

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

November 2024



The Welsh Parliament is the democratically elected body that represents the interests of Wales and its people. Commonly known as the Senedd, it makes laws for Wales, agrees Welsh taxes and holds the Welsh Government to account.

An electronic copy of this document can be found on the Senedd website:
www.senedd.wales/SeneddFinance

Copies of this document can also be obtained in accessible formats including Braille, large print, audio or hard copy from:

Finance Committee
Welsh Parliament
Cardiff Bay
CF99 1SN

Tel: **0300 200 6565**

Email: **SeneddFinance@senedd.wales**

Twitter: **[@SeneddFinance](https://twitter.com/SeneddFinance)**

© Senedd Commission Copyright 2024

The text of this document may be reproduced free of charge in any format or medium providing that it is reproduced accurately and not used in a misleading or derogatory context. The material must be acknowledged as copyright of the Senedd Commission and the title of the document specified.

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

November 2024



About the Committee

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

Current Committee membership:



Committee Chair:
Peredur Owen Griffiths MS
Plaid Cymru



Peter Fox MS
Welsh Conservatives



Mike Hedges MS
Welsh Labour



Rhianon Passmore MS
Welsh Labour

Contents

Conclusion and Recommendations	5
1. Introduction	8
2. Annual Report and Accounts 2023-24.....	10
3. Annual Plan 2024-25 and Interim Report 2024-25	29
4. Estimate of the income and expenses for the year ended 31 March 2026	34
Annex 1: List of oral evidence sessions.	54
Annex 2: Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2026	55

Conclusion and Recommendations

Conclusion 1. Subject to the conclusions and recommendations in this report, the Committee is content with the following publications provided by the Auditor General for Wales and the Wales Audit Office during the annual scrutiny sessions:9

- Annual Report and Accounts 2023-24;
- Audit Findings Report - Year Ended 31 March 2024;
- Annual Plan 2024-25;
- Interim Report - An assessment of progress made against our 2024-25 Annual Plan during the period 1 April to 30 September 2024;
- Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2026.Page 9

Recommendation 1. The Committee recommends that Audit Wales clarifies whether it continues to reprioritise resources from performance audit teams to support the delivery of its statutory programme in 2024-25. Page 27

Recommendation 2. The Committee recommends that Audit Wales outlines the differences in the methodologies used for its externally and internally run stakeholder surveys and provides further information to explain the limitations of the internally-led survey. Page 27

Recommendation 3. The Committee recommends that Audit Wales details any consideration it has given to developing an alternative KPI to measure staff satisfaction..... Page 28

Recommendation 4. The Committee recommends that Audit Wales continues to publish the results of its annual People Survey prior to the Committee’s annual scrutiny of the Annual Report and Accounts..... Page 28

Recommendation 5. The Committee recommends that Audit Wales provides details of the four outstanding audits of 2022-23 accounts and the issues that have resulted in the delay..... Page 32

Recommendation 6. The Committee recommends that Audit Wales outlines how it is responding to the drop in performance against its trainee success rate indicator at 30 September 2024. Page 32

Recommendation 7. The Committee recommends that Audit Wales details the risks associated with delays in delivering its three-year quality monitoring programme..... Page 33

Recommendation 8. The Committee recommends that Audit Wales reflects on the presentation of its Estimate and considers how it can provide more transparency and clarity around its headline figure. Page 50

Recommendation 9. The Committee recommends that, in future Estimates, Audit Wales considers how it can provide further information to detail both increases and decreases in budget lines separately, particularly where funding previously used for one purpose is reallocated elsewhere in the budget. Page 50

Recommendation 10. The Committee recommends that Audit Wales explains why the change to movements in working capital is being taken in 2025-26 and provides further information on the circumstances that may result in a supplementary Estimate for the purposes of funding associated with movements in working capital..... Page 50

Recommendation 11. The Committee recommends that Audit Wales outlines how it intends to reach its savings target for 2025-26. Page 51

Recommendation 12. The Committee recommends that Audit Wales:

- sets out the factors it considers when formulating pay proposals, including the inflationary measures it considers, and
- confirms which inflationary measure it has used to support the proposed 3.5 per cent uplift in 2025-26.Page 51

Recommendation 13. The Committee recommends that Audit Wales explains why it is considering a different approach to previously proposed National Insurance increases in 2022, with a proportion of that increase funded from the Welsh Consolidated Fund and the balance funded through fees..... Page 51

Recommendation 14. The Committee recommends that Audit Wales demonstrates in future Estimates how the one-off £25,000 increase in governance costs in 2025-26 is reducing. Page 52

Recommendation 15. The Committee recommends that Audit Wales provides further information on the impact of its Data Analytics function in terms of driving savings and efficiencies..... Page 52

Recommendation 16. The Committee recommends that Audit Wales confirms whether the £40,000 additional investment in cyber security represents a one-off or ongoing cost..... Page 52

Recommendation 17. The Committee recommends that Audit Wales provides further detail and a breakdown of how specific elements of its capital funding will be spent in 2025-26 and also includes the same level of detail in future Estimates. Page 52

Recommendation 18. The Committee recommends that Audit Wales sets out the anticipated total cost of developing its SharePoint-based audit management platform and the timescales for delivery..... Page 53

Recommendation 19. The Committee recommends that Audit Wales provides more detail on the areas of commissioned work it would consider appropriate, as well as the associated opportunities and risks..... Page 53

1. Introduction

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

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

Accountability and Governance Arrangements

- 4.** The Act confers a number of functions on the Welsh Parliament (the Senedd). Under Section 28 of the Act, the Senedd may make provision through its Standing Orders regarding the exercise of the functions conferred upon it by the Act, including "delegating functions to the Presiding Officer, the Deputy Presiding Officer, a committee or sub-committee of the Senedd or the chair of such a committee or sub-committee".² In accordance with Standing Order 18.10, oversight of the WAO has been delegated to the Finance Committee (the Committee).³
- 5.** This year's annual scrutiny of the WAO and the Auditor General took place in two parts.

¹ Public Audit (Wales) Act 2013

² Standing Orders of the Welsh Parliament

³ Business Committee minutes, 1 October 2013

6. The Committee examined the following publications on 3 October 2024 and took evidence from the Auditor General, Adrian Crompton, the Chair of the Board (the Chair), Dr Ian Rees, and two officials from Audit Wales:

- Annual Report and Accounts 2023-24;⁴
- RSM UK Audit LLP - Audit Findings Report - Year Ended 31 March 2024;⁵
- Annual Plan 2024-25.⁶

7. On 7 November 2024, the Committee took evidence from the Auditor General, Chair, and two officials from Audit Wales on the following publications:

- Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2026;
- Interim Report - An assessment of progress made against our 2024-25 Annual Plan during the period 1 April to 30 September 2024.

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

- Annual Report and Accounts 2023-24;
- Audit Findings Report - Year Ended 31 March 2024;
- Annual Plan 2024-25;
- Interim Report - An assessment of progress made against our 2024-25 Annual Plan during the period 1 April to 30 September 2024;
- Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2026.

⁴ Annual Report and Accounts 2023-24

⁵ RSM UK Audit LLP - Audit Findings Report - Year Ended 31 March 2024

⁶ Annual Plan 2024-25

2. Annual Report and Accounts 2023-24

8. The Annual Report and Accounts for 2023-24⁷ were laid before the Senedd on 9 August 2024. The Auditor General prepared the Accounts for 2023-24 as the Accounting Officer for the WAO, in accordance with Schedule 1 to the Act. The Auditor General and the Chair of the Board jointly prepared the Annual Report, in accordance with Schedule 2 to the Act.⁸

9. This is the first Annual Report and Accounts of the new Chair, Dr Ian Rees, who was appointed from 12 June 2024.⁹

10. The Chair explained that the timetable for delivery of the Annual Report and Accounts 2023-24 was the same as in previous years. However, as the external auditors were unable to complete their work in time for consideration by the Audit and Risk Assurance Committee in June, final sign-off by the Board was moved to 31 July. He explained that a post-project learning exercise has identified some timetable changes for the external audit process to avoid recurrence next year.¹⁰

Performance

11. Audit Wales achieved, or was close to achieving, 10 of its 18 KPI targets. Reflecting on Audit Wales's performance, the Auditor General said:

"Underpinning all of the areas, I would say, that are not where we want them to be are two big drivers. No. 1, hangover issues related to our experience through the pandemic years. And, secondly, the very significant workforce gaps that we have discussed with the committee in previous years."¹¹

A strategic, dynamic and high-quality audit programme (KPIs 1-7)

12. The seven indicators within this theme relate to the outputs that Audit Wales delivers. The Annual Report shows a decline in performance, with two indicators "achieved or close to achieving our target", compared to three of the corresponding scores for 2022-23.¹²

⁷ Annual Report and Accounts 2023-24

⁸ Public Audit (Wales) Act 2013

⁹ Plenary, RoP [Item 5], 12 June 2024

¹⁰ Finance Committee, RoP [paras 225-226], 3 October 2024

¹¹ Finance Committee, RoP [para 235], 3 October 2024

¹² Annual Report and Accounts 2023-24, page 15

- 13.** There has been a slight improvement in the proportion of audit products delivered by the statutory or agreed deadlines (85 per cent compared to 84 per cent). KPI 1 is still rated “improvement required” since it has a target of 100 per cent.¹³ In response to a Committee recommendation¹⁴, Audit Wales wrote to the Committee with information about the 2022-23 audits which had not been completed by the deadline of 31 January 2024.¹⁵
- 14.** In his opening statement to the Annual Report 2023-24, the Auditor General recognises that the “timetable of accounts audit in 2023-24 was behind where we would wish it to be, particularly in the local government sector”, citing the legacy of the pandemic, a shortage of finance professionals across the industry and “the need to work through some difficult audit issues”.¹⁶ Audit Wales aims to return to a more traditional timescale for the NHS and local government sectors by the accounts audits of 2025-26.¹⁷
- 15.** The proportion of other key audit products delivered in accordance with the planned timetable for ensuring timely and impactful reporting has declined and is rated “significant improvement required” (KPI 2). Against a target of 90 per cent, Audit Wales delivered 76 per cent¹⁸ (82 per cent in 2022-23¹⁹).
- 16.** Acknowledging the decline in the delivery of non-statutory work (KPI 2), the Auditor General said a conscious decision was taken to prioritise the delivery of statutory programme, moving resources from performance audit teams to support its accounts audit work. With staffing levels across the organisation “almost back up to where we need to be”, the Auditor General said he is “confident that we will start to see improvement”.²⁰
- 17.** Audit Wales achieved two indicators within this theme:
- **KPI 3** – the number of reviewed audits that are delivered in accordance with Financial Reporting Council quality standards (all seven audits sampled in the highest two audit quality categories, compared to six out of seven audits sampled in 2022-23);
 - **KPI 4** – the proportion of stakeholders that consider Audit Wales to be an independent and authoritative communicator on the governance

¹³ [Annual Report and Accounts 2023-24](#), KPI 1

¹⁴ [Letter from the Finance Committee](#), 17 July 2023

¹⁵ [Letter from Audit Wales](#), 23 May 2024

¹⁶ [Annual Report and Accounts 2023-24](#), page 11

¹⁷ [Annual Report and Accounts 2023-24](#), page 21

¹⁸ [Annual Report and Accounts 2023-24](#), KPI 2

¹⁹ [Annual Report and Accounts 2022-23](#), page 18

²⁰ Finance Committee, RoP [paras 240 and 242], 3 October 2024

and stewardship of public money and assets (92 per cent compared to 85 per cent in 2022-23, against a target of 90 per cent).²¹

18. The Auditor General told us he was delighted with the organisation’s performance against the audit quality indicator:

“... we anticipated a dip in our external scores for assessment of audit quality because of the really fundamental changes that we were applying to all aspects of our audit work last year. But, as you can see, we scored exactly what we needed to do. That compares very favourably with our sister organisations elsewhere in the UK, and is a huge testament to the work of the staff.”²²

19. The Annual Report shows a decline in the proportion of stakeholders who said that through Audit Wales’s work, they gained useful insight that they would not have acquired otherwise (KPI 5), from 71 per cent to 64 per cent, against a target of at least 80 per cent. This indicator continues to be rated “improvement required”.²³

20. Audit Wales also missed its target of at least 80 per cent for the proportion of stakeholders who believe its work has led to improvements in the provision of public services (KPI 6). This is now rated “improvement required” with a score of 76 per cent compared to 81 per cent in 2022-23.²⁴

21. Reflecting on performance against KPI 5 and KPI 6, the Auditor General said:

“... there is a measurement factor to keep in mind here. So, every other year, we undertake a large, externally run stakeholder survey. So, we did one in 2023, we’ll do the next in 2025. This year’s data is gathered through a much narrower exercise that we undertake ourselves internally. So, there is some limitation, I would say, on this year’s data. Nonetheless, those two areas have always been the weaker of our themes.”²⁵

22. He explained that the priorities set in the Annual Plan 2024-25 reflect the areas where improvement is needed, including how Audit Wales’s findings are communicated and developing the website so that users “have much readier

²¹ Annual Report and Accounts 2023-24, page 15

²² Finance Committee, RoP [para 238], 3 October 2024

²³ Annual Report and Accounts 2023-24, KPI 5

²⁴ Annual Report and Accounts 2023-24, KPI 6

²⁵ Finance Committee, RoP [para 248], 3 October 2024

access to the findings and insights that flow from our work”. The Auditor General told us that performance in this area could also be linked to the timeliness of delivery, with delays leading to a reduction in the relevance of its work. He added:

“That said, these are probably two of the hardest ones for us to shift, because, of course, not all of our work is designed to provide insight or to drive improvement; a lot of it is about giving you and the public assurance that organisations are managing their finances well.”²⁶

23. The Auditor General said one of the priorities is to have a much sharper focus on value for money issues:

“I think we drifted away from that through the pandemic period. So, bringing our work back to that kind of focus, I hope, will assist in this area. It will be telling organisations important things that they need to know at this point in time.”²⁷

24. KPI 7 (value of potential savings, productivity gains and other financial benefits identified through its work) is now rated “significant improvement required”, having previously been rated “achieved or close to achieving our target” in 2022-23. However, the target for this measure is “at least £30 million during 2023-2026”, so 2023-24 is the first year of a three-year period.²⁸

A targeted and impactful approach to communications and influencing (KPIs 8-11)

25. The four KPIs within this theme relate to engagement across events, Audit Wales’s website, social media, and sharing and learning. All four indicators are “achieved or close to achieving our target”:

- **KPI 8** – 100 per cent of stakeholders rated Audit Wales good practice events useful or very useful, equal to 100 per cent in 2022-23 (target of 90 per cent);
- **KPI 9** – 59,100 website visits where at least one action is performed, e.g. download a report, click on a video compared to 44,900 in 2022-23 (target of 35,000 visits each year);

²⁶ Finance Committee, RoP [paras 249-250], 3 October 2024

²⁷ Finance Committee, RoP [paras 254], 3 October 2024

²⁸ [Annual Report and Accounts 2023-24](#), KPI 7

- **KPI 10** – 4,000 social media engagements compared to 4,200 in 2022-23 (target of 3,000 engagements each year);
- **KPI 11** – 45 instances where Audit Wales has presented audit learning to key policy working groups or at relevant externally hosted events, down from 65 in 2022-23 (target of 50 each year).²⁹

A culture and operating model that allows us to thrive (KPIs 12-18)

26. The seven KPIs within this area of focus relate to staff at Audit Wales and running the business. Audit Wales met four of these indicators in 2023-24 compared to five in 2022-23:

- **KPI 12** – percent positive annual staff survey engagement index score of 64 per cent compared to 60 per cent in 2022-23 (target of median benchmark score for the latest Civil Service People Survey – 64 per cent in 2023);
- **KPI 15** – net underspend variance on income and expenditure from that set out in the Estimate of 1.1 per cent compared to 0.8 per cent in 2022-23 (target of less than 2 per cent of gross expenditure budget);
- **KPI 16** – £1.8 million cost savings and efficiencies identified throughout the business compared to £1.5 million in 2022-23 (target of £1.4 million);
- **KPI 17** – 280 tonnes of CO₂ equivalent emissions compared to 290 tonnes in 2022-23 (target of 20 per cent reduction on a recalculated 2019-20 baseline).³⁰

27. The Auditor General outlined how Audit Wales exceeded the £1.4 million savings target (KPI 16):

“Included within that target of £1.4 million is an assumption that we always make in setting our budget for around about a 5 per cent churn of our staff. Just through that churn and the vacancies that arise, that will generate the best part of £1 million of that sum. So, in large part, the fact that we overdelivered on that measure last year is because of all the vacancies that we had.”³¹

²⁹ Annual Report and Accounts 2023-24, page 17

³⁰ Annual Report and Accounts 2023-24, page 18

³¹ Finance Committee, RoP [para 281], 3 October 2024

28. In terms of the remaining savings during the year, the Auditor General highlighted the financial sustainability group's £500,000 savings target:

"That sum is much more akin to genuine savings and efficiencies. Moving forward in our annual plan, you will see that we're no longer going to incorporate that staff churn saving as part of our savings target. It will still be built into the numbers, we just won't be seeing it as savings, because they're not. But we will focus just on a smaller number that are genuine savings and efficiencies that we need to drive."³²

29. Looking ahead, the measure of cost savings (KPI 16) in the Annual Plan 2024-25 no longer refers specifically to "efficiencies" which results in a reduction from the target of £1.4 million in 2023-24, to a target of £400,000 in 2024-25.³³

30. The Executive Director for Communications and Change confirmed that the financial sustainability review group met its £500,000 savings target, including identifying recurring savings of £238,000. The Auditor General said the recurring savings included changes to Audit Wales's estate and taking advantage of "some of that staff turnover to restructure teams, especially where they're not fee earning, so that we cut our costs and deliver for less in the future".³⁴

31. Three indicators are rated "improvement required":

- **KPI 13** – 12.3 per cent of employees voluntarily left Audit Wales compared to 10.1 per cent in 2022-23 (target of between 5 and 10 per cent per annum);
- **KPI 14** – an average of 7.1 working days were lost per member of staff per annum compared to 6.6 days in 2022-23 (target of less than 6 days);
- **KPI 18** – 82 per cent of trainees achieved first-time passes in their Professional and Advanced level examinations with the Institute of Chartered Accountants in England and Wales compared to 68 per cent in 2022-23 (target of at least 90 per cent).³⁵

³² Finance Committee, RoP [para 281], 3 October 2024

³³ [Annual Plan 2024-25, page 28](#)

³⁴ Finance Committee, RoP [paras 284 and 288], 3 October 2024

³⁵ [Annual Report and Accounts 2023-24, page 18](#)

32. In relation to KPI 13 and the “unprecedented loss of staff” discussed with the Committee last year³⁶, the Auditor General indicated that staff turnover is now around 8.5 per cent:

“I think the figure we’ve reported in the report and accounts is just over 12 per cent, and I think in year, at one point, it was even higher than that. You’ll see our KPI target that we’ve set is between 5 per cent and 10 per cent. So, we don’t want it to go too low. That will be an organisation that is at risk of becoming stale and not allowing people to move on and develop, but it’s much more now at a level that we’re comfortable with. We’ve had a lot of success in recruitment, and we’ve seen that loss of staff reduce considerably.”³⁷

33. Addressing levels of sickness absence (KPI 14), the Executive Director of Corporate Services told us this was mainly driven by long-term stress-related absence:

“... we now record work-related stress absence and then home or other-related stress absence. In this case, the majority of the absences are caused because of factors outside of work. But understanding that helps us to target intervention and support more effectively. I think the other point to make is that, in a relatively small organisation—300 staff—just a couple of long-term absences can have a significant impact on your overall statistics.”³⁸

34. He went on to explain the range of support available to staff on long-term sickness, including free confidential counselling and support from occupational health, trained mental health first-aiders and well-being champions.³⁹

35. The Auditor General highlighted the improvement in KPI 18 relating to trainee examination success rates:

“... I’m really pleased too that our indicator around trainee examination success is moving upwards again, after a dip around the pandemic. That’s good for the here and now, but,

³⁶ Finance Committee, Annual Scrutiny of the Wales Audit Office and the Auditor General for Wales, November 2023, paras 46-49

³⁷ Finance Committee, RoP [para 261], 3 October 2024

³⁸ Finance Committee, RoP [para 337], 3 October 2024

³⁹ Finance Committee, RoP [para 338], 3 October 2024

obviously, is an indicator of strength for the future as well, as those people come through the system.”⁴⁰

36. No indicators in this area of focus are rated “significant improvement required” compared to two for 2022-23. However, the indicator relating to employee experience, which was rated significant improvement required” in 2022-23 is no longer included in the KPIs.⁴¹ Instead, Audit Wales included an indicator relating to the proportion of employees who voluntarily leave Audit Wales per annum.⁴²

37. The Auditor General explained that the decision taken to move away from the Civil Service People Survey (CSPS) meant that comparability with the previous employee experience KPI (measured against the CSPS thematic employee experience scores) had been lost:

“... but we’ve maintained the principal one, which is around staff engagement, and added in a new indicator related to staff turnover, because that was such a big issue for us.”⁴³

38. When asked whether the removal of the employee experience indicator runs the risk that the Committee and the public do not get a full understanding of staff satisfaction at Audit Wales, the Auditor General said the results of the People Survey are published in full on the Audit Wales website, with themes also highlighted in the narrative to the Annual Report. He added:

“So, in the round, it feels to me and the board as though the KPIs do give a rounded, fair, transparent reflection of life at Audit Wales.”⁴⁴

39. Despite moving away from the CSPS, Audit Wales says it has applied a “fresh approach” while retaining the ability to benchmark against the CSPS engagement index.⁴⁵ The Auditor General told us the new People Survey includes:

“... the questions that generate the overall engagement index, and that is common to all organisations that use the CSPS, but also organisations that have stepped out, such as the Senedd Commission, I believe. So, that is the principal way that we maintain that sort of benchmarking capability. But within the

⁴⁰ Finance Committee, RoP [para 238], 3 October 2024

⁴¹ [Annual Report and Accounts 2022-23](#), KPI 13

⁴² [Annual Report and Accounts 2023-24](#), KPI 13

⁴³ Finance Committee, RoP [para 237], 3 October 2024

⁴⁴ Finance Committee, RoP [para 257], 3 October 2024

⁴⁵ [Annual Report and Accounts 2023-24](#), page 40

*survey that we use, we also have comparability with all other users of that survey, and it's extensively used throughout the world, so that will give us benchmarking, not only to other parts of the public sector, but also to professional private organisations that operate in a similar kind of field."*⁴⁶

40. The Annual Report notes that generally "staff reported that they are able to strike a good work-life balance, have the tools to get on with their job effectively, have clear work objectives and are motivated by their manager". It also highlights improved scores in perception of learning and development opportunities, but suggests that survey responses "were not as strong" in relation to:

- embedding confidence in senior leadership and the strategic vision;
- resource allocation and management;
- recognition and performance management.⁴⁷

41. When asked how the survey responses compared to previous years, and how the weaker responses are being addressed, the Auditor General told us the new employee engagement platform and survey "gives us far more intelligence about the levers that we can pull to help guide and steer the organisation". He went on to say:

*"On those three themes that you mentioned around leadership message, resourcing and performance management, it's not that those areas were areas of particular weakness, but they are the areas where, if we focus our efforts, those will be the most effective levers to pull in order to improve overall staff engagement. So, that's what we've done through the current year and we're all in the process, for instance, of a regular round of direct staff engagement exercises. We've invested in a significant management development programme for everybody from me downwards who has line management responsibilities over the last year, and we've revamped our performance management system. Whether that's bearing fruit, we will find out in the next few weeks. This year's survey goes out at the start of next week. I'm optimistic they are having some positive impact, though."*⁴⁸

⁴⁶ Finance Committee, RoP [para 292], 3 October 2024

⁴⁷ *Annual Report and Accounts 2023-24*, pages 40-41

⁴⁸ Finance Committee, RoP [para 290], 3 October 2024

Accountability and governance

Wales Audit Office Board

42. During this reporting period the Committee was made aware that, while in post, the previous Chair of the WAO, Dr Kathryn Chamberlain had undertaken an additional role from 1 January 2024 which meant she was disqualified as a member and as Chair of the WAO under the Act.⁴⁹ The Chair of the Finance Committee notified the Auditor General of her disqualification on 15 April 2024. Dr Ian Rees was subsequently appointed as Chair of the WAO from 12 June 2024.⁵⁰ Audit Wales notified the Committee of changes it had introduced in response to this issue, including the requirement for members to inform the Committee of their intentions to take on additional positions and activities, as well as changes to the induction and training programmes for members.⁵¹ The former Chair's disqualification⁵² is discussed further on page 25.

43. The Annual Report show that one elected employee member stood down from the Board on 31 August 2023 and was replaced on 18 October 2023.⁵³

44. In 2023-24, the Board conducted a self-assessment of its effectiveness which concluded that:

"... overall, the Board was operating effectively with some areas for improvement identified. The Board developed an action plan to address the key areas identified for improvement and agreed to commission an independent evaluation of its effectiveness in 2025-26."⁵⁴

45. The Chair told us the action plan included reviewing scheduling and agenda items to ensure a focus on strategic input and decisions, developing an effective integrated performance report, holding Board development days and improving Board visibility and engagement with staff.⁵⁵

46. The Audit and Risk Assurance Committee and the Remuneration and HR Committee also completed self-assessments of their effectiveness. The Annual

⁴⁹ [Letter from the Chair of the Finance Committee, 13 May 2024](#)

⁵⁰ [Plenary, RoP, 12 June 2024, item 5](#)

⁵¹ [Letter from Audit Wales, 11 June 2024](#)

⁵² [Finance Committee, Appointment of Non-Executive Members and Chair of the Wales Audit Office, May 2024](#)

⁵³ [Annual Report and Accounts 2023-24](#), page 56

⁵⁴ [Annual Report and Accounts 2023-24](#), page 58

⁵⁵ [Finance Committee, RoP \[para 300\], 3 October 2024](#)

Report notes that “the Board is satisfied with the robustness of the assessments and content that there are no matters of concern”.⁵⁶

Internal audit

47. TIAA, the internal auditors of Audit Wales appointed for the three-year period 2022-23 to 2024-25, issued seven internal audit reports during 2023-24. The annual statement of assurance for 2023-24 states that:

“TIAA is satisfied that, for the areas reviewed during the year, Audit Wales has reasonable and effective risk management, control and governance processes in place.”⁵⁷

48. Of the seven internal audit reports, four were rated “substantial assurance” and the following three were rated “reasonable assurance”:

- Cybersecurity;
- Workforce planning;
- Data protection.⁵⁸

49. The Executive Director of Corporate Services expanded on TIAA’s internal audit of cyber security arrangements at Audit Wales:

“... their conclusion around reasonable assurance was, effectively, that there is an adequate system of internal control, controls are working effectively, but there’s some scope for improvements. They raised some helpful recommendations—we’ve addressed all bar two of those. The last two are due to be completed by the end of this calendar year, and the final one is, in fact, pursuing a new cyber security accreditation. That’s something that our audit committee will be considering at their meeting in December.”⁵⁹

50. He explained that a cyber security consultant has been employed from Accenture to provide consultancy services and 24/7 support in the event of a successful cyber-attack, and is “really helping us to strengthen our arrangements

⁵⁶ Annual Report and Accounts 2023-24, page 58

⁵⁷ Annual Report and Accounts 2023-24, page 60

⁵⁸ Annual Report and Accounts 2023-24, pages 61-62

⁵⁹ Finance Committee, RoP [para 311], 3 October 2024

and to focus our resources on the things that are going to make the biggest difference in guarding against cyber-attack”.⁶⁰

Risk

51. The ARA states that the fluctuation of several key strategic risks during the reporting period have “particularly engaged the time of the ELT [Executive Leadership Team] and Audit and Risk Assurance Committee”, including:

- Failure to secure sufficient funding to ensure medium term financial sustainability;
- Inability to fully resource an evolving audit work programme and address the existing backlog;
- Failure to deliver sufficient fee income due to resourcing pressures;
- Failure to implement the necessary changes to audit quality arrangements required by new and revised professional standards.⁶¹

52. The Auditor General is “satisfied that these risks have been monitored and managed effectively during the year”, and the Annual Report notes that several risks were successfully managed and removed from the strategic risk register during the reporting period.

53. The Executive Director for Communications and Change confirmed that Audit Wales currently has one high risk which relates to financial sustainability:

“That, we feel, is likely to be de-escalated in this current year, when we’ve completed our assessment of our quarter 2, looking at our accounts.”⁶²

Staff

54. The average number of full-time equivalent staff decreased by seven, from 276 in 2022-23 to 269 in 2023-24. Within this overall figure, there was an increase of eight in the average number of full-time equivalent, UK-based, permanent staff employed during the year (to 215), a decrease of 13 in the average number of full-time equivalent, UK-based, staff on fixed-term contracts employed during the

⁶⁰ Finance Committee, RoP [para 312], 3 October 2024

⁶¹ [Annual Report and Accounts 2023-24](#), pages 63-64

⁶² Finance Committee, RoP [para 328], 3 October 2024

year (to 53) and a decrease in the number of audit and inspection contractors from three to one. The Annual Report states:

“There was an increase in the number of permanent staff as many of our recently qualified trainees were successful in obtaining permanent roles. The reduction in the number of staff on fixed term contracts reflects the resulting increase in trainee vacancies which we are in the process of recruiting.”⁶³

55. One member of staff received a severance payment in 2023-24 at a cost of £31,643. This compares to three members of staff in 2022-23 at a cost of £152,403.⁶⁴ The Auditor General explained that the payment related to removing a small part-time post to “restructure that team in the round and put in place a structure that’s much more robust and suited to the sort of work that we need to deliver”.⁶⁵

56. The total value of staff and associated costs in 2023-24 was £19.6 million (including redundancies and after taking account of income from inwards secondments), compared to £18.6 million in 2022-23.⁶⁶ During the year, Audit Wales made a one-off £1,500 cost of living payment to staff.⁶⁷

Accounts

Out-turn

57. Comparing out-turn with the Estimate, the largest area of variance in revenue expenditure was a £1.1 million underspend in relation to staff costs, with expenditure of £19.0 million. Audit Wales notes that this relates to increased staff turnover in the year.⁶⁸ Expanding on the impact of the staff turnover and recruitment challenges, the Executive Director of Corporate Services said:

“There’s a direct result then on our spend, so about a £1.5 million underspend on staff costs. That was actually offset by a one-off cost-of-living payment to staff, which I think this committee will remember discussing nine months or so ago, so that netted it down to about £1.1 million. But, absolutely, without those staff we’re not in a position to generate the

⁶³ Annual Report and Accounts 2023-24, page 75

⁶⁴ Annual Report and Accounts 2023-24, page 74

⁶⁵ Finance Committee, RoP [para 335], 3 October 2024

⁶⁶ Annual Report and Accounts 2023-24, page 76

⁶⁷ Audit Wales, Supplementary Estimate 2023-24

⁶⁸ Annual Report and Accounts 2023-24, page 82

income, and that leads to that £1.3 million underdelivery on income.”⁶⁹

58. The Auditor General indicated that staffing levels are “in a much better place” with “more staff than our establishment would need to deliver a typical year’s work” to enable the backlogs to be addressed.⁷⁰

59. Audit Wales underspent on capital by £57,000.⁷¹ Audit Wales also underspent its capital allocation in 2022-23.⁷² The Executive Director of Corporate Services highlighted two main reasons for the variance in capital spend:

“One of them is an underspend because of a delay in the ongoing development of our SharePoint-based audit management system, called SMART. That’s something that’s been rolled forward into the current financial year, so that’s happening now. The other factor is the ongoing move from capital to revenue expenditure in terms of IT infrastructure. So, rather than having spend and kit on premises, we’re increasingly renting that in the cloud because that gives you better security, better value for money. So, in recognition of that trend, what we’re looking to do is to reduce our capital programme from 2025-26 onwards to reflect that.”⁷³

Financial statements

60. The financial statements outline a credit loss of £143,000 in 2023-24⁷⁴ (up from £77,000 in 2022-23⁷⁵) in relation to debts older than 12 months at the end of the financial year. The Executive Director of Corporate Services told us the debt “almost entirely relates to town and community councils” and involves chasing a “very large number of very small invoices”. He explained that a temporary credit controller has been appointed to address the issue:

“Their work has already proved to be really successful. So, over the past three or four months our debts over 90 days have reduced by about a half, and the debts over 12 months have started to reduce slightly. What we’re expecting, though, over

⁶⁹ Finance Committee, RoP [para 346], 3 October 2024

⁷⁰ Finance Committee, RoP [para 351], 3 October 2024

⁷¹ [Annual Report and Accounts 2023-24](#), page 81

⁷² [Finance Committee, Annual scrutiny of the Wales Audit Office and the Auditor General for Wales, November 2023](#)

⁷³ Finance Committee, RoP [para 356], 3 October 2024

⁷⁴ [Annual Report and Accounts 2023-24](#), page 109

⁷⁵ [Letter from Audit Wales, 2 October 2023](#)

the next month or so, is a further reduction in those debts, because there is a regular cycle of council meetings for town and community councils. Those have just been held and one of the things on the agenda is to approve the payment of the Audit Wales invoice. So, we expect that figure to come down again during October.”⁷⁶

61. The financial statements note the removal of contractual entitlement to the Travel Allowance, with staff able to choose between an upfront payment or continued receipt of the Travel Allowance until March 2024. Payments representing the bulk of the provision associated with these costs were made to staff in April 2022, with the balance (£41,000) held pending changes to staff terms of employment. The financial statements confirm that the provision “has now been either utilised or released as no further payments are due”.⁷⁷

62. The financial statements outline a special payment of £21,140, paid to a member of staff in 2023-24 in resolution of an employment dispute.⁷⁸ The Auditor General confirmed that the payment related to an issue about historic entitlement to the Travel Allowance:

“We were not found to be at fault, but we did take external legal advice and that said the safest and most appropriate way to resolve the dispute and to protect the organisation from any risk of further cost or claim would be to settle. That we’ve done, to mutual agreement on both sides, so the issue is now resolved satisfactorily all round. It was a pretty unique set of circumstances around this case, so I’m confident that there are no others in the organisation.”⁷⁹

Audit Findings

63. The independent auditors of the WAO, RSM UK Audit LLP (‘RSM’) did not raise any issues in its report in the Annual Report and Accounts.⁸⁰

⁷⁶ Finance Committee, RoP [para 361], 3 October 2024

⁷⁷ Annual Report and Accounts 2023-24, page 114

⁷⁸ Annual Report and Accounts 2023-24, page 116

⁷⁹ Finance Committee, RoP [para 376], 3 October 2024

⁸⁰ Annual Report and Accounts 2023-24, page 85

64. RSM also shared its Audit Findings Report⁸¹ with the Committee, which summarises its key findings, in connection with the audit of the financial statements of Audit Wales in respect of the year ended 31 March 2024.

65. The report outlines three areas of audit risk, including:

- Revenue recognition – work in progress and deferred income (rated as a significant risk);
- Management override of internal controls (rated as a significant risk);
- Reputational risk (rated as a higher risk).⁸²

Quorum

66. The Act includes a statutory requirement in relation to the quorum rules of the WAO, which states “in all circumstances a quorum cannot be met unless a majority of the members present are non-executive members”.⁸³

67. As a result of the former Chair’s disqualification (see paragraph 42), RSM notes:

“If the disqualification was effective in January then there is a risk that, absent any specific legal advice on the matter, the quorum for board meetings will not have been met in the February and March 24 board meetings, as there would not have been a majority of non-executive board members.”⁸⁴

68. In response to this matter, Audit Wales management refers to external legal advice and Counsel provided on 22 and 25 April 2024, that the Chair was not disqualified. Furthermore, the management response states:

“... even if the Chair were disqualified, the savings provision at paragraph 31 of Schedule 1 to the Public Audit (Wales) Act 2013 would apply. That paragraph provides that “The validity of anything done by the WAO (including anything done by its nonexecutive members, the employee members, any committee or sub-committee and by any employee of the WAO) is not affected by— (a) a vacancy, or (b) a defective appointment.”) The advice confirmed that that the WAO did

⁸¹ RSM UK Audit LLP - Audit Findings Report - Year Ended 31 March 2024

⁸² RSM UK Audit LLP - Audit Findings Report - Year Ended 31 March 2024

⁸³ Public Audit (Wales) Act 2013, paragraph 28(3) of Schedule 1

⁸⁴ RSM UK Audit LLP - Audit Findings Report - Year Ended 31 March 2024, page 8

not need to take any remedial action in relation to acts during the period and that the acts of the WAO in the period were not open to legal challenge.”⁸⁵

69. When asked whether the Board took any decisions or undertook any actions effected by the disqualification, the Chair referred to the WAO’s external legal advice, as well as the saving provision in the Act:

*“... which means that those decisions are not invalidated by vacancies or defective appointments, and we took legal advice on that very point and we’re completely confident that there were no decisions taken by the board that were invalidated or impacted by the chair’s disqualification”.*⁸⁶

Committee view

70. The Committee recognises Audit Wales’s achievement in reaching 10 of its 18 KPIs in the context of continuing workload and staffing challenges in 2023-24. Performance includes strong results against audit quality and engagement indicators – areas the Committee has been interested in previously. We are also pleased to see the improvement in trainee success rates given its significant contribution to addressing workforce pressures. We are keen to see continued improvement in this area and hope the target can be achieved in 2024-25.

71. We acknowledge the slight increase in the proportion of accounts audit work delivered by the statutory deadline in 2023-24, although we also note that this is some way off the 100 per cent target. We further note that this has been supported in part by the decision taken to divert performance audit resources where possible, leading to a decline in the delivery of other audit work to planned timescales. We fully support Audit Wales’s objective of returning to the traditional timescales for NHS and local government by the accounts audit of 2025-26, and we are encouraged by the evidence that staffing levels are recovering and staff turnover is reducing. We anticipate seeing improvements in delivery against both statutory and non-statutory indicators in 2024-25 given the Auditor General’s indication that staffing levels now exceeds the numbers required “to deliver a typical year’s work”. We would welcome more information on whether the resources reprioritised to focus on accounts audit work in 2023-24 have now returned to performance audit teams.

⁸⁵ RSM.UK Audit LLP - Audit Findings Report - Year Ended 31 March 2024, page 8

⁸⁶ Finance Committee, RoP [para 296], 3 October 2024

Recommendation 1. The Committee recommends that Audit Wales clarifies whether it continues to reprioritise resources from performance audit teams to support the delivery of its statutory programme in 2024-25.

72. We note the different approach to gathering stakeholder feedback used to measure performance, including against the 'providing insight' and 'driving improvement' indicators, and that this involves conducting an independent research exercise one year, followed by a narrower internally-led survey the next year. Last year we expressed concerns that changing the methodology annually may impact on the integrity of score comparability and make it more difficult to identify emerging issues. We accept that the decline in stakeholder feedback scores may be impacted by issues such as the delays in the delivery of audit work, but we would like to understand more about the limitations of the data gathered through the narrower exercise in 2023-24.

Recommendation 2. The Committee recommends that Audit Wales outlines the differences in the methodologies used for its externally and internally run stakeholder surveys and provides further information to explain the limitations of the internally-led survey.

73. The Committee commends Audit Wales on exceeding its £1.4 million cost savings target by £400,000 in 2023-24. While the largest proportion of those efficiencies were generated through staff churn and vacancies, we recognise the £500,000 savings identified through the work of the financial sustainability review group, including £238,000 in recurring savings. We fully endorse the decision to focus future targets on driving genuine savings, rather than incorporating underspends which occur for reasons beyond Audit Wales's control, and note that the cost savings target for 2024-25 has been adjusted to £400,000.

74. We note the decision to refresh the staff engagement survey in 2023 and welcome the ability to continue benchmarking against the CSPS engagement index. While we acknowledge that the change in approach has resulted in the loss of the employee experience KPI as it was measured against the CSPS thematic employee experience scores, we are keen to understand whether any consideration was given to developing a KPI to measure staff satisfaction by other means. We are pleased that the staff survey results will continue to be published in full on the Audit Wales website for transparency and to enable year on year comparison, and ask for the results to be published prior to the annual scrutiny sessions each Autumn.

Recommendation 3. The Committee recommends that Audit Wales details any consideration it has given to developing an alternative KPI to measure staff satisfaction.

Recommendation 4. The Committee recommends that Audit Wales continues to publish the results of its annual People Survey prior to the Committee's annual scrutiny of the Annual Report and Accounts.

75. The Committee notes TIAA's "reasonable assurance" rating of cyber security measures at Audit Wales following its internal audit and welcomes Audit Wales's approach to engaging expertise in this area and proactively planning for issues that may arise.

3. Annual Plan 2024-25 and Interim Report 2024-25

76. The Act requires the Auditor General and the Chair of the Board to jointly prepare an Annual Plan and at least one Interim Report each year.⁸⁷

77. The Annual Plan 2024-25, laid on 8 April 2024, outlines the programmes of work for the year as well as information on its long-term ambitions and KPIs.⁸⁸

78. The Interim Report⁸⁹ 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 2024-25 and provides information on KPIs. The Interim Report was laid before the Senedd on 30 October 2024.

Annual Plan 2024-25

79. Audit Wales states that the Annual Plan, set at the mid-point of its five-year strategy⁹⁰, has been informed by feedback from a recent survey of a wide range of stakeholders.⁹¹

80. The Annual Plan notes issues around the timeliness of Audit Wales's work and says it will "take several years to bring that large programme of work back to pre-pandemic timescales".⁹²

81. The Auditor General told us that eliminating the backlog "is absolutely my No. 1 priority before I cease to be auditor general in a couple of years' time". To do so, he emphasised the need to maintain "a high level of high-quality staff" and for audited bodies to "play their part in delivering high-quality draft accounts to us on time". He added:

"The world of auditing standards is constantly in flux and so we always need to deal with those, and I can't control any further duties and responsibilities that the Senedd or the Government asks of me. But, putting those to one side, I'm confident that, given where we are at the moment, the progress that we're

⁸⁷ [Public Audit \(Wales\) Act 2013](#)

⁸⁸ [Annual Plan 2024-25](#)

⁸⁹ [Interim Report 2024-25, October 2024](#)

⁹⁰ [Audit Wales: Assure, Explain, Inspire: Our Strategy 2022-27, 28 June 2022](#)

⁹¹ [Annual Plan 2024-25, page 5](#)

⁹² [Annual Plan 2024-25, page 5](#)

making, the arrangements that we've got in place, I will go and hand over a clean slate to my successor.”⁹³

Interim report

Delivery of work programme

82. The Interim Report states that:

“All audits of 2023-24 NHS accounts were completed by June 2024, and all scheduled audits of central government accounts were completed by September 2024. We are also on track to certify most 2023-24 local government accounts that were prepared on time by the 30 November deadline.”⁹⁴

83. In 2023-24, Audit Wales delivered 85 per cent of its audit products by the statutory, or agreed, deadline.⁹⁵ The Interim Report indicates that Audit Wales is on track to meet its 100 per cent target in 2024-25.⁹⁶

84. The Executive Director for Audit Services confirmed that Audit Wales remains “on target to deliver all of the local government audits where accounts were delivered to us for audit by the required deadline of 30 June”, noting that the audit of a small number of local government bodies which did not meet that deadline and Audit Wales anticipates that these will be completed by February. She added:

“We’ve still got some 22-23 audits outstanding in three local government bodies and one national park. And these are issues that the client bodies are experiencing themselves, so we’re working with them to support them. Obviously, we’ll do the audit as soon as we can.”⁹⁷

Performance

85. The Interim Report provides performance data for 13 of Audit Wales’s 18 KPIs, with data not yet available for the remaining five KPIs. Indicators currently rated as “requiring significant improvement” include:

⁹³ Finance Committee, RoP [para 381], 3 October 2024

⁹⁴ *Interim Report 2024-25, October 2024*, page 4

⁹⁵ *Annual Report and Accounts 2023-24*, KPI 1

⁹⁶ *Interim Report 2024-25, October 2024*, KPI 1

⁹⁷ Finance Committee, RoP [paras 144 and 146], 7 November 2024

- **KPI 2** – Proportion of other key audit products delivered in accordance with the planned timetable for ensuring timely and impactful reporting (performance to 30 September 2024 is 78 per cent against a target of 90 per cent, compared to 76 per cent in 2023-24).
- **KPI 18** – Proportion of trainees achieving first-time passes in their Professional and Advanced level examinations with the Institute of Chartered Accountants in England and Wales (performance to 30 September 2024 is 76 per cent against a target of at least 90 per cent, compared to 82 per cent in 2023-24).⁹⁸

86. The Executive Director for Audit Services referred to a dip in performance in terms of trainees achieving first-time passes over the last couple of years, which she attributed to “a more relaxed attitude that we took to exam failures, post COVID initially” and “the number of applicants that we’ve had to the trainee programme”. She went on to say:

“... I think that’s reflected in, for example, the fact that some of the results that we’ve had in this financial year that have impacted this have been in respect of the 2023 cohort, where we’ve only now got five people in that group. So, as you can see, we had five people—three passed, two didn’t. That takes your success rate through to 60 per cent, which pulls the overall target down. We’ve managed to recruit 26 trainees this year. The results we’ve had from them so far are really, really good, so I’m hopeful that that statistic now, that KPI, will improve.”⁹⁹

Strategy for 2022-2027

87. The Interim Report provides information on the three areas of focus, and the related priorities, identified in Audit Wales’s strategy for 2022-27.¹⁰⁰ The majority of the priority areas are either “on track” or “mostly on track but some further improvement needed”.¹⁰¹

88. One priority is to “develop and implement a three-year quality monitoring programme to support our whole organisation approach to managing the risk to audit quality”, and is rated “Improvement needed”.¹⁰²

⁹⁸ [Interim Report 2024-25, October 2024](#), pages 21-25

⁹⁹ Finance Committee, RoP [para 152], 7 November 2024

¹⁰⁰ [Audit Wales: Assure, Explain, Inspire: Our Strategy 2022-27, 28 June 2022](#)

¹⁰¹ [Interim Report 2024-25, October 2024](#), pages 11-20

¹⁰² [Interim Report 2024-25, October 2024](#), page 18

89. The Executive Director for Audit Services explained the reasons for this rating:

“I think what the interim report is reflecting is the fact that I would like to be further through that three-year monitoring programme than I am. Why am I not further through? Well, we’ve had resource constraints, we’ve had a key member of staff off sick. I’m putting additional capacity into the team, so I am hopeful that we will catch up—that’s certainly my intention.”¹⁰³

Committee view

90. We are pleased to see that Audit Wales is currently on course to meet its target and deliver 100 per cent of its audit products by the statutory or agreed deadline. While it is concerning that some 2022-23 audits remain outstanding, we note that the delays relate to issues at the audited bodies, and recognise the support Audit Wales is providing to those bodies.

Recommendation 5. The Committee recommends that Audit Wales provides details of the four outstanding audits of 2022-23 accounts and the issues that have resulted in the delay.

91. We note that the proportion of trainees achieving first-time passes in their Professional and Advanced level examinations has fluctuated over the last few years, which Audit Wales attributes to initially adopting a more relaxed attitude to failures post COVID and the impact that the performance of a smaller number of trainees has on the overall target. In light of our previous discussions¹⁰⁴, and the subsequent information provided in relation to the review of the trainee scheme¹⁰⁵, we are keen to understand what further action Audit Wales is taking to address the drop in performance recorded in the Interim Report.

Recommendation 6. The Committee recommends that Audit Wales outlines how it is responding to the drop in performance against its trainee success rate indicator at 30 September 2024.

92. We heard that resource constraints have impacted on Audit Wales’s strategic priority to implement a three-year quality monitoring programme. While we recognise that this is being addressed by providing additional capacity to the

¹⁰³ Finance Committee, RoP [para 141], 7 November 2024

¹⁰⁴ ~~Annual scrutiny of the Wales Audit Office and the Auditor General for Wales~~, November 2023, page 30

¹⁰⁵ ~~Audit Wales, Response: Finance Committee Annual Scrutiny of the Wales Audit Office~~, 1 February 2024

team, we are interested in understanding the risks associated with delays to the programme.

Recommendation 7. The Committee recommends that Audit Wales details the risks associated with delays in delivering its three-year quality monitoring programme.

4. Estimate of the income and expenses for the year ended 31 March 2026

93. The Estimate of the income and expenses for the year ended 31 March 2026 (“the Estimate”)¹⁰⁶ was jointly prepared by the Auditor General and the WAO and laid before the Senedd on 31 October 2024, in accordance with Section 20(1) of the Act.¹⁰⁷

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

“The responsible committee [Finance Committee] under Standing Order 18.10(i) must consider and lay before the Senedd, no later than 22 November, a report including the estimate, with any modifications which the responsible committee, having consulted and taken into account any representations made by the Auditor General and the Wales Audit Office, considers appropriate.”¹⁰⁸

95. At the request of the previous Finance Committee following the modification of the Estimate for 2020-21¹⁰⁹, the Estimate 2025-26 is presented in two parts:

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

Context

96. The Committee has issued a Statement of Principles¹¹⁰ it expects Directly Funded Bodies (‘DFBs’) to have regard to when formulating budget requests. The Committee is currently in the process of reviewing the Statement of Principles, having consulted the DFBs in May 2023.¹¹¹

¹⁰⁶ [Part 1 - Budget ambit - Estimate 2025-2026](#)

¹⁰⁷ [Public Audit \(Wales\) Act 2013](#)

¹⁰⁸ [Standing Orders of the Welsh Parliament, Standing Order 20.22](#)

¹⁰⁹ [Letter from the Finance Committee \(Fifth Senedd\) - Modified Estimate of the Income and Expenses for the Year Ended 31 March 2021 and Fee Scheme 2020-21, 15 January 2020](#)

¹¹⁰ [Statement of principles for directly funded bodies, July 2021](#)

¹¹¹ [Letter from the Chair of the Finance Committee to the Directly Funded Bodies, 4 May 2023](#)

Statement of Principles for DFBs:

Budget requests should be set in the context of the long term financial funding situation in Wales and funding pressures in the wider public sector.

Requests should show how annual and multi-annual objectives will be prioritised, monitored and achieved.

DFBs should not assume an increase in funding, regardless of the block grant change as any increase to their funding reduces resources available to other devolved public bodies.

DFBs should continually seek to improve processes and accrue efficiencies.

Where any increases in funding are requested, these should be backed by evidence both of the need, benefit and attempts that have been made to reduce such costs. Also, the consequences of not obtaining the requested increase in resource should be made clear and quantified.

97. On 19 July 2024, the then Cabinet Secretary for Finance, Constitution and Cabinet Office wrote to the Committee to set out various factors to inform the forward financial planning for DFBs as they prepare their budgets for the 2025-26 financial year.¹¹²

98. When asked how the Estimate 2025-26 reflects a prudent approach to operating Audit Wales and takes account of the pressure on public finances, the Chair told us:

“The board has been very much aware of the pressures on public finances when considering the estimate for 2025-26. I think that this has manifested itself in the requirements to continue to provide high-quality audit in the public sector to ensure the best use of public funding and also in the continual value-for-money drive in Audit Wales’s work.”¹¹³

99. The Chair explained that the Estimate 2025-26 “doesn’t really contain any significant proposals for areas of new spend”, is focussed on maintaining last year’s progress against the organisational priority of eliminating the backlogs of work, and “reflects a relatively modest and realistic” increase in funding from the Welsh Consolidated Fund (WCF). He indicated that the WAO Board “provided significant

¹¹² Letter from the Cabinet Secretary for Finance, Constitution and Cabinet Office to the Chair of the Finance Committee, 19 July 2024

¹¹³ Finance Committee, RoP [para 12], 7 November 2024

challenge to the executive in considering draft estimates” and, while acknowledging that finding ongoing savings becomes more difficult, confirmed that the Board was keen to ensure ongoing efficiencies and would continue to set savings targets.¹¹⁴

Overview

Overall funding request

100. The Estimate shows total expenditure of £28.401 million in 2025-26, up £1.466 million or 5.4 per cent compared to 2024-25. It also shows Audit Fee income of £18.610 million in 2025-26, up £1.134 million or 6.5 per cent compared to 2024-25.¹¹⁵

101. In terms of WCF resource funding, Audit Wales is requesting £9.791 million.¹¹⁶ This equates to an increase of £332,000 (3.5 per cent). The baseline WCF change, which does not include the cyclical reduction in National Fraud Initiative (NFI) costs (£130,000) and the capitalisation charge under International Financial Reporting Standard (IFRS) 16 (£187,000), is £275,000 (2.9 per cent).¹¹⁷

102. In cash terms, Audit Wales is requesting £9.236 million, an increase of £109,000 or 1.2 per cent.¹¹⁸ Audit Wales has not provided a cash figure for the year-on-year change taking account of NFI funding changes.¹¹⁹

103. Commenting on the presentation of last year’s Estimate 2024-25 and the challenges experienced in interpreting the overall figures, the Committee said it required “precision in terms of the increases requested year-on-year in both cash and resource terms” and set out how it would like figures to be presented.¹²⁰

Movements in working capital

104. Following a change in the value of the movements in working capital budget line in the Estimate 2024-25 (associated with expenditure on dilapidations in the

¹¹⁴ Finance Committee, RoP [paras 12-13], 7 November 2024

¹¹⁵ Part 1 – Budget ambit – Estimate 2025-2026, page 6

¹¹⁶ Part 1 – Budget ambit – Estimate 2025-2026, page 6

¹¹⁷ Part 2 – Supporting information – Estimate 2025-2026, Exhibit 8

¹¹⁸ Part 1 – Budget ambit – Estimate 2025-2026, page 6

¹¹⁹ Part 2 – Supporting information – Estimate 2025-2026, Exhibit 8

¹²⁰ Annual scrutiny of the Wales Audit Office and the Auditor General for Wales, November 2023, paragraph 224 and Recommendation 10

previous year), the Committee requested more information on movements in working capital in future Estimates.¹²¹

105. In 2025-26, the value of movements in working capital is reducing from £200,000 in 2024-25 to £40,000 (for the expected release of a dilapidations provision for the west Wales office).¹²²

106. When asked whether there are any other areas where funding is being moved between budget lines, the Executive Director of Corporate Services said “we’re not moving any budget or funding between budget lines”.¹²³

107. Audit Wales has previously told the Committee that movements in working capital relates to “normal contingency for year-end movements” and that it was impossible” to predict the value.¹²⁴

108. Recognising that the inclusion of elements of estimated movements in working capital had caused some confusion last year, the Executive Director of Corporate Services confirmed that the contingency element of any movement in working capital has been removed as it cannot be accurately estimated in advance. Expanding on this issue, he said:

“The only movement that we’ve included is the area where we have some real certainty, which is that dilapidations provision for our west Wales office. Any actual movements will be reported in full in our annual report and accounts at year end. In the event that we have unused cash, that’s returned in full to the consolidated fund, as we have in previous years. In the event that we have an increased cash requirement in 2025-26 as a result of those sorts of movements, they might need to be reflected in a supplementary estimate, because we have no provision to carry cash forward from one year to the other, because of that full repayment at year end.”¹²⁵

109. When asked whether Audit Wales foresees any issues that may require an increase in its cash requirement via a supplementary budget in 2025-26, the

¹²¹ [Annual scrutiny of the Wales Audit Office and the Auditor General for Wales](#), November 2023, paragraph 169 and Recommendation 13

¹²² [Part 2 – Supporting information – Estimate 2025-2026](#), Exhibit 11

¹²³ Finance Committee, RoP [para 22], 7 November 2024

¹²⁴ [Annual scrutiny of the Wales Audit Office and the Auditor General for Wales](#), November 2023, paragraph 166

¹²⁵ Finance Committee, RoP [paras 22 and 24], 7 November 2024

Executive Director of Corporate Services told us it was difficult to predict until the end of the year.¹²⁶

Savings

110. The Estimate outlines a savings target of £200,000 in 2025-26, compared to £400,000 in 2024-25.

111. Addressing the reduced target in 2025-26, the Auditor General emphasised the importance of setting savings targets but indicated that it is “becoming increasingly difficult” to achieve:

“... our savings target relates only to the WCF element and, bluntly, that therefore relates to staff in our corporate areas and some audit staff who are WCF funded and our non-staffing budgets, which, as the committee knows, over the last few years, we’ve attacked very vigorously around travel and subsistence and our estate, and so on.”¹²⁷

Audit deadlines

112. The Estimate notes that “significant measures” have been announced in England “to tackle a worsening backlog in local audit and restore transparency and accountability over how public money is spent”¹²⁸, highlighting that “just 1% of local bodies published their accounts on time in 2023-24 with the backlog expected to increase to around 1,000 audits this year”.¹²⁹

113. While recognising that “we are in a much better position with a relatively low historical backlog on our principal audits”, Audit Wales notes that “we are still behind where we should be” and says that the Estimate is “aimed at maintaining the momentum for this work so that we do not prejudice the good progress currently being made”.¹³⁰

114. Audit Wales aims to return to a more traditional timescale for the NHS and local government sectors by the accounts audits of 2025-26.¹³¹ The impact on Audit Wales’s finances is demonstrated in the Medium-Term Financial Plan which shows increased staff costs in 2025-26 and 2026-27, before those costs reduce for

¹²⁶ Finance Committee, RoP [para 26], 7 November 2024

¹²⁷ Finance Committee, RoP [para 18], 7 November 2024

¹²⁸ [UK Government, Press release: Ministry of Housing, Communities and Local Government, 31 July 2024](#)

¹²⁹ [Part 2 – Supporting information – Estimate 2025-2026, page 5](#)

¹³⁰ [Part 2 – Supporting information – Estimate 2025-2026, page 5](#)

¹³¹ [Annual Report and Accounts 2023-24, page 21](#)

the remaining years of the plan to “reflect our ‘steady state’ unless we are able to explore opportunities for additional work”.¹³²

Staff costs

115. The Estimate is based on the employment of 312 Full-Time Equivalent (FTE) staff, an increase of 12 compared to 2024-25. This increase in staff is linked to addressing the backlog of audit work and is “met entirely from fees charged to audited bodies”.¹³³

116. In terms of the impact on other areas of work or related costs, the Auditor General confirmed that there is:

“... fundamentally no impact on the Welsh consolidated fund side of the organisation. We believe, on the additional staff-related costs like training and development and travel and so forth, there may be some fluctuation but we don’t believe there’s a requirement for us to reflect that explicitly in the estimate.”¹³⁴

117. The Executive Director for Audit Services went on to say:

“... we’ve had to accelerate some training—for example, auditing of groups—but that’s been contained within the existing budget. You’ll note that, over the last couple of years, T&S costs, travel and subsistence costs, have come down. You’ll see in this estimate we’re proposing to increase them a little bit this year. That’s because staff are increasingly having to go back to audited bodies, at the audited bodies’ request and also because we believe that that’s the best way to do an efficient, high-quality audit. So, there will be some impact there, but everything we’re containing within our existing resources.”¹³⁵

118. Staff pay was a significant element of the Estimate 2024-25, which stated “to start to bring our pay scales in line with others, and to stem the departure of staff to better paid parts of the public sector and to the private sector”. It comprised “an increase to our salary budget to compensate for the shortfall over the last two

¹³² Part 2 – Supporting information – Estimate 2025-2026, page 24

¹³³ Part 2 – Supporting information – Estimate 2025-2026, page 10

¹³⁴ Finance Committee, RoP [para 36], 7 November 2024

¹³⁵ Finance Committee, RoP [para 37], 7 November 2024

years (3%) and a further 5% for an estimated for a pay uplift in 2024-25". The Estimate 2024-25 also noted:

"Two years ago, we agreed, as part of a negotiated settlement, that a £3,350 annual Travel Allowance paid to staff be removed with effect from April 2024. In line with that settlement, all salary points will be uplifted by £900 from that date¹³⁶, separately from any agreed pay award."¹³⁷

119. The Estimate for 2025-26 makes provision for an "inflationary pay uplift", subject to negotiations with Trade Unions in 2025.¹³⁸

120. We sought clarification on what Audit Wales means by "inflationary pay uplift" and the amount of WCF funding budgeted in the Estimate for this purpose. The Auditor General said there was a "slight nervousness" about including assumption for pay next year when preparing the Estimate but referred to being "in a slightly different position now":

"Last year the relationship with our unions was really, really positive. That was manifested in one way in the way that we were able to settle on pay for 2024-25 early, so that staff saw the benefit of that from April. We'd very much like to do similar this year, and so I want our approach to be complete transparency and openness with our union partners. So, we have factored into the estimate you've got before you an assumption that our pay bill for next year will increase by 3.5 per cent, which we know we'll be able to afford. If we're to go above that in any way then it can only be affordable if we can identify ongoing recurring savings, which, as I touched on earlier, is not impossible, but challenging. But that would be our position for the opening conversations with the unions."¹³⁹

121. We heard that Audit Wales aims to conclude negotiations with the Trade Unions by March in order to reflect it in staff pay from April 2025.¹⁴⁰

122. The Estimate also takes into account an anticipated staff turnover rate of 5 per cent.¹⁴¹ In terms of the risk associated with this figure, the Auditor General said

¹³⁶ Other than trainees and apprentices whose salaries were adjusted in 2022-23 to reflect the impact that the loss of the allowance had on benchmarked salaries

¹³⁷ [Part 2 – Supporting information – Estimate 2024-2025](#), pages 6 and 14

¹³⁸ [Part 2 – Supporting information – Estimate 2025-2026](#), page 10

¹³⁹ Finance Committee, RoP [para 57], 7 November 2024

¹⁴⁰ Finance Committee, RoP [para 68], 7 November 2024

¹⁴¹ [Part 2 – Supporting information – Estimate 2025-2026](#), page 10

the 5 per cent staff turnover has been a working assumption for many years, adding:

“I don’t believe we’ve seen turnover lower or significantly lower than that at all, in my period of time. And as we’ve discussed previously in the committee, currently, it’s a fair bit higher still. So, I think the level of risk of falling below that level is small. If it were to manifest itself, and I don’t think it will, but, if it were, it’s a relatively easy thing for us to manage in-year—not desirable, because it would mean holding off on training, recruitment and so forth. But it’s, in my view, a very small level of risk going into next year.”¹⁴²

123. Though not reflected in the Estimate, we questioned how the 1.2 percentage point increase in employer National Insurance contributions announced in the UK Government Autumn Budget¹⁴³ would impact on staff costs in 2025-26. The Auditor General explained that the timing of the announcement meant it was not included in the Estimate, but he anticipated funding being “passported from Westminster to the Welsh Government and the wider public sector”, indicating the likelihood of a supplementary Estimate at the start of next year. He added:

“In terms of the split of that additional cost between the Welsh consolidated fund and fees, my proposal would be that we seek that directly through the WCF, because of course audited bodies will be facing the same costs. They ought to be compensated for their additional employer costs, but not for additional audit fees. So, that would seem the fairest way of doing it. In terms of quantum it’s around about £200,000 of additional cost.”¹⁴⁴

Accommodation

124. For accommodation costs, the Estimate 2025-26 shows a small reduction in terms of resource, but a £123,000 increase in terms of cash.

125. Audit Wales’s Estimate 2024-25 included a cash reduction of £100,000 to reflect a rent-free period associated with its Cardiff office.¹⁴⁵ Last year, the Committee was uncertain about how cash associated with the rent-free period

¹⁴² Finance Committee, RoP [para 71], 7 November 2024

¹⁴³ UK Government, Press release: Chancellor chooses a Budget to rebuild Britain, 30 October 2024

¹⁴⁴ Finance Committee, RoP [para 50], 7 November 2024

¹⁴⁵ Part 2 – Supporting information – Estimate 2024-2025, page 16

was being utilised in 2024-25 and sought assurances that this would not result in an increase in cash when the rent-free period came to an end. In response to the Committee's recommendation¹⁴⁶, Audit Wales said:

*"As set out in the Estimate, we have reduced our cash requirement for 2024-25 to reflect the rent-free period agreed in the lease. There will therefore be an associated increase in cash requirement when this rent-free period comes to an end."*¹⁴⁷

126. Following up on this issue, we asked Audit Wales to what budget lines it allocated this cash in 2024-25 and what impact that has on those areas of spending in 2025-26. The Executive Director of Corporate Services reiterated the previous response:

*"We accounted for the resource in 2024-25, as we have 2025-26 and thereafter, but we didn't have that cash requirement last year. We now have that because the rent-free period is over, so we've now got that cash requirement in the budget for 2025-26."*¹⁴⁸

Proposed changes to funding

Audit Work

127. The Estimate requests an increase of £172,000 from the WCF relating to audit work, bringing the proposed budget to £4.762 million in 2025-26.¹⁴⁹

128. The Estimate states:

*"Audit work funded from the WCF is costed on the same basis – ie using the fee rates calculated to recover no more than full cost and hence has been increased in line with our proposed 1.7% fee rate increases for 2025-26."*¹⁵⁰

129. This funds activities such as National Value for Money Examinations and Studies and related work, staff time associated with NFI, work to explore themes

¹⁴⁶ Finance Committee, Annual Scrutiny of the Wales Audit Office and Auditor General for Wales, November 2023, paragraph 229 and Recommendation 15

¹⁴⁷ Audit Wales, Response: Finance Committee Annual Scrutiny of the Wales Audit Office, 1 February 2024

¹⁴⁸ Finance Committee, RoP [para 83], 7 November 2024

¹⁴⁹ Part 2 – Supporting information – Estimate 2025-2026, Exhibit 8

¹⁵⁰ Part 2 – Supporting information – Estimate 2025-2026, page 19

arising from accounts work, and work to respond to issues flagged by the public and their elected representatives.¹⁵¹

130. In addition, the Estimate highlights that:

“... for 2025-26 we have identified a further £97,000 of WFG [Well-being of Future Generations] work arising from Senedd Reform and four year electoral cycle.”¹⁵²

131. The Auditor General wrote to Senedd Committees on this issue during Stage 1 of the Senedd Cymru (Members and Elections) Bill in November 2023, highlighting that moving from five-year to four-year electoral cycles would result in “a 25% increase in the frequency of sustainable development examinations and reporting” under section 15 of the Well-being of Future Generations (Wales) Act 2015.¹⁵³

132. The Auditor General confirmed that the £97,000 is ongoing funding to:

“... undertake a body of work across what is now 56 bodies captured by the future generations Act. That is relatively fixed and defined by legislation, so I have to do it. The £97,000 is the arithmetic consequence of squeezing that work from five years into four.”¹⁵⁴

Wider public sector benefit

133. The Estimate seeks £30,000 additional funding for Audit Wales’s “Pan Wales financial training”, increasing funding in this area to £900,000 in 2025-26. The Estimate says the increase “allows for an inflationary pay increase from April 2025”.¹⁵⁵ Exhibit 9 lists the cost increases, with £12,000 relating to trainee and apprentice secondments, £8,000 for training costs and £10,000 for programme management. There is no change to the Annual conference cost of £20,000.¹⁵⁶

134. In terms of non-pay cost increases within the £30,000 overall increase, the Executive Director for Audit Services referred to the cost of professional training

¹⁵¹ Part 2 – Supporting information – Estimate 2025-2026, page 19

¹⁵² Part 2 – Supporting information – Estimate 2025-2026, page 19

¹⁵³ Letter from the Auditor General for Wales to the Reform Bill Committee, 3 November 2023

¹⁵⁴ Finance Committee, RoP [para 86], 7 November 2024

¹⁵⁵ Part 2 – Supporting information – Estimate 2025-2026, Exhibit 8 and page 20

¹⁵⁶ Part 2 – Supporting information – Estimate 2025-2026, Exhibit 9

for accountancy studies and programme management costs relating to “lost time from audit managers and audit leads who have to support the programme”.¹⁵⁷

135. Separately, the Estimate identifies a £10,000 budget increase for its Good Practice Exchange work, which includes events, webinars, podcasts and other outputs. The Estimate notes that staff time associated with this work is charged at fee rates.¹⁵⁸

136. When asked how the Good Practice Exchange programme is demonstrating value for money, the Auditor General told us the team consists of three members of staff and “punches way above its weight”. He added:

“If you’re interested in its value for money, I would point primarily to the feedback that we get from participants, which is consistently in the high eighties and above in terms of satisfaction with the events and outputs we produce.”¹⁵⁹

National Fraud Initiative

137. Funding for NFI work is subject to alternate year increases/reductions to Cabinet Office costs for data checking. There is a reduction of £130,000 in the costs of this work compared to 2024-25 since the Estimate for 2025-26 does not include cyclical NFI costs.¹⁶⁰

Other running costs

138. Audit Wales outlines changes to its other running costs funded from the WCF, including increases of:

- £25,000 (7.8 per cent) for Audit Wales governance costs;
- £7,000 (3.4 per cent) for staff and ICT costs relating to data analytics;
- £40,000 (28.6 per cent) for cyber security costs;
- £5,000 (3.9 per cent) for WCF control/compliance staff costs;
- £3,000 (3.5 per cent) for staff costs associated with audit quality;
- £1,000 (1.3 per cent) for travel time costs;

¹⁵⁷ Finance Committee, RoP [para 95], 7 November 2024

¹⁵⁸ [Part 2 – Supporting information – Estimate 2025-2026](#), Exhibit 8 and page 21

¹⁵⁹ Finance Committee, RoP [para 97], 7 November 2024

¹⁶⁰ [Part 2 – Supporting information – Estimate 2025-2026](#), Exhibit 8 and page 22

- £12,000 (16.4 per cent) for IFRS16 depreciation costs.¹⁶¹

139. The Chair confirmed that the £25,000 increase for governance costs relates to commissioning an independent review of Board effectiveness, which it is good practice to undertake every three to five years. He advised that the last independent review took place in 2021 at a cost of around £21,000 plus VAT.¹⁶²

140. On the impact of the data analytics function, the Auditor General said most of the “gain” is in “contributing directly into the reduction in fees that we anticipate for next year”. He highlighted that data analytics tools also improve the quality of audits and result in direct savings to the Audit Wales or to audited bodies:

“We produced some work recently that identified direct savings from the prescription of medicines for community pharmacies, amounting to over, I believe, £700,000. That was a direct result of a piece of data analytics work that we had undertaken.”¹⁶³

141. The Executive Director of Corporate Services explained that the additional £40,000 investment in cyber security is for the creation of immutable backups:

“This is a relatively new development whereby we would have backups that can’t be destroyed or tampered with by cyber attackers, and that’s a key part of a criminal’s strategy around ransomware.”¹⁶⁴

142. Non-cash adjustments, which include changes to depreciation and interest, IFRS16 capitalisation, and movements in working capital, change by £223,000 (67.2 per cent).¹⁶⁵

Capital

143. The Estimate identifies capital costs of £467,000, which includes £187,000 for IFRS16 (non-cash) associated with the west Wales office move. Excluding IFRS16, Audit Wales is requesting £280,000 capital investment for its Change Programme and ICT Strategy¹⁶⁶

¹⁶¹ Part 2 – Supporting information – Estimate 2025-2026, Exhibit 8

¹⁶² Finance Committee, RoP [para 122], 7 November 2024

¹⁶³ Finance Committee, RoP [paras 105 and 112], 7 November 2024

¹⁶⁴ Finance Committee, RoP [para 101], 7 November 2024

¹⁶⁵ Part 2 – Supporting information – Estimate 2025-2026, page 23

¹⁶⁶ Part 2 – Supporting information – Estimate 2025-2026, Exhibit 7

144. The final phase of Audit Wales’s office moves programme is due to be complete in 2025-26, with a move to the Welsh Government office in Penllergaer planned for April 2025. The Estimate suggests the move will save £10,000 a year and identifies £60,000 capital funding in 2025-26 for “necessary changes to the office space”.¹⁶⁷

145. The Executive Director of Corporate Services outlined why the capital investment is needed:

“I’m pleased to say that the new office is shared space with the Welsh Government, so it makes good use of surplus public sector space. But, of course, we do need to fit that out for our own requirements, including important privacy and security measures, because of the confidentiality of the information that we’re dealing with.”¹⁶⁸

146. In terms of Audit Wales’s digital strategy, the Estimate says the balance of change programme funding will be used to fund improvements in the software used to manage audit work along with “necessary upgrades and improvements” to its corporate management information systems. It also intends to develop a “proof of concept” for Phase 2 of its financial audit platform as part of the wider strategy to modernise Audit Wales’s audit approach.¹⁶⁹

147. Excluding the non-cash allocation for IFRS16, the capital funding sought for 2025-26 is £30,000 lower than the budget for 2024-25 (£310,000). Audit Wales says this links to the “industry move towards cloud based IT solutions with annual rental rather than significant up-front investment” along with the completion of its future workplaces project. Capital budgets in future years also show a relatively uniform funding requirement.¹⁷⁰

148. We heard that a large part of Audit Wales’s capital programme relates to ICT expenditure on the three-year rolling programme of laptop replacement, as well as any system replacements/upgrades as part of its change programme.¹⁷¹

149. We explored the risks, timescales and potential cost of the ‘proof of concept’ for Phase 2 of the financial audit platform with Audit Wales. The Auditor General explained that Audit Wales used an industry-standard platform until it invested “in

¹⁶⁷ Part 2 – Supporting information – Estimate 2025-2026, page 16

¹⁶⁸ Finance Committee, RoP [para 108], 7 November 2024

¹⁶⁹ Part 2 – Supporting information – Estimate 2025-2026, page 16

¹⁷⁰ Part 2 – Supporting information – Estimate 2025-2026, page 15

¹⁷¹ Finance Committee, RoP [para 115], 7 November 2024

the region of £100,000 to £150,000” developing its own system in SharePoint three years ago. He went on to say:

“To put that in context, for the previous industry-standard system we paid £80,000 a year, in terms of licensing. So, if we assume a 10-year lifespan for our system, that is a very significant saving to the public purse—well over £0.5 million. What we want to do next is to build in some greater automation into that system to improve it still further. That’s what we’re proposing in this estimate. Our expectation is we’ll go about that in the same way, so largely driven in-house, with a bit of external consultancy drawn in. I believe we’re talking in the region of about £50,000 for that work.”¹⁷²

Audit Fees

150. Audit Wales outlines an estimated increase in its fee income of £1.134 million (6.5 per cent) for 2025-26 compared with 2024-25. This increase reflects plans to deliver more audit work than in a typical year as Audit Wales reduces its backlog of audits and brings forward completion deadlines.¹⁷³

151. Audit Wales proposes keeping the average increase in its fee rates to under 1.7 per cent as set out in its draft fee scheme, appended to the Estimate.¹⁷⁴

152. Audit Wales says the “modest” increase in its fee rates for 2025-26 is, in part, driven by efficiencies of scale related to the increase in the numbers of audit staff employed whilst it clears its backlog of work. Once the backlog is cleared, it is possible that there will be a disproportionate increase in fee rates as a result.¹⁷⁵

153. Addressing the increase in fees, the Auditor General said “we have driven down our costs as best we can”, but added:

“I’ve got to be open: we are also benefiting this year because we are essentially a little overstaffed, to try to catch up with the backlog of work we face, and those fee-earning staff contribute to our organisational overheads. So, that is one of the reasons why, this year, we’re able to increase fee rates by only 1.7 per cent, but anticipate a higher than that increase in our staff bill, bluntly. That’s good for everybody this year, but, of course, we

¹⁷² Finance Committee, RoP [para 118], 7 November 2024

¹⁷³ Part 2 – Supporting information – Estimate 2025-2026, Exhibit 6

¹⁷⁴ Part 2 – Supporting information – Estimate 2025-2026, page 31

¹⁷⁵ Part 2 – Supporting information – Estimate 2025-2026, page 14

*anticipate that, in two or three years' time, that will start to unwind as we've dealt with the backlog and are back to a steady state.*¹⁷⁶

154. The Auditor General suggested that managing the transition to a “steady state” may “potentially lead to an above-anticipated increase in fee rates in future years”. He went on to say:

“The more interesting and exciting option, I believe, would be for us to maintain our staffing at around that level, but use that additional resource to broaden our portfolio of work, so to stretch outside the statutory work that we’re required to deliver, keep that as our No. 1 focus, but to spread into other areas of commissioned work. Now, if we were to do that, I’d be very keen to engage with the committee about the desirability of that and how we go about it, and the Welsh Government as well. But it seems to me a win-win, because it’s good for Audit Wales, it’s good for audited bodies in terms of the fees that we have to charge them, because it’s making a small net contribution to the public purse as a result.”¹⁷⁷

155. Following a review of the implementation of a new audit quality standard (ISA315), the Estimate notes that Audit Wales has been able to identify further efficiencies in its audit approach which means it is able to reduce its average fee scales for the audit of accounts at Local Government bodies by an average of 3 per cent.¹⁷⁸

156. Expanding on this, the Executive Director for Audit Services said:

“We’re seeing that with the larger bodies, and that’s playing out in the fee scales, which obviously are local government fee scales. I would say that what we’re seeing in the central Government, those smaller bodies, is actually not the same picture. So, in some cases, we may see some increases there. And of course, even in local government bodies, the fee scales are there, the fee rates are there, but the amount of time that we have to spend on an audit depends as much on the quality

¹⁷⁶ Finance Committee, RoP [para 126], 7 November 2024

¹⁷⁷ Finance Committee, RoP [para 127], 7 November 2024

¹⁷⁸ **Part 2 – Supporting information – Estimate 2025-2026**, page 13

of the information that we're given as the amount of work that we need to do to meet auditing standards as well."¹⁷⁹

157. Audit Wales received 6 responses to the consultation on its draft Fee Scheme, and also refers a separate consultation with One Voice Wales, as the representative body for Town and Community Councils. The Fee Scheme says changes for Town and Community Councils reflect proposals linked to Audit Wales's experience of the new audit regime that has been operating since 2020.¹⁸⁰

158. When asked whether the cost of audit would increase for Town and Community Councils in 2025-26, the Executive Director for Audit Services said:

*"No, not necessarily, really, other than for the fee rate increases themselves. I think that what you'll see with the new fee scales is a reflection of our experience over the last three years. The previous fee scales were based on certain assumptions when we took the work back in-house. The reality of the situation over the last three years and the data that we've got proves that, actually, we were probably overly optimistic, and so we've had to adjust the fee scales accordingly."*¹⁸¹

Committee view

159. The Committee welcomes Audit Wales's prudent approach to preparing this Estimate, giving due regard to our Statement of Principles and the difficult fiscal outlook addressed in the letter from the Cabinet Secretary for Finance, Constitution and Cabinet Office. We have therefore concluded that the Estimate 2025-26 is reasonable and proportionate.

160. While we continue to encounter some challenges in terms of understanding the overall funding request, we recognise the improvements Audit Wales has made to the presentation of the Estimate in response to our previous recommendations. The supporting information to the Estimate presents an increase of 2.9 percent in the resource baseline, which Audit Wales compares (in a footnote to paragraph 1) to a 1.2 per cent increase in cash.¹⁸² We note from Exhibit 8 that the biennial £130,000 NFI cost reduction, for which resources were requested and allocated for 2024-25, is accounted for outside the resource

¹⁷⁹ Finance Committee, RoP [paras 130-131], 7 November 2024

¹⁸⁰ Part 2 – Supporting information – Estimate 2025-2026, page 31

¹⁸¹ Finance Committee, RoP [para 135], 7 November 2024

¹⁸² Part 2 – Supporting information – Estimate 2025-2026, page 31

baseline. However, this is at odds with the approach to calculating the increase in the cash sought from the Welsh Consolidated Fund, which includes the NFI cyclical funding. As such, the percentage changes set out by Audit Wales in the first paragraph do not seem to be comparable. We also note that the presentation of the Revenue Budget, at Appendix 1, does not mirror the approach to including the NFI cyclical costs outside the resource baseline. As expressed in our report on the Estimate 2024-25, we require precision in terms of the increases requested year-on-year in both cash and resource terms. The Committee appreciates why Audit Wales includes a baseline figure. However, if Audit Wales intends to provide a baseline resource figure as its headline change in the supporting information, the Committee would find an equivalent baseline cash figure helpful.

Recommendation 8. The Committee recommends that Audit Wales reflects on the presentation of its Estimate and considers how it can provide more transparency and clarity around its headline figure.

161. We recognise that Audit Wales has also changed its approach to estimating movements in working capital in this Estimate, but we have found it difficult to understand the impact of the £160,000 reduction in this area in terms of the impact on the overall cash and percentage change. Last year, we recommended that Audit Wales alters the presentation of its Estimate and details both increases and decreases in budget lines separately, and we reiterate this request this year.¹⁸³

162. We also note the possible need for a supplementary Estimate as a result of Audit Wales's new approach to estimating movements in working capital and would like to understand more about the circumstances that may lead to such a request.

Recommendation 9. The Committee recommends that, in future Estimates, Audit Wales considers how it can provide further information to detail both increases and decreases in budget lines separately, particularly where funding previously used for one purpose is reallocated elsewhere in the budget.

Recommendation 10. The Committee recommends that Audit Wales explains why the change to movements in working capital is being taken in 2025-26 and provides further information on the circumstances that may result in a supplementary Estimate for the purposes of funding associated with movements in working capital.

¹⁸³ Annual scrutiny of the Wales Audit Office and the Auditor General for Wales, November 2023, page 65

163. We acknowledge the challenges in delivering ongoing savings and efficiencies, reflected in a reduced savings target for 2025-26. Nevertheless, we welcome the savings target and firmly believe that all directly funded bodies should continually seek to improve processes and accrue efficiencies, as set out in our Statement of Principles. We also recognise the Board’s constructive challenge in this regard.

Recommendation 11. The Committee recommends that Audit Wales outlines how it intends to reach its savings target for 2025-26.

164. The Estimate refers to an “inflationary pay uplift” and we heard that Audit Wales has budgeted for a 3.5 per cent increase in its pay bill. We are keen to understand how pay increases are assessed and which inflationary measure has been used to support the proposed uplift in 2025-26.

Recommendation 12. The Committee recommends that Audit Wales:

- sets out the factors it considers when formulating pay proposals, including the inflationary measures it considers, and
- confirms which inflationary measure it has used to support the proposed 3.5 per cent uplift in 2025-26.

165. We acknowledge that the timing of the UK Government’s Autumn Budget 2024 means the 1.2 percentage point increase in employer National Insurance contributions is not reflected in the Estimate and will likely follow in a supplementary Estimate next year. We note that Audit Wales proposes to seek the additional funding of approximately £200,000 entirely from the Welsh Consolidated Fund. This differs to the approach taken when the UK Government previously announced a 1.25 percentage point increase in National Insurance contributions for both employees and employers from April 2022 (although it was later reversed). At that time, the Estimate 2022-23 sought a proportion of additional funding from the Welsh Consolidated Fund, with the balance being met from fees.¹⁸⁴ We are keen to understand why Audit Wales is now proposing a different approach to funding increases in National Insurance.

Recommendation 13. The Committee recommends that Audit Wales explains why it is considering a different approach to previously proposed National Insurance increases in 2022, with a proportion of that increase funded from the Welsh Consolidated Fund and the balance funded through fees.

¹⁸⁴ Part 2 – Supporting information – Estimate 2022-2023, page 8

166. We note that the £25,000 increase in governance costs relates to the commissioning of an independent review of the Board, and recognise that it is good practice to do so every three to five years. As this is one-off funding in 2025-26, the Committee expects Audit Wales to clearly demonstrate where this funding is reducing in the Estimate for 2026-27

Recommendation 14. The Committee recommends that Audit Wales demonstrates in future Estimates how the one-off £25,000 increase in governance costs in 2025-26 is reducing.

167. The Committee welcomes the evidence provided on the impact of the data analytics function and its contribution to lowering the fees charged to audited bodies.

Recommendation 15. The Committee recommends that Audit Wales provides further information on the impact of its Data Analytics function in terms of driving savings and efficiencies.

168. We note the £40,000 additional cyber security investment for the creation of immutable backups and would like to understand whether this is a one-off investment or an ongoing cost.

Recommendation 16. The Committee recommends that Audit Wales confirms whether the £40,000 additional investment in cyber security represents a one-off or ongoing cost.

169. Following previous underspends, and noting the move to annual rental of cloud based IT solutions, we welcome the £30,000 reduction in Audit Wales's capital programme (excluding IFRS16 funding). The Estimate includes a breakdown of capital investment for the 'Change Programme' and 'ICT Strategy', and we heard that a large part of the capital programme relates to expenditure on a three-year rolling programme of laptop replacement. However, the Committee is keen to understand how the £280,000 capital investment has been allocated to individual projects within these sub-categories, as previously recommended.¹⁸⁵

Recommendation 17. The Committee recommends that Audit Wales provides further detail and a breakdown of how specific elements of its capital funding will be spent in 2025-26 and also includes the same level of detail in future Estimates.

¹⁸⁵ Annual scrutiny of the Wales Audit Office and the Auditor General for Wales, November 2023, Recommendation 14

170. The Committee commends Audit Wales on the considerable efficiencies it has achieved by developing its own SharePoint-based audit management system. While we note that Audit Wales intends to invest approximately £50,000 in 2025-26 to develop this system further, it is unclear whether this represents the overall cost of developing this system.

Recommendation 18. The Committee recommends that Audit Wales sets out the anticipated total cost of developing its SharePoint-based audit management platform and the timescales for delivery.

171. The Committee notes that Audit Wales proposes keeping the average increase in its fee rates to under 1.7 per cent in 2025-26. We understand that this is partly due to overstaffing in order to clear the current backlog of work, and may lead to a disproportionate increase in fee rates once the workload has stabilised. We note the Auditor General's suggestion that the additional resource could instead be utilised to broaden Audit Wales's portfolio into other areas of commissioned work, a proposal which previously featured in the Fifth Senedd Committee's post-legislative scrutiny of the Public Audit (Wales) Act 2013.¹⁸⁶

Recommendation 19. The Committee recommends that Audit Wales provides more detail on the areas of commissioned work it would consider appropriate, as well as the associated opportunities and risks.

¹⁸⁶ Finance Committee (Fifth Senedd), Consideration of proposals to amend the Public Audit (Wales) Act 2013

Annex 1: List of oral evidence sessions.

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

Date	Name and Organisation
3 October 2024	<p>Adrian Crompton, Auditor General for Wales, Audit Wales</p> <p>Dr Ian Rees, Chair of the Wales Audit Office Board, Audit Wales</p> <p>Kevin Thomas, Executive Director of Corporate Services, Audit Wales</p> <p>Anne-Louise Clark, Executive Director of Communications and Change, Audit Wales</p>
7 November 2024	<p>Adrian Crompton, Auditor General for Wales, Audit Wales</p> <p>Dr Ian Rees, Chair of the Wales Audit Office Board, Audit Wales</p> <p>Kevin Thomas, Executive Director of Corporate Services, Audit Wales</p> <p>Ann-Marie Harkin, Executive Director for Audit Services, Audit Wales</p>

Annex 2: Estimate of Income and Expenses for
Audit Wales for the year ended 31 March 2026



**Estimate of Income and Expenses
for Audit Wales for the year
ended 31 March 2026**

October 2024

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

Ian Rees

Chair, Wales Audit Office

Adrian Crompton

Auditor General for Wales

Audit Wales
1 Capital Quarter
Tyndall Street
Cardiff CF10 4BZ

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 Senedd at least five months before the beginning of the financial year to which it relates.

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

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

- The Auditor General and 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 Senedd under Section 125 of the Government of Wales Act 2006 that includes authorisation of the resources to be used (including accruing resources) and payments to be made by the Wales Audit Office. This Estimate sets out the amounts to be included in respect of the Wales Audit Office.

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

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

Contents

Foreword	4
Budget 2025-26	6
The Budget Ambit 2025-26	7



Foreword

Audit Wales exists to give the Senedd and the people of Wales confidence in a high-performing and accountable public sector. It provides transparency and accountability for taxpayers and their elected representatives. It provides public bodies with accurate and reliable financial information with which to plan and manage their services and finances effectively.

Our value for money work is vital to robust parliamentary accountability through the Senedd Public Accounts & Public Administration, Finance and other Committees. We audit the accounts and governance of over 800 public bodies across Wales, providing the principal means of assurance about how public money in Wales is being managed from the Welsh Government itself to the smallest community council, through almost every area of public service delivery.

Public audit provides the Senedd, public bodies and the public with independent assessment of the use and management of public money and early warning of problems. When the quality or timeliness of audit reduces, the risks of waste, fraud, and mismanagement increase.

The Minister for Finance and Local Government set out the challenges for public sector spending in Wales in her letter of 19 July 2024 – setting out the significant uncertainties for Welsh public finances post 2024-25.

We recognise this pressure on the public finances. Indeed, it is that pressure that makes the work of Audit Wales all the more essential. The need for value for money from every pound of public spending, and for trusted, timely assessment of the state of financial management and governance in the Welsh public sector, has never been greater. It is the responsibility of the Auditor General and the Wales Audit Office Board to make clear to the Senedd what is needed to provide that through a strong, sustainable, independent public audit office. Without such an office, the risk of failing to make best use of those scarce resources is greatly increased. And the cost to the public purse of the weaknesses that quickly arise as a result, far outweigh the cost of maintaining a properly resourced, high quality public audit regime. The total cost of delivering the independent assurance and insight of Audit Wales represents a little over 1 penny for every £10 spent on devolved public services in Wales.

Taking all this into account, our Estimate allows for an increase in our baseline call on the Welsh Consolidated Fund (WCF) in resource terms of 2.9%. An average increase in our fee rates of 1.7% is allowed for in the draft Fee Scheme appended to the Estimate.

Our [Annual Report and Accounts for 2023-24](#) sets out our record of achievement for the last financial year. In April this year we laid our [Annual Plan for 2024-25](#) at the Senedd. This Estimate secures funding for our forward priorities for 2025-26 and includes indicative funding requirements and considerations for future years. Our Annual Plan for 2025-26 will be laid before the Senedd before March 2025.

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



Ian Rees

Chair, Audit Wales



Adrian Crompton

Auditor General for Wales

Budget 2025-26

Our budget for 2025-26 totals £28.4m and provides for:

- the audit of accounts and our performance audit work at over 850 audited bodies for which we charge fees in line with the provisions of the Public Audit (Wales) Act 2013;
- National Value Examinations and Studies and Local Government Studies;
- work to explore themes arising from our accounts work;
- support for our response to issues brought to our attention by members of the public and their elected representatives;
- our Pan Wales financial training programme;
- participation in the National Fraud Initiative, and our Good Practice Exchange; and
- the non-cash IFRS16 implication of our West Wales office move.

	2025-26 £'000	2024-25 £'000	% change compared to 2024-25
Staff costs	23,360	22,312	4.7%
Accommodation	718	731	(1.8%)
T&S	352	303	16.2%
NFI cyclical costs	-	130	(100%)
Other costs	3,504	3,149	11.3%
Capital investment	467 ¹	310	50.6%
Total Expenditure	28,401	26,935	5.4%
Audit Fee income	18,610	17,476	6.5%
Total call on WCF	9,791	9,459	3.5%
Call on WCF (cash)	9,236	9,127	1.2%

1 Includes non-cash IFRS16 requirements

Budget Ambit 2025-26

Estimated budget requirements of the Wales Audit Office for the year ending 31 March 2026

- 1 Under Section 125 of the Government of Wales Act 2006, Ministers must move a Budget Motion in the Senedd to authorise the use of resources, retention of income and drawings of cash from the WCF for certain relevant persons, including the Wales Audit Office.
- 2 In respect of the services and purposes of the Wales Audit Office and the Auditor General in the year ending 31 March 2026, the Budget Motion will authorise:
 - the amount of resources which may be used in the financial year by the Wales Audit Office (in line with the budget for the year);
 - the amount of resources accruing to the Wales Audit Office in the financial year, which may be retained rather than being paid into the WCF; and
 - the amount which may be paid out of the WCF to the Wales Audit Office.
- 3 These requirements, which due to the variability of income streams can only be estimates, are summarised in **Exhibit 1**.
- 4 Details of how we propose to use this funding to deliver public audit in Wales in 2025-26 are set out in our supporting information.

Exhibit 1: summary of the estimated 2025-26 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.	9,791
Accruing resources from fees and charges for audit, grant certification and related services; other recoveries of costs associated with the functions of the Auditor General or Wales Audit Office; miscellaneous income such as from publications, conferences, provision of administrative, professional and technical services and recoveries of costs incurred for a third party – all for use by the Wales Audit Office on the discharge of the functions of the Auditor General and on related services and the administration of the Wales Audit Office.	18,610
Net cash requirement from the WCF to meet the net amounts falling due for payment in the year by the Wales Audit Office.	9,236

- 5 **Exhibit 2** provides a reconciliation of the Wales Audit Office's total resource request with its net cash requirement for the year ended 31 March 2026.

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

	£'000
Net request for resources	9,791
Non-cash adjustment – depreciation and interest	(608)
Non-cash adjustment – IFRS16 capitalisation	(187)
Lease rental payments	200
Movements in working capital (utilisation of dilapidations provision)	40
Net cash requirement from the WCF to meet the net amounts falling due for payment in the year by the Wales Audit Office	9,236



Audit Wales
1 Capital Quarter
Tyndall Street
Cardiff CF10 4BZ

Tel: 029 2032 0500

Textphone: 029 2032 0660

E-mail: info@audit.wales

Website: www.audit.wales

We welcome correspondence and
telephone calls in Welsh and English.

Rydym yn croesawu gohebiaeth a
galwadau ffôn yn Gymraeg a Saesneg.