is built into the Annual Plan 2018-19 to ensure that the priorities of the new Auditor General are met. The previous Auditor General said:

“The reason why I decided to tender my resignation at this point was indeed to allow the incoming auditor general a chance to set his or her own priorities when it came to the estimates. With the estimates comes the business of next year. That’s really where the main bit is in terms of the programme of audit work. ...he’ll be able to actually influence the direction of travel for the estimates and for next year. The reality is, at this point in the year, the work is already engaged and his changes will take a little while to go through.”<sup>48</sup>

**52.** The Annual Plan notes that the WAO and Auditor General have reviewed and revised the framework of key performance indicators (KPIs) and states that the KPIs are now “more clearly aligned with our overall objectives”.<sup>49</sup> The number of KPIs has been reduced from 35 in 2017-18 to 27 in 2018-19.

**53.** Given the changes to KPIs contained in the Annual Plan 2018-19, the Committee questioned how comparability with prior years would be undertaken, to identify improving and declining areas. The Head of Planning and Reporting explained:

“The changes we’ve made are more about which are key performance indicators and which are performance indicators. What you see in the plan is what the board and the auditor general have agreed. They considered what should be the framework of key performance indicators that are kept under very close scrutiny throughout the year. However, we haven’t actually got rid of any former KPIs this year, what

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<sup>47</sup> [Making public money count: Auditor General for Wales and Wales Audit Office Annual Plan for 2018-19, pages 10-12](#)

<sup>48</sup> Finance Committee, Record of Proceedings, 5 July 2018, paragraph 139

<sup>49</sup> [Making public money count: Auditor General for Wales and Wales Audit Office Annual Plan for 2018-19, paragraph 38](#)

we've done is just slightly downgraded them to performance indicators, but we still record and monitor those indicators.”<sup>50</sup>

## Interim Report

**54.** The Interim Report details progress against delivery of the Annual Plan 2018-19. It notes that “there has been no need to deviate significantly from the work programmes” in the Annual Plan and that since publication “changes have been made to some studies as the scope of the work has become more clearly defined”.<sup>51</sup>

**55.** It states that “the last six months have been a period of significant internal change” following the retirement of the former Auditor General, but notes that arrangements were in place to ensure an effective handover.<sup>52</sup>

**56.** In terms of finances, the Interim Report notes that current forecasts confirm the WAO is on track to comply with its budget and deliver its efficiency target of £250,000.<sup>53</sup>

**57.** The WAO notes “good progress” in terms of achieving its ten three-year priorities and reports that 12 of the 27 KPIs were achieved as of 30 September 2018.<sup>54</sup>

**58.** The Committee asked the new Auditor General whether he had amended the 2018-19 work programme in any way. He said:

“We’re tweaking things all the time, but I haven’t arrived and given a fundamental change of direction. As I said earlier, our forward programme of national investigative studies will see the light of day this month. That will be the first opportunity for me to give a more fundamental steer in terms of the nature of the work that we do, and I do have some thoughts on that.”<sup>55</sup>

**59.** When asked if he was confident that KPI targets would be met, the new Auditor General said:

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<sup>50</sup> Finance Committee, Record of Proceedings, 5 July 2018, paragraph 141

<sup>51</sup> [Interim Report, October 2018, page 8](#)

<sup>52</sup> [Interim Report, October 2018, page 4](#)

<sup>53</sup> [Interim Report, October 2018, page 31](#)

<sup>54</sup> [Interim Report, October 2018, page 9](#)

<sup>55</sup> Finance Committee, Draft Record of Proceedings, 7 November 2018, paragraph 128

“Yes, absolutely. I’m very confident that we’re on track or have in hand measures in respect of some of the indicators where we clearly need to do more. But, there’s nothing that is concerning me overly.”<sup>56</sup>

## Committee view

**60.** The Committee notes that the KPI framework has been revised to align with the WAO’s overall objectives but the Committee is keen to ensure that year on year comparability is identifiable.

**Conclusion 3.** The Committee notes the Annual Plan 2018-19 and Interim Report 2018-19 and is content with both of these documents.

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<sup>56</sup> Finance Committee, Draft Record of Proceedings, 7 November 2018, paragraph 126

## 5. Estimate of the income and expenses for the year ended 31 March 2020

**61.** The Estimate of the income and expenses for the year ended 31 March 2020 (the Estimate) was jointly prepared by the new Auditor General and the Chair of the WAO and laid before the National Assembly on 26 October 2018, in accordance with Section 20(1) of the Act.<sup>57</sup>

**62.** 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.”<sup>58</sup>

### Overview of the Estimate

**63.** The Estimate 2019-20 requests cash funding from the Welsh Consolidated Fund (WCF) of £6.9 million, which is approximately 32 per cent of WAO income. The remaining 68 per cent is funded through fees charged to audited bodies.<sup>59</sup>

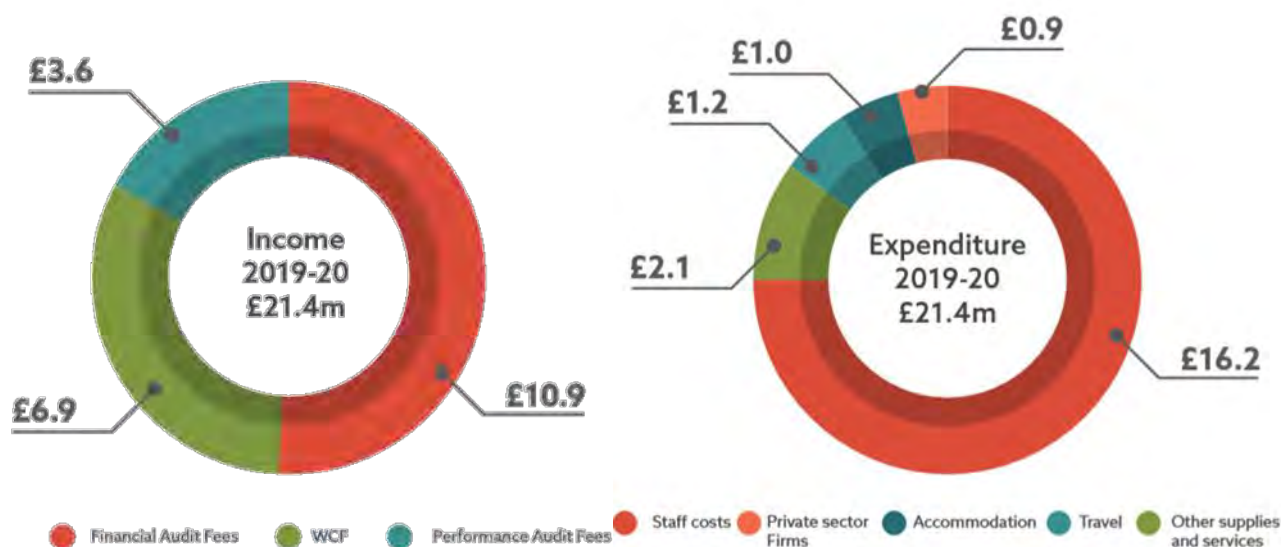
**64.** The estimated expenditure and income for the WAO in 2019-20 is outlined in the charts below:

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<sup>57</sup> [Estimate of the Income and Expenses of the Wales Audit Office 2019-20](#)

<sup>58</sup> [National Assembly for Wales, Standing Orders of the National Assembly for Wales, Standing Order 20.22](#)

<sup>59</sup> [Estimate of the Income and Expenses of the Wales Audit Office 2019-20, page 14](#)



Source: The Wales Audit Office - Estimate of the Income and Expenses of the Wales Audit Office for the Year Ended 31 March 2020, Exhibit 4 and 6

**65.** The funding requested for 2019-20 represents a £115,000 reduction compared to the previous year. The Estimate notes that this has been achieved in the context of internal cost pressures, the need to fund strategic priorities and wider public sector funding restraint.<sup>60</sup>

**66.** The Committee asked the incoming Auditor General how much he had been able to drive the estimate process and whether it reflected his priorities. The Auditor General said:

“...yes, I undoubtedly had the opportunity to get under the skin of the estimate, to understand it, to challenge and to influence it, so I’m entirely comfortable with it and, yes, it does reflect what I think the organisation needs next year and in the future.”<sup>61</sup>

**67.** In terms of his early priorities, the Auditor General explained that he has committed to meet personally with the chief executive of every major public body engaging with the organisation to understand the challenges they face, what they need from the WAO and how they view the WAO’s work.<sup>62</sup>

**68.** The Estimate 2018-19 was presented with expenditure listed under “Strategic Priorities”, however, the 2019-20 Estimate provides information as to how

<sup>60</sup> Estimate of the Income and Expenses of the Wales Audit Office 2019-20, paragraph 5

<sup>61</sup> Finance Committee, Draft Record of Proceedings, 7 November 2018, paragraph 5

<sup>62</sup> Finance Committee, Draft Record of Proceedings, 7 November 2018, paragraph 6

expenditure meets organisational “objectives”. When asked whether this represents a change in approach, the Auditor General said:

“...one of the things that we will say to the rest of the public sector is that they need to be open and transparent in presenting information like this to enable scrutiny by you and by the public at large. So, our estimate does, I think, give a lot of specific detail that allocates pots of funding to important objectives that we have to deliver.”<sup>63</sup>

**69.** The Director of Corporate Services explained that the Estimate now follows the approach taken in the Annual Plan, aligning the spending bids with the delivery of four objectives (being a well-run organisation, promoting improvement, providing assurance and offering insight), with ten strategic priorities supporting the delivery of those objectives.<sup>64</sup>

**70.** The change in revenue between 2018-19 and 2019-20 is £180,000 and consists of £130,000 reduction in funding associated with the National Fraud Initiative (NFI) and £50,000 reduction in preparatory work for the Welsh Revenue Authority. This reduction is partially offset by increases of £135,000, comprising £50,000 for the implementation phase of strategic transformation projects and £85,000 for a preparedness review for withdrawal from the European Union.<sup>65</sup>

**71.** Acknowledging the cyclical reduction in funding for the NFI and assuming that the Estimate 2020-21 will require an increase of £130,000, the Committee asked how the WAO would ensure that there will not be a significant increase in funding in future years. The Director of Finance and Human Resources said:

“...every other year that £130,000 comes in and goes out. It’s what we have to pay over to Cabinet Office to support the data-matching exercise in a very secure system across public services. The committee might remember we used to charge audited bodies for this, and the committee supporting switching it into our estimate in order to encourage voluntary participation, and in this last exercise, we had two housing associations in there, as well as the Welsh Government and the Wales Audit Office. I think, going forward, what we’re looking at, or what we’re seeing, is keen interest from Natural Resources Wales and

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<sup>63</sup> Finance Committee, Draft Record of Proceedings, 7 November 2018, paragraph 10

<sup>64</sup> Finance Committee, Draft Record of Proceedings, 7 November 2018, paragraph 11

<sup>65</sup> [Estimate of the Income and Expenses of the Wales Audit Office 2019-20, page 10](#)

Transport for Wales and the Welsh Revenue Authority, and so, the appeal of that free access is very evident.”<sup>66</sup>

**72.** He went on to highlight that the return on the £230,000 investment over two years resulted in £5.4 million this exercise and £4 million in the previous two years.<sup>67</sup>

**73.** The Estimate shows that the profile of future capital investment (beyond 2020-21) has reduced compared to the Estimate 2018-19. The WAO previously identified capital investment of £250,000 per year from 2019-20 to 2021-20. In its Estimate 2019-20, the WAO anticipates capital investment of £210,000 in 2019-20 and 2020-21, increasing to £250,000 in 2021-22.<sup>68</sup> When asked why the decrease is higher than previously indicated, the Director of Finance and Human Resources explained:

“...I would say that figure could well change every year as we come into the Finance Committee. And it’s because we look bottom up as to what our needs are for the following year. Over the past two years, we’ve invested heavily in some corporate systems, so those are in place with contracts now for the next three to four years. You therefore see a lull in our spend on corporate systems for the next two years and they pick up again in three to four years’ time.”<sup>69</sup>

**74.** The WAO also notes potential changes to the Financial Reporting Manual (FReM) for 2019-20 that may require leases to be treated as capital assets within the accounts. This may require a supplementary estimate to regularise the change if implemented.<sup>70</sup>

**75.** The Estimate 2019-20 also includes a draft Fee Scheme for 2019-20 and notes that there will be an increase in fee rates, to be “offset by reductions in the audit days and skills mix to keep our fee scales unchanged from 2018-19”.<sup>71</sup>

**76.** The Auditor General told the Committee that the reduction in audit days and skills mix to offset the increase in fee rates would not compromise the quality of audits. He continued:

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<sup>66</sup> Finance Committee, Draft Record of Proceedings, 7 November 2018, paragraph 35

<sup>67</sup> Finance Committee, Draft Record of Proceedings, 7 November 2018, paragraph 36

<sup>68</sup> [Estimate of the Income and Expenses of the Wales Audit Office 2019-20, page 16](#)

<sup>69</sup> Finance Committee, Draft Record of Proceedings, 7 November 2018, paragraph 41

<sup>70</sup> [Estimate of the Income and Expenses of the Wales Audit Office 2019-20, page 18](#)

<sup>71</sup> [Estimate of the Income and Expenses of the Wales Audit Office 2019-20, paragraph 2](#)

“...there are numerous practical things that we could do on the ground to make any individual audit a smoother and more efficient process in terms of our relationships with audited bodies—the materials that they can provide us with, the timing of that and so on—the mix of staff—yes we can mix up different combinations of senior and junior staff, which doesn’t compromise the quality of what we do but helps us to manage the overall charge.”<sup>72</sup>

## Use of Welsh Consolidated Fund

**77.** The Estimate outlines funding to support three key projects aimed at transforming the way the organisation works:

- **Data Analytics (£260,000)** – Following on from the WAO’s “Cutting Edge Audit” project in 2017-18 specific funding was agreed to invest in data analytics capabilities. The Estimate details that a suite of governance arrangements have been agreed, staff resources are in place and that progress has been made on 15 pilot projects.
- **Transforming Communications (£50,000)** – The WAO has been working to maximise the audience it reaches. A 2017-18 project made recommendations around style and techniques for communication. An additional £50,000 is sought to implement this in 2019-20.
- **Future Ways of Working (£50,000)** – This project commenced in September 2018 and will review use of office accommodation, tools and technology as well as flexible working arrangements.<sup>73</sup>

**78.** The Committee sought further information on how the £50,000 funding would be used to transform communications. The Director of Corporate Services said the project seeks to make communications easier to understand, extending the reach of the WAO’s work and increasing engagement with stakeholders. In terms of implementing the recommendations, he explained that the WAO is looking to make communication channels more accessible, review the house style, extend the use of plain English and make changes to its website.<sup>74</sup>

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<sup>72</sup> Finance Committee, Draft Record of Proceedings, 7 November 2018, paragraph 103

<sup>73</sup> [Estimate of the Income and Expenses of the Wales Audit Office 2019-20, paragraphs 56-59](#)

<sup>74</sup> Finance Committee, Draft Record of Proceedings, 7 November 2018, paragraphs 26-27

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**79.** The Estimate includes an increase of £85,000 national reporting funding to allow for a report on the preparedness for withdrawal from the EU.<sup>75</sup> The Estimate also notes:

“In the event of there being no transitional agreement with the EU, it may be necessary to return to the Finance Committee with a Supplementary Estimate for 2019-20 to allow us to respond more quickly to the challenges faced.”<sup>76</sup>

**80.** The Auditor General told the Committee that he had influenced this aspect of the Estimate as the WAO’s thinking on what Brexit related work it should undertake was at an early stage when he commenced the role.<sup>77</sup> He added:

“...we estimate that the scale of work that we have in mind for this Brexit piece is broadly equivalent to a couple of medium to large value for money studies—£85,000 is about a quarter of that cost. We did have an internal debate about what we should present to you. I could fund that solely by diverting funds away from the rest of the studies programme to fund that element of work. I could have come to you and asked for the full amount, because it’s on top of the routine programme of work. £85,000, we thought, was an appropriate balance between the two. So, I’ll be diverting a significant amount of funding away from other aspects of the studies programme to support this. The £85,000 is a significant contribution to the cost.”<sup>78</sup>

**81.** The Auditor General explained that a call for evidence to public bodies had just been initiated, which he intends to follow up with more detailed fieldwork next spring, with a view to reporting in the summer. In the event of there being no transitional arrangements with the EU, the Auditor General told the Committee that the call for evidence would be followed-up as quickly as possible “with some further work, so that we could make a contribution at the very start of 2019 that would be of some value”.<sup>79</sup>

**82.** In terms of potentially needing to request additional funding during the next financial year if no deal is reached, the Auditor General said:

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<sup>75</sup> [Estimate of the Income and Expenses of the Wales Audit Office 2019-20, paragraph 42](#)

<sup>76</sup> [Estimate of the Income and Expenses of the Wales Audit Office 2019-20, paragraph 46](#)

<sup>77</sup> Finance Committee, Draft Record of Proceedings, 7 November 2018, paragraph 15

<sup>78</sup> Finance Committee, Draft Record of Proceedings, 7 November 2018, paragraph 16

<sup>79</sup> Finance Committee, Draft Record of Proceedings, 7 November 2018, paragraphs 17 and 21

“The reference of the supplementary budget is a reflection of the fact that we simply don’t know what that would entail and the extent to which I would be in a position to redivert resources from other areas to support that. So, we just wanted to put a marker down that there is a possibility that, if we are in that situation, and we can’t find a way to absorb it internally, we may need to come back to the committee at that point.”<sup>80</sup>

**83.** The WAO has identified £170,000 capital investment for ICT systems in 2019-20. This includes:

- Planned PC/infrastructure renewal (£95,000);
- Video Conferencing Infrastructure Renewal (£25,000);
- Corporate Systems (£50,000).<sup>81</sup>

**84.** The WAO’s capital programme also includes £40,000 in 2019-20 for ongoing investment required to maintain three offices it leases in Cardiff, Swansea and Abergele.<sup>82</sup>

**85.** When asked why the WAO intends to spend £25,000 on video conferencing (an increase from £15,000 in 2018-19), the Director of Corporate Services confirmed that it would be used to fund the replacement of kit and to “extend the use of the video-conferencing kit, for which there’s been an incredible take-up and it has delivered some real business benefits”.<sup>83</sup>

**86.** He emphasised that video conferencing has resulted in a number of tangible benefits, such as improving work-life balance, reducing travel and contributing to CO<sup>2</sup> emissions targets.<sup>84</sup>

## Savings and efficiencies

**87.** The Estimate states that since the creation of the WAO Board in 2013-14, it will have reduced the cost of public audit in Wales by 14 per cent in real terms (a cumulative savings of £13 million). It goes on to say that the organisation works

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<sup>80</sup> Finance Committee, Draft Record of Proceedings, 7 November 2018, paragraph 21

<sup>81</sup> Estimate of the Income and Expenses of the Wales Audit Office 2019-20, pages 16-17

<sup>82</sup> *ibid*

<sup>83</sup> Finance Committee, Draft Record of Proceedings, 7 November 2018, paragraph 45

<sup>84</sup> Finance Committee, Draft Record of Proceedings, 7 November 2018, paragraphs 48 and 50

hard to absorb cost increases from pay agreements, contractual salary increments, general inflation and other unavoidable increases, by:

- setting out a savings, efficiency and effectiveness programme within its Medium-Term Financial Plan;
- refining and developing audit approaches;
- regularly revisiting its staffing levels and staff skills mix;
- transforming how it works.<sup>85</sup>

**88.** The Estimate 2019-20 commits the WAO to a savings target of £574,000, whilst not increasing the overall fees it charges audited bodies.<sup>86</sup>

**89.** When asked whether the data analytics project would contribute to the savings target in 2019-20, the Auditor General told the Committee:

“It is too early in the programme to be able to say with any confidence what efficiencies we can squeeze from this, but one thing I have been crystal clear about with the team from the start is that, unless we recognise that efficiency and cost saving is an element of the benefits that we want to draw from this —on big projects like this—that has a habit of drifting down the priority list. So, the benefits realisation plan that we have in place has cost saving and efficiency very clearly as one of the benefits we want to drive. But, as I say, I think the benefits are far wider than that and far more exciting than that alone. I would hope that, if I’m in front of you in a year’s time, we would be in a position then to give you a much clearer picture of the scale of the efficiencies and wider benefits that we can draw from this and the timescales.”<sup>87</sup>

**90.** The Committee questioned the witnesses on the main projects contributing towards the savings target. The Director of Finance and Human Resources said:

“...we have a medium-term financial plan that looks ahead five years, and every year we refresh that and look at the year ahead. Within that medium-term financial plan, we have an efficiency and effectiveness programme. We call it ‘Smarter, Leaner, Better’, and there are four

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<sup>85</sup> [Estimate of the Income and Expenses of the Wales Audit Office 2019-20, page 20](#)

<sup>86</sup> [Estimate of the Income and Expenses of the Wales Audit Office 2019-20, page 6](#)

<sup>87</sup> Finance Committee, Draft Record of Proceedings, 7 November 2018, paragraph 70

pillars in there, those being around people, processes, procurement and property.”<sup>88</sup>

**91.** He explained that the efficiency programme included:

- examining the skills mix and ways of working,
- reviewing processes to identify efficiencies,
- ensuring that procurement delivers value for money, and
- identifying savings when renewing property leases.<sup>89</sup>

## Potential risks

**92.** The Estimate notes that the Government Actuary Department is undertaking a valuation of the Civil Service Pension Scheme, with the results anticipated later this year. It also states:

“The Cabinet Office is expecting this to result in a significant increase to employer contribution rates. Given the uncertainty, no provision for any increase in rates has been made within our Estimate for 2019-20. In the event of a significant increase we may need to return to the Finance Committee with a Supplementary Estimate for 2019-20 and, potentially, a revised Fee Scheme for the year, depending on the extent of any increase.”<sup>90</sup>

**93.** The Director of Finance and Human Resources confirmed that the anticipated 7 per cent increase equates to £750,000 and that the WAO “simply can’t afford to absorb that”.<sup>91</sup> He went on to say:

“Our options are that we either come back to the committee with a proposal to increase our call on the Welsh consolidated fund or we look to pass it on through our fee charges, and we’d need to come back to the committee to agree a revised fee scheme and we’d be having conversations with the likes of local government as to why their fees are

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<sup>88</sup> Finance Committee, Draft Record of Proceedings, 7 November 2018, paragraph 73

<sup>89</sup> Finance Committee, Draft Record of Proceedings, 7 November 2018, paragraphs 73-76

<sup>90</sup> [Estimate of the Income and Expenses of the Wales Audit Office 2019-20, paragraph 10](#)

<sup>91</sup> Finance Committee, Draft Record of Proceedings, 7 November 2018, paragraph 90

going up to fund our pensions. And, as you can imagine, that's not going to be a comfortable conversation to have."<sup>92</sup>

**94.** The Estimate also highlights potential pressures on pay and prices, suggesting that it will make it “difficult to maintain our commitment to restrict any additional call on WCF to new demands and to keep any increases to our fees to an absolute minimum” and that costing and funding assumptions may need to be revisited if these pressures exceed expectations.<sup>93</sup>

**95.** The Director of Finance and Human Resources told the Committee:

“...at the moment, the assumptions we've made around pay and other inflationary costs are affordable and are set out in our estimate. If there are significant changes to those assumptions—the pensions is one example, and Adrian's commented around the unknown risks around Brexit as well—. So, if costs appear to escalate because of that then, again, we'd need to come back and have a conversation with the committee about that. But what we would be doing is being very clear about what our assumptions were and what the changed assumptions are and what the cost impact of that is.”<sup>94</sup>

**96.** The Auditor General also brought the Committee's attention to the loss of “a significant stream of income that comes from the audit work that we do for European and agricultural funds”.<sup>95</sup> He continued:

“Provided we have the transition period, we have a little time to plan ahead for that, but that will have a significant knock on our overall level of income, but we know that's coming and so we can plan and make arrangements for it.”<sup>96</sup>

## Committee view

**97.** The Committee welcomes the open and transparent presentation of the Estimate and the decision to align funding priorities with the delivery of the WAO's four objectives, following the approach taken in the Annual Plan.

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<sup>92</sup> Finance Committee, Draft Record of Proceedings, 7 November 2018, paragraph 90

<sup>93</sup> [Estimate of the Income and Expenses of the Wales Audit Office 2019-20, page 33](#)

<sup>94</sup> Finance Committee, Draft Record of Proceedings, 7 November 2018, paragraph 93

<sup>95</sup> Finance Committee, Draft Record of Proceedings, 7 November 2018, paragraph 85

<sup>96</sup> Finance Committee, Draft Record of Proceedings, 7 November 2018, paragraph 85

**98.** The Committee notes the possibility of further in-year funding requests in the next financial year to address increases in employer pension contributions and changes to rules on accounting for leases. The Committee recognises that these are factors beyond the WAO's control and welcomes the inclusion of this information in the Estimate. The Committee also notes that the WAO may need to revisit its funding assumptions should pressures on pay and prices exceed its expectations.

**99.** The Committee notes the Auditor General's comments around additional funding in the event of there being no transitional agreement with the EU and would welcome further clarity on the need to request more funds in 2019-20, beyond the required £85,000.

**100.** The Committee notes the impact of no longer undertaking audit work for European and agricultural funds and requests further details on the level and potential impact of this lost income.

**101.** The Committee welcomes the WAO's ambitious savings target set in 2019-20, driven by its efficiency and effectiveness programme "Smarter, Leaner, Better".

**102.** The Committee recognises the value of NFI and supports its funding to maintain access at no cost for participants. To maximise the value of the scheme, the Committee would like the Wales Audit Office to encourage access to as many bodies as possible.

**Conclusion 4.** The Committee is content with the Wales Audit Office Estimate 2019-20, attached as an Annex to this report, including the draft fee scheme.

**Recommendation 7.** The Committee recommends that the Wales Audit Office updates the Committee on the impact of any increase in employer pension contributions or pay and price pressures as soon as they are known.

**Recommendation 8.** The Committee recommends that the Wales Audit Office clarifies the potential need for additional funding in 2019-20 in the event of there being no transitional agreement with the EU.

**Recommendation 9.** The Committee recommends that the Wales Audit Office provides further details on the estimated value of income that will be lost as a result of no longer undertaking EU grants audit activity.

**Recommendation 10.** The Committee recommends that the Wales Audit Office provides a breakdown of the projects and savings delivered as part of the "Smarter, Leaner, Better" programme.

**Recommendation 11.** The Committee recommends that the Wales Audit Office provides details of the savings and efficiencies realised from its investment in Data Analytics in future estimates and annual reports.

## Annex 1: List of oral evidence sessions

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

<b>Date</b>	<b>Name and Organisation</b>
5 July 2018	<p>Huw Vaughan Thomas, Auditor General for Wales</p> <p>Alison Gerrard, Board Member, Wales Audit Office</p> <p>Steve O'Donoghue, Director of Finance and Human Resources, Wales Audit Office</p> <p>Matthew Hockridge, Head of Planning and Reporting, Wales Audit Office</p>
7 November 2018	<p>Adrian Crompton, Auditor General for Wales</p> <p>Isobel Garner, 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>



October 2018

Archwilydd Cyffredinol Cymru  
Auditor General for Wales

# Estimate of the Income and Expenses for the Year Ended 31 March 2020



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU



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

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

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**Adrian Crompton**  
Auditor General for Wales

**Isobel Garner**  
Chair, Wales Audit Office

# Preface

For each financial year, Section 20 of the Public Audit (Wales) Act 2013 requires the Auditor General and the Wales Audit Office jointly to prepare an estimate of the income and expenses of the Wales Audit Office and to lay that estimate before the National Assembly at least five months before the beginning of the financial year to which it relates.

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

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

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

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

A draft Fee Scheme, prepared under Section 24 of the Public Audit (Wales) Act 2013, is included for consideration alongside the Estimate in view of their interdependency.

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# Foreword

The vital role of independent audit in supporting sound decision making is never more heightened than when resources are scarce. Our aim is for the people of Wales and the National Assembly to know whether public resources are being managed wisely.

The Auditor General supports the work of the Public Accounts Committee, and other Assembly Committees as needed, as well as providing reports to over 800 public bodies across Wales. From the smallest town and community council to the Welsh Government itself, covering health, local government and many other public bodies too, the Auditor General can follow the public pound wherever it is spent.

As well as playing our part in protecting public money and supporting public services across Wales, we are committed to driving our own operating model to be as efficient and effective as possible. Over the past five years we have reduced the operating costs of the Wales Audit Office by some 14%. Our stakeholder feedback is extremely positive, and our staff survey results compare with the top 10% of Civil Service organisations. But, we cannot rest on our laurels. Our vision is for the people of Wales to trust us, for public bodies to value our work and, for our staff to excel.

2019-20 represents the first full financial year under our new Auditor General, Adrian Crompton. This Estimate sets out the funding needed for 2019-20 and explains how we plan to spend £21.4 million in providing resources to the Auditor General and running the Wales Audit Office. That represents just one thousandth of the £19.6 billion spent on Wales's public services annually. In other words, the cost of public audit is much less than 1p for every pound spent.

Our Estimate for next year commits us to find savings of £574,000 through the year.

More than two-thirds of our income arises not from the Consolidated Fund but from the fees we charge for our work. Next year, as well as reducing our call on the Fund, we are committing to not increase the overall fees we charge the bodies we audit, meaning a significant reduction in our income in real terms. Mindful of the financial pressures on the public sector, we will continue to look to reduce fees wherever we can, whilst still maintaining audit quality for all audited bodies. Our audited bodies tell us they support this approach,

In March 2018 we laid our [Annual Plan for 2018-19](#) at the Assembly. This Estimate secures funding for our forward priorities for 2019-20, with our updated Annual Plan for 2019-20 to be laid before the National Assembly in March 2019.



**Isobel Garner**  
Chair, Wales Audit Office



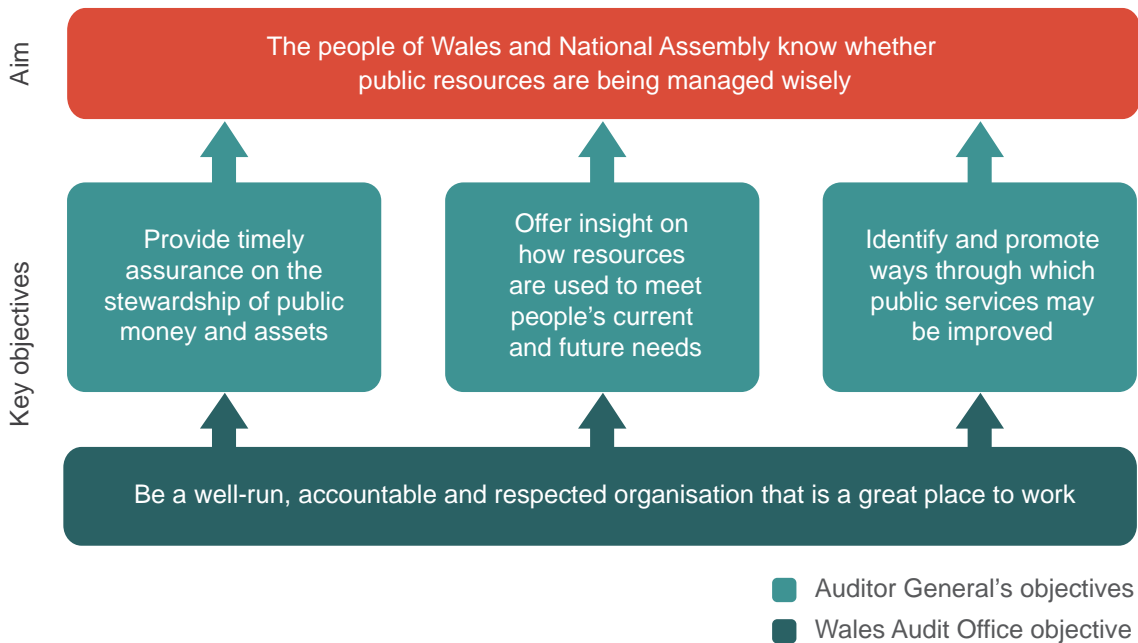
**Adrian Crompton**  
Auditor General for Wales

# Our Work – Making Public Money Count

## What do we do?








- 1 As the statutory external auditor for most of the public sector in Wales, the Auditor General is responsible for the audit of the majority of public money spent in Wales. Every year, he reports on the accounts of over 800 public bodies in Wales, undertakes annual improvement assessments at all 28 local government improvement authorities and structured assessments at all 10 NHS bodies. He publishes around 14 national reports annually, looking at value for money and proper use of public money, certifies around £2.5 billion worth of grant claims, and advises on the work of the Public Accounts Committee.
- 2 The Wales Audit Office employs around 270 professional staff and utilises other resources, including additional resource from private sector accountancy firms, to enable the Auditor General to carry out his functions. Our joint aim and key objectives are shown below.

Exhibit 1: Wales Audit Office Aims and objectives



- 3 The main operational activities of the Auditor General are set out in [Exhibit 2](#).

Exhibit 2: Wales Audit Office main operational activities

ACTIVITY	SCALE
Audit of accounts prepared by most public bodies in Wales	 <p><b>42</b> Central Government Bodies</p>  <p><b>11</b> Health Bodies</p>  <p>Over <b>800</b> Local Government Bodies</p>
Performance audit work including assessments of value for money, improvement planning, performance reporting and compliance with the requirements of the Wellbeing of Future Generations Act	 <p><b>28</b> Local Government Bodies</p>  <p><b>10</b> Health Bodies</p>  <p><b>44</b> public bodies specified in the Well-being of Future Generations Act</p>
Certification of grant claims and returns	 <p><b>21</b> local government schemes (around 400 claims with a total value of some £2.5 billion).</p>



## ACTIVITY

## SCALE

### Value-for-money studies



Typically around **14** studies each year, looking at value for money in key areas of public spending.

### Good Practice Exchange



Working with others to share learning and good practice.

### Other significant activities

#### Includes:

- checking requests for grant of approval to draw from the WCF;
- anti-fraud and other data-matching exercises, including the NFI;
- responding to issues that have been brought to our attention through correspondence from the public, elected representatives and others;
- providing support to the Public Accounts Committee and other National Assembly committees

# Our budget 2019-20

## Changes in our call on the WCF from 2018-19 to 2019-20

- 4 We are reducing our overall call on the WCF by £115,000 for 2019-20. This is shown in [Exhibit 3](#).
- 5 We have achieved this in the context of internal cost pressures, the need to fund our strategic priorities and wider public sector funding restraint.

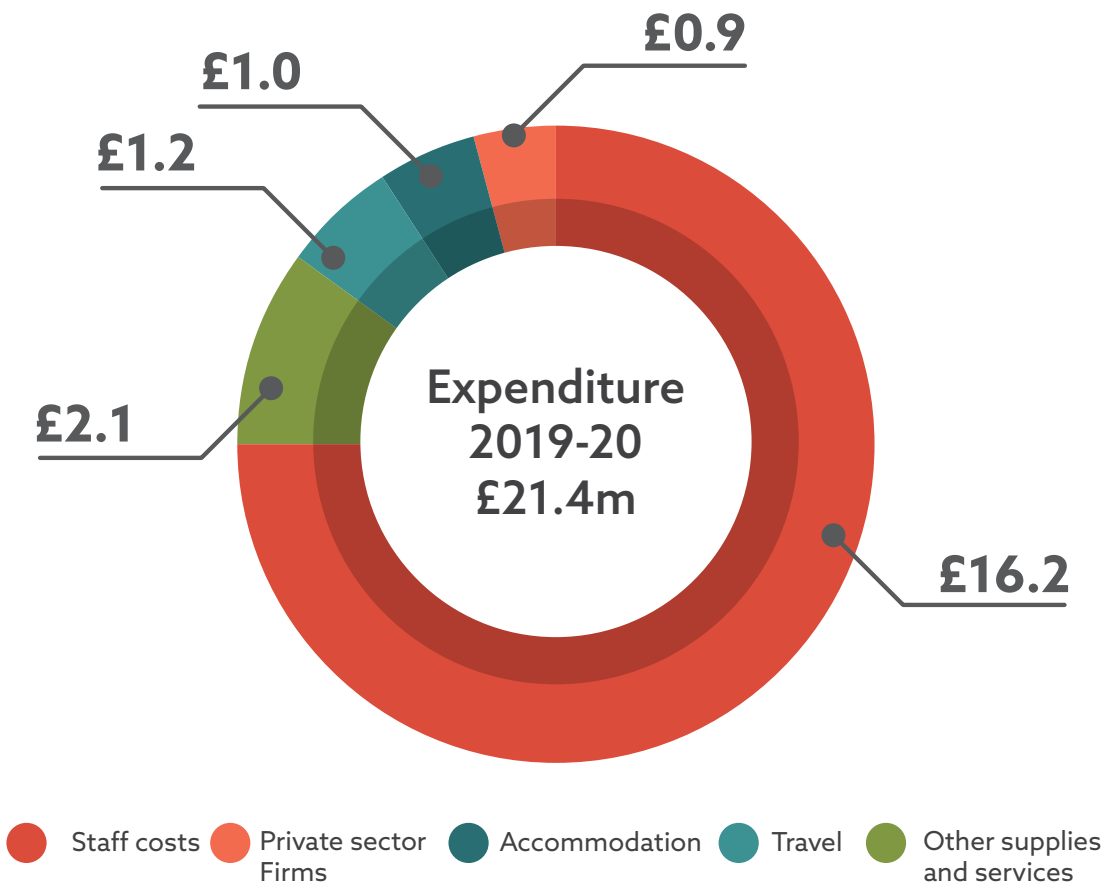
### Exhibit 3: changes in WCF funding from 2018-19 to 2019-20

<b>2018-19</b>	<b>£'000</b>
Revenue Funding 2018-19	6,981
Capital Funding 2018-19	280
<b>Total WCF Funding 2018-19</b>	<b>7,261</b>
<hr/>	
<b>Changes for 2019-20</b>	<b>£'000</b>
Cyclical funding for National Fraud Initiative (alternate year funding)	(130)
Reduction in respect of preparatory work for Welsh Revenue Authority	(50)
Reduced capital investment 2019-20	(70)
Implementation phase of strategic transformation projects	50
Preparedness review for withdrawal from the European Union (EU)	85
<hr/>	
<b>2019-20</b>	<b>£'000</b>
Revenue Funding 2019-20	6,936
Capital Funding 2019-20	210
<b>Total WCF Funding 2019-20</b>	<b>7,146</b>

## Our costs

- 6 Our planned revenue expenditure for 2019-20 is just over £21.4 million. We will need to make efficiency savings in the year of some £574,000 to meet inflationary increases including pay awards and staff increments
- 7 Making these savings avoids the requirement to increase our fees and our call on the WCF.
- 8 This budget means the cost of public audit in Wales is much less than one penny for every £1 spent by public services in Wales<sup>1</sup>.
- 9 **Exhibit 4** shows our key areas of expenditure. More detail is provided in **Exhibit 5**.

Exhibit 4: Wales Audit Office expenditure 2019-20



<sup>1</sup> £19.6 billion spend on Welsh Public Services in 2016-17.

Exhibit 5: Wales Audit Office revenue expenditure 2019-20

Previous year's Estimate £'000	Expenses	Estimate, year to 31 March 2020 £'000
15,286	Staff costs	15,185
617	Short-term contracted staff	737
1,231	Travel and subsistence	1,216
960	Accommodation	993
962	Private sector firms (including VAT)	905
500	Balance of irrecoverable VAT	500
397	ICT	480
300	Wales Audit Office Governance Arrangements	300
275	External training	289
145	Translation of documents	165
194	Legal and professional fees	162
130	NFI data collection	-
628	Other supplies and services	479
<b>21,625</b>	<b>EXPENSES TOTAL</b>	<b>21,411</b>

- 10 The Government Actuary Department (GAD) is currently undertaking a valuation of the Civil Service Pension Scheme, the results of which are not expected until later this year. The Cabinet Office is expecting this to result in a significant increase to employer contribution rates. Given the uncertainty, no provision for any increase in rates has been made within our Estimate for 2019-20. In the event of a significant increase we may need to return to the Finance Committee with a Supplementary Estimate for 2019-20 and, potentially, a revised Fee Scheme for the year, depending on the extent of any increase.

### Our income – funding our running costs

- 11 Around 68% of our expenditure is funded through fees charged to audited bodies; the remaining 32% is provided from WCF.
- 12 **Exhibit 6** summarises estimated income for the year, **Exhibit 7** breaks down this income by type.

Exhibit 6: Wales Audit Office income 2019-20

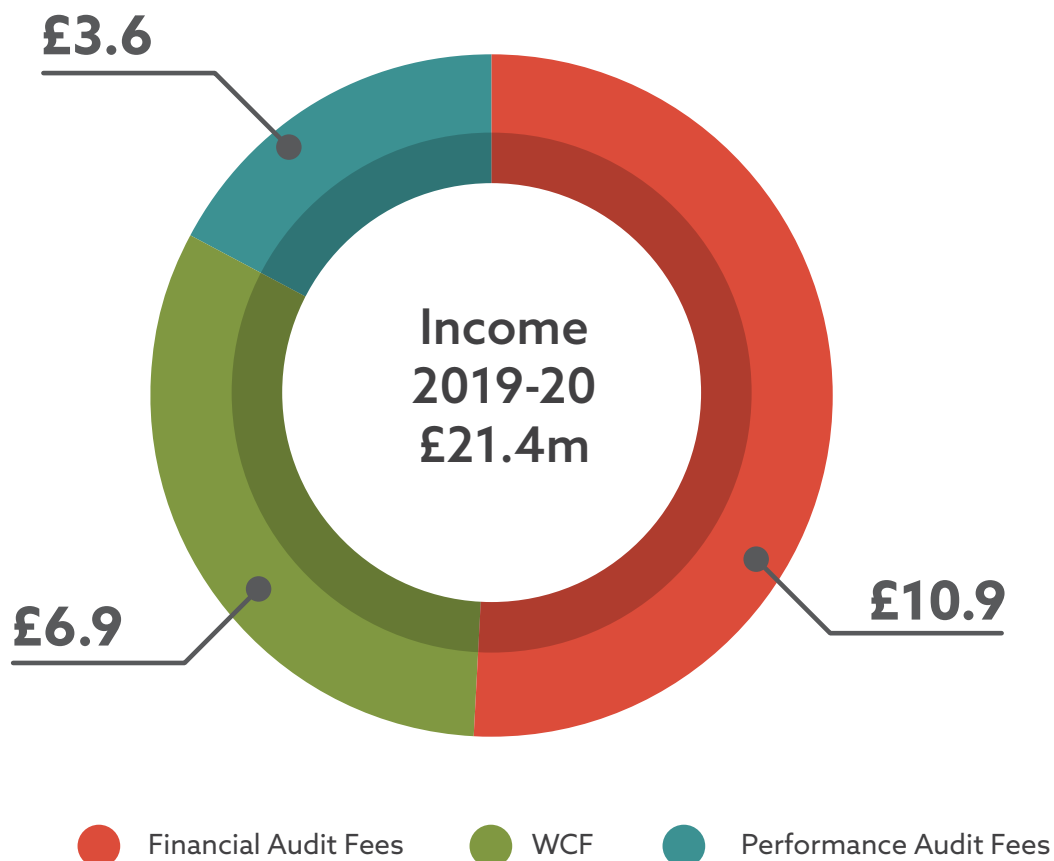


Exhibit 7: breakdown of income by type

Previous year's Estimate £'000	Income	Estimate, year to 31 March 2020 £'000
13,193	Audit fees	13,277
1,451	Grant certification fees	1,198
<b>14,644</b>	<b>INCOME TOTAL</b>	<b>14,475</b>
<b>6,981</b>	<b>Total revenue budget to be funded by WCF</b>	<b>6,936</b>

- 13 The income we receive from fees is governed by the Wales Audit Office Fee Scheme, approved by the Assembly's Finance Committee. Legislation requires us to publish a Fee Scheme at least on an annual basis.
- 14 Included within this Estimate document is our draft Fee Scheme for 2019-20 ([Appendix 1](#)). This has been included to demonstrate the interdependency between fee income and the approved Estimate. Following consideration of the Estimate and draft Fee Scheme, we will lay our Fee Scheme for 2019-20 before the National Assembly and then confirm estimated fees for next year to our audited bodies.
- 15 The Wales Audit Office does not generate profits on fees. Legislation requires that the fees we charge may not exceed the full cost of exercising the function to which the fee relates.
- 16 In August 2018 we consulted audited bodies on the basis of a cash-freeze in fees charged, with the intention of reducing fees wherever we are able to realise efficiencies on individual audits.
- 17 Just nine of the 90 bodies that we consulted, from across all the sectors audited, responded to our consultation. This compares to 22 responses a few years ago and suggests that our fee levels are less of a concern to audited bodies than they were. Those that did respond told us that:
  - audited bodies value free participation in the National Fraud Initiative. Our Estimate includes provision for its continuation.
  - audited bodies are pleased that we do not plan to increase the fees charged for 2019-20.
  - some responses asked that we look at options for reducing our fees in line with the budget reductions being faced by our audited bodies.
- 18 The Board welcomes the feedback and has taken it into account in finalising this Estimate and the enclosed draft Fee Scheme.
- 19 Separate to this Estimate, we continue to discuss with the Assembly's Finance Committee the benefits of simplifying the complicated public audit fee regime in Wales, under which the Wales Audit Office has to operate. We are urging the Committee to consider progressing legislative changes to simplify the fee regime in Wales, to bring it more in line with those applicable to other audit bodies in the UK.

## Capital investment

20 Our capital investment priorities for 2018-19 to 2022-23, linked to our medium term IT and Estates Plans, are set out in [Exhibit 8](#). All capital investment is funded from WCF through this Estimate.

### Exhibit 8: capital investment 2018-19 to 2022-23

	2018-19 £'000	2019-20 £'000	2020-21 £'000	2021-22 £'000	2022-23 £'000
Planned PC/ infrastructure renewal	115	95	95	95	95
Video conferencing infrastructure renewal	15	25	25	25	25
Corporate Systems	100	50	50	90	90
Estates strategy	50	40	40	40 <sup>2</sup>	40
<b>TOTAL</b>	<b>280</b>	<b>210</b>	<b>210</b>	<b>250</b>	<b>250</b>

<sup>2</sup> This may need to increase – see paragraph 26.



## Planned PC/infrastructure renewal

- 21 A rolling programme of PC/IT equipment renewal to ensure business continuity and that equipment remains up to date and reliable. We have increased the allocation for this priority to reflect our investment in hybrid laptops which allow our staff to work more effectively with touch screens and wireless headsets. Our transformation project on how we will work in the future is expected to increase demand for new user-facing technology.
- 22 Periodically, we need to refresh the data network infrastructure associated with our offices in order to ensure it remains supportable and able to accommodate future connectivity demands. As we transition to 'cloud services' the requirement to invest in network infrastructure is reducing.

## Video Conferencing Infrastructure Renewal

- 23 Our video conferencing facilities continue to prove themselves in reducing the costs, environmental and staff time impacts of business travel and we continue to invest in facilities at our three office locations and at some client sites. All staff are also able to use PC-based video conferencing when working remotely and from offices with no VC facilities. Funding in the capital programme will allow for a rolling replacement programme as units become obsolete.

## Corporate Systems

- 24 In 2017-18 and 2018-19 we have invested in replacements or upgrades for two core corporate systems – those for Finance and HR. We are also investing in improvements to the systems used to manage our audit work.
- 25 The amount allocated in our proposed capital programme has been reduced for 2019-20 and 2020-21 and increased towards the end of the programme to fund any replacement or upgrades for key systems as required.

## Estates strategy

- 26 Towards the end of our five-year programme, the leases on our three office buildings in Cardiff, Swansea and Abergele will be due for renewal or ending, and our capital programme provides for ongoing investment required to maintain those buildings. Our latest transformation project on future ways of working is due to report in 2019 and will inform a strategic review of future workplace requirements. This may affect future demand for capital expenditure, which will be reflected in future Estimates.

## New reporting standards

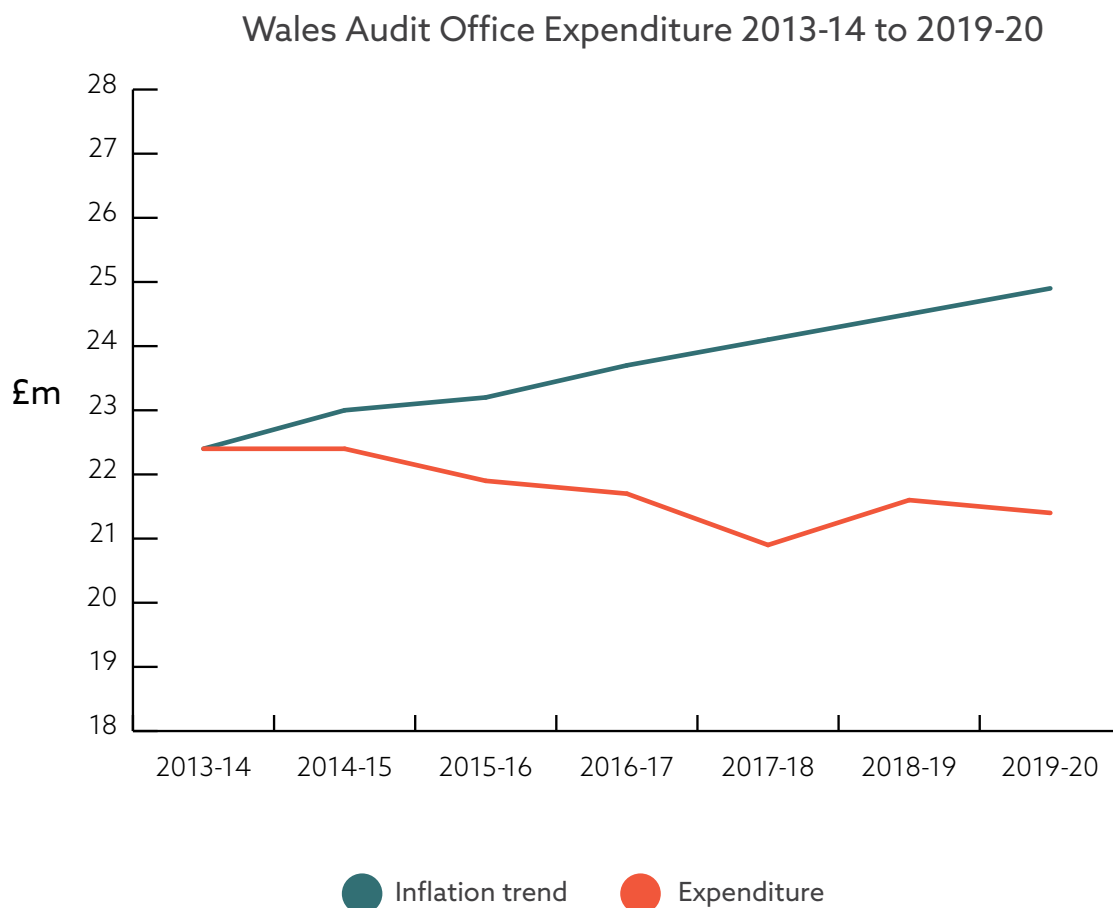
- 27 There is potential that the Financial Reporting Manual (FReM) for 2019-20, due to be published later this year, will require the adoption of International Financial Reporting Standard 16 (IFRS 16) on accounting for leases.
- 28 In the event that this is adopted, a technical Supplementary Estimate will be required to regularise the change as it will be necessary to treat future lease obligations as capital assets within our accounts.

# Value for money at the Wales Audit Office

## Our history

- 29 Since the creation of the Wales Audit Office Board in 2013-14, we will have reduced the cost of public audit in Wales by 14% in real terms<sup>3</sup> based on this Estimate. This is represented in **Exhibit 9**. The cumulative savings generated across those years will amount to over £13 million.
- 30 We have achieved this reduction in expenditure despite allocating additional resources to new areas of spend during the period, such as Investigative Studies, growth in our Good Practice Exchange work, our investment in a graduate training scheme and investment in organisational transformation.

Exhibit 9: expenditure 2013-14 to 2019-20



<sup>3</sup> Based on GDP deflators published by ONS, June 2018.

## Our approach

- 31 We work hard to absorb cost increases from pay agreements, contractual salary increments, general inflation and other unavoidable increases. We do this by:
- setting out a savings, efficiency and effectiveness programme within our Medium-Term Financial Plan;
  - refining and developing audit approaches;
  - regularly revisiting our staffing levels and staff skills mix:
    - over the past three years we have reduced the number of senior manager and Director level posts by six (9%) and increased the number of graduate trainees to 45.
  - transforming how we work:
    - Data Analytics (DA) – we are using previously awarded WCF funding to explore how we can best use data analytics tools to enhance the way we do our audit work
    - Communications – we will be implementing recommendations from a recent project that looked at enhancing the impact of our work
    - Future Ways of Working – a team of staff from across the organisation will be exploring new ways of working to make best use of staff time, office accommodation, tools and technology
    - Extensive use of Video Conferencing and introduction of Skype for Business enabling staff to meet without the need to travel.
    - Simplification of routine processes to improve operational efficiency.
    - Implementation of a new staff travel scheme which has reduced annual travel costs by 11%.

## Our impact

32 We measure our performance and the impact we are having through the performance indicators set in our Annual Plan and reported on at the year-end. These comprise:

- Delivery and impact indicators
- Leadership and culture indicators
- Managing the business indicators

Performance for our last reported year, 2017-18, can be found in our [Annual Report and Accounts](#), laid at the Assembly on 8 June 2018.

33 We look to set stretching targets annually and commit to them through our Annual Plan, to which the Assembly's Finance Committee holds us to account.

34 We take feedback from our audited bodies which is then reflected in our performance indicators.

# How we use our resources to deliver our objectives









35 The resource requirements set out in this Estimate are aligned with our four organisational objectives as explained below.

Exhibit 10: Wales Audit Office objectives



36 **Exhibit 11** demonstrates how we fund these objectives from both fees and the WCF.

Exhibit 11: funding our objectives

Objective Supported		Funding	
		Fee Income	WCF
		£'000	£'000
	Audit of accounts and certification of grants for almost 800 public sector bodies across Wales	10,922	
	Local improvement assessments and local performance audit work, including meeting the requirements of the Well-being of Future Generations Act 2015	3,553	
	Delivering value-for-money studies by the Auditor General including Local Government National Studies, all-Wales summaries of local NHS audit work and meeting the requirements of the Well-being of Future Generations Act 2015 for Welsh Government Sponsored Bodies.  Responding to issues that have been brought to our attention through correspondence from the public, elected representatives and others (See paragraphs 38 to 46)		3,002
	Support for Wales Audit Office audit trainees, Finance Skills Development and apprenticeships in the Wales Audit Office  Training for our graduate trainee programme along with free secondments to other public-sector bodies and the development of an apprenticeship scheme (See paragraphs 47 to 51)		567
	Technical support, including compliance and quality assurance.		547
	The Good Practice Exchange. (See paragraphs 52 to 54)		540
	Investment in staff learning and development (includes staff time and training budgets).		500
	Transformation including Data Analytics, Communications and Future Ways of Working (See paragraphs 55 to 59)		360

Objective Supported		Funding	
		Fee Income	WCF
		£'000	£'000
●	Wales Audit Office Governance		300
●	Equalisation of all-Wales travel costs		300
● ●	Research and development associated with our Local Government performance audit work		280
● ●	Providing support to the Public Accounts Committee and other National Assembly committees.		190
● ●	Preparatory work for the Early Closure of Local Government Accounts		120
●	Sectoral intelligence		130
● ● ●	Cyclical funding for the National Fraud Initiative		50
●	Depreciation funding for capital assets		50
		<b>14,475</b>	<b>6,936</b>

37 Set out below is more information on some of the priority areas for WCF funding in 2019-20.

### National reports, including reactive work – £3.002 million

- 38 We aim to deliver at least 14 national reports each year drawing on audit work across various parts of the Auditor General's programme. Of these reports, we would typically expect that at least ten would, by their nature, provide material to support the scrutiny work of the Public Accounts Committee and/or other National Assembly committees.
- 39 The Auditor General is required to take account of the views of the Public Accounts Committee when determining the work to be undertaken as part of his programme of value for money examinations. He updates the Public Accounts Committee regularly on all audit work in progress that could support the Committee's own work. Planning for the programme of work for 2019-20 and beyond is currently underway.
- 40 Some recently completed national reports include a review of [Primary Care Out-of-Hours Services](#) and a report on [Managing the Impact of Brexit on EU Structural Funds](#).



- 41 We will continue to commit resources to provide the necessary capacity and to develop our capability to carry out reactive work in response to issues brought to our attention through correspondence from the public, elected representatives and others. The resources committed for this purpose from the 2019-20 estimate relate primarily to the work of the investigative studies team that we established in 2015. Recent examples of national reports led by the investigative studies team include a review of the [Welsh Government's relationship with Pinewood](#), which was used by the National Assembly's Culture, Welsh Language and Communications Committee to inform its inquiry into film and TV production in Wales.
- 42 We have increased the funding allocated to this area by £85,000 for 2019-20 to allow scope for a report on preparedness for withdrawal from the EU.
- 43 To date, the Auditor General's work on Brexit has addressed the most immediate practical implications of Brexit for Wales, which are the cessation of European-funded programmes re the Structural Funds (circa £2.1 billion) and agricultural support (circa £1.2 billion). Two value for money studies have been produced:
- **Managing the impact of Brexit on EU Structural Funds** published on 31 July 2018; and
  - our report on the Rural Development Programme 2014-20 which is currently being finalised and will be published later in the autumn.
- 44 We plan to issue a further report in the summer of 2019 which would look at preparedness for withdrawal from the EU across the Welsh public sector, including the Welsh Government itself. The target audience could well be the Public Accounts Committee as usual, but the report might also/instead be considered by the National Assembly's External Affairs Committee, which is leading within the Assembly itself on Brexit scrutiny.
- 45 We have estimated that the work involved in this review would be equivalent to two medium to large national studies and whilst the Auditor General is content to absorb some of this additional work by substituting other planned studies, there is a requirement for some additional resource to ensure that he is able to appropriately cover other risks and topics that should feature in his further work programme.
- 46 In the event of there being no transitional agreement with the EU, it may be necessary to return to the Finance Committee with a Supplementary Estimate for 2019-20 to allow us to respond more quickly to the challenges faced.

## Financial Training Programme – £0.57 million

- 47 Since 2014, we have incrementally expanded our graduate trainee accountant scheme to remodel our workforce and to achieve greater agility and a stronger and more versatile skills base. By September 2018, we had recruited a total of 45 trainees across Wales – our target level – who are at various stages of their professional development.
- 48 Our graduate trainee scheme also operates as part of a pan-Wales programme designed to enhance the learning experience of our trainees by providing them with opportunities to undertake secondments to other public bodies in Wales, while also providing capacity to those bodies to carry out development work.
- 49 It is our broad ambition, in conjunction with the Finance Skills Development Group, to offer attractive jobs for graduates in Wales who in time will become part of the future pool of finance talent available to the wider Welsh public sector.
- 50 In 2018-19 we have used funding from the Consolidated Fund to expand our programme to include an apprenticeship programme, with four Financial Audit apprentices starting in September 2018.
- 51 The following table details what we have achieved to date with this funding.

## Financial Training Programme – Achievements to date

### Recruitment

We recruited an additional 12 new graduate trainees in 2018. This increases the total number of Wales Audit Office graduate trainees to 45 as at September 2018. We have also welcomed the first four apprentices into the Wales Audit Office.

### Secondments

We are continuing our trainee secondment programme. Eight Wales Audit Office trainees are due to be seconded to other public sector bodies during 2018-19 (Carmarthenshire County Council, Cardiff Council, Aneurin Bevan University Health Board, Natural Resources Wales, Arts Council Wales, Companies House, Abertawe Bro Morgannwg University Health Board and Betsi Cadwaladr University Health Board). In addition, we are continuing to extend the initiative to allow qualified staff to undertake valuable secondments. Appropriate safeguards are always put in place to ensure the Auditor General's audit independence.

### Skills development

An enhanced trainee skills development programme has been rolled out that will culminate in an accredited junior leadership programme. This will constitute accredited first line management training in the final year of a trainee's professional studies. The first three trainees have already completed their training. Other public bodies have shown an interest in this junior leadership programme and it is anticipated that staff from other organisations will also join the programme during the next financial year.

### Management

All line managers for our trainees have received advanced training in coaching techniques to enhance their capability as people managers. This will better enable them to support trainees as they progress through their leadership development programme.

### Trainee conference

A third trainee conference has been arranged for 16 October 2018 at which we are expecting around 190 finance students from across the public sector in Wales. We have achieved a high level of interest from students and public-sector leaders (who are supporting and speaking at the event). The event continues to receive high levels of trainees' satisfaction scores.

### Trainee networks

The Finance Skills Development Group has established three trainee networks covering the whole of Wales. These networks allow trainees from a range of employers, and studying for different qualifications, to come together and network, share experiences and hear from a variety of speakers to further enhance the trainees' professional development.

## Exchange of Good Practice – £0.54 million

- 52 Our Good Practice Exchange (GPX) was established in 2006 to gather and share relevant knowledge and innovative practices to support the Welsh public sector to deliver better services using shared learning seminars, online guidance, case studies and social media.
- 53 Examples of events being delivered in 2018-19 include seminars on Digital Ambition, and Working in Partnership; webinars on sustainable procurement, adverse childhood experiences, moving from outputs to outcomes and a series of podcasts on behaviour change. A full list of events is available on [our website](#), with events running in both North and South Wales.
- 54 We know that our GPX programme is well regarded, with 88% of public services' Chief Executives in Wales saying that our work in promoting good practice has benefited public services. It also attracts a national and international profile, with research telling us it is leading edge in the world of public audit.

## Transformation projects – £0.36 million

- 55 We are using WCF funding to support three key projects aimed at transforming the way that we deliver audit by 2025. An update from each of these projects is provided below.

### Data Analytics – £0.26 million

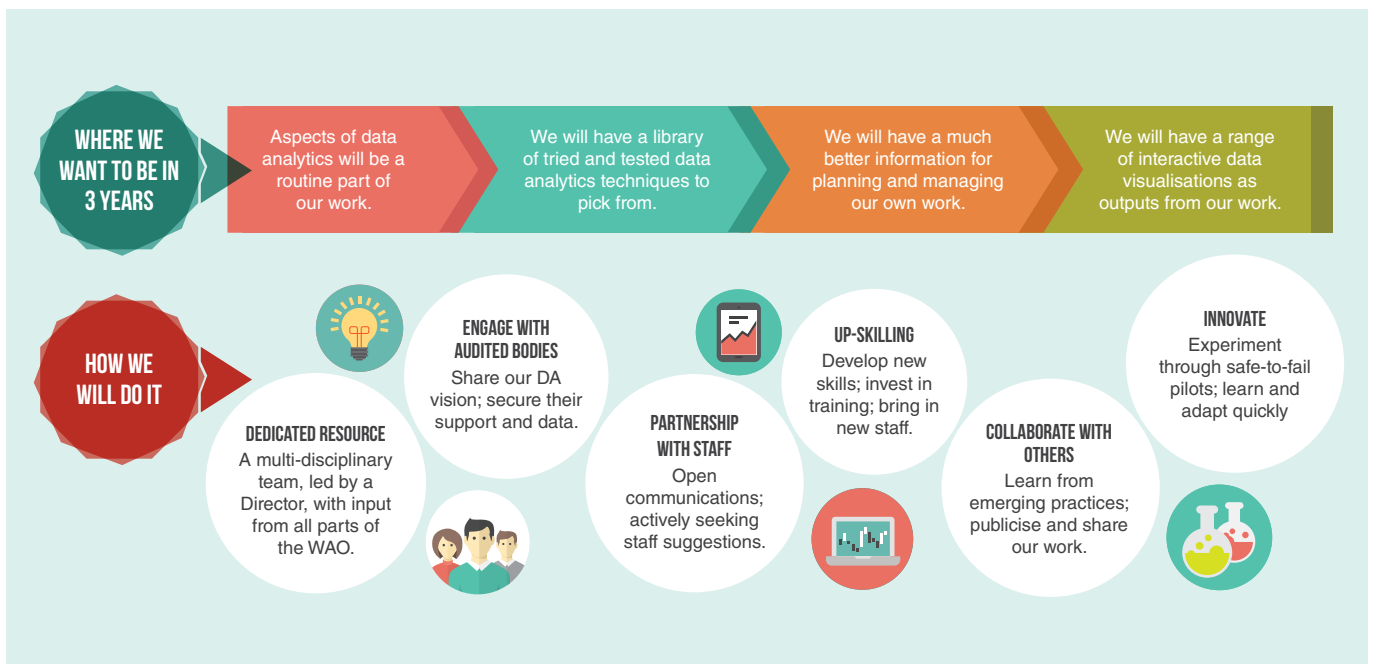
- 56 Following the success of our Cutting Edge Audit project in 2017-18, we asked for specific funding from 2018-19 to invest in developing our expertise in the use of DA. We set out below our achievements to date and our future plans.

Exhibit 12: data analytics project – achievements to date

**Data Analytics Project – Achievements to date**

**Strategy launch**

A visually engaging, one page strategy finalised following staff consultation. It is serving well as an overarching vision to guide the programme. An extract is shown below.



**Data Analytics Project – Achievements to date**

**Strengthening our governance arrangements**

We now have an agreed suite of governance documents. Our programme Director reports to the Assistant Auditor General. We provide assurance to our Management Committee and Board through routine updates. We have adopted a form of agile project management whose principles include ‘iterative development’, which aligns well with our research and development work.

## Data Analytics Project – Achievements to date

### **Recruitment**

We have two programme managers (one from financial audit and one from performance audit) and a specialist advisor, supported by a delivery team which consists of three full time members (two of which are temporary positions – including one secondee from the Office for National Statistics (ONS)). Two data science apprentices joined the team in September 2018. We bolster our DA capacity by involving and upskilling staff from across the Wales Audit Office wherever possible.

### **Collaboration with other bodies**

We have reached agreement with other UK Public Audit Forum (PAF) bodies to work together on 14 data analytics projects.

As a result we are working with the Northern Ireland Audit Office (NIAO) who are leading on the successful Govtech funding bid on behalf of the PAF bodies to jointly explore DA solutions with private firms.

## Data Analytics Project – Achievements to date

### Research and development

During the year we have made progress on more than 15 pilots from our project pipeline. Some examples are described below.

#### Financial audit dashboard

Using data techniques we have recreated the accounts of an audited body from a general ledger download. The interactive tool allows auditors to have the data at their fingertips and manipulate it for risk assessment and sample selection.

#### Assembly Watch

Our Assembly Watch app uses specialist software to retrieve information from the National Assembly's meeting minutes. The app helps us to monitor the Wales Audit Office's impact in the Assembly by analysing the number of times Assembly committees refer to our work; a key performance indicator. The app replaces a time-consuming manual exercise, produces much higher quality data analysis and the results are provided in an interactive format.

#### Land Registry data analysis

We have built a workflow that rapidly analyses 3.5 million records from the Land Registry (in just 20 seconds). The aim is to improve the efficiency and quality of our analysis of public bodies' land and buildings, as part of our financial audits. The workflow extracts Welsh records, and imports the results into a reporting tool, where auditors are provided with a searchable, filterable tool relevant to the body they are auditing.

#### Youth wellbeing data tool

An interactive software tool collates data about youth services and the wellbeing of young people and is being used by our staff involved in a national study on Youth Wellbeing. The tool automatically refreshes to ensure it includes the most up-to-date data from external sources and is presented in a visually engaging way which aids data analysis and trends. The interactive elements allow users to filter by area and explore longer-term trends.

#### Geographical mapping app

We have created an app using specialist software that allows staff to overlay data on a map of Wales. The app allows users to show how performance indicators (or other relevant data) vary by area of Wales. The maps will be used as graphics in our reports, and in future we hope to create interactive maps as public products from our work.

## **Transforming communications – £0.05 million**

- 57 In 2017-18, we used some of our transformation funding to support a project looking at how we maximise the audience for our audit work. The project team's recommendations covered the following areas:
- Engaging with stakeholders to better understand the audiences for audit work and their requirements
  - Developing the style and content of our reporting to maximise the reach, accessibility and impact of our work
  - Exploring the use of new technologies and techniques for communicating with our audiences
  - Better integrating with the work of the Communications Team with project delivery teams to maximise the impact of our work
- 58 We are seeking an increase of £50,000 in transformation funding for 2019-20 to help us implement these recommendations.

## **Future Ways of Working – £0.05 million**

- 59 A project team to look at how we should work in the future will start work in September 2018. Key areas of focus will be:
- How we make best use of office accommodation and tools and technology
  - Flexible working arrangements to address peaks in demand



## Forward look

- 60 Our Medium Term Financial Plan suggests that, given expected upward pressure on pay and prices, it will be increasingly difficult to maintain our commitment to restrict any additional call on WCF to new demands and to keep any increases to our fees to an absolute minimum.
- 61 Our budget for 2019-20 includes an expectation of significant cost savings in the year on top of the 14% reduction in our costs achieved since 2013-14. Whilst we continue to strive to find additional savings areas, this cannot be at the expense of the quality of public audit in Wales.
- 62 Should the pressure on pay and prices exceed our expectations, we may need to revisit our costing and funding assumptions.
- 63 The evolving landscape for our public audit work presents a complicated picture for the Wales Audit Office, encompassing:
- the impact of Brexit on funding and legislation;
  - continued public sector funding restraint and responses to it, along with evolving public expectations of public services;
  - the political landscape between Westminster and Wales and the impacts of further devolution and tax-raising powers for Wales;
  - the Welsh Government's legislative programme and any impacts for the work of the Auditor General;
  - seamless public services across Wales, with greater partnerships and collaborations, such as City Deals;
  - digitisation of service delivery, increased public access to audit-related data and expanded use of social media and other digital communication;
  - earlier closure of local government accounts after 2019-20, with resultant impacts on resourcing across both local government and the Wales Audit Office; and
  - continued pay restraint in the public sector causing leakage of professional talent.

- 64 We are actively planning for all of the above, both in terms of our financial and workforce plans, in order to ensure that we continue to provide quality audit services, by:
- continuing to set an annual efficiency savings target, £574,000 in 2019-20, through our efficiency and effectiveness programme – to help ensure every pound we spend has maximum impact;
  - reviewing our workforce planning strategy and considering the skills mix and workforce model that will be required in the future – so we can reshape our workforce over time, preparing for changes to our work programme;
  - capitalising on our strategic intelligence to inform developing policy and position ourselves for effective responses such as to Brexit and the Welsh Government legislative programme; and
  - investing in DA and digitisation and providing capacity to support organisational change.
- 65 Our interim and annual reports, together with our annual Estimates, demonstrate how we are facing the challenges and remaining focused on ensuring the people of Wales know whether public money is being managed wisely and that public bodies in Wales understand how to improve outcomes.
- 66 Future Estimates will consider how we build capacity for income generation to help bridge the forecast shortfall in our Medium Term Financial Plan.

# The budget ambit 2019-20

## Estimated budget requirements of the Wales Audit Office for the year ending 31 March 2020

- 67 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.
- 68 In respect of the services and purposes of the Wales Audit Office and the Auditor General in the year ending 31 March 2020, 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.
- 69 These requirements, which due to the variability of income streams can only be estimates, are summarised in [Exhibit 13](#).

Exhibit 13: summary of the estimated 2019-20 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	6,936
• Capital	210
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; recoveries of costs, such as seconded staff, staff loans, car leasing payments; recoveries of any costs incurred for a third party; and interest received on working balances – 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.	14,475
Net cash requirement from the WCF to meet the net amounts falling due for payment in the year by the Wales Audit Office.	6,946

70 **Exhibit 14** provides a reconciliation of the Wales Audit Office's total resource request with its net cash requirement for the year ended 31 March 2020.

Exhibit 14: reconciliation of resource requirement to cash drawing requirement from the WCF

	£'000
Net request for resources – revenue and capital	7,146
Non-cash adjustment – depreciation and accruals	(200)
Net cash requirement from the WCF to meet the net amounts falling due for payment in the year by the Wales Audit Office	6,946

# Appendix 1 – Draft Fee Scheme 2019-20

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# Overview

## Introduction

- 1 This Fee Scheme has been prepared by the Wales Audit Office under section 24 of the Public Audit (Wales) Act 2013 (the Act) ([Annex 1](#)). The Fee Scheme, following approval by the National Assembly's Finance Committee, provides the basis on which the Wales Audit Office charges fees.
- 2 The Board has listened carefully to stakeholder feedback in relation to our cost-efficiency agenda and the fee rates we set. In seeking the National Assembly's support for our Estimate for 2019-20, we proposed in the Estimate:
  - an increase in fee rates to be offset by reductions in audit days and skills mix to keep our fee scales unchanged from 2018-19.
  - to continue in line with previous National Assembly agreement to fund National Fraud Initiative (NFI) work from our charge on the Welsh Consolidated Fund rather than through fees charged to participating bodies. Feedback told us that audited bodies welcome this approach.
  - to continue to provide public sector secondment opportunities for our accounting trainees, without impacting on fees charged for audit work.
  - to maintain capacity for transformational thinking in our approaches to audit work. Feedback reinforced the need for us to do more developmental work as part of balancing the overall cost of audit on public bodies.
- 3 This Fee Scheme reflects the approved Estimate and in broad terms sets out:
  - the enactments under which the Wales Audit Office charges audit fees.
  - the arrangements for setting those fees, which comprise either:
    - fee scales that set out fee ranges for particular areas of audit work in local government; or
    - fee rates for work not covered by fee scales.
- 4 Broadly, 68% of our expenditure is funded through fees charged to audited bodies and a grant from the Welsh Government to support improvement assessment work. The remaining 32% is provided directly from the Welsh Consolidated Fund through vote of the National Assembly. Further information about our expenditure and funding is contained in annual estimates of income and expenditure which are laid before the National Assembly.

## List of enactments

- 5 **Annex 2** sets out the enactments under which the Wales Audit Office may and must charge fees.

## Fee rates and fee scales

- 6 The Wales Audit Office does not generate profits on fees. Legislation requires that the fees we charge may not exceed the full cost of exercising the function to which the fee relates. Our fee rates are set at a level to recover that full cost.
- 7 There is a tension between providing audited bodies with an up-front fee for the work to be undertaken on specific audits and having a sufficiently flexible regime that recognises the inevitability of variances. We set our audit fees based on our estimated expenditure, the estimated skills mix and the estimated number of days required to complete the work. Where the required work is significantly greater than that originally estimated, as a result of complexities experienced during the audit, we may charge a higher fee, as permitted by legislation.
- 8 During 2017-18 we consulted widely on legislation governing the fee regime in Wales which is more complex than in other parts of the UK and creates inefficiency and additional cost for the public sector in Wales. The outcome of this consultation has been submitted to the Finance Committee and we await their response.
- 9 We went beyond the statutory fee consultation requirements and, in August 2018, consulted all audited bodies and other stakeholders on our fee scales for 2019-20. A total of 92 different bodies were consulted. We received responses from just seven of those bodies. Those responses told us that:
- audited bodies continue to welcome free participation in the National Fraud Initiative; and
  - whilst welcoming our commitment to freeze our fee scales and overall fees for 2019-20, some audited bodies asked if we could go further and reduce fees in line with the reductions in funding being experienced by those bodies.
- 10 In 2018-19 we reduced our fee scales through audit efficiencies and have maintained these scales at 2018-19 levels for 2019-20 despite the necessary increase in hourly rates.
- 11 The Board welcomed the feedback and responds to it through this Fee Scheme and our Estimate.

12 **Exhibit 15** sets out the hourly fee rates for audit staff.

**Exhibit 15: fee rates for audit staff**

Grade	Proposed fee rate (£ per hour) 2019-20	Fee rate (£ per hour) 2018-19
Engagement director	161	159
Audit manager	115	112
Principal Auditor	94	93
Senior Auditor	73	66/76
Auditor	57	57
Graduate trainee	46	44

13 We are required to prescribe fee scales for:

- work relating to the audit of local government bodies;
- work under the Local Government (Wales) Measure 2009; and
- data-matching work (NFI).

14 Fee scales for the audit of the 2018-19 financial accounts and 2019-20 improvement audits and assessments are provided in **Annex 3** in relation to work conducted at unitary authorities, fire and rescue authorities, national park authorities, police and crime commissioners and chief constables, town and community councils and local government pension funds. A separate fee scale is provided in relation to the NFI.

15 Fee scales are a means of regulating the cost of public audit, through setting limits and by reviewing fees against those limits. Fee scales also provide a framework for auditors to assess the amount of annual audit work necessary and the fee to be charged for that work at a particular audited body.



- 16 Audited bodies not covered by the statutory requirement for a fee scale have their estimated audit fees calculated in the same way as for those which are covered – that is, through applying the fee rates published in this Fee Scheme to the estimated team mix and hours of input required for the audit.
- 17 Auditors undertake grant certification work on behalf of the Auditor General. The amount of grant certification work undertaken in any year is dependent on the number of schemes subject to audit and the number of audited bodies participating in those schemes. Charges for this work are calculated using the fee rates and reflecting the size, complexity or any particular issues in respect of the grant in question.
- 18 The fee rates apply to all audit work that the Wales Audit Office will charge for, except to the extent that the fee scales, where applicable, regulate the amount to be charged (or in the case of work done by agreements prior to 1 April 2014, rates are in terms as agreed). If it subsequently appears to the Wales Audit Office that the work involved in a particular audit differs substantially from that originally envisaged, the Wales Audit Office may charge a fee which differs from that originally notified.
- 19 In the case of the provision of other administrative, professional or technical services provided, fees will be charged in accordance with the relevant agreement, subject to such amounts being capped at the full cost of providing the service. To meet their statutory responsibilities, it is sometimes necessary for auditors to carry out work which goes beyond their general duties. Additional work can include reports in the public interest, extraordinary audit, special inspections and further work in relation to electors' questions and objections, and the prevention of unlawful expenditure. Charges for this type of work will reflect the nature of the work required.
- 20 Where specialist support or legal or other professional advice is required, this will be charged to audited bodies in addition to the cost of Wales Audit Office staff.

## **Charging of fees**

- 21 Each body's Engagement Director will explain that body's skills mix for the audit and the factors influencing the overall fee. Charging arrangements are agreed with audited bodies and may encompass one-off, periodic, regular or annual charging, as appropriate in the circumstances.
- 22 Audited bodies are expected to pay the Wales Audit Office's invoices within their performance target for creditor payments, usually 10 days in the public sector. We may charge for the administrative costs incurred in pursuing late payments.

- 23 On completion of audit assignments, we will assess the actual costs incurred in undertaking the assignment in comparison with the fee charged. We will refund any excess of fee over cost and, conversely, we may charge additional costs where the fee falls short. We 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.

## Annex 1 – Public Audit (Wales) Act 2013 – full text of section 24

- (1) The Wales Audit Office must prepare a scheme relating to the charging of fees by the Wales Audit Office.
- (2) The scheme must include the following:
  - a a list of the enactments under which the Wales Audit Office may charge a fee;
  - b where those enactments make provision for the Wales Audit Office to prescribe a scale or scales of fees, that scale or those scales;
  - c where those enactments make provision for the Wales Audit Office to prescribe an amount to be charged, that amount; and
  - d where no provision is made for a scale or scales of fees or for an amount to be prescribed, the means by which the Wales Audit Office is to calculate the fee.
- (3) The scheme may, amongst other things:
  - a include different provision for different cases or classes of case; and
  - b provide for times at which, and the manner in which, payments are to be made.
- (4) The Wales Audit Office:
  - a must review the scheme at least once in every calendar year;
  - b may revise or remake the scheme at any time; and
  - c must lay the scheme (and any revision to it) before the National Assembly.
- (5) Where the Welsh Ministers prescribe a scale or scales of fees under:
  - a section 64F of the Public Audit (Wales) Act 2004 (fees for data matching); or
  - b section 27A of the Local Government (Wales) Measure 2009 (Welsh Ministers' power to prescribe a scale of fees)

to have effect instead of a scale or scales prescribed by the Wales Audit Office, the Wales Audit Office must revise the scheme to include the scale or scales prescribed by the Welsh Ministers instead of those prescribed by the Wales Audit Office.

- (6) If a revision made in accordance with subsection (5) is the only revision to a scheme, it does not require the approval of the National Assembly.
- (7) The scheme takes effect when approved by the National Assembly or, in the case of a revision made in accordance with subsection (5), once it has been laid before the National Assembly.
- (8) The Wales Audit Office must publish the scheme (and any revision to it) as soon as reasonably practicable after it takes effect.

## Annex 2 – List of enactments under which the Wales Audit Office may and must charge fees

### Exhibit 16: list of enactments under which the Wales Audit Office may and must charge fees

Nature of work	Enactments
<b>The Wales Audit Office may charge fees for the following activities</b>	
<ul style="list-style-type: none"> <li>Audit of accounts by the Auditor General (other than local government accounts).</li> </ul>	<ul style="list-style-type: none"> <li>Section 23(2) Public Audit (Wales) Act 2013</li> </ul>
<ul style="list-style-type: none"> <li>Value for money studies undertaken by agreement.</li> </ul>	<ul style="list-style-type: none"> <li>Section 23(3)(a)-(c) Public Audit (Wales) Act 2013</li> </ul>
<ul style="list-style-type: none"> <li>An examination, certification or report under section 31 of the Tax Collection and Management (Wales) Act 2016 in respect of the Welsh Revenue Authority's Tax Statement.</li> </ul>	<ul style="list-style-type: none"> <li>Section 23(3)(ba) Public Audit (Wales) Act 2013</li> </ul>
<ul style="list-style-type: none"> <li>An examination under section 15 of the Well-being of Future Generations (Wales) Act 2015 (anaw 2) (examinations of public bodies for the purposes of assessing the extent to which a body has acted in accordance with the sustainable development principle).</li> </ul>	<ul style="list-style-type: none"> <li>Section 23(3)(ca) Public Audit (Wales) Act 2013</li> </ul>
<ul style="list-style-type: none"> <li>Any functions of a relevant authority exercised by the Wales Audit Office or the Auditor General and undertaken by agreement, and any administrative, professional or technical services to be provided by the Wales Audit Office or the Auditor General by arrangement under section 19 of the Public Audit (Wales) Act 2013.</li> </ul>	<ul style="list-style-type: none"> <li>Section 23(3)(d) Public Audit (Wales) Act 2013</li> </ul>
<ul style="list-style-type: none"> <li>An extraordinary audit of the accounts of a local government body.</li> </ul>	<ul style="list-style-type: none"> <li>Section 37(8) of the Public Audit (Wales) Act 2004</li> </ul>
<ul style="list-style-type: none"> <li>Data-matching exercises.</li> </ul>	<ul style="list-style-type: none"> <li>Section 64F(A1) of the Public Audit (Wales) Act 2004</li> <li>A fee scale must be prescribed for this work</li> </ul>
<ul style="list-style-type: none"> <li>Advice and assistance provided by the Auditor General for registered social landlords.</li> </ul>	<ul style="list-style-type: none"> <li>Section 145D(2) of the Government of Wales Act 1998</li> </ul>

Nature of work	Enactments
<b>The Wales Audit Office must charge fees for the following activities</b>	
<ul style="list-style-type: none"> <li>Work under the Local Government (Wales) Measure 2009.</li> </ul>	<ul style="list-style-type: none"> <li>Section 27 of the Local Government (Wales) Measure 2009</li> <li>A fee scale must be prescribed for this work</li> </ul>
<ul style="list-style-type: none"> <li>Grant certification services.</li> </ul>	<ul style="list-style-type: none"> <li>Section 23(4)(a) Public Audit (Wales) Act 2013</li> </ul>
<ul style="list-style-type: none"> <li>Studies at the request of educational bodies under section 145B of the Government of Wales Act 1998.</li> </ul>	<ul style="list-style-type: none"> <li>Section 23(4)(b) Public Audit (Wales) Act 2013</li> </ul>
<ul style="list-style-type: none"> <li>Auditing the accounts of a local government body and undertaking studies by agreement with a local government body.</li> </ul>	<ul style="list-style-type: none"> <li>Section 20(A1)(a)-(b) of the Public Audit (Wales) Act 2004</li> <li>A fee scale must be prescribed for the audit of the accounts of local government bodies</li> </ul>
<ul style="list-style-type: none"> <li>Benefit administration studies for the Secretary of State. The Auditor General may conduct, or assist the Secretary of State in conducting, a benefit administration study only if the Secretary of State has made arrangements for the payment to the Wales Audit Office of a fee in respect of the study. The amount of the fee must be a reasonable amount agreed between the Secretary of State and the Wales Audit Office.</li> </ul>	<ul style="list-style-type: none"> <li>Section 45 of the Public Audit (Wales) Act 2004</li> </ul>
<ul style="list-style-type: none"> <li>Assisting Her Majesty's Chief Inspector of Education and Training in Wales with inspections of local authorities. The Auditor General for Wales shall not provide such assistance unless, before he does so, the Chief Inspector has agreed to pay the Wales Audit Office a fee.</li> </ul>	<ul style="list-style-type: none"> <li>Section 41A of the Education Act 1997</li> </ul>
<ul style="list-style-type: none"> <li>Programmes of studies relating to registered social landlords undertaken by agreement between the Welsh Ministers and the Auditor General. It shall be a term of every such programme that the Welsh Ministers must pay to the Wales Audit Office a sum in respect of the costs incurred.</li> </ul>	<ul style="list-style-type: none"> <li>Section 145C(3) of the Government of Wales Act 1998</li> </ul>

## Annex 3 – Fee scales for work undertaken at local government bodies

### Unitary authorities

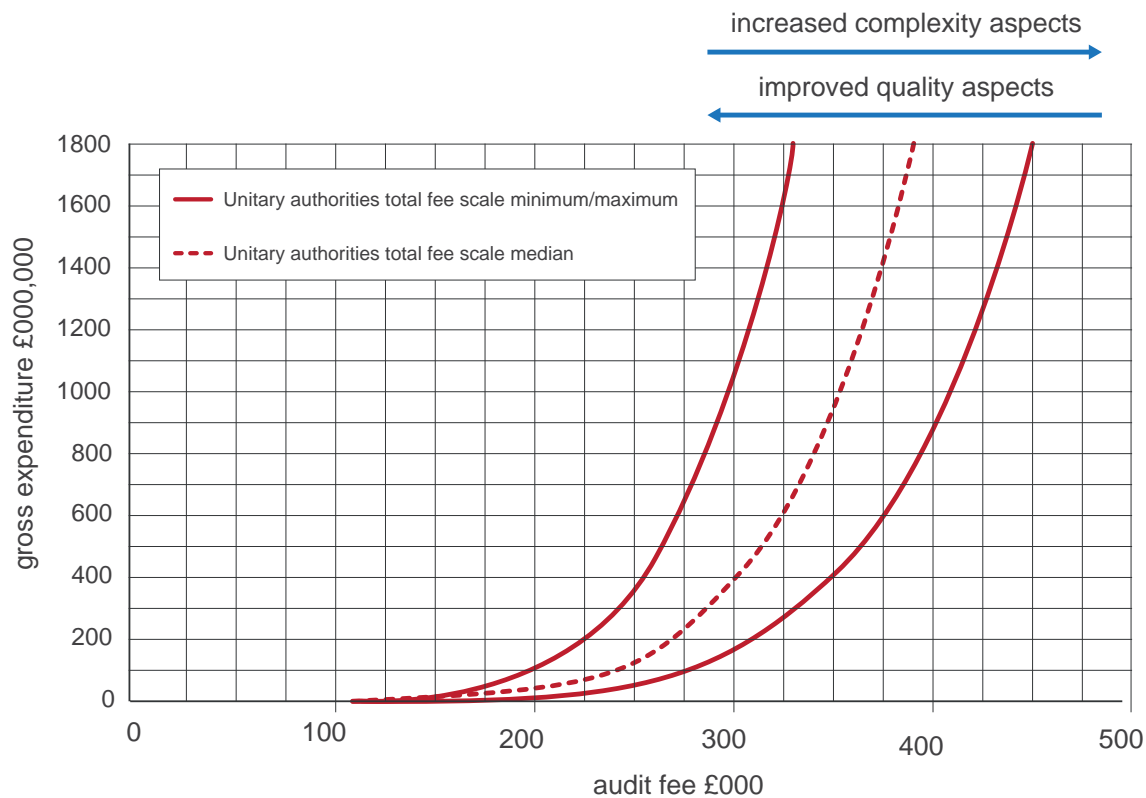
Exhibit 17: fee scale for audit of 2018-19 accounts

Gross expenditure £000,000	Fee range £000			Previous year median £000
	Minimum	Median	Maximum	
100	117	138	158	138
200	141	166	191	166
300	157	185	212	185
400	169	199	229	199
500	180	211	243	211
600	189	222	255	222
700	197	231	266	231
800	204	240	276	240
900	210	247	284	247
1,000	216	254	292	254
1,100	222	261	300	261
1,200	227	267	307	267

Exhibit 18: fee scale for 2019-20 for performance audit work (including improvement audits, assessments and special inspections under the Local Government (Wales) Measure 2009)

All unitary authorities	Fee range £000			Previous year median £000
	Minimum	Median	Maximum	
	83	99	115	99

Exhibit 19: graphic of total fee scale for unitary authorities<sup>4</sup>



<sup>4</sup> 'improved quality aspects' refers to the quality of the accounts production process i.e. the quality of the draft financial statements and the supporting working papers.



## Fire and rescue authorities

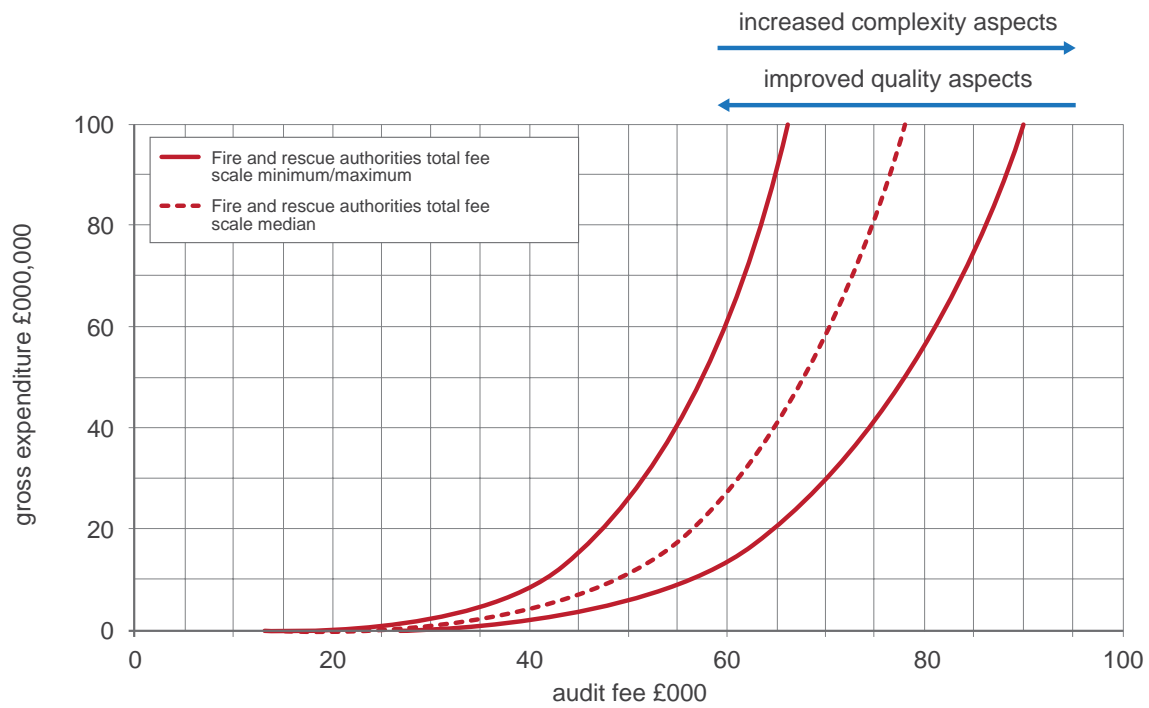
Exhibit 20: fee scale for audit of 2018-19 accounts

Gross expenditure £000,000	Fee range £000			Previous year median £000
	Minimum	Median	Maximum	
20	34	40	46	40
40	41	49	56	49
60	46	54	62	54
80	50	58	67	58
100	53	62	71	62

Exhibit 21: fee scale for 2019-20 for performance audit work (including improvement audits, assessments and special inspections under the Local Government (Wales) Measure 2009)

All fire and rescue authorities	Fee range £000			Previous year median £000
	Minimum	Median	Maximum	
	14	16	19	16

Exhibit 22: graphic of audit total fee scale for fire and rescue authorities



## National park authorities

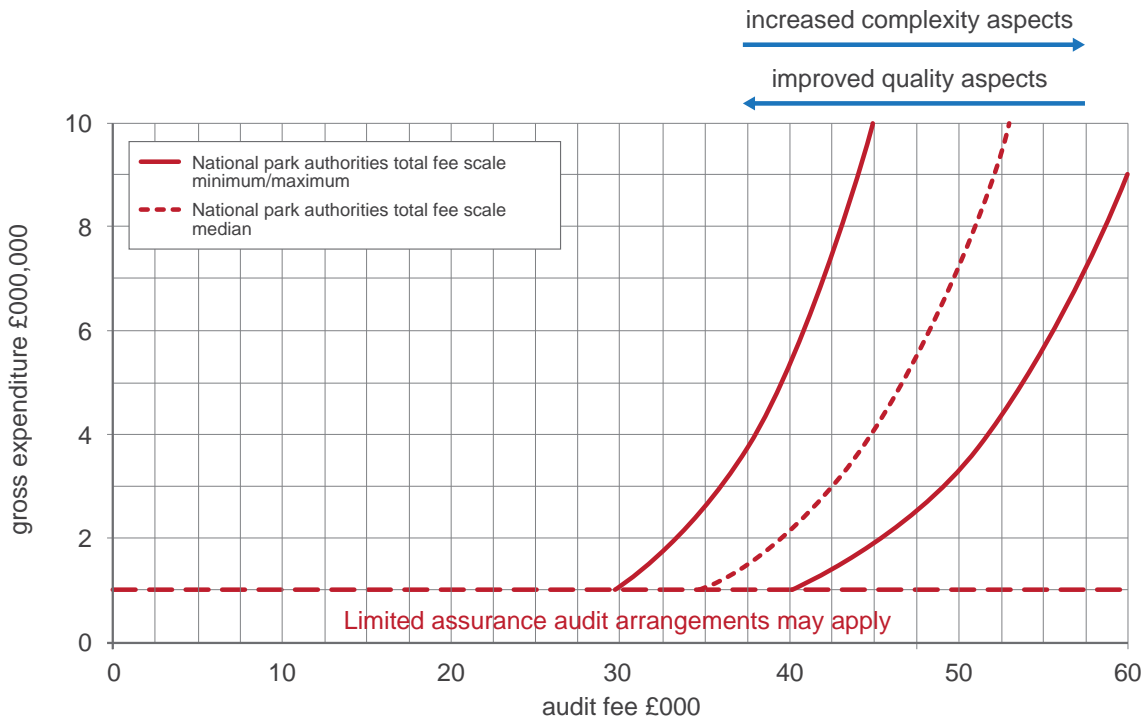
Exhibit 23: fee scale for audit of 2018-19 accounts

Gross expenditure £000,000	Combined fee range for PCC and CC £000			Previous year median £000
	Minimum	Median	Maximum	
2	21	25	29	25
4	26	30	35	30
6	29	34	39	34
8	31	36	42	36
10	33	38	44	38

Exhibit 24: fee scale for 2019-20 for performance audit work (including improvement audits, assessments and special inspections under the Local Government (Wales) Measure 2009)

All national park authorities	Fee range £000			Previous year median £000
	Minimum	Median	Maximum	
	14	17	19	17

Exhibit 25: graphic of total fee scale for national park authorities



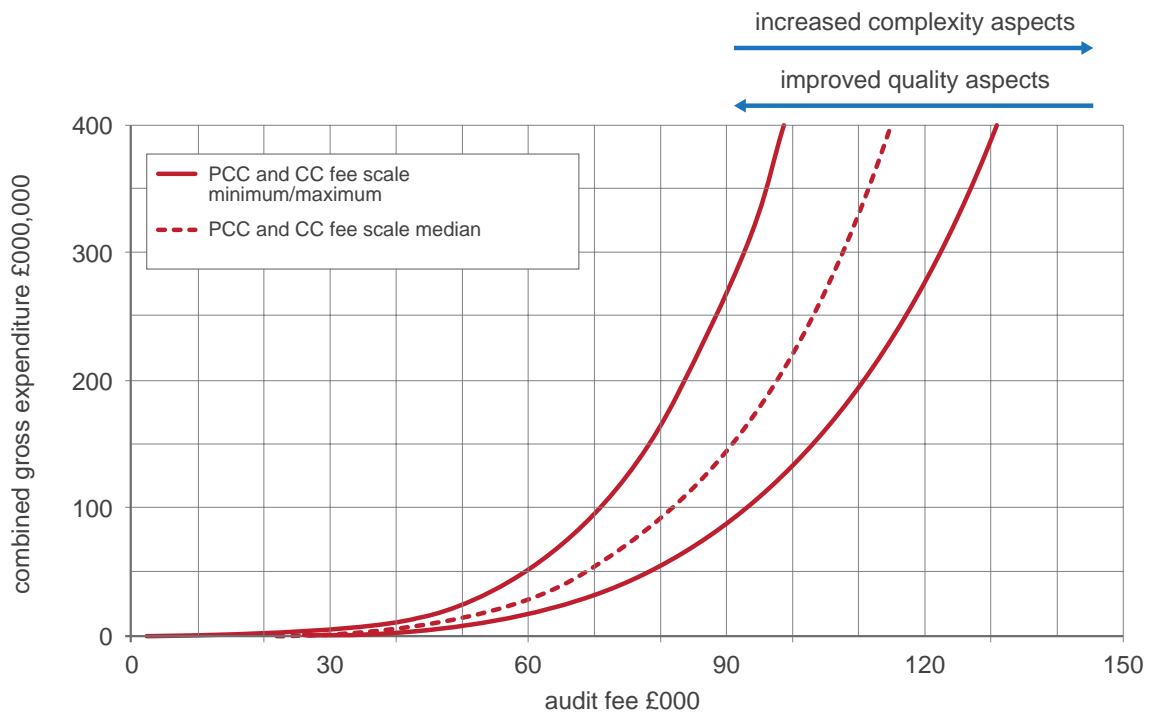
## Police and crime commissioners and chief constables

Auditors undertake audits of two statutory bodies in a police area – the Police and Crime Commissioners (PCCs) and the Chief Constables (CCs). The split of the total fee between the two bodies in a particular police area will be a matter for auditors to determine, based on accounting requirements and the operational arrangements put in place by each of the bodies.

Exhibit 26: fee scale for audit of 2018-19 accounts

Combined gross expenditure of PCC and CC £000,000	Combined fee range for PCC and CC £000			Previous year median £000
	Minimum	Median	Maximum	
50	56	66	76	66
100	67	79	91	79
150	74	87	100	87
200	79	94	108	94
250	84	99	114	99
300	88	104	120	104
350	91	108	124	108

Exhibit 27: graphic of total fee scale for police and crime commissioners and chief constables



## Town and community councils with annual income or expenditure under £2.5 million

Town and community councils in Wales are subject to a limited assurance audit regime. Since 2016-17, we have charged for this work on a time basis rather than the historical basis of a fixed fee according to expenditure/income bands.

The fee rate charges are as set out in [Exhibit 28](#).

In circumstances where the auditor requires further evidence to properly discharge their responsibilities, including following publication of a related public interest report, additional testing will be undertaken to address the auditor's concerns.

It is emphasised that the actual charge made to any particular body will be dependent on the time actually worked on that particular audit. The ranges provided in the table below are for indicative purposes only.

### Exhibit 28: estimated time charges for the audit of 2018-19 accounts of town and community councils

Annual income or expenditure	Indicative baseline charge	Indicative upper range fee
£0 – £5,000	£140	£280
£5,001 – £100,000	£160	£320
£100,001 – £500,000	£200	£380
£500,001 – £2,500,000	£240	£460

## Local government pension funds

Exhibit 29: fee scale for audit of 2018-19 accounts

All pension funds	Fee range £000			Previous year median £000
	Minimum	Median	Maximum	
	33	40	55	40

## Fee rates for other work in local government

The audit of other types of local government body, work which goes beyond the general duties of the Auditor General, and grant certification work

Other than those types of bodies for which fee scales have been prescribed as shown above, there are a small number of other types of local government body where our prescription of the fee scale is a matter of converting the resource requirements into fees directly based on the costs of delivering the work or by applying the fee rates as set out in [Exhibit 15](#). It remains the case that for audits of these bodies we apply a zero-based approach to audit planning.

For all types of local government body, to meet his statutory responsibilities, it is sometimes necessary for the Auditor General to carry out work which goes beyond general duties (those set out in section 17 of the Public Audit (Wales) Act 2004). Additional work can include reports in the public interest, extraordinary audit, special inspections and further work in relation to elector challenge and the prevention of unlawful expenditure. Charges for this type of work will reflect the nature of the work required.



Exhibit 30: Estimates of the relative proportions of financial audit staff grades to be used for different types of grants work are provided below.

Grade of staff	Complex grants staff mix %	All other grants staff mix %
Engagement director	1 to 2	0 to 1
Audit manager	4 to 6	1 to 2
Senior auditor	18 to 21	12 to 16
Auditor/ graduate trainee	77 to 71	87 to 81

Auditors may also undertake grant certification work at local government bodies on behalf of the Auditor General. The amount of grant certification work undertaken in any year is dependent on the number of schemes subject to audit and the number of audited bodies participating in those schemes. Charges for this work are made on a per-hour basis and reflect the size, complexity or any particular issues in respect of the grant in question.

Complex grants include:

- BEN01 Housing and council tax benefits scheme
- LA01 National non-domestic rates return
- PEN05 Teachers' pensions return

## Fee scales for work undertaken under the National Fraud Initiative (data matching)

In order to support Welsh public bodies in combating fraud, the Auditor General conducts the National Fraud Initiative (NFI) in Wales on a biennial basis. The NFI is also run in England, Scotland and Northern Ireland. The NFI matches data across organisations and systems to help public bodies identify potentially fraudulent or erroneous claims and transactions. The NFI has been a highly effective tool in detecting and preventing fraud and overpayments. Since its commencement in 1996, NFI exercises have resulted in the detection and prevention of more than £30 million of fraud and overpayments in Wales and £1.3 billion across the UK.

The Auditor General conducts the NFI using his statutory data-matching powers under Part 3A of the Public Audit (Wales) Act 2004.

Since April 2016, the National Assembly has met the costs of running the NFI through payment from the Welsh Consolidated Fund as approved through the Wales Audit Office's Estimate, so ensuring that voluntary participants are not charged a fee for participation. As required by legislation, the fees for mandatory participants are shown below.

### Exhibit 31: NFI fees

Type of body	Fee 2019-20 £
Unitary authority; police and crime commissioners and chief constables; fire and rescue authorities; NHS trusts; local health boards.	Nil
All participants may also be provided with access to the NFI Application Checker (App Check).	Nil

Mandatory participants will also be provided with access to the NFI Application Checker without charge.



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