

National Assembly for Wales
Finance Committee

**Scrutiny of the Wales Audit Office
and the Auditor General for Wales's
Annual Report and Accounts
2014-15 and Estimate 2016-17**

November 2015

Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales



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Finance Committee

The Committee was established on 22 June 2011. The Finance Committee's role is to carry out the functions set out in Standing Order 19. This includes consideration of the use of resources by the Assembly Commission or Welsh Ministers, and in particular reporting during the annual budget round. The Committee may also consider any other matter relating to expenditure from the Welsh Consolidated Fund.

The Finance Committee's remit also includes specific statutory powers under the Public Audit (Wales) Act 2013 relating to new responsibilities for governance oversight of the Wales Audit Office.

Current Committee membership:



Jocelyn Davies (Chair)
Plaid Cymru
South Wales East



Peter Black
Welsh Liberal Democrats
South Wales West



Christine Chapman
Welsh Labour
Cynon Valley



Mike Hedges
Welsh Labour
Swansea East



Alun Ffred Jones
Plaid Cymru
Arfon



Ann Jones
Welsh Labour
Vale of Clwyd



Julie Morgan
Welsh Labour
Cardiff North



Nick Ramsay
Welsh Conservatives
Monmouth

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The Committee's Recommendations

The Committee's recommendations are listed below, in the order that they appear in this report. Please refer to the relevant pages of the report to see the supporting evidence and conclusions:

Recommendation 1. The Committee welcomes the focus on improving the equality profile further and recommends that the Wales Audit Office explores potential gender barriers preventing females from reaching the top level of management as part of this work. (Page 9)

Recommendation 2. The Committee recommends that the Wales Audit Office ensures that elected employee members of the Board have clarity over their roles and that all staff are aware of their function in relation to the Board. (Page 12)

Recommendation 3. On completion of the external review of Board effectiveness, the Committee recommends that the Wales Audit Office reports back to the Committee on the outcome of the review and the enhancements realised following the phase two recommendations. (Page 13)

Recommendation 4. The Committee urges the Welsh Government to alleviate the financial impact on Welsh Government Sponsored Bodies of the Wales Audit Office's decision to discontinue its fee subsidy arrangement in 2016-17. (Page 18)

1. Introduction

Background to the Public Audit (Wales) Act

1. The Public Audit (Wales) Act 2013 (PAWA) received Royal Assent on 29 April 2013.¹ The PAWA continued the office of the Auditor General for Wales 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 for Wales and the WAO.

Accountability and Governance Arrangements

2. The Act confers a number of functions on the National Assembly for Wales. Under Section 28 of the PAWA, the Assembly may make provision through Standing Orders regarding the exercise of the functions conferred upon it by the Act, including “delegating functions to the Presiding Officer, the Deputy Presiding Officer, a committee or sub-committee of the National Assembly or the chair of such a committee or sub-committee”.²

3. The Business Committee agreed on 1 October 2013 to delegate relevant functions regarding the WAO and the Auditor General for Wales to the Finance Committee (the Committee).³ The functions delegated include scrutinising the WAO annual estimate of income and expenditure.

Standing Order Requirements

4. Standing Order 18.10(i) sets out that a responsible committee must:

“exercise the functions set out in section 20 of the Public Audit (Wales) Act 2013 relating to the estimate of income and expenses for the Wales Audit Office jointly laid by the Auditor General and the Wales Audit Office for each financial year.”⁴

5. Standing Order 18.11(i) sets out that a responsible committee may consider matters, including:

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

² [National Assembly for Wales Standing Orders](#)

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

⁴ [National Assembly for Wales Standing Orders](#)

“considering and reporting to the Assembly on the Annual Plan jointly laid before the Assembly by the Auditor General and the chair of the Wales Audit Office under Section 26 of the Public Audit (Wales) Act 2013.”⁵

6. The Committee scrutinised the following publications on 5 November 2015 and took evidence from the Auditor General for Wales, members of his office and Isobel Garner, Chair of the Wales Audit Office Board:

- [Accounts and Annual Report for 2014-15](#);
- [Interim Report for 2015-16](#); and
- [Estimate of the Income and Expenses of the Wales Audit Office for the Year Ended 31 March 2017](#).

7. The Committee is content with all of these publications and welcomes the openness provided by the WAO and the Auditor General for Wales during the scrutiny of these issues.

8. At the Committee meeting on 11 November 2015, the Committee considered the report⁶ from the external auditors of the Wales Audit Office.

⁵ [National Assembly for Wales Standing Orders](#)

⁶ [FIN\(4\)-25-15 P3 External Audit Report on the Accounts 2014-15](#)

2. Annual Report and Accounts 2014-15

9. The Annual Report and Accounts for 2014-15 were laid before the National Assembly for Wales on 12 June 2015.⁷

10. The Auditor General for Wales prepared the Accounts for 2014-15 as the Accounting Officer for the WAO, in accordance with Schedule 1 of the PAWA.

11. The Auditor General for Wales and the Chair of the Wales Audit Office jointly prepared the Annual Report for 2014-15, in accordance with Schedule 2 of the PAWA.

12. The Committee also considered the report of the WAO's independent auditor, included in the Annual Report and Accounts. The Committee is content with the report, which concluded that the accounts provide a true and fair view of the state of the WAO affairs.⁸

Workforce profile

13. The Committee sought clarification on the increase in the percentage of staff on permanent employment contracts, from 90.3 per cent in 2013-14 to 95.1 per cent in 2014-15. The Director of Finance said that the shift is related to the use of contractors and fixed-term staff as part of the overall workforce plan, in order to deal with year-end peaks and for specialist performance audit work.⁹

14. The WAO was asked about the number of females at senior management level, given the decrease from 23.1 per cent in 2013-14 to 21.4 per cent in 2014-15.¹⁰ The Auditor General for Wales clarified that the figure reflected one new male appointment to the senior leadership team, rather than a reduction in female staff.¹¹

15. The Director of Corporate Services explained that the WAO has implemented a number of initiatives to improve compliance with the equality agenda:

⁷ [Annual Report and Accounts 2014-15](#)

⁸ [Annual Report and Accounts 2014-15, page 84-85](#)

⁹ [Record of Proceedings, 5 November 2015, paragraph 24](#)

¹⁰ [Annual Report and Accounts 2014-15, page 19](#)

¹¹ [Record of Proceedings, 5 November 2015, paragraph 35](#)

“We're at a stage now where we feel that, comfortably, we comply with the key requirements of the Equality Act 2010, but we're now looking to further improve by making more of a difference to how people feel about working for the Wales Audit Office as an organisation.”¹²

The Committee welcomes the focus on improving the equality profile further and recommends that the Wales Audit Office explores potential gender barriers preventing females from reaching the top level of management as part of this work.

Changes to reporting responsibilities

16. This was the first time the Auditor General for Wales and the Chair of the Wales Audit Office (the Chair) had jointly prepared the Annual Report and Accounts, following implementation of the PAWA on 1 April 2014.

17. The Committee questioned whether this new requirement had led to any changes in the way in which the Annual Report and Accounts were prepared and approved. The Chair explained that the Auditor General for Wales, as Accounting Officer,

“...now benefits from the full regime of having a fully formed audit and risk assurance committee, which also has independent members who add a great deal of rigour in the scrutiny of the process of preparing accounts.”¹³

18. The Chair also pointed out that the Annual Report and Accounts were laid 10 days earlier than last year, and 10 weeks earlier than three years ago.

19. The Committee welcomes the robust scrutiny following implementation of the PAWA and commends the WAO on the quality of its Annual Report and Accounts 2014-15 which, whilst lengthy, the Committee found to be comprehensive and easy to understand.

Remuneration report

20. The remuneration report includes a financial provision of £89,000 for a PAYE settlement with Her Majesty's Revenue and Customs

¹² [Record of Proceedings, 5 November 2015, paragraph 31](#)

¹³ [Record of Proceedings, 5 November 2015, paragraph 15](#)

(HMRC). This relates to how PAYE was operated by WAO over travel expenses to their main place of work for two members of staff.

21. During last year's scrutiny of the 2013-14 Accounts the Committee was advised that, although some elements had been resolved, a decision from HMRC on the final settlement was still outstanding.¹⁴

22. The Committee queried whether HMRC has made a decision on the final PAYE settlement. The Director of Finance confirmed that one item had been resolved but the WAO is awaiting the written statement from HMRC in relation to the remaining items. He hopes the final settlement will be concluded this year, but indicated that this is beyond the WAO's control.¹⁵

Risk Management

23. The report highlighted a significant increase in employee long-term sickness absence, with an average of nine days lost per employee during the reporting year.¹⁶ The Committee queried whether there were any underlying reasons for this increase. The Auditor General for Wales explained:

“I have to say that there is stress, or there has been stress, within the organisation. I've just indicated to you the pressure that we were under, particularly with financial auditors. We are conscious, in terms of monitoring that, how it reflects in terms of the public sector, and so on. We do compare reasonably favourably, still, with the public sector, but it has been the change year on year that has caused us concern.”¹⁷

24. The WAO said it had put in place measures to prevent sickness absence such as offering simple health checks and is also exploring health screenings, including screening for mental health.¹⁸

25. The Committee is concerned by the rise in sickness levels, but welcomes the positive actions taken to promote and support staff well-being. The Committee is encouraged by the latest figure, which

¹⁴ [Finance Committee, RoP, 6 November 2014, paragraph 15](#)

¹⁵ [Record of Proceedings, 5 November 2015, paragraph 19](#)

¹⁶ [Annual Report and Accounts 2014-15, Page 45](#)

¹⁷ [Record of Proceedings, 5 November 2015, paragraph 95](#)

¹⁸ [Record of Proceedings, 5 November 2015, paragraph 98](#)

demonstrates that the average number of sick days has already been reduced to seven and a half days at the end of October 2015.

26. Moreover, the Committee recognises that the WAO is striving to reduce sickness levels further by setting a target of six and a half days – significantly below the Chartered Institute of Personnel and Development benchmark of eight days.

Annual Governance Statement

Implementation of the PAWA

27. As many of the management activities during 2014-15 involved formally implementing the PAWA, the Committee questioned whether the WAO has been able to measure the success of these changes and what further work is still required. The Chair indicated that, as the Act has been in place for just over two years, she plans to commission a review of the PAWA implementation in order to capture the lessons learned and reflect the difficulties experienced.

28. The Wales Audit Office Board (the Board) is made up of non-executive and executive members, as well as employee elected members “to provide an extra dimension of insight and experience”.¹⁹

29. The Committee enquired as to how the model of electing employees to the Board was working. The WAO outlined that the election process gave all employees the opportunity to elect, by single transferable vote, and was heavily contested. The Chair explained:

“I’m absolutely delighted with the contribution the elected employee members make. They’re very mature, they’re very thoughtful, they give a very pragmatic staff perspective on the issues that face us. However, it’s hard for them. There is still a massive expectation from other staff within the organisation that they are representative. They are not representative; they are full board members. They come to all the board meetings, the briefings, I appraise them, they have to put the collective good of WAO in front of their own personal interests.”²⁰

30. When asked if the WAO believes that the model of electing employee members to boards is applicable to other public bodies, it

¹⁹ [Annual Report and Accounts 2014-15, Page 5](#)

²⁰ [Record of Proceedings, 5 November 2015, paragraph 38](#)

was suggested that a review of the board model would be necessary, including an examination of the tensions associated with being a full board member. The WAO also thought that a similar model of elected employee membership on other boards in Wales would need to be consistent to avoid confusion.²¹

31. In considering the Annual Report and the external auditors' report the Committee noted the allowance paid to the elected employee members of the Board. The Committee noted the provisions of the PAWA in relation to paying allowances to elected employee members of the Board, but the Committee would be grateful to receive information from the WAO as to how this level of allowance was reached.

32. The Committee welcomes the insight into the elected employee board membership model and looks forward to observing its development. The Committee is very supportive of the policy of elected employee board members and would urge the WAO to act on experience that suggests not all staff are clear of the roles that elected employees have on the Board.

The Committee recommends that the Wales Audit Office ensures that elected employee members of the Board have clarity over their roles and that all staff are aware of their function in relation to the Board.

Performance and effectiveness

33. The Governance Statement refers to the commissioning, by the Board, of an external review of Board effectiveness. In March 2015, the Board received the interim report of the first phase – a benchmarking exercise focused on tasks and roles, interactions and individual contributions. Phase two will deliver an assessment of strengths, areas for development, direction of travel, and recommend actions and activity to enhance performance.²²

34. The WAO confirmed that an independent company HCubed has been appointed to carry out the review, which has included a desk-top review of Board documentation, individual questionnaires, Board

²¹ [Record of Proceedings, 5 November 2015, paragraph 49](#)

²² [Annual Report and Accounts 2014-15, Page 74](#)

observation and a session on group dynamics. The Board's progress will be reviewed in the spring and conclude with a formal report.²³

35. The Committee is keen to see how the review will impact on the Board's performance and effectiveness and to assess whether a similar exercise would benefit other public body boards.

On completion of the external review of Board effectiveness, the Committee recommends that the Wales Audit Office reports back to the Committee on the outcome of the review and the enhancements realised following the phase two recommendations.

Interim Report for 2015-16

36. The Interim Report 2015-16 was jointly prepared by the Auditor General for Wales and the Chair of the Wales Audit Office and laid before the National Assembly for Wales on 23 October 2015, in accordance with the requirements of the PAWA.

37. The Committee considered the Interim Report alongside the Annual Report 2014-15 and noted the WAO's progress towards achieving its priorities and newly introduced key performance measure targets.

²³ [Record of Proceedings, 5 November 2015, paragraph 79](#)

3. Wales Audit Office Estimate 2016-17

38. The estimate was jointly prepared by the Auditor General for Wales and the Chair of the Wales Audit Office and laid before the National Assembly for Wales on 23 October 2015, in accordance with Section 20(1) of the PAWA.²⁴

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

“The responsible committee [Finance Committee] under Standing Order 18.10(i) must consider and lay before the Assembly, no later than 22 November, a report including the estimate, with any modifications which the responsible committee, having consulted and taken into account any representations made by the Auditor General and the Wales Audit Office, considers appropriate.”²⁵

40. The Committee is content with the WAO estimate 2016-17, attached as Annex C to this report.

Overview of the estimate for 2016-17

41. The estimate for 2016-17 shows that 71 per cent of the WAO’s expenditure is funded through fees charged to audited bodies, and a grant from the Welsh Government for auditing performance indicators. The remaining 29 per cent (£6.7 million) is provided directly from the Welsh Consolidated Fund. It is this £6.7 million which is subject to scrutiny by the Committee.

42. The estimate is composed of £6,678,000 of revenue funding. This represents an increase of £422,000 to the £6,256,000 approved in 2015-16. The additional revenue funding has been requested to fund the following:

- £132,000 to fund secondments of accounting trainees to Welsh public bodies;
- £300,000 for piloting audit work related to the Well-being of Future Generations Act 2015;

²⁴ [WAO Estimate: 2016-17, Page 18](#)

²⁵ [National Assembly for Wales Standing Orders](#)

- £100,000 to realign the skills mix of audit work;
- £50,000 for preparatory work on the Welsh Revenue Authority;
and
- £130,000 to continue providing free participation in the second year of the National Fraud Initiative.

43. The estimate includes a three-year capital investment plan, as recommended by the Committee following last year's scrutiny of the 2015-16 estimate.²⁶ The WAO has requested capital funding of £250,000 for various IT projects and an office relocation, representing an increase of £200,000 to the £50,000 approved in the 2015-16 estimate.

Analysis of the estimate for 2016-17

44. When asked about the process of preparing the estimate, the Director of Finance explained:

“The approach is about the board giving a steer – that links to the medium-term financial plan that we maintain internally and the annual plan that includes three-year priorities.”²⁷

45. He confirmed that the WAO is facing cost pressures of £1 million next year, with a firm steer from the Board to absorb these costs without increasing audit fees or seeking funding from the Welsh Consolidated Fund.²⁸

46. The Committee commends the Board's decision to freeze audit fees for a second year and is impressed by the WAO's ability to meet £1 million cost pressures in 2016-17 through internal savings and efficiencies.

47. The Committee also welcomes the inclusion of the draft WAO Fee Scheme 2016-17, and the fee consultation feedback, alongside this year's estimate.

²⁶ [Scrutiny of Auditor General for Wales's Annual Report and Accounts 2013-14; and the Wales Audit Office Estimate 2015-16, Recommendation 3](#)

²⁷ [Record of Proceedings, 5 November 2015, paragraph 116](#)

²⁸ [ibid](#)

Development of accounting trainees

48. The Committee noted the £132,000 requested to widen financial capacity of the Welsh public sector by funding secondments of accounting trainees to Welsh public bodies.

49. The Auditor General for Wales hopes that, by giving WAO trainees the opportunity to work in other public sector bodies, those not offered qualified WAO posts at the end of training will be taken on elsewhere in the Welsh public sector.²⁹

50. The Committee asked what additional costs would be incurred in seconding trainees. The Auditor General for Wales explained:

“I’m expecting, in future years, that it will be the recipient organisation that will pay for the costs of that trainee being there, but somebody needs to start the ball rolling, which is why we’ve requested the extra money. Very roughly, we’ve a bit of extra training that we’re giving, as well. We’re looking at about £100,000 of that £132,000 going towards keeping those 14 staff on secondments.”³⁰

51. The Committee welcomes the WAO’s commitment to seconding its accounting trainees for the benefit of the overall Welsh public sector and is interested in measuring its success in the years ahead.

Welsh Revenue Authority

52. An additional £50,000 is sought for preparatory work on the Welsh Revenue Authority, including a report by the Auditor General for Wales on the preparations being made by the Welsh Government for the devolution of taxes to Wales from April 2018.

53. The Tax Collection and Management (Wales) Bill (TCMB), currently being scrutinised by the Committee, includes provisions for the Auditor General for Wales to examine, certify and report on the Welsh Revenue Authority (WRA) annual accounts and Tax Statement. The estimate states:

“The Bill’s provision for the WRA’s audit enables the Wales Audit Office to charge a fee for that audit under the Public

²⁹ [Record of Proceedings, 5 November 2015, paragraph 122](#)

³⁰ [Record of Proceedings, 5 November 2015, paragraph 123](#)

Audit (Wales) Act 2013. The costs of auditing the Tax Statement, however, will be met from the Welsh Consolidated Fund (via our Estimate from 2018-19 onwards).³¹

54. The Committee confirmed that the Minister for Finance has said that she intends to bring forward an amendment to the TCMB to allow a fee to be charged for auditing the Tax Statement from 2018-19.³² However, the Auditor General for Wales indicated his preference for the Tax Statement fee to be paid out of the Welsh Consolidated Fund.³³

55. The Committee looks forward to considering the Minister's amendment at Stage 2 and would welcome the WAO's views on its sufficiency.

Audit fee subsidy for Welsh Government Sponsored Bodies

56. In April 2014 the WAO discussed with the Welsh Government the impact on Welsh Government Sponsored Bodies (WGSBs) of potentially significant increases in their audit fees following the enactment of the PAWA. The estimate states:

“At that time, the Welsh Government declined to pursue any changes in its funding models for WGSBs. In order to mitigate the adverse financial impact of that decision on the WGSBs, we therefore allocated £250,000 of our WCF [Welsh Consolidated Fund] funding in 2014-15 on an interim basis to subsidise the fees otherwise chargeable for those bodies, then extended this to 2015-16 too.”³⁴

57. The 2016-17 estimate assumes a reduction of £250,000 in relation to discontinuation of the previous year's interim audit fee subsidy for WGSBs.

58. The Chair explained that the subsidy was intended to provide a two-year stepped fees approach, however:

“...this year, the board very strongly feels that it is no longer appropriate; it doesn't meet the requirements of the Public Audit (Wales) Act 2013, and therefore we feel uncomfortable to

³¹ [WAO Estimate: 2016-17, Paragraph 29](#)

³² [Finance Committee, 21 October 2015, paragraph 203](#)

³³ [Record of Proceedings, 5 November 2015, paragraph 179](#)

³⁴ [WAO Estimate: 2016-17, Paragraph 35](#)

continue to use the Welsh Consolidated Fund to subsidise a small number of bodies.”³⁵

59. The WAO invited the Committee to consider whether it was appropriate to continue subsidising audit fees for these bodies, or to discontinue the subsidy and request that the Welsh Government compensate bodies accordingly.

60. The Committee accepts the WAO Board’s rationale for discontinuing the fee subsidy, but is mindful of the negative impact that this will have on the bodies concerned. The Committee agrees that the Welsh Government should instead make compensatory adjustments to its grant in aid funding for WGSBs.

The Committee urges the Welsh Government to alleviate the financial impact on Welsh Government Sponsored Bodies of the Wales Audit Office’s decision to discontinue its fee subsidy arrangement in 2016-17.

The fee regime

61. The estimate repeats concerns raised during the Committee’s scrutiny of last year’s 2015-16 estimate,³⁶ regarding the fee regime in the PAWA. The WAO states:

“Under legislation, we must charge no more than the full cost of the exercise of a function. There is a tension between quoting audited bodies an up-front fee for the work to be undertaken on specific audits and having a sufficiently flexible regime that recognises the inevitability of variances.”³⁷

62. Since the fee regime came into force on 1 April 2014, the WAO states that £283,000 of audit fees have been quantified as refundable to 21 audited bodies, with 15 audited bodies facing potential additional charges totalling £194,000.³⁸

63. When the Committee asked how best to address the inflexibility of the fee regime, the Auditor General for Wales called for the revision of the PAWA which requires him to charge no more than the cost of

³⁵ [Record of Proceedings, 5 November 2015, paragraph 166](#)

³⁶ [Scrutiny of Auditor General for Wales’s Annual Report and Accounts 2013-14; and the Wales Audit Office Estimate 2015-16, paragraph 14](#)

³⁷ [WAO Estimate: 2016-17, Paragraph 41](#)

³⁸ [WAO Estimate: 2016-17, Paragraph 44](#)

providing each audit function. Removing the word “function” from the legislation would allow the WAO to look at the complete audit of a body, rather than each function of work.³⁹

64. The Committee recognises the complexity of the current fee regime and has previously been in correspondence with the Minister for Finance and Government Business and the WAO on this issue.

65. As there is insufficient time in the remainder of the Fourth Assembly to initiate legislative change and conscious of the short time the Act has been in place, the Committee will set out the issues in its legacy report for consideration in the Fifth Assembly.

66. The Committee is content with the estimate, attached at Annex C to this report.

³⁹ [Record of Proceedings, 5 November 2015, paragraph 180-186](#)

Annex A – Witnesses

The following witnesses provided oral evidence to the Committee on 5 November 2015. The transcripts of the oral evidence session can be viewed in full at

www.senedd.assembly.wales/documents/s45832/5%20November%202015.pdf

| <i>Name</i> | <i>Organisation</i> |
|--------------------|--|
| Huw Vaughan Thomas | Auditor General for Wales |
| Isobel Garner | Chair of the Wales Audit Office Board |
| Kevin Thomas | Director of Corporate Services, Wales Audit Office |
| Steven O'Donoghue | Director of Finance, Wales Audit Office |

Annex B – List of written evidence

The following provided written evidence to the Committee. All written evidence can be viewed in full at:

www.senedd.assembly.wales/ieListDocuments.aspx?CId=229&MId=3330&Ver=4

Organisation

Auditor General for Wales and Wales Audit Office

Reference

[FIN\(4\)-24-15 P1](#)

[FIN\(4\)-24-15 P2](#)

[FIN\(4\)-24-15 P3](#)



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Estimate 2016-17

Estimate of the Income and Expenses for the Year Ending 31 March 2017

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

Isobel Garner
Chair, Wales Audit Office

Huw Vaughan Thomas
Auditor General for Wales

Preface

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

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

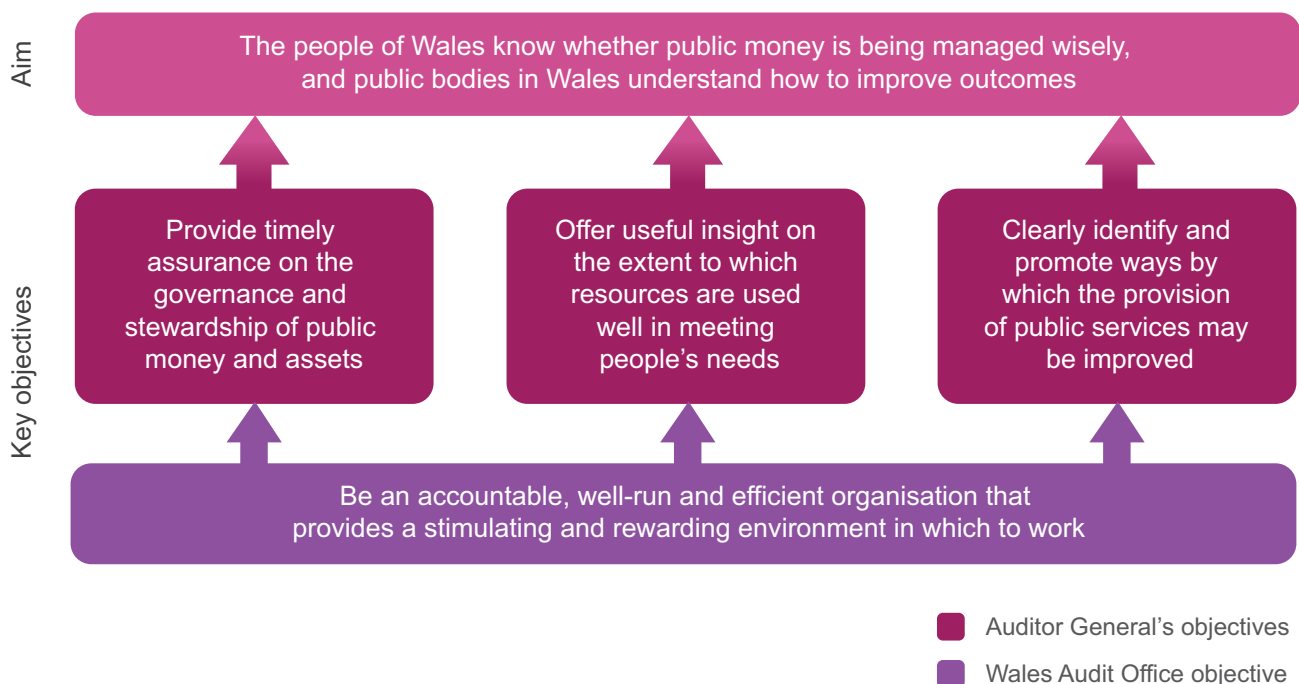
The Finance Committee of the National Assembly may make any modifications to the estimate which it considers appropriate, but no modification can be made unless:

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

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

For the first time a draft Fee Scheme, prepared under Section 24 of the Public Audit (Wales) Act 2013, is included for consideration alongside the Estimate.

Wales Audit Office's aim and objectives



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Foreword

The Board of the Wales Audit Office has prepared this Estimate jointly with the Auditor General, fulfilling our statutory remit to provide resources to the Auditor General and to secure resources for our own work programme.

Our aim at the Wales Audit Office is for the people of Wales to know whether public money is being managed wisely and for public bodies in Wales to understand how to improve outcomes. We are clear that the vital role of independent audit is never more heightened than when resources are scarce and sound decision making is ever more crucial in positively impacting people's lives.

This Estimate demonstrates the Board's determination that the Wales Audit Office is a well-run and accountable organisation. Despite the significant cost pressures we face next year, through forward planning and a focus on efficiency and effectiveness we are able to freeze the fee rates for our audit staff. We are making savings of over £1 million to make this possible, containing our costs to less than a fifth of one penny of every pound audited.

There is a direct dependency between our Estimate, as approved by the National Assembly's Finance Committee, and the fee rates we set. Within this document, for the first time we include a Draft Fee Scheme so that the Finance Committee can consider it alongside the Estimate. The fee rates and fee scales included have been subject to consultation not only with local government bodies, as required by statute, but with all other audited bodies too. We see this as an important step in enhancing transparency.

The consultation feedback has told us that, in the main, audited bodies welcome the greater transparency in how fees are calculated and the proposed further freezing of our fee rates. We are sensitive to the pressures faced by audited bodies, and the need for our audit work to continue to add value as well as provide assurances on governance and use of the public pound. The consultation feedback reinforces the continuing need for us to streamline our audit approaches and ensure the right skills mix to deliver quality work with maximum impact to help public bodies secure change and improvement. In this Estimate we set out how we are playing our part in austerity.

The Estimate and Fee Scheme are joined by our Business Plan including the Annual Plan. The Annual Plan sets out our key priorities, objectives and performance measures for the year, providing a fuller picture of the use of the resources secured through the Estimate. Our Annual Plan for 2015-16 included forward priorities for 2016-17, which will be delivered through this Estimate and be further detailed in the Annual Plan for 2016-17, to be laid before the National Assembly in March 2016.

As we present this Estimate and Draft Fee Scheme for consideration, we stress our determination for the Wales Audit Office to play its part in austerity alongside ensuring that we continue to help public bodies secure change and improvement through these challenging times.

Isobel Garner
Chair, Wales Audit Office

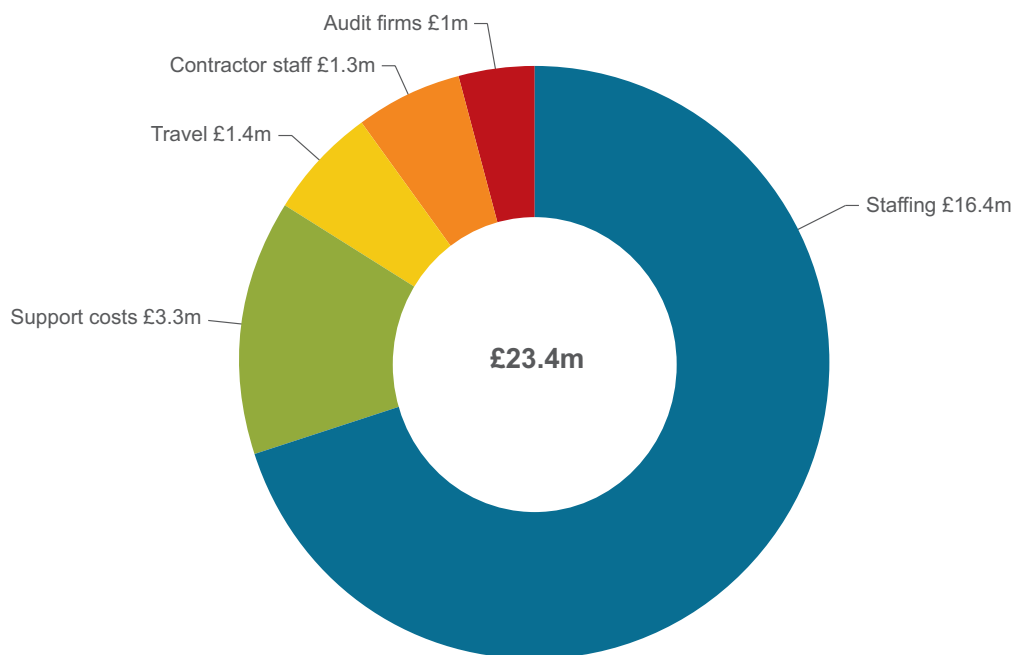
Huw Vaughan Thomas
Auditor General for Wales

The impact, cost and funding of the Wales Audit Office

- 1 Independent audit of the use of public funds is an essential component of democratic accountability. The public needs to be adequately informed about the activities of public bodies and how they use public money. And, public bodies need to understand how to improve outcomes and succeed. The public needs to be able to access information which is timely, impartial, accurate, comprehensive and clear. It is in these difficult times, of much greater pressures and risk, but also opportunity, that the role of audit is heightened.
- 2 Every year, the Auditor General reports on the accounts of over 800 public bodies in Wales; undertakes annual improvement assessments at all 28 local government improvement authorities and structured assessments at all 10 NHS bodies. He publishes around 15 national reports annually, looking at value for money and proper use of public money, and certifies over £2.5 billion worth of grant claims. It is this work that provides the quantum over which the Wales Audit Office costs are recovered, by way of fee charges to audited bodies, a grant for the Wales Programme for Improvement (WPI) work, and funding from the Welsh Consolidated Fund (WCF).

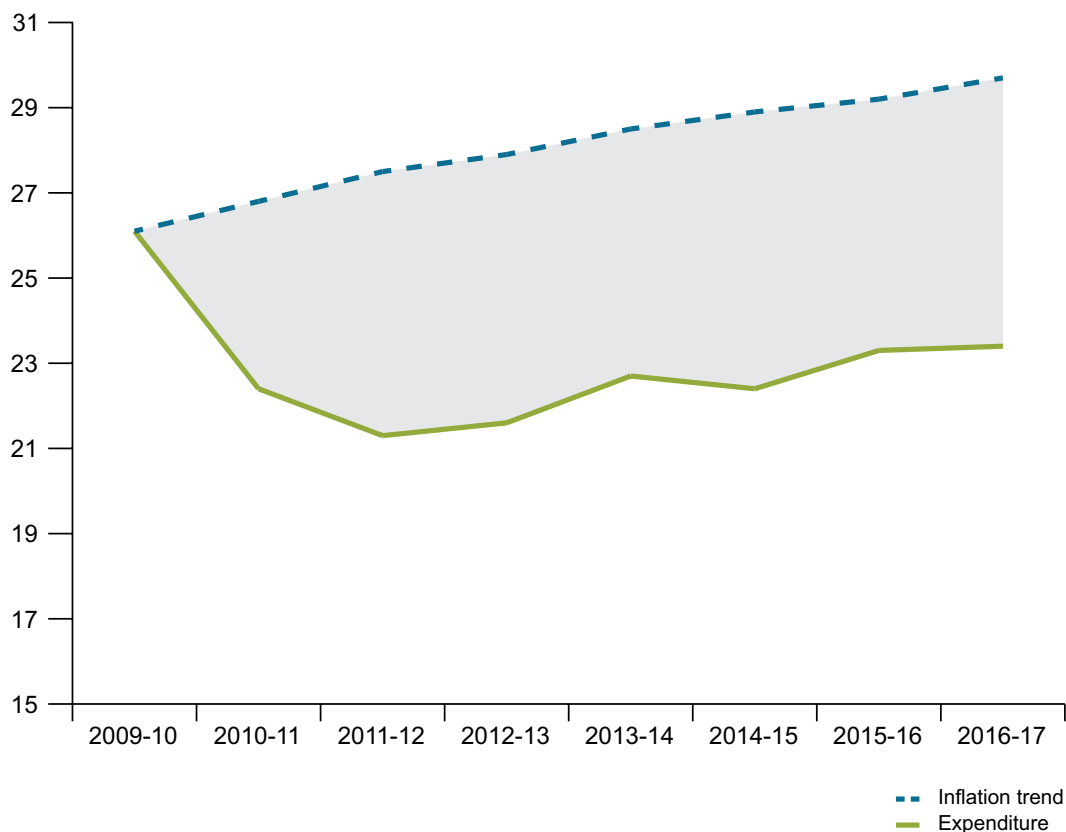
Expenditure

Exhibit 1: Estimate of expenses 2016-17



- 3 The Wales Audit Office provides the Auditor General with the resources he needs to undertake his work effectively. The majority of our costs relate to the 272 full-time equivalent staff we employ, our contractors, the delivery of services across Wales and providing the necessary infrastructure and support services to deliver our work. Further detail can be found in [Appendix 1](#).
- 4 Since 2009-10, the Wales Audit Office has reduced its expenditure by 21.5 per cent in real terms¹, as represented in [Exhibit 2](#). The cumulative saving generated across those years (the shaded area in [Exhibit 2](#)) amounts to over £41 million, reducing both the call on the WCF, other than for new responsibilities, and the amount required to be raised from audit fees.

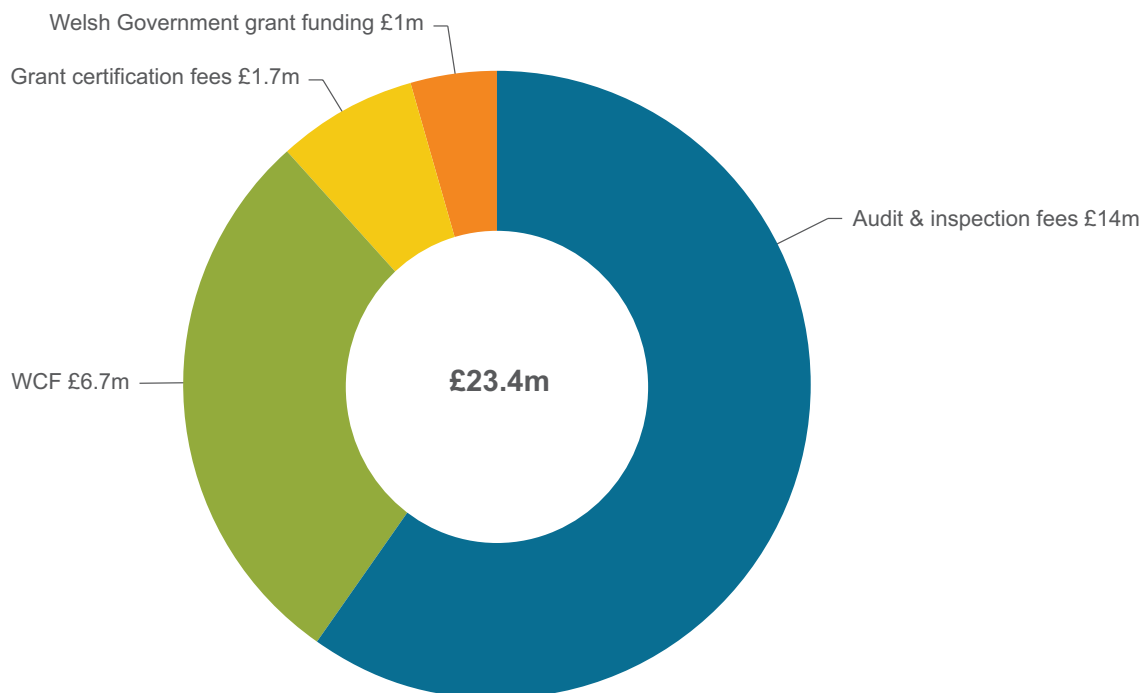
Exhibit 2: Expenditure 2009-10 to 2016-17



¹ Based on GDP deflators published by ONS June 2015

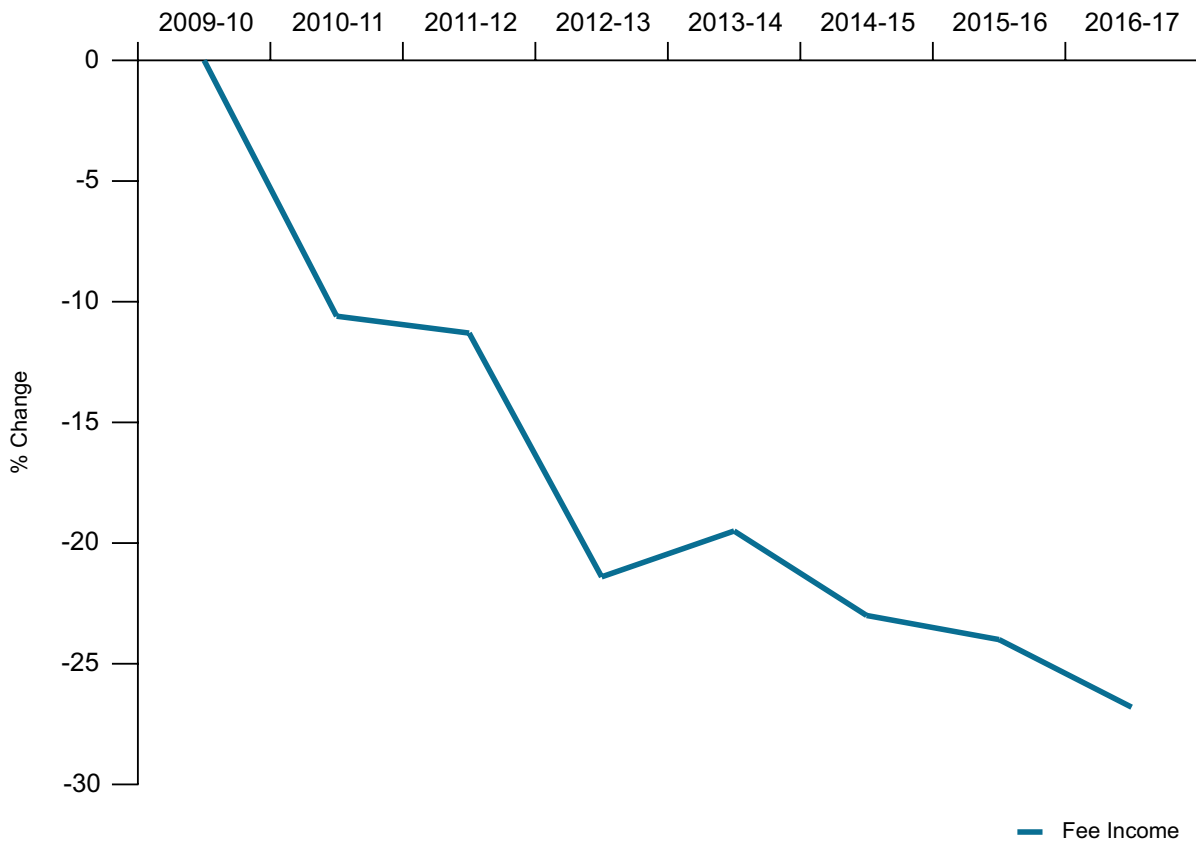
Funding

Exhibit 3: Estimated funding 2016-17



- 5 Broadly, 71 per cent of the Wales Audit Office's expenditure is funded through fees charged to audited bodies and a grant from the Welsh Government for the WPI. The remaining 29 per cent is provided directly from the WCF, per [Exhibit 3](#). This is comparable with Audit Scotland which received 74 per cent of its income from fees in 2014-15. Further details on our income and expenditure can be found in [Appendix 1](#).

Exhibit 4: Real-terms reduction in fee income 2009-10 to 2016-17



6 Exhibit 4 illustrates the trend in our annual fee income from 2009-10 to our estimated position for 2016-17 showing a 26.8 per cent reduction in fee income over the period.

Cost reduction and cost efficiency at the Wales Audit Office

- 7 Since 2009-10 we have reduced our operating costs by over 21 per cent in real terms. In 2016-17 we face significant cost pressures, as set out in [Exhibit 5](#):

Exhibit 5: Significant cost pressures in 2016-17

| | £'000 |
|---|--------------|
| Cost of one per cent public sector pay policy along with contractual pay increments | 460 |
| Cost of inflationary increases on other areas including increased energy costs and business rates for our premises and workforce planning | 350 |
| Cost of statutory increases in employers' national insurance contributions | 190 |
| TOTAL | 1,000 |

- 8 The Board is committed to ensuring the Wales Audit Office itself is a well-run and accountable organisation that demonstrates the highest standards of efficiency and effectiveness and that our work represents good value. Cost efficiency continues to be a priority for the Board. Building on savings achieved in previous years, we take a forward-planning approach that will enable us to achieve additional savings for 2016-17. This means that we can fund the above mentioned significant pressures without impacting fee rates or increasing our call on the WCF (other than for agreed additional activities). To deliver this, we will achieve the savings set out in [Exhibit 6](#).

Exhibit 6: Savings identified for 2016-17

| | £'000 |
|--|--------------|
| Procurement savings from revised contracting arrangements with audit firms | 640 |
| Efficiency and Effectiveness Programme and vacancy management | 220 |
| Reduction in management and administration costs | 140 |
| TOTAL | 1,000 |

- 9 So as to ensure the most cost-effective audit operating model, steps taken over the past year mean that we will be containing our operating costs by undertaking more audit work in-house, with less contracted out to audit firms. This will result in us spending £0.6 million less on a like-for-like basis next year for a quantum of audit work currently contracted out.
- 10 Continued streamlining of our structures, processes and the services provided by our corporate centre mean that our overhead costs are expected to be £1.1 million (14 per cent) lower than equivalent spend in 2013-14. We have restructured, contracted out payroll and internal audit services, and are part-way through a fundamental review of our key business processes with a view to searching out further opportunities for improved value for money.

Securing quality audit delivery for the Auditor General

- 11 We provide highly skilled staff to undertake broadly 90 per cent of the Auditor General's work programme, complemented by a further 10 per cent of audit resource contracted from private sector accountancy firms and specialist contractors. It is this strength of expertise that reports on the accounts of over 800 public bodies in Wales; undertakes annual improvement assessments and structured assessments, produces national reports and certifies over £2.5 billion worth of grant claims. The main operational activities of the Auditor General are set out in [Appendix 2](#).

Well-being of Future Generations Act 2015

- 12 The Well-being of Future Generations (Wales) Act 2015 requires specified public bodies to set and publish well-being objectives, take steps to meet those objectives and report annually on their progress. It also requires the Auditor General to carry out examinations into the extent to which those public bodies set objectives and take steps to meet them in accordance with the sustainable development principle.
- 13 Funding of £122,000 per annum was agreed in our Estimate for 2014-15 for developmental work associated with the then Future Generations Bill. This developmental work continues in 2016-17, where we propose to work with audited bodies and the Future Generations Commissioner for Wales to develop and pilot the necessary audit approaches that are needed to fulfil the Auditor General's duty under the Act. For this, we seek additional set-up funding from the WCF, taking total funding to £422,000 in 2016-17 as set out in the Regularity Impact Assessment. As we confirm our audit approaches and respond to continuing consultation from the Welsh Government, we will be talking to audited bodies about the implications for their fees from 2017-18 and will be exploring alternative funding models with the next National Assembly's Finance Committee.
- 14 We have also urged the Welsh Government to reconsider the audit requirements for Local Government under Part 1 of the Local Government (Wales) Measure 2009. The Auditor General has given evidence to the National Assembly that reducing the extensive assessment requirements placed on him by the Measure and introducing instead simplified improvement planning and reporting requirements that are integrated with other legislation would have the potential to reduce costs for both Local Authorities and auditors, ensuring that limited resources are used to best effect. Our stated position, for Local Government, is that the additional fees which we are required to charge in respect of work arising from the Well-being of Future Generations Act should be offset by reductions in fees resulting from the repeal or reform of the Measure. Fee Consultation responses from Local Government bodies have reinforced this view.
- 15 For health bodies, we will seek to adapt existing audit work to meet the new requirements so as to minimise any increase in fees.

- 16 For central government bodies, the Auditor General's duty under the Act necessitates additional audit work compared with current, which will result in additional fee charges. Fee Consultation feedback tells that the smaller, Welsh Government Sponsored Bodies will struggle to absorb the additional costs in the absence of additional funding.
- 17 **In order to carry out the proposed piloting of our audit work, we seek one-off additional WCF funding of £300,000 in 2016-17.**

Promoting the development of accounting trainees

- 18 There is a growing recognition that, largely due to the austerity climate, there has been an under-investment in the development of future finance professionals across the Welsh public sector. Recent Auditor General Reports have commented on the lack of financial capacity and capability in many of the bodies he audits.
- 19 We aim to increase the number of trainees we recruit each year. In order to recruit in a market for the best graduates alongside international accountancy firms we need to offer an attractive and competitive training scheme. In doing so we intend to establish a collaborative secondment programme under which our trainees would spend time working in the wider public sector in Wales.
- 20 This will present significant potential benefits by providing a pool of highly qualified financial professionals for employment by other Welsh public bodies in due course, many of whom are facing significant financial challenges against a background of financial management skills shortages that in turn hinders effective succession planning. Additional advantages include the provision of job opportunities for graduates, which supports the objectives of the Well-being of Future Generations (Wales) Act 2015, contributing to the well-being goals of a more equal and prosperous Wales.
- 21 The proposal is to fund the secondment time of trainees through WCF resources rather than through increasing fee charges. There are a number of potential partners from across the public sector in Wales who have expressed significant interest in working in partnership with us on this scheme. We are looking to pump-prime this interest, enabling us to then further explore take-up and opportunities for cost sharing in future years. This funding will be in addition to current funding of £320,000 that meets the costs of study time and professional qualification fees.
- 22 **In order to underpin the trainee secondment scheme, we seek additional WCF funding of £132,000 in 2016-17.**

Strategic transformation, auditing in an age of austerity

- 23 We recognise that auditing in an age of austerity calls for remodelling our audit approach. We have reviewed our skills mix on financial audits using benchmarking information from private firms and other audit bodies. Increasing the number of audit trainees that we employ enables us to reduce the extent to which we use fully-qualified auditors for the more routine audit checks, and helps contain the cost of audit in the longer term.
- 24 Advances in computer technology and in computing power, together with significantly cheaper storage and processing costs, are set to transform the nature of much of our operational audit work over the next five to ten years. The traditional annual audit of financial statements needs to evolve to keep pace with this rapid expansion in the volume of available information. In common with the other public audit bodies across the UK, we are exploring how best to take advantage of developments in this fast-moving area.
- 25 Our two operational business areas, Financial Audit and Performance Audit, are also seeking to better align audit cycles and reporting for Local Government audited bodies. Going forward, we hope to apply a model that is already embedded and working well for NHS bodies. We continue to urge for the repeal of the Local Government (Wales) Measure 2009, to allow us to deliver a more effective, streamlined audit experience from the perspective of audited bodies with opportunities for reporting pan-Wales on issues of national significance.
- 26 We have been working closely with the Welsh Government to enhance the impact of grant certification work by streamlining the requirements placed upon the Auditor General. We have agreed, in principle, a model that focuses more on the outputs and outcomes from grant-supported activity, moving away from the traditional audit approach of checking invoices. This should provide the Welsh Government and audited bodies with a clearer understanding of the difference grant-supported activity is making, whilst also reducing the cost of grant certification work.
- 27 Together with our Inspection Wales partners CSSiW, HIW and Estyn, we look to learn from the Scottish Crerar experience of co-ordinating the use of audit, inspection and regulatory bodies. We are committed to sharing our respective knowledge and experiences to focus our respective review activities to best effect, and maximise the impact of our collective resources.
- 28 **We seek to reprioritise £100,000 of current WCF funding to provide capacity and expertise to develop options for strategic realignment of our work (para 37).**

Welsh Revenue Authority

- 29 The draft Tax Collection and Management (Wales) Bill currently before the National Assembly for Wales includes provision for the Auditor General for Wales to examine, certify and report on the Welsh Revenue Authority's (WRA) annual accounts and the separate Tax Statement and to lay a copy of the certified documents and the report on them before the National Assembly for Wales. The Bill's provision for the WRA's audit enables the Wales Audit Office to charge a fee for that audit under the Public Audit (Wales) Act 2013. The costs of auditing the Tax Statement, however, will be met from the Welsh Consolidated Fund (via our Estimate from 2018-19 onwards). In the interim some preparatory work is required and we propose to reprioritise some of the existing WCF funding to fund this. For 2016-17, this work will include a report by the Auditor General on the preparations being made by the Welsh Government for the devolution of taxes to Wales from April 2018.
- 30 **We seek to reprioritise £50,000 of current WCF funding and for preparatory work associated with the Welsh Revenue Authority (para 37).**

National Fraud Initiative (NFI)

- 31 For 2015-16 the National Assembly's Finance Committee approved funding of £50,000 for the first year of the two-year NFI cycle. The NFI is a collaborative UK-wide exercise undertaken every two years that matches electronic data within and between public and private sector bodies to prevent and detect fraud. Since its commencement in 1996, NFI exercises have resulted in the identification of more than £26 million of fraud and overpayments in Wales (c £1.5million annually), and £1.17 billion across the UK. Savings impact across public finances rather than necessarily at the body that has paid to participate. The Public Accounts Committee has made clear its desire for greater public sector participation, leading to the Finance Committee's approval to fund NFI work from WCF instead of fee charges.
- 32 Costs increase in the second year of the cycle then revert to the lower level the following year. The increase covers the cost of data collection and analysis and reporting back to participants. For 2016-17 the estimated cost is £180,000, covering £100,000 for mandatory participants, £50,000 for additional voluntary participants and £30,000 to access a data checking system.
- 33 Fee Consultation feedback has told us that audited bodies very much value the switch to WCF funding. The consultation process has itself encouraged wider interest in participation, along with promotion of it in a Fraud Awareness learning event run by our Good Practice Exchange.
- 34 **In order to continue to provide free participation in the NFI, we seek an increase of WCF funding of £130,000 in 2016-17, to reduce again the following year.**

Fee subsidy for Welsh Government Sponsored Bodies (WGSBs)

- 35 In April 2014, we discussed with the Welsh Government the impact on WGSBs of potentially significant increases in their audit fees following the enactment of the Public Audit (Wales) Act 2013. At that time, the Welsh Government declined to pursue any changes in its funding models for WGSBs. In order to mitigate the adverse financial impact of that decision on the WGSBs, we therefore allocated £250,000 of our WCF funding in 2014-15 on an interim basis to subsidise the fees otherwise chargeable for those bodies, then extended this to 2015-16 too. The level of subsidy provided has reduced to £120,000 and impacts the fees of the following bodies:
- Arts Council for Wales (including the Lottery Fund)
 - Welsh Language Commissioner
 - Higher Education Funding Council
 - Hybu Cig Cymru
 - National Library of Wales
 - National Museums and Galleries of Wales
 - Sports Council for Wales (including the Lottery Fund)
- 36 The WGSBs are in an anomalous position as the only audited bodies which are not being charged full audit fees. We fully appreciate the financial impact that withdrawal of this subsidy will have on the WGSBs concerned, but against the backdrop of new priorities and pressures identified in the paragraphs above, we consider that the Finance Committee needs to take a positive decision on the matter. The options are (a) to continue subsidising the bodies concerned through the Wales Audit Office's Estimate, or (b) to agree to its discontinuation and urge the Welsh Government to provide compensating adjustments to their Grant in Aid funding for the WGSBs. In both cases the funds will ultimately derive from the WCF.
- 37 **This Estimate assumes a reduction in WCF funding of £250,000 in relation to discontinuation of the WGSB fee subsidy, offset by £150,000 as reprioritised under paragraphs 28 and 30.**

Estimated use of WCF

- 38 **Exhibit 7** sets out the areas of expenditure funded from the WCF rather than the fees we charge audited bodies. These are costs that are more closely linked to our pan-Wales role in providing audit leadership, setting standards, delivering National Assembly policy and supporting National Assembly scrutiny. This does not include the £1 million of significant cost pressures we are facing in 2016-17, which will be met from internal efficiencies, it represents only adjustments for the new priorities set out above, representing an overall funding increase of £422,000.

Exhibit 7: Estimated use of WCF

| | Year to 31 March 2017 £'000 | Year to 31 March 2016 £'000 |
|---|-----------------------------------|-----------------------------------|
| Value-for-money examinations and studies by the Auditor General including reactive studies | 1,760 | 1,760 |
| Technical support, research and development including compliance and quality assurance | 744 | 744 |
| Good Practice Exchange | 540 | 540 |
| Local government national studies | 530 | 530 |
| Staff learning and development | 500 | 500 |
| Development of accounting trainees programme (paragraphs 18 to 22) | 452 | 320 |
| Preparation and piloting implementation for the Well-being of Future Generations Act (paragraphs 12 to 17) | 422 | 122 |
| Providing support to the Public Accounts Committee and other National Assembly committees | 420 | 420 |
| Wales Audit Office Governance Structure | 300 | 300 |
| Contribution to all-Wales travel costs | 300 | 300 |
| Responding to issues that have been brought to our attention through correspondence from the public, elected representatives and others | 200 | 200 |
| Strategic transformation and sectoral intelligence (paragraphs 23 to 28) | 230 | 130 |
| Welsh Revenue Authority preparatory work (paragraphs 29 to 30) | 50 | - |
| Fully funding the National Fraud Initiative (paragraphs 31 to 34) | 180 | 50 |
| Depreciation funding for the new audit platform approved in 2015-16 (removal of £40,000 one off funding for 2015-16) | 50 | 90 |
| Transitional subsidy for the audit fees of Welsh Government sponsored bodies (paragraphs 35 to 37) | - | 250 |
| Total revenue expenditure requirement | 6,678 | 6,256 |

Capital and ICT investment

39 As recommended by the Finance Committee, we have developed three-year capital investment priorities which meet the needs of our internal IT strategy, as set out in **Exhibit 8:**

Exhibit 8: Capital Investment Priorities

| | 2015-16 £'000 | 2016-17 £'000 | 2017-18 £'000 | 2018-19 £'000 |
|---|------------------|------------------|------------------|------------------|
| Planned PC/IT renewal | 50 | 50 | 50 | 50 |
| Performance Audit knowledge management system | – | 80 | – | – |
| North Wales office relocation | – | 50 | – | – |
| Network infrastructure renewal | – | 40 | – | 40 |
| Video conferencing infrastructure renewal | – | 30 | 30 | 10 |
| Customer Relationship Management system | – | – | 50 | – |
| Replacement Financial System | – | – | 150 | 100 |
| TOTAL | 50 | 250 | 280 | 200 |

40 The programme conveys the need to increase baseline capital funding from the level of £50,000 in 2015-16. Investment priorities in the coming years cover:

- A rolling programme of PC/IT equipment renewal in order to avoid significant changes to capital funding from year to year.
- Building on the delivery of the new audit platform for Financial Audit work, we will look to improve efficiency in knowledge management for our Performance Audit work.
- The relocation of our North Wales Office due to lease-end at the current Ewloe location will require some capital modifications to new premises.
- Periodically we need to refresh the data network infrastructure associated with our offices in order to ensure it remains supportable and able to accommodate future connectivity demands.
- Our video conferencing facilities have proved themselves in reducing the costs, environmental and staff time impacts of business travel, so we will invest further in the facilities at our three office locations.

- We see easy access to intelligence on our customer base as being a key step in our moves in providing a more integrated audit service. We will explore a Customer Relationship Management system as part of this.
- Procurement regulations require periodic tendering for supplies and services, with our core Finance System to be reviewed in the latter years of this programme.

The fee regime

- 41 We do not generate profits on our fees. Under legislation, we must charge no more than the full cost of the exercise of a function. There is a tension between quoting audited bodies an up-front fee for the work to be undertaken on specific audits and having a sufficiently flexible regime that recognises the inevitability of variances.
- 42 Fee rates are calculated by dividing our total estimated costs, other than those covered by the WCF, by the amount of audit work to be undertaken in the year. We set our audit fees based on the estimated skills mix and number of days required to complete the work. The actual expenditure, actual skills mix and actual days' work inevitably differ and the fee set may be found to be less than or exceed the actual costs we incur.
- 43 Unlike traditional audit firms we cannot make profits on one audit assignment to offset losses on another. Where we make a surplus on an audit assignment, we refund it to the audited body. Where we incur additional costs over the agreed fee, we assess the reasoning and form a view as to whether we should pass on that cost to the audited body. The Public Audit (Wales) Act 2013 legitimises the charging of all additional costs, but the realities of application mean there is tension with audited bodies where we seek to charge costs greater than the quoted fee.
- 44 Since operating under the new regime from 1 April 2014, to date a total of £283,000 has been quantified as refundable to 21 audited bodies, with 15 audited bodies facing potential additional charges totalling £194,000. Ten audited bodies are in both groups. We are still working through the complexity of the scenarios before discussing further with the bodies affected.
- 45 A funding model which allows for greater flexibility in the fee regime, or one which provides greater emphasis on core funding through the WCF and less on specific fee charges, would likely be significantly more efficient and cost-effective to administer. This need not be seen to compromise the important principles of transparency and accountability. We acknowledge that the National Assembly's Finance Committee has advised it will include these issues in its legacy report in order to allow more time for consideration further into the maturity of the 2013 Act.

Fee Scheme 2016-17

- 46 For the first time, we have included within this Estimate document, our draft Fee Scheme for 2016-17 ([Appendix 3](#)). We see this as an important step in further enhancing transparency and demonstrating the relationship between fee rates and the approved Estimate. Following consideration of the Estimate and draft Fee Scheme, we will lay our Fee Scheme for 2016-17 before the National Assembly and then advise audited bodies of their estimated fees for next year.
- 47 We again considered it vital to avoid increases in fee rates. This Estimate therefore sets fee rates for 2016-17 at the same level as first set from 1 April 2014 ([Exhibit 9](#)). Fee scales, where applicable, have not increased from those set in 2015-16.

Exhibit 9: Fee rates for audit staff

| Grade | Fee rate 2016-17 (£ per hour) | Fee rate since 1 April 2014 (£ per hour) |
|-----------------------------|-------------------------------------|--|
| Engagement director/lead | 162 | 162 |
| Audit manager | 111 | 111 |
| Performance audit lead | 93 | 93 |
| Financial audit team leader | 75 | 75 |
| Performance auditor | 65 | 65 |
| Financial auditor | 56 | 56 |
| Audit trainees | 43 | 45 |

- 48 We went beyond the statutory fee consultation requirements and, in September 2015, consulted with all audited bodies and other stakeholders on our fee scales and fee rates for 2016-17. We received 20 responses, being more than the 12 received the previous year.

49 Consultation responses told us that:

- The freezing of fee rates is very much welcomed, as are the broadly comparable fee scales and the funding of participation in the National Fraud Initiative.
- The approach of enhanced transparency is welcomed, but with encouragement to go further.
- The potential for fee refunds is welcomed but the ability to charge further costs is of concern to audited bodies.
- There is significant concern from Welsh Government Sponsored Bodies at the prospect of ending the subsidy of their fees. Our Estimate sets out our reasoning for doing so.
- There are concerns regarding the changes to charging for audit work at Town and Community Councils. We have been communicating these changes for some time and must move to the position of recovering the costs of the work undertaken at smaller Councils. The Auditor General's recent report highlighted that although the timeliness of delivering end of year accounts from Town and Community Councils in Wales has improved, there remains scope for the sector as a whole to improve its financial management and governance.
- There is considerable pressure for a more streamlined audit approach, to help reduce overall fees charged for audit work. Our Estimate explains how we recognise that auditing in an age of austerity calls for rethinking of the audit work we undertake and how it is undertaken. We have prioritised capacity for transformational thinking.

50 The Board welcomes this feedback and has taken it into account in finalising this Estimate and the enclosed draft Fee Scheme.

Forward look

- 51 The horizon for our public audit work presents a complicated picture for the Wales Audit Office, encompassing:
- continued public sector funding restraint and responses to it such as new models of service delivery and financing mechanisms;
 - digitisation of service delivery, increased public access to audit-related data and expanded use of social media and other digital communication;
 - demographic changes at both ends of the age spectrum;
 - the Welsh Government's legislative programme and any impacts for the work of the Wales Audit Office;
 - impacts of further devolution and tax-raising powers for Wales;
 - a reduction in grant claim work arising from simplification of auditing requirements by the grant-awarding bodies;
 - earlier closure of local government accounts from 2018-19, with resultant impacts on resourcing across local government and the Wales Audit Office;
 - anticipated reconfiguration of the structure of local government, reducing from 22 unitary authorities and a possible restructuring of the national park authorities; and
 - public sector pay restraint competing with private sector auditor salaries.
- 52 Within the changes above, we would expect a significant increase in the amount of correspondence and associated reactive work that we will be expected to manage.
- 53 We are actively planning for all of the above in order to ensure that we continue to provide quality audit services, by:
- setting an annual efficiency savings target through our Efficiency and Effectiveness Programme – to help ensure every pound we spend has maximum impact;
 - reviewing our workforce planning strategy and considering the skills mix and workforce model that will be required in the future – so we can reshape our workforce over time, recognising such changes cannot be achieved overnight;
 - capitalising on our strategic intelligence to inform developing policy and position ourselves for effective responses; and
 - creating capacity for transformational thinking in our approaches to audit work.
- 54 Our annual estimates and interim and annual reports, laid at the National Assembly, will demonstrate each year how we are facing the challenges and remaining focused on ensuring the people of Wales know whether public money is being managed wisely and that public bodies in Wales understand how to improve outcomes.

Estimated budget requirements of the Wales Audit Office for the year ending 31 March 2017

- 55 Under Section 125 of the Government of Wales Act 2006, Ministers must move a Budget Motion in the National Assembly to authorise the use of resources, retention of income and drawings of cash from the WCF for certain relevant persons, including the Wales Audit Office.
- 56 In respect of the services and purposes of the Wales Audit Office and the Auditor General in the year ending 31 March 2017, 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.
- 57 These requirements, which due to the variability of income streams can only be estimates, are summarised in [Table 1](#).

Table 1: Summary of the estimated 2016-17 budget requirements

| | £'000 |
|---|--------|
| Resources other than accruing resources for use by the Wales Audit Office on the discharge of the statutory functions of the Wales Audit Office and the Auditor General, and on the administration of the Wales Audit Office: | |
| • Revenue | 6,678 |
| • Capital | 250 |
| Accruing resources from fees and charges for audit, grant certification and related services; grants received to fund audit services; other recoveries of costs associated with the functions of the Auditor General or Wales Audit Office; miscellaneous income from publications, conferences, provision of administrative, professional and technical services; recoveries of costs of seconded staff; recoveries of staff loans; recoveries of car leasing payments; recoveries of any costs incurred for a third party; and interest received on working balances – all for use by the Wales Audit Office on the discharge of the functions of the Auditor General and on related services and the administration of the Wales Audit Office. | 16,715 |
| Net cash requirement from the WCF to meet the net amounts falling due for payment in the year by the Wales Audit Office. | 6,728 |

58 **Table 2** provides a reconciliation of the Wales Audit Office's total resource request with its net cash requirement for the year ended 31 March 2017.

Table 2: Reconciliation of resource requirement to cash drawing requirement from the WCF

| | £'000 |
|---|-------|
| Net request for resources – revenue and capital | 6,928 |
| Non-cash adjustment – depreciation and accruals | (200) |
| Net cash requirement from the WCF to meet the net amounts falling due for payment in the year by the Wales Audit Office | 6,728 |

Appendix 1

Wales Audit Office income and expenses

| | Year to 31 March 2017 £'000 | Year to 31 March 2016 £'000 | |
|---|--|--------------------------------------|---------------|
| Expenses | Staff costs | 16,183 | 14,540 |
| | Contractor staff | 1,213 | 1,073 |
| | Travel and subsistence | 1,414 | 1,290 |
| | Private sector firms (including VAT) | 953 | 2,825 |
| | Accommodation | 986 | 976 |
| | ICT | 459 | 472 |
| | Balance of irrecoverable VAT | 390 | 390 |
| | Wales Audit Office Governance Arrangements | 300 | 300 |
| | External training | 275 | 266 |
| | Legal and professional fees | 214 | 254 |
| | Translation of documents | 120 | 110 |
| | Other costs | 886 | 704 |
| | EXPENSES TOTAL | 23,393 | 23,200 |
| Income | Audit fees | 14,066 | 13,895 |
| | Grant certification fees | 1,663 | 2,063 |
| | WPI grant from the Welsh Government | 986 | 986 |
| | INCOME TOTAL | 16,715 | 16,944 |
| Total revenue budget to be funded by WCF | 6,678 | 6,256 | |

Analysis of estimated fee income

| Sector | Audit of accounts £'000 | Performance audit £'000 | Grant certification £'000 | Total £'000 | Total 2015-16 £'000 |
|---------------------------|----------------------------|----------------------------|------------------------------|----------------|---------------------------|
| Local government bodies | 5,935 | 2,541 | 1,660 | 10,136 | 10,413 |
| Central government bodies | 1,895 | – | – | 1,895 | 1,871 |
| NHS bodies | 1,955 | 1,468 | 3 | 3,426 | 3,343 |
| Other income | 245 | 27 | – | 272 | 331 |
| Total fee income | 10,030 | 4,036 | 1,663 | 15,729 | 15,958 |
| 2015-16 Comparator | 9,919 | 3,976 | 2,063 | 15,958 | - |

Appendix 2

Main operational activities and associated sources of funding

| Activity | Scale | Source of funding |
|--|--|--|
| Audit of accounts prepared by central government and health bodies | Eight accounts prepared by the Welsh Government; 25 other accounts, including the Assembly Commission; eight Welsh Government Sponsored Bodies, seven health boards; and three NHS trusts. | Fees charged to audited bodies, and finance from the WCF in relation to subsidised fees. |
| Audit of accounts prepared by local government bodies | Twenty-two unitary authorities, four police and crime commissioners and chief constables, three fire and rescue authorities, three national park authorities, one internal drainage board, eight pension funds, and approximately 750 town and community councils and other small bodies. | Fees charged to audited bodies. |
| Local government improvement assessments | Includes annual audits of whether authorities have discharged their improvement planning and performance reporting duties; annual assessments of the likelihood of compliance with improvement duties; cyclical in-depth corporate assessments and special inspections. Undertaken at 28 improvement authorities, (the 22 unitary authorities, three fire and rescue authorities, and three national park authorities). | Fees charged to audited bodies. The Welsh Government also provides grant funding to support improvement assessment work. |
| Local performance audit work at health bodies | Includes assessments of arrangements to secure value for money in the use of resources. Undertaken at seven health boards and three NHS trusts. | Fees charged to audited bodies. |
| Certification of grant claims and returns | Thirty-two local government schemes (around 750 claims with a total value of some £2.5 billion). | Fees charged to audited bodies. |
| Value-for-money examinations and studies | Typically around 15 examinations, studies and other outputs are undertaken each year, looking at value for money in key areas of public spending. Often this work is undertaken from a 'whole-system' or 'cross-cutting' perspective, where public spending is examined irrespective of who delivers the services. | Financed from the WCF, following approval by the National Assembly. |
| Good Practice Exchange | Working with others to share learning and good practice. | Finance from the WCF following approval by the National Assembly. |
| Other significant activities | Includes: <ul style="list-style-type: none"> checking requests for grant of approval to draw from the WCF; anti-fraud and other data-matching exercises, including the NFI; responding to issues that have been brought to our attention through correspondence from the public, elected representatives and others; providing support to the Public Accounts Committee and other National Assembly committees; and administration of the Wales Audit Office. | Financed from the WCF, following approval by the National Assembly, and some activities are also funded by fees charged to audited bodies. |

Appendix 3

Draft Fee Scheme 2016-17

Introduction

- 1 This Fee Scheme has been prepared by the Wales Audit Office under section 24 of the Public Audit (Wales) Act 2013 (the Act) ([Appendix 1](#)). The Fee Scheme, following approval by the National Assembly's Finance Committee, provides the basis on which the Wales Audit Office charges fees.
- 2 For the first time, the Wales Audit Office Estimate (for 2016-17), considered by the Finance Committee in November 2015, included a draft Fee Scheme in full. This new approach reflects the Wales Audit Office Board's determination to further enhance transparency and to demonstrate the direct relationship between our cost base and its resultant impact on fee rates.
- 3 The Board has listened carefully to stakeholder feedback in relation to our cost-efficiency agenda and the fee rates we set. In seeking the National Assembly's support for our Estimate for 2016-17, we proposed in the Estimate:
 - A second-year freeze of fee rates and fee scales in cash terms, which feedback told us would be welcomed.
 - To meet some £1million of cost pressures in relation to staff pay, inflation and other costs through internal savings and efficiencies so as not to affect fees.
 - To continue to set targets under our Efficiency and Effectiveness Programme to build on savings already delivered.
 - To continue to fund National Fraud Initiative (NFI) work from our charge on the Welsh Consolidated Fund rather than through fees charged to participating bodies. Feedback told us that audited bodies welcome this approach.
 - To introduce public sector secondment opportunities for our accounting trainees, without impacting fees charged for audit work.
 - To create capacity for transformational thinking in our approaches to audit work. Feedback reinforced the need for us to do more developmental work as part of balancing the overall cost of audit on public bodies.
- 4 This Fee Scheme reflects the approved Estimate and in broad terms sets out:
 - The enactments under which the Wales Audit Office charges audit fees.
 - The arrangements for setting those fees, which comprise either:
 - fee scales that set out fee ranges for particular areas of audit work in local government; or
 - fee rates for work not covered by fee scales.

- 5 Broadly, 71 per cent of our expenditure is funded through fees charged to audited bodies and a grant from the Welsh Government to support improvement assessment work. The remaining 29 per cent is provided directly from the Welsh Consolidated Fund through vote of the National Assembly. Further information about our expenditure and funding is contained in annual estimates of income and expenditure which are laid before the National Assembly.

List of enactments

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

Fee rates and fee scales

- 7 The Wales Audit Office does not generate profits on fees. Legislation requires that the fees we charge may not exceed the full cost of exercising the function to which the fee relates. Our fee rates are set at a level to recover that full cost.
- 8 There is a tension between providing audited bodies with an up-front fee for the work to be undertaken on specific audits and having a sufficiently flexible regime that recognises the inevitability of variances. We set our audit fees based on our estimated expenditure, the estimated skills mix and the estimated number of days required to complete the work. Where the required work is significantly greater than that originally estimated, as a result of complexities experienced during the audit, we may charge a higher fee, as permitted by legislation.
- 9 Evidently, our fee-charging arrangements are complex, cumbersome and expensive to administer and are regarded by some as no more than circulating funds within the public sector. We will continue to explore alternative mechanisms in discussion with the National Assembly's Finance Committee. The Board would welcome a simplification of the Public Audit (Wales) Act 2013 in relation to the audit fee charging requirements.
- 10 We went beyond the statutory fee consultation requirements and, in September 2015, consulted with all audited bodies and other stakeholders on our fee scales and fee rates for 2016-17. We received 20 responses, being more than the 12 received the previous year. Those responses told us that:
- The freezing of fee rates is very much welcomed, as are the broadly comparable fee scales for local government bodies and the funding of participation in the National Fraud Initiative.
 - The approach of enhanced transparency is welcomed, but with encouragement to go further.

- The potential for fee refunds is welcomed but the ability to charge further costs is of concern to audited bodies.
 - There is significant concern from Welsh Government Sponsored Bodies at the prospect of ending the subsidy of their fees. Our Estimate sets out our reasoning for doing so.
 - There are concerns regarding the changes to charging for audit work at Town and Community Councils. We have been communicating these changes for some time and must move to the position of recovering the costs of the work undertaken at smaller Councils. The Auditor General's recent report highlighted that although the timeliness of delivering end of year accounts from Town and Community Councils in Wales has improved, there remains scope for the sector as a whole to improve its financial management and governance.
 - There is considerable pressure for a more streamlined audit approach, to help reduce overall fees charged for audit work. Our Estimate explains how we recognise that auditing in an age of austerity calls for rethinking of the audit work we undertake and how it is undertaken. We have prioritised capacity for transformational thinking.
- 11 The Board welcomed this feedback and responds to it through this Fee Scheme and our business planning framework.
- 12 **Exhibit 1** sets out the hourly fee rates for audit staff which reflect direct costs and a due proportion of overhead costs. The costing model is audited by the external auditors of the Wales Audit Office.

Exhibit 1: Fee rates for audit staff – on all audit work

| Grade | Fee rate 2016-17 (£ per hour) | Fee rate since 1 April 2014 (£ per hour) |
|-----------------------------|-------------------------------------|--|
| Engagement director/lead | 162 | 162 |
| Audit manager | 111 | 111 |
| Performance audit lead | 93 | 93 |
| Financial audit team leader | 75 | 75 |
| Performance auditor | 65 | 65 |
| Financial auditor | 56 | 56 |
| Audit trainees | 43 | 45 |

- 13 We are required to prescribe fee scales for:
- work relating to the audit of local government bodies;
 - work under the Local Government (Wales) Measure 2009; and
 - data-matching work (NFI).
- 14 Fee scales for the audit of 2015-16 financial accounts and 2016-17 improvement audits and assessments are provided in [Appendix 3](#) in relation to work conducted at unitary authorities, fire and rescue authorities, national park authorities, police and crime commissioners and chief constables, town and community councils and local government pension funds. A separate fee scale is provided in relation to the NFI.
- 15 Fee scales are a means of regulating the cost of public audit, through setting limits and by reviewing fees against those limits. Fee scales also provide a framework for auditors to assess the amount of annual audit work necessary and the fee to be charged for that work at a particular audited body.
- 16 Audited bodies not covered by the statutory requirement for a fee scale have their estimated audit fees calculated in the same way as for those which are covered – that is, through applying the fee rates published in this Fee Scheme to the estimated team mix and hours of input required for the audit.
- 17 Auditors undertake grant certification work on behalf of the Auditor General. The amount of grant certification work undertaken in any year is dependent on the number of schemes subject to audit and the number of audited bodies participating in those schemes. Charges for this work are calculated using the fee rates and reflecting the size, complexity or any particular issues in respect of the grant in question.
- 18 The fee rates apply to all audit work that the Wales Audit Office will charge for, except to the extent that the fee scales, where applicable, regulate the amount to be charged (or in the case of work done by agreements prior to 1 April 2014, rates are in terms as agreed). If it subsequently appears to the Wales Audit Office that the work involved in a particular audit differs substantially from that originally envisaged, the Wales Audit Office may charge a fee which differs from that originally notified.
- 19 In the case of the provision of other administrative, professional or technical services provided, fees will be charged in accordance with the relevant agreement, subject to such amounts being capped at the full cost of providing the service. To meet their statutory responsibilities, it is sometimes necessary for auditors to carry out work which goes beyond their general duties. Additional work can include reports in the public interest, extraordinary audit, special inspections and further work in relation to electors' questions and objections, and the prevention of unlawful expenditure. Charges for this type of work will reflect the nature of the work required.

- 20 Where specialist support or legal or other professional advice is required, this will be charged to audited bodies in addition to the cost of Wales Audit Office staff.
- 21 Where funding is provided through the Estimate, the Wales Audit Office may subsidise the fees charged to audited bodies on a transitional basis under the approval given.

Charging of fees

- 22 Charging arrangements will be agreed with audited bodies and may encompass one-off, periodic, regular or annual charging, as appropriate in the circumstances.
- 23 Audited bodies are expected to pay the Wales Audit Office's invoices within their performance target for creditor payments, usually 10 days in the public sector. We may charge for the administrative costs incurred in pursuing late payments.
- 24 On completion of audit assignments, we will assess the actual costs incurred in undertaking the assignment in comparison with the fee charged. We will refund any excess of fee over cost and, conversely, we may charge additional cost where the fee falls short. We will process refunds and additional charges in a manner which seeks to minimise administrative costs, such as through offsetting against future fees or fees for other aspects of audit activity.

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

- (1) The Wales Audit Office must prepare a scheme relating to the charging of fees by the Wales Audit Office.
- (2) The scheme must include the following:
 - (a) a list of the enactments under which the Wales Audit Office may charge a fee;
 - (b) where those enactments make provision for the Wales Audit Office to prescribe a scale or scales of fees, that scale or those scales;
 - (c) where those enactments make provision for the Wales Audit Office to prescribe an amount to be charged, that amount; and
 - (d) where no provision is made for a scale or scales of fees or for an amount to be prescribed, the means by which the Wales Audit Office is to calculate the fee.

- (3) The scheme may, amongst other things:
 - (a) include different provision for different cases or classes of case; and
 - (b) provide for times at which, and the manner in which, payments are to be made.
- (4) The Wales Audit Office
 - (a) must review the scheme at least once in every calendar year;
 - (b) may revise or remake the scheme at any time; and
 - (c) must lay the scheme (and any revision to it) before the National Assembly.
- (5) Where the Welsh Ministers prescribe a scale or scales of fees under
 - (a) section 64F of the Public Audit (Wales) Act 2004 (fees for data matching); or
 - (b) section 27A of the Local Government (Wales) Measure 2009 (Welsh Ministers' power to prescribe a scale of fees)to have effect instead of a scale or scales prescribed by the Wales Audit Office, the Wales Audit Office must revise the scheme to include the scale or scales prescribed by the Welsh Ministers instead of those prescribed by the Wales Audit Office.
- (6) If a revision made in accordance with subsection (5) is the only revision to a scheme, it does not require the approval of the National Assembly.
- (7) The scheme takes effect when approved by the National Assembly or, in the case of a revision made in accordance with subsection (5), once it has been laid before the National Assembly.
- (8) The Wales Audit Office must publish the scheme (and any revision to it) as soon as reasonably practicable after it takes effect.

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

| Nature of work | Enactments ² |
|---|---|
| The Wales Audit Office may charge fees for the following activities | |
| <ul style="list-style-type: none"> Audit of accounts by the Auditor General (other than local government accounts) | <ul style="list-style-type: none"> Section 23(2) Public Audit (Wales) Act 2013 |
| <ul style="list-style-type: none"> Value for money studies undertaken by agreement | <ul style="list-style-type: none"> Section 23(3)(a)-(c) Public Audit (Wales) Act 2013 |
| <ul style="list-style-type: none"> Any administrative, professional or technical services to be provided by the Wales Audit Office or the Auditor General by arrangement under section 19 of the Public Audit (Wales) Act 2013 | <ul style="list-style-type: none"> Section 23(3)(d) Public Audit (Wales) Act 2013 |
| <ul style="list-style-type: none"> An extraordinary audit of a local government body | <ul style="list-style-type: none"> Section 37(8) of the Public Audit (Wales) Act 2004 |
| <ul style="list-style-type: none"> Data-matching exercises | <ul style="list-style-type: none"> Section 64F(A1) of the Public Audit (Wales) Act 2004 A fee scale must be prescribed for this work |
| The Wales Audit Office must charge fees for the following activities | |
| <ul style="list-style-type: none"> Work under the Local Government (Wales) Measure 2009 | <ul style="list-style-type: none"> Section 27 of the Local Government (Wales) Measure 2009 A fee scale must be prescribed for this work |
| <ul style="list-style-type: none"> Grant certification services | <ul style="list-style-type: none"> Section 23(4)(a) Public Audit (Wales) Act 2013 |
| <ul style="list-style-type: none"> Studies at the request of educational bodies under section 145B of the Government of Wales Act 1998 | <ul style="list-style-type: none"> Section 23(4)(b) Public Audit (Wales) Act 2013 |
| <ul style="list-style-type: none"> Auditing the accounts of a local government body and undertaking studies by agreement with a local government body | <ul style="list-style-type: none"> Section 20(A1)(a)-(b) of the Public Audit (Wales) Act 2004 A fee scale must be prescribed for the audit of the accounts of local government bodies |
| Other fee charging provisions | |
| <ul style="list-style-type: none"> Benefit administration studies for the Secretary of State. The amount of the fee must be a reasonable amount agreed between the Secretary of State and the Wales Audit Office. | <ul style="list-style-type: none"> Section 45 of the Public Audit (Wales) Act 2004 |
| <ul style="list-style-type: none"> Assisting Her Majesty's Chief Inspector of Education and Training in Wales | <ul style="list-style-type: none"> Section 41A of the Education Act 1997 |

² Once commenced, paragraph 32 of Schedule 4 to the Well-being of Future Generations (Wales) Act 2015 will amend section 23 of the Public Audit (Wales) Act 2013 so as to provide that Wales Audit Office may charge a fee in relation to examinations under section 15 of the 2015 Act. The Welsh Government is, however, yet to appoint a date for the commencement of paragraph 32 of Schedule 4 to the 2015 Act.

Appendix 3 – Fee scales for work undertaken at local government bodies

Unitary authorities

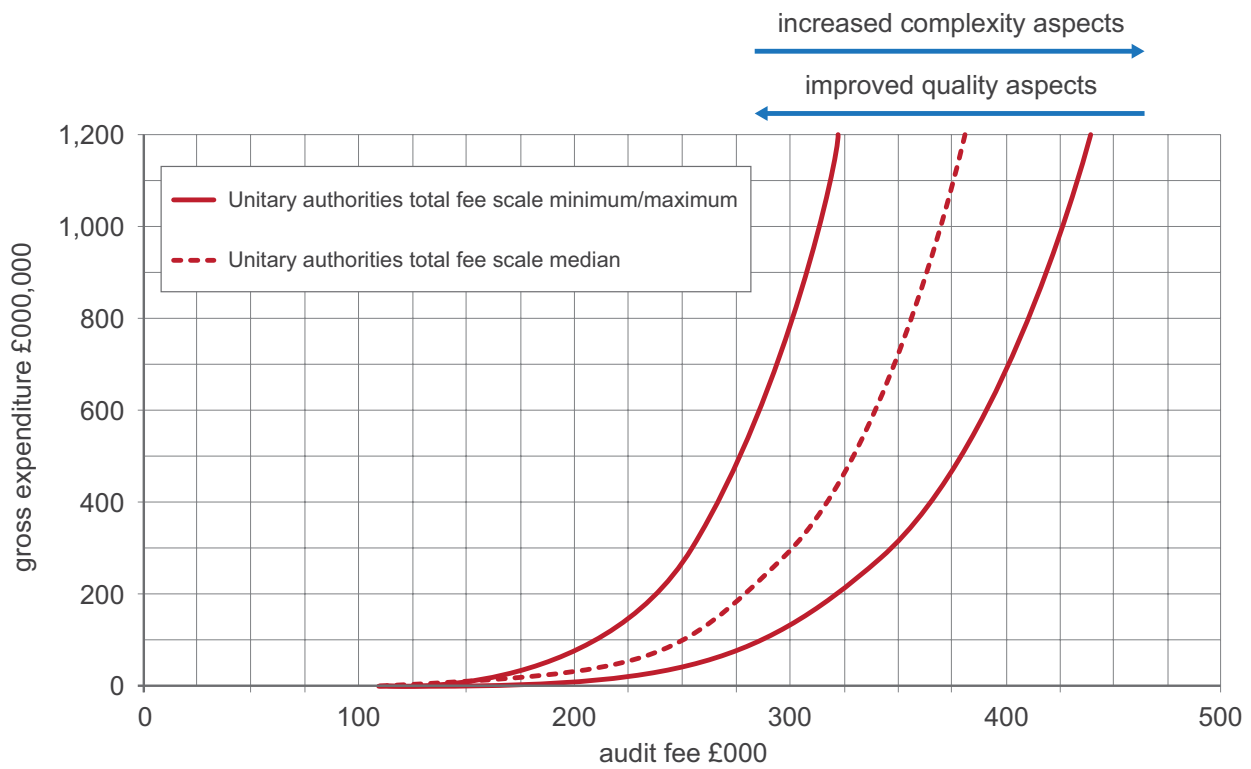
Fee scale for audit of 2015-16 accounts

| Gross expenditure £000,000 | Fee range £000 | | | Previous year median £000 |
|-------------------------------|----------------|--------|---------|------------------------------|
| | Minimum | Median | Maximum | |
| 100 | 119 | 140 | 161 | 140 |
| 200 | 143 | 168 | 193 | 168 |
| 300 | 159 | 187 | 215 | 187 |
| 400 | 172 | 202 | 232 | 202 |
| 500 | 182 | 214 | 246 | 215 |
| 600 | 191 | 225 | 259 | 225 |
| 700 | 199 | 234 | 270 | 235 |
| 800 | 206 | 243 | 279 | 243 |
| 900 | 213 | 251 | 288 | 251 |
| 1,000 | 219 | 258 | 296 | 258 |
| 1,100 | 225 | 264 | 304 | 265 |
| 1,200 | 230 | 271 | 311 | 271 |

Fee scale for 2016-17 improvement audits, assessments and special inspections under the Local Government (Wales) Measure 2009

| All unitary authorities | Fee range £000 | | | Previous year median £000 |
|-------------------------|----------------|--------|---------|------------------------------|
| | Minimum | Median | Maximum | |
| | 94 | 112 | 130 | 112 |

Graphic of total fee scale for unitary authorities



Fire and rescue authorities

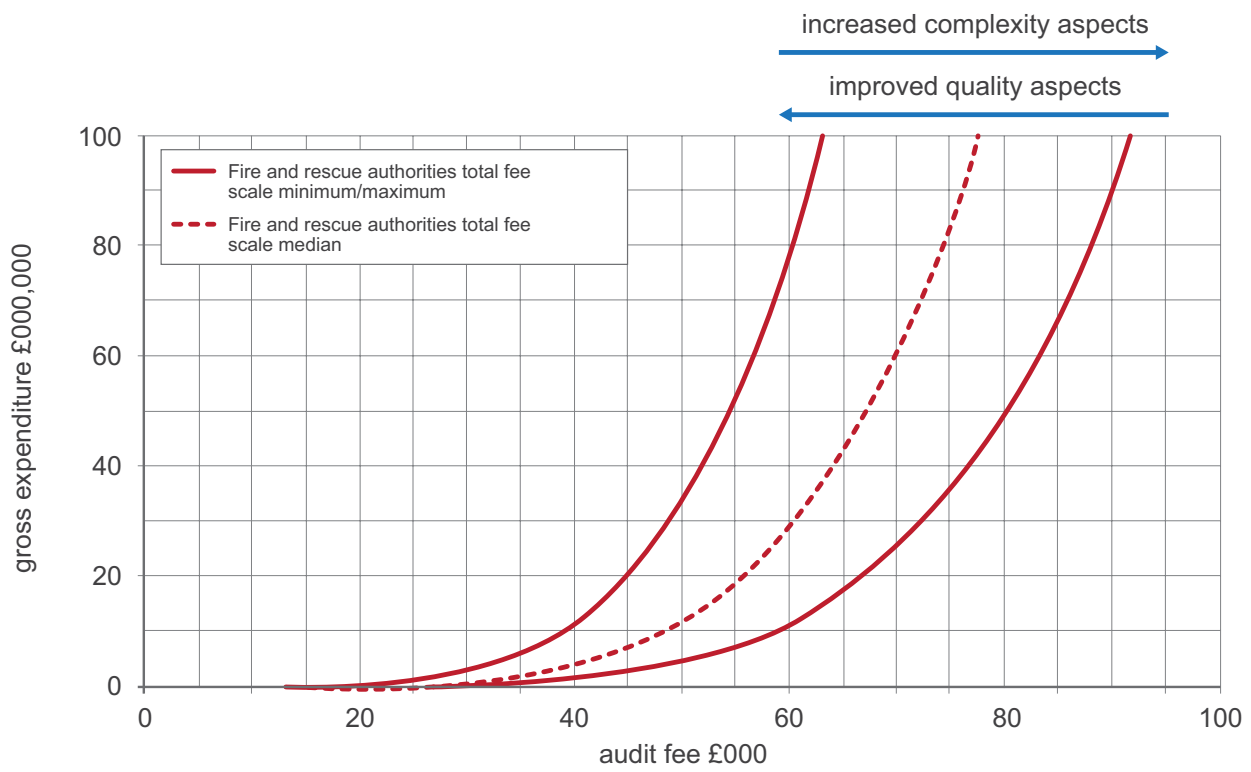
Fee scale for audit of 2015-16 accounts

| Gross expenditure £000,000 | Fee range £000 | | | Previous year median £000 |
|-------------------------------|----------------|--------|---------|------------------------------|
| | Minimum | Median | Maximum | |
| 20 | 35 | 41 | 47 | 41 |
| 40 | 42 | 49 | 57 | 49 |
| 60 | 47 | 55 | 63 | 55 |
| 80 | 50 | 59 | 68 | 59 |
| 100 | 53 | 63 | 72 | 63 |

Fee scale for 2016-17 improvement audits, and assessments and special inspections under the Local Government (Wales) Measure 2009

| All fire and rescue authorities | Fee range £000 | | | Previous year median £000 |
|------------------------------------|----------------|--------|---------|------------------------------|
| | Minimum | Median | Maximum | |
| | 9 | 14 | 19 | 15 |

Graphic of audit total fee scale for fire and rescue authorities



National park authorities

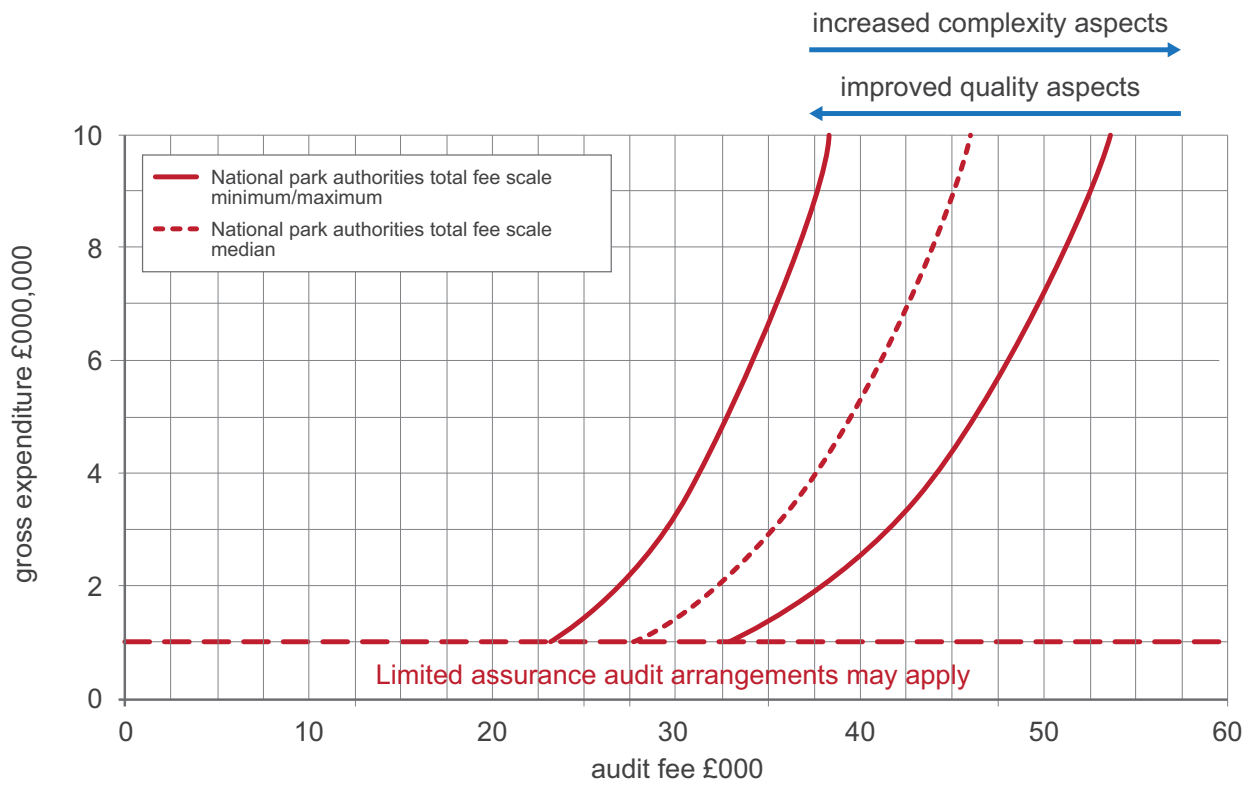
Fee scale for audit of 2015-16 accounts

| Gross expenditure £000,000 | Fee range £000 | | | Previous year median £000 |
|-------------------------------|----------------|--------|---------|------------------------------|
| | Minimum | Median | Maximum | |
| 2 | 22 | 25 | 29 | 25 |
| 4 | 26 | 31 | 35 | 31 |
| 6 | 29 | 34 | 39 | 34 |
| 8 | 31 | 37 | 42 | 37 |
| 10 | 33 | 39 | 45 | 39 |

Fee scale for 2016-17 improvement audits, and assessments and special inspections under the Local Government (Wales) Measure 2009

| All national park authorities | Fee range £000 | | | Previous year median £000 |
|----------------------------------|----------------|--------|---------|------------------------------|
| | Minimum | Median | Maximum | |
| | 5 | 7 | 9 | 7 |

Graphic of total fee scale for national park authorities



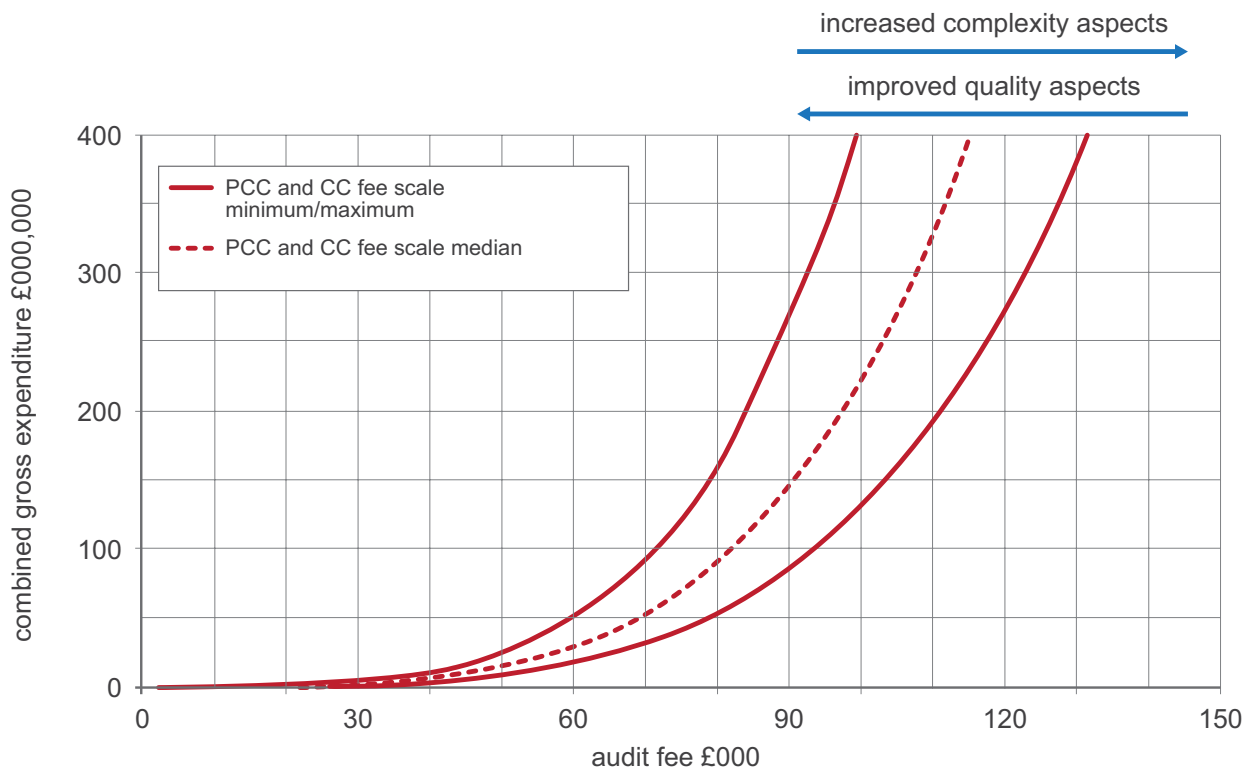
Police and crime commissioners and chief constables

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

Fee scale for audit of 2015-16 accounts

| Combined gross expenditure of PCC and CC £000,000 | Combined fee range for PCC and CC £000 | | | Previous year median £000 |
|---|--|--------|---------|---------------------------|
| | Minimum | Median | Maximum | |
| 50 | 61 | 70 | 79 | 70 |
| 100 | 71 | 82 | 94 | 83 |
| 150 | 78 | 91 | 103 | 91 |
| 200 | 84 | 98 | 111 | 98 |
| 250 | 89 | 103 | 117 | 103 |
| 300 | 93 | 108 | 123 | 108 |
| 350 | 96 | 112 | 128 | 112 |

Graphic of total fee scale for police and crime commissioners and chief constables



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

Town and community councils in Wales are subject to a limited assurance audit regime. For 2016-17 we will switch to charging for work on a time basis rather than the historical basis of a fixed fee according to expenditure/income bands. The fee rate charges are as set out in [Exhibit 1](#). The estimated impact of this switch is set out in the table below.

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

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

Estimated time charges for audit of 2015-16 accounts of town and community councils

| Annual income or expenditure (fees are payable on whichever is the higher each year) | Indicative baseline charge | Indicative upper range fee | Fee charged in previous year |
|--|-------------------------------|-------------------------------|---------------------------------|
| £Nil – £99 | £Nil | £Nil | £Nil |
| £100 – £5,000 | £30 | £280 | £30 – £80 |
| £5,001 – £100,000 | £160 | £320 | £175 – £350 |
| £100,001 – £500,000 | £200 | £380 | £415 – £650 |
| £500,001 – £2,500,000 | £240 | £460 | £920 |

Local government pension funds

Fee scale for audit of 2015-16 accounts

| All pension funds | Fee range £000 | | | Previous year median £000 |
|-------------------|----------------|--------|---------|---------------------------|
| | Minimum | Median | Maximum | |
| | 30 | 40 | 50 | 40 |

Fee rates for other work in local government

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

Other than those types of bodies for which fee scales have been prescribed, there are a small number of other types of local government body. For audits of these bodies, a zero-based approach to audit planning will still be applied, with resource requirements converted into fees directly based on the costs of delivering the work or by applying the fee rates as set out in [Exhibit 1](#).

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

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

We are working closely with the Welsh Government and hope to be able to agree a model that focuses more on the outputs and outcomes from grant-supported activity, moving away from the traditional audit approach of checking invoices. This should provide the Welsh Government and audited bodies with a clearer understanding of the difference grant-supported activity is making, whilst also reducing the cost of grant certification work. We expect to pilot this approach during 2016-17 and will discuss fee implications with pilot authorities.

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

| Grade of staff | Complex grants staff mix % | All other grants staff mix % |
|---------------------|----------------------------|------------------------------|
| Engagement director | 1 to 2 | 0 to 1 |
| Audit manager | 4 to 6 | 1 to 2 |
| Team leader | 18 to 21 | 12 to 16 |
| Team member/trainee | 77 to 71 | 87 to 81 |

Complex grants include:

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

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

In order to support Welsh public bodies in combating fraud, the Auditor General conducts the National Fraud Initiative (NFI) in Wales on a biennial basis. The NFI is also run in England, Scotland and Northern Ireland. The NFI matches data across organisations and systems to help public bodies identify potentially fraudulent or erroneous claims and transactions. The NFI has been a highly effective tool in detecting and preventing fraud and overpayments. Since its commencement in 1996, NFI exercises have resulted in the detection and prevention of more than £26 million of fraud and overpayments in Wales and £1.17 billion across the UK.

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

For 2015-16, the National Assembly approved a fee scheme containing a £nil fee scale for all participating bodies. The Wales Audit Office will instead fund the work through payment from the Welsh Consolidated Fund as approved through the Estimate. The reasoning for this is to encourage greater voluntary participation of non-mandated organisations, in line with the aspirations of the Public Accounts Committee. In tandem and in line with the Board's

aspirations for a simplified funding regime, a £nil fee scale is set for mandatory participants too. This helps avoid any confusion and provides a clear message in terms of the costs of participation in the NFI. In totality, NFI work is no longer funded through fee charges. As required by legislation, the fees for mandatory participants are shown below.

Exhibit 2: NFI fees

| Type of body | Fee 2016-17 £ | Previous fee 2014-15 £ |
|---|---------------------|-------------------------------------|
| Unitary authority | Nil | 3,650 |
| Police and crime commissioners and chief constables | Nil | 1,000 |
| Fire and rescue authority | Nil | 1,000 |
| NHS trust | Nil | 1,000 |
| Local health board | Nil | 1,000 |
| Other – voluntary | Nil | Subject to agreement with each body |

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

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