

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

November 2022



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About the Committee

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

Current Committee membership:



Committee Chair:
Peredur Owen Griffiths MS
Plaid Cymru



Peter Fox MS
Welsh Conservatives



Mike Hedges MS
Welsh Labour



Rhianon Passmore MS
Welsh Labour

Contents

Conclusions and Recommendations	5
1. Introduction	8
2. Annual Report and Accounts 2021-22	10
3. Audit Findings Report – Year Ended 31 March 2022	28
4. Annual Plan 2022-23 and Interim Report 2022-23	31
5. Estimate of the income and expenses for the year ended 31 March 2024	37
Annex A: List of oral evidence sessions.....	63
Annex B: Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2024.....	64

Conclusions and Recommendations

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

- Annual Report and Accounts 2021-22;
- Audit Findings Report - Year Ended 31 March 2022;
- Annual Plan 2022-23;
- Interim Report - An assessment of progress made against our 2022-23 Annual Plan during the period 1 April to 30 September 2022;
- Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2024.
..... Page 9

Recommendation 1. The Committee recommends that Audit Wales provides details of its new 'Work Well, Live Well and Mean Well' Strategy and its implementation..... Page 26

Recommendation 2. The Committee recommends that Audit Wales includes details of its performance against the previous Key Performance Indicator target for employee engagement and employee experience alongside its revised targets in 2022-23..... Page 26

Recommendation 3. When considering its future staff survey arrangements, the Committee recommends that Audit Wales considers retaining the Civil Service People Survey; assesses other tools to enhance its effectiveness and reports back to the Committee on alternative survey models evaluated..... Page 27

Recommendation 4. The Committee recommends that Audit Wales provides further information on the work undertaken to improve audit quality, including details of the specific quality assurance activity undertaken since the 2021-22 score and the number of audits assessed for quality assurance..... Page 27

Recommendation 5. The Committee recommends that the Auditor General formally notifies the Chair of the Finance Committee in writing if he is unable to complete an audit within the four month statutory deadline..... Page 27

Recommendation 6. The Committee recommends that Audit Wales:

- explains the rationale it intends to adopt regarding the sharing of the additional costs associated with the audit of the Welsh Government Consolidated Accounts 2020-21, and
- once the final position is determined, provides details of the total cost of the audit of the Welsh Government Consolidated Accounts 2020-21, including how much is additional to the fee estimate, how the additional costs have been shared and an explanation if the approach differs from the rationale. Page 27

Recommendation 7. The Committee recommends that Audit Wales provides further details of how it is implementing change in the organisation and specifically on the outcome of the post-project learning exercise for the Travel Allowance changes, including how the lessons learned will be applied to the forthcoming Cardiff office relocation. Page 27

Recommendation 8. The Committee recommends that Audit Wales provides further information on the technical issue concerning infrastructure assets and the potential impact on the delivery of its audit work. Page 36

Recommendation 9. The Committee recommends that Audit Wales provides a breakdown of the non-cash items within its resource baseline and a reconciliation between cash and resource baselines identified in Part 2 of the Estimate for its Welsh Consolidated Fund funding for 2023-24 and in future Estimates. Page 60

Recommendation 10. The Committee recommends, for all future Estimates, Audit Wales provides the same level of detail for the support it is seeking on a resource and cash basis, including information on its baseline position and any changes to its budgets. Page 61

Recommendation 11. The Committee recommends that Audit Wales considers how the presentation of the Estimate can be improved in future years to:

- compare the resource and cash requested with the approved budget for the previous financial year, and where this is not the case, this should be clearly set out in the Estimate, with reasons to explain why it was not possible to do so;
- provide further detail and a breakdown of how increases in specific elements of funding will be spent. Page 61

Recommendation 12. The Committee recommends that Audit Wales:

- provides a breakdown of the £550,000 movements in working capital figure, and
- includes more information on movements in working capital in future Estimates, including detailing their purpose and to what each movement relates to. Page 61

Recommendation 13. If Audit Wales wishes to pursue the proposed funding switch for local performance audit work, the Committee recommends that it:

- provides further information on the queries raised by the Welsh Government and progress of those discussions, as these happen, and
- defers the proposal until the Estimate 2024-25. Page 61

Recommendation 14. The Committee recommends that Audit Wales considers further ways in which it could provide additional support for lower paid staff and/or staff who may experience difficulties as the effects of the increases in living costs are felt and takes steps to evaluate its package of support to ensure it reaches those who need it most.Page 61

Recommendation 15. The Committee recommends that Audit Wales returns the unspent funding for National Insurance contributions from 2022-23 to the Welsh Consolidated Fund and adjusts the baseline for 2023-24 accordingly.Page 61

Recommendation 16. The Committee recommends that Audit Wales provides further detail on the feedback received on its performance work and updates it on the process of adopting international standards of best practice in this area, including its expectations of what this will deliver. Page 62

Recommendation 17. Following the tendering for professional accountancy training, the Committee recommends that any surplus funds are returned to the Welsh Consolidated Fund and removed from the baseline. Page 62

Recommendation 18. The Committee recommends that Audit Wales provides further detail and a breakdown of how specific elements of its capital funding will be spent in 2023-24 and also includes the same level of detail in all future Estimates.....Page 62

Recommendation 19. The Committee recommends that Audit Wales provides an update on developments with the potential extension of duties associated with the Well-being of Future Generations (Wales) Act 2015, as and when it becomes apparent what the implications will be for Audit Wales..... Page 62

1. Introduction

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

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

Accountability and Governance Arrangements

4. The Act confers a number of functions on the Welsh Parliament (the Senedd). Under Section 28 of the Act, the Senedd may make provision through its Standing Orders regarding the exercise of the functions conferred upon it by the Act, including "delegating functions to the Presiding Officer, the Deputy Presiding Officer, a committee or sub-committee of the Senedd or the chair of such a committee or sub-committee".² In accordance with Standing Order 18.10, oversight of the WAO has been delegated to the Finance Committee (the Committee).³
5. This year's annual scrutiny of the WAO and the Auditor General took place in two parts.
6. The Committee examined the following publications on **22 September 2022** and took evidence from the Auditor General, Adrian Crompton, the Chair of the Board, Lindsay Foyster, and two officials from Audit Wales:

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

² [Standing Orders of the Welsh Parliament](#)

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

- Annual Report and Accounts 2021-22⁴;
- RSM UK Audit LLP - Audit Findings Report - Year Ended 31 March 2022⁵;
- Annual Plan 2022-23⁶.

7. On **9 November 2022**, the Committee took evidence from the Auditor General, Chair of the Board, and two officials from Audit Wales on the following publications:

- Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2024;
- Interim Report - An assessment of progress made against our 2022-23 Annual Plan during the period 1 April to 30 September 2022;

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

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⁴ [Annual Report and Accounts 2021-22](#)

⁵ [RSM UK Audit LLP - Audit Findings Report - Year Ended 31 March 2022](#)

⁶ [Annual Plan 2022-23](#)

2. Annual Report and Accounts 2021-22

8. The Annual Report and Accounts for 2021-22⁷ were laid before the Senedd on 15 July 2022. The Auditor General prepared the Accounts for 2021-22 as the Accounting Officer for the WAO, in accordance with Schedule 1 to the Act. The Auditor General and the Chair of the Board jointly prepared the Annual Report, in accordance with Schedule 2 to the Act.⁸

Delivery of work plan

9. The Annual Report states that the exercise of the Auditor General and WAO, has been “broadly consistent with the Annual Plan prepared for the year, but with some changes made to planned work in response to the COVID-19 pandemic”.⁹ It says the priorities set out in the Annual Plan¹⁰ have been “substantively achieved”.¹¹ However, it also notes the pandemic continued to “cause interruptions” to on-site audit work throughout most of the year. Audit Wales continued to engage remotely and was:

“...able to successfully manage the position successfully by adopting flexible working arrangements across teams and extending some of our planned completion deadlines.”¹²

10. Audit Wales began to reopen its offices from April 2021.¹³

Audit

11. Audit Wales states that its audit of accounts work for 2021-22 was delivered in full and “to a high-quality standard”.¹⁴ It reports that:

- it delivered 19 national value for money programme outputs in 2021-22¹⁵;

⁷ [Annual Report and Accounts 2021-22](#)

⁸ [Public Audit \(Wales\) Act 2013](#)

⁹ [Annual Report and Accounts 2021-22, page 18](#)

¹⁰ [Annual Plan 2021-22](#)

¹¹ [Annual Report and Accounts 2021-22, page 3](#)

¹² [Annual Report and Accounts 2021-22, page 9](#)

¹³ [Annual Report and Accounts 2021-22, page 11](#)

¹⁴ [Annual Report and Accounts 2021-22, page 9](#)

¹⁵ [Annual Report and Accounts 2021-22, page 10](#)

- all NHS bodies' accounts audits were completed by 15 June 2021, with "most" of the audits of local and central government accounts completed by the end of September 2021¹⁶;
- 98 per cent of audit products were delivered by the required statutory deadline (target 100 per cent)¹⁷;
- it "led the way among UK audit agencies in delivering timely accounts audits" and that its work focused on "risk areas arising from the pandemic"¹⁸.

12. The Auditor General emphasised the continued high level of performance reflected in the performance against the audit delivery indicators, amid the ongoing challenges of the pandemic.¹⁹ In terms of delivering 98 per cent of audit products by the required statutory deadline, the Auditor General explained:

"...that's down to two major audits that were delayed—the Welsh Government's audit of accounts, which you're probably familiar with, and also Pembrokeshire local authority. I produced a public interest report into an exit payment to the former chief executive there, and the accounts couldn't be signed off until that PIR had been published and handled by the council."²⁰

13. The Executive Director of Audit Services echoed the strong performance:

"In England, by way of comparison, by 30 September—that wasn't a deadline in Wales, but was in England—only 9 per cent of audits had been signed off, whereas we would have been able to sign off 41 per cent even at that stage, and that was two months earlier than our deadline here. So, I think our staff did an amazing job, actually."²¹

Running the business

14. The Annual Report notes Audit Wales's new Wellbeing Strategy; "Work Well, Live Well and Mean Well", endorsed by the Board in July 2022.²²

¹⁶ Annual Report and Accounts 2021-22, page 22

¹⁷ Annual Report and Accounts 2021-22, page 19

¹⁸ Annual Report and Accounts 2021-22, pages 28 and 29

¹⁹ Finance Committee, RoP, 22 September 2022, paragraph 54

²⁰ Finance Committee, RoP, 22 September 2022, paragraph 55

²¹ Finance Committee, RoP, 22 September 2022, paragraph 57

²² Annual Report and Accounts 2021-22, page 37

15. Audit Wales conducted its staff survey in October 2021 (84 per cent response rate), based on the core questionnaire used in the Civil Service People Survey (CSPS). At a thematic level, the results showed a decline and “were generally below the CSPS average”²³. The Annual Report states:

“While most staff remained interested in their work and felt trusted to carry out their job effectively, their emotional commitment to the organisation and its success has dropped in the last year, resulting in a lowering of our overall engagement index score from 70% to 64%.”²⁴

16. The Chair suggests this drop in employee satisfaction was not surprising, given the changes to the Travel and Subsistence scheme and extended remote working.²⁵

17. The Annual Report highlights three declining scores in particular:

- Leadership and managing change: 47 per cent, decline from 50 per cent in 2020 (CSPS median score: 58 per cent)
- Organisational objectives and purpose: 76 per cent, decline from 83 per cent in 2020 (CSPS median score: 85 per cent)
- Learning and development: 45 per cent, decline from 49 per cent in 2020 (CSPS median score: 56 per cent)²⁶

18. The survey results show that, within the leadership and managing change category:

- 21 per cent of responses strongly disagreed with the statement “when changes are made in my organisation they are usually for the better”, with only 24 per cent of responses positive in this area; and
- 27 per cent of responses strongly disagreed with the statement “I feel that change is managed well in my organisation”, with only 22 per cent of responses positive in this area.²⁷

²³ [Annual Report and Accounts 2021-22, page 51](#)

²⁴ [Annual Report and Accounts 2021-22, page 52](#)

²⁵ [Annual Report and Accounts 2021-22, page 12](#)

²⁶ [Annual Report and Accounts 2021-22, page 51](#) and [Audit Wales People Survey](#)

²⁷ [Audit Wales People Survey](#)

19. The Executive Leadership Team (ELT) confirmed it would seek a “deeper insight into three areas where the survey results reflected staff perceptions that Audit Wales was underperforming”.²⁸

20. Following the survey results, Audit Wales agreed six improvement outcomes to “shape actions throughout the organisation”.²⁹

21. When asked how concerned the Committee should be about the staff survey results, the Chair said:

“...I think it's only natural that the board and the executive leadership team, our ELT, are concerned when they see results like this. Having said that, it's clear that the board also holds ELT to account for its performance, and the staff survey is one of the ways in which we understand and evidence performance. So, we've had very thorough discussions with ELT and provided challenge to make sure that we have the assurance at board that we understand the issues that are at play here.”³⁰

22. The Chair explained that a mid-year review has been implemented this year to see how actions identified are making a difference. She went on to say:

“Clearly the pandemic and the impact of the pandemic is still at play in relation to these results—the impact on people's individual well-being and the way in which remote working has impacted on morale across all sectors, to be quite honest.

We feel that there have been a couple of things that have been really important: thinking about how our trainees have had that access to that more immediate coaching and development as part of their experience when they've been having to work remotely; and then also thinking about how, both for our audited bodies and Audit Wales, working in a remote way has led to some inefficiencies and limited productivity at times, resulting in a backlog of work. What we've identified as one of our key areas of concern is workload pressures, and we believe that, for all those reasons that that's come about, that is one of the things that is at play here. And that, of course,

²⁸ [Annual Report and Accounts 2021-22, page 52](#)

²⁹ [Annual Report and Accounts 2021-22, page 12](#)

³⁰ Finance Committee, RoP, 22 September 2022, paragraph 60

*has been impacted, as committee is aware, by the travel and subsistence review in terms of staff morale as well.*³¹

23. The Chair added that the Board has been assured “by the further deep dives that ELT have taken in trying to understand what’s behind the results”, such as how the organisation manages change. She mentioned putting in place “a lot more around communicating and engaging staff with change and enabling staff to understand the need for change and the impact that that change is having in a positive way”. The Chair also referred to the new five-year strategy and a “very clear business planning process” to enable staff to understand and connect to that strategy.³²

Performance

24. Audit Wales achieved, or was close to achieving, 13 of its 18 key performance indicators (KPIs) for the year (15 out of 18 were achieved in 2020-21³³), with performance against the remaining 5 KPIs “a focus for our improvement work in 2022-23”.³⁴

25. The following KPIs were rated as “improvement required”:

- Audit Quality: targets 100 per cent of an audit sample to be assessed satisfactory or above, and 90 per cent as good or above. Audit Wales achieved 100 per cent as satisfactory, but only 75 per cent as good or above (achieved 100 per cent and 100 per cent in 2020-21).
- Trainee success rate: targets at least 90 per cent of trainees achieving first-time passes in stated examinations. Audit Wales achieved 83 per cent (achieved 86 per cent in 2020-21).³⁵

26. The following KPIs were rated as “significant improvement required”:

- Employee engagement: targets being in the top 10 per cent score in this area for the latest CSPS. Audit Wales achieved 64 per cent (target previously achieved in 2020-21 with a performance of 70 per cent).
- Employee experience: Percent positive annual staff survey thematic employee experience scores; targets being in the top 25 per cent of scores for the latest CSPS.

³¹ Finance Committee, RoP, 22 September 2022, paragraphs 61-62

³² Finance Committee, RoP, 22 September 2022, paragraph 63

³³ [Annual Report and Accounts 2020-21, page 19](#)

³⁴ [Annual Report and Accounts 2021-22, page 18](#)

³⁵ [Annual Report and Accounts 2021-22, pages 19 and 21](#)

Audit Wales achieved this in 0 out of 10 theme scores (achieved 2 of 10 theme scores in 2020-21).³⁶

27. Since the start of the pandemic, the Auditor General has emphasised the maxim “self, family, work...in that order”.³⁷ Last year he suggested “fundamentally, that morale has held up, but there’s undeniably been waves that have been affected more by the wider environment”. The Auditor General also said the employee engagement was at an “extremely high level” and that the employee experience indicator was a “stretch target”.³⁸

28. Whilst acknowledging that the employee experience target was intentionally challenging, last year the Committee expressed the view that targets should give a realistic view of what Audit Wales is aiming to achieve. It recommended that:

“...Audit Wales clarifies how and the date by which it aspires to achieve its employee experience key performance indicator 'Percent positive annual staff survey thematic employee experience scores' and provides further information on the actions it intends to take in this area.”³⁹

29. In its response Audit Wales described activity it was undertaking and suggested it would consider the achievability of the KPI.⁴⁰

30. When asked whether the practical implementation of the maxim has changed in response to deteriorating performance around staff experience, the Chair indicated that Audit Wales wanted to respond positively to the decline whilst keeping the maxim in place:

“As a result, the board and ELT have maintained that focus on redressing the workload pressures that I mentioned earlier. We’ve also launched a well-being strategy that contains within it a theme around living well and a theme around working well. We’ve developed a coherent learning and development programme, and that’s about supporting changes in audit methodology. We’ve also encouraged people to come back together in their teams, and we’ve wanted to empower and enable teams to work out the best way in which they can facilitate work and manage to deliver against the objectives, while at the same time looking after their own well-being, which inevitably is

³⁶ Annual Report and Accounts 2021-22, page 21

³⁷ Annual Report and Accounts 2021-22, page 27

³⁸ Annual scrutiny of the Wales Audit Office and the Auditor General for Wales, November 2021, pages 13-15

³⁹ Annual scrutiny of the Wales Audit Office and the Auditor General for Wales, November 2021, page 21 and Recommendation 3

⁴⁰ Response to the Finance Committee’s Annual Scrutiny of the WAO, 18 January 2022

different for everybody individually, so it's been for teams to work out what is the best arrangement for them."⁴¹

Changes to KPIs in 2022-23

31. Audit Wales is changing the measures for the two KPIs that relate to employee engagement and employee experience going forward. In 2022-23, these measures will target the median benchmark score, rather than being in the top 10 per cent and 25 per cent, respectively.⁴²

32. Audit Wales is also changing the KPI relating to Audit Quality. The KPI for 2022-23 requires that 100 per cent of the assessed sample is in the "highest two audit quality categories".⁴³

33. The previous Finance Committee noted that changes to Audit Wales's KPIs means comparisons can be difficult. In 2020, it expressed disappointment at a lack of comparative information, recommending that "measures are capable of comparison with previous years".⁴⁴

34. The Chair revealed that the staff experience and engagement KPIs were reviewed in light of the Committee's challenge last year. Whilst achieving the top percentile comparison with the CSPA survey remains Audit Wales's ambition, it wants targets to be meaningful, achievable and to drive improvement.⁴⁵

35. Given the Committee's previous challenge, the Auditor General said:

*"To have taken a step back from that in the following year, I think you would have challenged us even harder, rightly, this year. So, we felt it was a more realistic ambition, given where we are now."*⁴⁶

36. In terms of driving and tracking improvements following the changes to the employee indicators, the Chair said:

"...a percentage score is something that we can look back on and look back at trends over time anyway; we don't lose that in terms of moving to the median score."

⁴¹ Finance Committee, RoP, 22 September 2022, paragraph 71

⁴² [Annual Plan 2022-23, page 23](#)

⁴³ [Annual Plan 2022-23, page 22](#)

⁴⁴ [Annual Scrutiny of the Wales Audit Office and the Auditor General for Wales, November 2020, page 25 and Recommendation 1](#)

⁴⁵ Finance Committee, RoP, 22 September 2022, paragraph 73

⁴⁶ Finance Committee, RoP, 22 September 2022, paragraph 76

But also, our view is that this is about driving improvement and about learning as an organisation. So, again, it goes back to wanting to understand what's beneath the scores, so that we can understand the areas that we can improve on, rather than simply benchmarking across. It's useful to have that comparison, but it's not the only element that we feel is important in considering the results from the staff survey."⁴⁷

37. The Auditor General expanded on the issue of comparability over time:

"...we're just about to start this year's people survey, which will be on the same basis as the last, but this is the last year of the contract that we have to run the civil service people survey. So, we will be thinking over the next few months about what we put in place after that. The civil service survey is a very, very big one, and it's once a year. Personally, I think we would benefit from having something a little smaller and more flexible, and maybe something we could use through the year to gauge staff experience more in real time. So, this time next year, we'll be looking at equivalent data, but after that, it may be that there is a slight break in comparability if we make that sort of change."⁴⁸

38. When asked why Audit Wales would seek a move away from the CSPS survey, given the impact on comparative data, the Auditor General said:

"We could renew it, but we will weigh up whether the survey that we have at the moment (a) gives us good value for money and (b) is giving us the tools we need to help drive improvement in the organisation. So, it's absolutely nothing to do with taking an easy way out. There are lots of surveys in this kind of space. They're all focused on the same things fundamentally, which is staff engagement and staff experience, but they're designed in slightly different ways. And, like I said earlier, the civil service people survey is a particularly massive one. Some elements are more relevant than others."⁴⁹

Audit Quality

39. The Annual Report states that Audit Wales "continued to invest in developing our audit methodologies and quality management arrangements" in 2021-22. This included implementing

⁴⁷ Finance Committee, RoP, 22 September 2022, paragraphs 73-74

⁴⁸ Finance Committee, RoP, 22 September 2022, paragraph 77

⁴⁹ Finance Committee, RoP, 22 September 2022, paragraph 145

and applying new auditing standards, as well as piloting and extending audit quality assurance work.⁵⁰

40. In 2020, Audit Wales established an Audit Quality Committee to provide advice, support and monitoring functions. It comprises senior staff and an Independent Professional Member.⁵¹ The Annual Report states that 75 per cent of audit products were assessed as good or above, below the 90 per cent target and lower than the 100 per cent achieved in 2020-21.⁵²

41. The Executive Director of Audit Services explained that external quality assurance was undertaken by the Institute of Chartered Accountants in England and Wales (ICAEW) on a fairly small sample of four financial audits, with one audit not meeting the KPI target.⁵³ The Auditor General expanded on this point:

"...it does look like a dramatic drop, 100 per cent to 75 per cent, but that is one out of four, as you say. A few years ago, we weren't publishing this data at all—this was all held internally. I and the board were very keen that we put it out for this kind of scrutiny and challenge, and also that we ramp up the scale of that external review, as we're doing."⁵⁴

42. Whilst there were no issues with the audit opinion, the Executive Director of Audit Services explained that the ICAEW identified:

"...a lack of evidence in some cases of sufficient engagement lead review of the work. So, there were e-mail trails, but as far as the audit is concerned, it needs to be on the audit file..."

They also identified a lack of clarity, maybe, with regard to complex asset valuations and pension source data..."⁵⁵

43. A root-cause analysis was subsequently undertaken to identify and disseminate learning points and an action plan was put in place to address and monitor the quality issues. The Executive Director of Audit Services said Audit Wales is placing a huge emphasis on quality, adding:

⁵⁰ [Annual Report and Accounts 2021-22, page 25](#)

⁵¹ [Annual Report and Accounts 2020-21, page 35](#)

⁵² [Annual Report and Accounts 2021-22, page 25](#)

⁵³ Finance Committee, RoP, 22 September 2022, paragraph 80

⁵⁴ Finance Committee, RoP, 22 September 2022, paragraph 100

⁵⁵ Finance Committee, RoP, 22 September 2022, paragraph 81

"...in the last year alone, we've doubled the amount of external quality assurance of our accounts work and we've introduced external quality assurance of our performance audit work as well, where previously we had had internal reviews and peer reviews with the other audit bodies. So, for us, it's at the heart of everything that we do, our quality has absolutely got to be spot on, so a lot of investment in that area."⁵⁶

44. The Executive Director of Corporate Services went on to outline the work of the Audit Quality Committee:

"...we've helped to secure additional investment in the central function that supports our audit quality arrangements. Ann-Marie's talked about the QAD reviews carried out by the ICAEW, so we've overseen the extension of those reviews and also the piloting of work beyond financial audit into performance audit, and we've also looked to enhance our support functions in particular specialist areas, like pension valuations and asset valuations, which, overall, help to strengthen our arrangements. We're also looking at having a new quality management system in place by the end of the current calendar year."⁵⁷

45. He highlighted the forthcoming publication of the annual quality report in October 2022 that will provide more detail of the work undertaken to drive up audit quality.⁵⁸

Delay to Welsh Government Consolidated Accounts 2020-21

46. Section 131 of the Government of Wales Act 2006 requires the Welsh Government to submit its accounts to the Auditor General for audit no later than 30 November in the following financial year. The Auditor General is then required to lay before the Senedd his examination and certification of those accounts within four months of receipt of an auditable set of accounts, that is, by no later than 30 March, if the Welsh Government meets its submission deadline.⁵⁹

47. The Welsh Government Consolidated Accounts 2020-21 were due to be signed and laid at the Senedd before the end of October 2021. However, this did not happen until 5 August 2022.⁶⁰

⁵⁶ Finance Committee, RoP, 22 September 2022, paragraphs 82-83

⁵⁷ Finance Committee, RoP, 22 September 2022, paragraph 89

⁵⁸ Finance Committee, RoP, 22 September 2022, paragraph 91

⁵⁹ [Government of Wales Act 2006, section 131](#)

⁶⁰ [Welsh Government consolidated annual accounts](#)

48. The Permanent Secretary said the initial delay had been the result of providing information for, and the auditing of, the support to business provided by the Welsh Government during the pandemic. The Permanent Secretary noted a further issue relating to a “post-balance sheet event” (also known as ‘events after the reporting period’⁶¹).⁶²

49. The delay was raised in Plenary on 29 June 2022⁶³ and also noted in the Committee’s report on the Scrutiny of the Welsh Government Second Supplementary Budget 2021-22 (March 2022)⁶⁴.

50. The four month deadline, which applies to other bodies, has been raised as an issue in the past. In 2017, the previous Finance Committee reported on the delay in laying the accounts of Natural Resources Wales (NRW).⁶⁵

51. Addressing the significant delay with the Welsh Government Consolidated Accounts 2020-21, the Auditor General said:

“...this has been a massive thing for us, as you can imagine, this year. So, two statutory requirements that are relevant: one on the Welsh Government to deliver an auditable set of accounts to me by the end of November; and then, as you say, for me to complete the audit within four months. The legislation is silent on what should happen if either of those parties fail to deliver on those. That’s unusual as far as the Welsh Government is concerned. For other bodies, if I were in that situation, there would be explicit requirements on me to lay a statement before the Senedd. That is something I would welcome.”⁶⁶

52. In the absence of a requirement to lay a statement, the Auditor General felt the most appropriate way to keep the Senedd apprised of the situation was to keep the Public Accounts and Public Administration Committee (PAPAC) informed. He went on to say:

“I must admit, my focus was on the PAPAC rather than this committee, because not only do I have far more regular contact with that committee than I do with this one, fundamentally, it has the retrospective view of the accounts, and you are rather more forward looking. So, that felt more

⁶¹ IAS 10 Events after the Reporting Period

⁶² RoP, Public Accounts and Public Administration Committee, 26 January 2022, paragraphs 10 and 11

⁶³ RoP, Plenary 29 June 2022, Item 5: Statement by the Chair of the Public Accounts and Public Administration Committee - Welsh Government Consolidated Accounts 2020-21

⁶⁴ Scrutiny of Welsh Government Second Supplementary Budget 2021-22, paragraph 32

⁶⁵ Report into the delay in the laying of Natural Resources Wales Annual Accounts 2015-16 by the Auditor General for Wales, May 2017

⁶⁶ Finance Committee, RoP, 22 September 2022, paragraph 103

appropriate to me. But, as I said, I would welcome, after the events of the last year, clarification of the expectations on me, and perhaps the Welsh Government, in the event that this should ever happen again. Legislative change, I suspect, is too much to ask for, but if there's a way to develop some kind of memorandum of understanding that would put some arrangements in place, I would welcome that."⁶⁷

53. The Auditor General told the Committee the impact on costs had been significant, requiring "a huge amount of time for some of my most senior staff". The Executive Director of Audit Services suggested total additional costs of over £100,000, with details of the costs met by the Welsh Consolidated Fund (WCF) and charged in fees being discussed with the Welsh Government. The Auditor General added:

*"This committee may recall that, a few years ago, you approved a proportion of the WCF funding we received in part to enable us to produce a commentary on the Welsh Government's account to aid wider scrutiny. We've not done that this year, but all of that resource, and more, has been devoted to the production of two memoranda that are going to the PAPAC this week to explain the fundamental issues behind the various qualifications."*⁶⁸

54. The Committee has requested an update on the breakdown of the final audit costs.

55. The PAPAC has been scrutinising the Welsh Government's Annual Report and Accounts for 2020-21 over the Autumn term.⁶⁹

Travel and Subsistence scheme update

56. The Annual Report notes that a priority for 2021-22 was to conclude the Travel and Subsistence Scheme review and the Chair states that all staff are now signed up to the new arrangements.⁷⁰

57. In April, the Committee received correspondence from the PCS Union, highlighting concerns about "the threatened use of 'fire and rehire'" in relation to the Travel Allowance. The Union suggests Audit Wales:

⁶⁷ Finance Committee, RoP, 22 September 2022, paragraphs 104-105

⁶⁸ Finance Committee, RoP, 22 September 2022, paragraphs 107-108

⁶⁹ [Public Accounts and Public Administration Committee: Scrutiny of Accounts – Welsh Government](#)

⁷⁰ [Annual Report and Accounts 2021-22, page 11](#)

"...indicated that it would dismiss and re-engage any member of staff who might refuse to give individual consent to a particular change in their contract – specifically, the removal of a travel allowance..."⁷¹

58. The PCS union said this sets an "ominous precedent in the Welsh public sector" and requested that the Committee review these developments and consider:

"...whether they are consistent with the social partnership ethos of the devolved Welsh public sector and with accepted standards of good governance."⁷²

59. Responding to the suggestion that 'fire and rehire' was threatened during the implementation of the Travel and Subsistence changes, the Auditor General described such practice as "abhorrent" and "a polar opposite to the approach that we took in Audit Wales to negotiate a fundamental change in people's contractual term". He continued:

"The committee will be aware of the background. We were looking to negotiate away a £3,350 annual allowance paid to the majority of our staff, which could not be justified on value-for-money grounds. But it was a contractual entitlement. We never threatened people with dismissal. We went through an extensive period of communication and engagement with staff. We empowered a group of staff to design alternative proposals that we now have in place. We consulted the entire organisation over the summer and made changes to our proposals on the back of that. We went through several months of formal negotiations with our trade unions and made further concessions and changes on the back of that. Our unions then balloted their members and a majority of members voted in favour of acceptance of the new contractual terms."⁷³

60. When the union asked what would happen if individuals refused to sign the new contract, the Auditor General said:

"We explained that, like any organisations that had been through that process, there would be two fundamental options available to us as an employer: either to impose the new contract unilaterally or to dismiss and re-engage immediately with no loss of employment rights... We would, if we were in that position, choose which one to go with on the basis of the

⁷¹ [Letter from the PCS Union, 25 April 2022](#)

⁷² [Letter from the PCS Union, 25 April 2022](#)

⁷³ Finance Committee, RoP, 22 September 2022, paragraphs 66-67

individual circumstances at play, and taking account of advice from our employment legal advisers as well on the risk that it would open up to the organisation. I'm pleased to say that it never came to that because 100 per cent of our staff signed up to the new terms and conditions voluntarily."⁷⁴

61. The Auditor General told the Committee that he was "proud" of the process of implementing the Travel Allowance changes, while acknowledged that it was "one of the most unpopular things that I will ever do internally" and sympathising with the "very real reduction in remuneration for many people". He added:

*"...it was extensive, it was sincere, it was open from the outset, it engaged staff genuinely in a way that I think would be best practice for many organisations taking through such a difficult change."*⁷⁵

62. Audit Wales subsequently undertook a post-project learning exercise, identifying lessons learned around communication and engagement and the trade unions being more heavily involved earlier in the process.⁷⁶

Internal audit and risk management

63. The WAO's internal auditors, PricewaterhouseCoopers LLP (PWC), issued six internal audit reports during the year. Four of the internal audit reports were rated as low risk and one, relating to change management, was rated medium risk. One report, relating to cyber security, was rated high risk. However, the findings were noted as "not unusual" in the context of other organisations for which it has undertaken similar reviews.⁷⁷

64. The Executive Director of Corporate Services explained that the cyber security review included an 'ethical hacking exercise' and reassured the Committee that the high-risk issue identified "has been eliminated so that we now have much greater control".⁷⁸

65. In relation to the internal audit review of change management, PWC acknowledges that Audit Wales has "successfully started to implement a Change Management team", but notes that cultural challenges and resistance to change is "inhibiting the ability of the Change Management team to operate effectively".⁷⁹ In 2021, Audit Wales appointed to the newly

⁷⁴ Finance Committee, RoP, 22 September 2022, paragraph 68

⁷⁵ Finance Committee, RoP, 22 September 2022, paragraph 113

⁷⁶ Finance Committee, RoP, 22 September 2022, paragraph 114

⁷⁷ [Annual Report and Accounts 2021-22, pages 73-75](#)

⁷⁸ Finance Committee, RoP, 22 September 2022, paragraphs 154 and 159

⁷⁹ [Annual Report and Accounts 2021-22, page 75](#)

created post of Executive Director of Communications and Change.⁸⁰ Its Estimate for 2021-22 outlined a co-ordinated Change Programme for which £238,000 was allocated.⁸¹

66. Addressing PWC's findings, the Auditor General said "one of the main cultural shifts that we're looking to drive in the organisation is to break down some of the barriers and silos that exist within it". He expanded on this issue:

"One of the major shifts to take us in that direction that we've focused on, especially in the last 12 months, has been to try to make sure that the energies of our change programme are focused on our core work as Audit Wales. So, focused on things that matter to auditors and the delivery of their work. For instance, the implementation of new auditing standards, new auditing software, learning and development for our professional staff and so forth. And I think the more we can do that, the more the organisation as a whole will feel that all our efforts are focused on the things that matter to the organisation most, and in the past, there's been a sense that that hasn't been the case."⁸²

Committee view

67. The Committee recognises the ongoing challenges caused by the pandemic and, in particular, its impact on ways of working within Audit Wales. The performance of Audit Wales and the successful delivery of its plan and objectives in 2021-22 demonstrates the dedication and professionalism of its staff. We acknowledge the negative impact that the removal of the travel allowance has had on staff and the challenges associated with this significant change, but welcome the Auditor General's efforts to ensure that organisational policies represents value for money. Nonetheless, we are disappointed with the results of the staff survey, namely the categories relating to employee engagement and experience, leadership and change, and organisational objectives and purpose. The actions taken by the Board to address these scores, such as the new 'Work Well, Live Well and Mean Well' Strategy, are welcomed and we are encouraged by the introduction of more frequent checkpoints to assess the impact of these measures. The Committee is interested in these initiatives and will pay close attention to any associated outcomes.

⁸⁰ [Annual Report and Accounts 2021-22, page 89](#)

⁸¹ [Audit Wales - Supporting information for the Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2022](#)

⁸² Finance Committee, RoP, 22 September 2022, paragraphs 150-151

68. While acknowledging the ambitions of Audit Wales in terms of improving employee engagement and employee experience, we note that Audit Wales has reconsidered the achievability of its KPIs in this area following last year's scrutiny and that it will now target the median benchmark score. We echo concerns raised by the previous Finance Committee that measures must be capable of comparison with previous years and believe that details of performance against both Audit Wales's new KPI and its previous measure should be reported. We hope that the new KPIs will continue to be ambitious and help drive improvement in the organisation.

69. The Committee notes that the contract for the Civil Service People Survey is reaching its end and that Audit Wales intends to consider whether it is the most appropriate survey for the organisation. The CSPA is a recognised and well established survey, widely used by public bodies, and should not be discounted without due consideration. While we support the consideration by Audit Wales of alternative surveys on value for money grounds and to assist in driving performance in this area, we again stress the importance of considering how targets against a new survey model will be comparable with the organisation's previous performance and the extent to which it can be benchmarked against others in the public sector. Comparability over time is a key principle of good corporate reporting and there may be difficulties identifying whether the organisation has improved without consistent measures. We note the appetite for a smaller and more flexible survey model and believe consideration should be given to supplementing the CSPA with other communication tools, such as targeted pulse and lifecycle surveys, to enable more timely feedback from staff and to gauge the success of initiatives.

70. We note that achieving the audit quality KPI relies on a small sample of four audits being assessed as good or above, and that the results of one audit led to the target being missed in 2021-22. However, we are reassured that there were no significant issues with those audits and that the issues raised have been suitably addressed, with learning points disseminated and quality issues monitored. We welcome the decision to double the amount of external quality assurance of accounts work. The further investment in developing audit quality, such as piloting and extending audit quality assurance work, strengthening specialist areas and implementing a new quality management system later this year is also encouraging.

71. The Committee notes the evidence provided in relation to the delay in the Auditor General laying the Welsh Government Consolidated Accounts 2020-21. While it is disappointing that we were not notified directly about the delay, we accept the Auditor General's request for clarification on the approach he should take if he is unable to meet the four month statutory deadline in future. As the Committee responsible for oversight of the governance of the WAO

and office of the Auditor General, our interests lay with understanding the administrative and decision-making process, and accompanying costs, surrounding the delay in laying the Welsh Government's Accounts 2020-21. The Committee is also interested in the Auditor General's ability to meet his obligations, and particularly instances where the four month statutory deadline has been missed. Therefore, we would expect to be informed of delays in meeting the four month statutory deadline for completing an audit of accounts.

72. Audit Wales has indicated that the audit of the Welsh Government Consolidated Accounts 2020-21 has also attracted significant additional costs of over £100,000. We also note that resource intended for commentary on these accounts has instead been diverted to explain the fundamental issues behind the Auditor General's qualifications to the Public Accounts and Public Administration Committee. We note the ongoing discussions between Audit Wales and the Welsh Government regarding how much of the additional costs will be funded by each body and we are keen to understand the rationale for sharing the additional costs.

73. We recognise the negative impact that the removal of the Travel Allowance has had on Audit Wales employees and acknowledge the extensive process of engagement that has taken place with staff in order to implement this change, as well as formal negotiations with the trade unions. The Committee notes that all employees agreed to the new terms and conditions voluntarily. We also note the concerns raised by the PCS Union regarding the threat of dismissal and re-engagement if employees refused to accept the change in contract and we condemn its use. The subsequent post-project learning exercise following the Travel Allowance changes is welcomed and the lessons learned will be invaluable as Audit Wales embarks on further organisational change.

74. The Committee notes that the internal auditor suggests Audit Wales has "successfully started to implement a Change Management team", but is concerned by the suggestion that cultural challenges and resistance to change is "inhibiting the ability of the Change Management team to operate effectively". Given the recent Travel Allowance changes and the likely scale of future changes in relation to accommodation, the Committee is concerned about the potential impact on staff and would welcome further details on how the Change Management team will address these issues.

Recommendation 1. The Committee recommends that Audit Wales provides details of its new 'Work Well, Live Well and Mean Well' Strategy and its implementation.

Recommendation 2. The Committee recommends that Audit Wales includes details of its performance against the previous Key Performance Indicator target for employee engagement and employee experience alongside its revised targets in 2022-23.

Recommendation 3. When considering its future staff survey arrangements, the Committee recommends that Audit Wales considers retaining the Civil Service People Survey; assesses other tools to enhance its effectiveness and reports back to the Committee on alternative survey models evaluated.

Recommendation 4. The Committee recommends that Audit Wales provides further information on the work undertaken to improve audit quality, including details of the specific quality assurance activity undertaken since the 2021-22 score and the number of audits assessed for quality assurance.

Recommendation 5. The Committee recommends that the Auditor General formally notifies the Chair of the Finance Committee in writing if he is unable to complete an audit within the four month statutory deadline.

Recommendation 6. The Committee recommends that Audit Wales:

- explains the rationale it intends to adopt regarding the sharing of the additional costs associated with the audit of the Welsh Government Consolidated Accounts 2020-21, and
- once the final position is determined, provides details of the total cost of the audit of the Welsh Government Consolidated Accounts 2020-21, including how much is additional to the fee estimate, how the additional costs have been shared and an explanation if the approach differs from the rationale.

Recommendation 7. The Committee recommends that Audit Wales provides further details of how it is implementing change in the organisation and specifically on the outcome of the post-project learning exercise for the Travel Allowance changes, including how the lessons learned will be applied to the forthcoming Cardiff office relocation.

3. Audit Findings Report – Year Ended 31 March 2022

75. The Audit Findings Report⁸³ summarises the key findings of the auditors of the WAO, RSM UK Audit LLP ('RSM'), in connection with the audit of the financial statements of Audit Wales in respect of the year ended 31 March 2022. This is a requirement under Schedule 1 to the Act.⁸⁴

76. RSM provides an unqualified audit opinion of the WAO's accounts.⁸⁵

77. The audit explored risks that have also been explored in previous years:

- Revenue recognition – WIP and deferred income
- Management override of internal controls
- Reputational risk⁸⁶

78. No issues were identified in respect of those risks. However, the report identifies two matters from the audit.⁸⁷

79. RSM also identifies one unadjusted misstatement of £71,000 relating to classification of supplier invoices.

WAO Board quorum

80. The Act requires the Board to be made up of nine members:

- five persons who are not employees of the WAO (the non-executive members)
- the Auditor General, and
- three employees of the WAO (the employee members).⁸⁸

81. The Board is subject to a quorum set out in the Act. It requires that "in all circumstances a quorum cannot be met unless a majority of the members present are non-executive members".⁸⁹

⁸³ RSM UK Audit LLP - Audit Findings Report - Year Ended 31 March 2022

⁸⁴ Public Audit (Wales) Act 2013, paragraph 28(3) of Schedule 1

⁸⁵ Annual Report and Accounts 2021-22, page 107

⁸⁶ RSM UK Audit LLP - Audit Findings Report - Year Ended 31 March 2022

⁸⁷ RSM UK Audit LLP - Audit Findings Report - Year Ended 31 March 2022

⁸⁸ Public Audit (Wales) Act 2013, Schedule 1, paragraph 1

⁸⁹ Public Audit (Wales) Act 2013, Schedule 1, paragraph 28(3)

82. Last year, RSM detailed that Board quorum had not been adhered to at one meeting in 2020-21. The Committee recommended that measures be put in place to ensure a majority of non-executive members is maintained.⁹⁰ In its response, Audit Wales described the mechanisms it has in place to ensure quorum is met.⁹¹

83. The WAO's auditors again identify matters relating to quorum in its Audit Findings Report 2021-22. At a Board meeting in October 2021 a non-executive member's absence meant employee Board members recused themselves from decisions, but were still present during board discussions, leaving the meeting only for the decision and voting.⁹²

84. At another meeting in March 2022, in response to a non-executive member's absence, Kevin Thomas (nominated employee member of the Board) attended in his capacity as Executive Director of Corporate Services. RSM highlights that previous legal advice concluded the Act requires that the majority of non-executive members are "present" (rather than "present and voting"). It therefore suggests:

"...given employee board members were still physically present during the discussions, there is a risk that any decisions may be invalidated by the presence of employee members (although they did leave the meeting for the decision and voting).

We recommend that in such instances, the relevant persons are not present where relevant."⁹³

85. The Committee questioned why quorum issues have been identified again in 2021-22 and asked how the Board is implementing the external auditors recommendation in this area. The Chair said it has been recognised in the past that the quorum provision in the Act does not "provide for an effective mechanism to accommodate non-executive member absence", adding:

*"It's also recognising that the Act is trying to ensure that there is a strong staff perspective brought into board through the unique roles of the elected employee members. Also, we have the nominated employee member as a board member as well. So, we at the board are trying to balance those two aspects of the Act, which aren't always able to work well together."*⁹⁴

⁹⁰ Annual scrutiny of the Wales Audit Office and the Auditor General for Wales, November 2021, pages 24-26 and Recommendation 8

⁹¹ Response to the Finance Committee's Annual Scrutiny of the WAO, 18 January 2022

⁹² RSM UK Audit LLP - Audit Findings Report - Year Ended 31 March 2022, page 6

⁹³ RSM UK Audit LLP - Audit Findings Report - Year Ended 31 March 2022, page 6

⁹⁴ Finance Committee, RoP, 22 September 2022, paragraphs 116-117

86. Of the quorum issues reported by RSM in 2021-22, the Chair explained that:

- one occasion related to the first day of a two-day meeting involving informal discussions regarding the five-year strategy, with decisions taken when fully quorate the following day;
- the other occasion related to a meeting called at fairly short notice to discuss the Travel and Subsistence review, with the employee members and the nominated employee member providing the staff perspective through those discussions but not being present for any of the decisions made.⁹⁵

87. The Chair said a pragmatic approach is taken, with the terms of reference for the Board setting out the option of either asking an employee member to leave the meeting or deferring decision making until quorum is restored. She went on to say:

"We understand the guidance provided and what the statute lays out that we should do, which is that people should leave the room. But, we have reviewed that on an annual basis in response to the auditor's report, and we've concluded that we are content with the approach that we're taking on that."⁹⁶

Travel allowance

88. The second matter identified relates to the provision for the Travel Allowance changes (£1.086 million). The report notes that the amount was agreed and paid via payroll in April 2022, however, the timing and amount was known as at 31 March 2022. RSM notes that there was a small variable element of the settlement not agreed at this date and it is satisfied with disclosures made in the accounts.⁹⁷

Committee view

89. The Committee acknowledges the concerns raised by RSM in its Audit Findings Report relating to Board quorum and notes the assurances provided by the Chair of the Board that no formal decisions were taken while the Board was inquorate.

⁹⁵ Finance Committee, RoP, 22 September 2022, paragraphs 118-119

⁹⁶ Finance Committee, RoP, 22 September 2022, paragraph 120

⁹⁷ RSM UK Audit LLP - Audit Findings Report - Year Ended 31 March 2022

4. Annual Plan 2022-23 and Interim Report 2022-23

90. The Act requires the Auditor General and the Chair of the Board to jointly prepare an Annual Plan and at least one Interim Report each year.⁹⁸

91. The Annual Plan 2022-23⁹⁹ outlines the programmes of work for the year and was laid on 31 March 2022.

92. The Interim Report¹⁰⁰ provides an assessment of the extent to which the Auditor General and WAO are delivering on the objectives and priorities set in the Annual Plan 2022-23 and provides information on key performance indicators. The Interim Report was laid before the Senedd on 31 October 2022.

Annual Plan 2022-23

93. Audit Wales's Annual Plan 2022-23 sets out its priorities for the year, as well as its longer-term ambitions and KPIs. It notes the continued impact of the pandemic and highlights Audit Wales's intention to place greater emphasis in its audit products on "thematic reporting". It also highlights a focus on "bringing forward the reporting timetable to pre-pandemic patterns" for its audit work. Operationally, the Annual Plan outlines a "return to a degree of office-based operation while maintaining the flexibility of remote working".¹⁰¹

94. The Plan also suggests that Audit Wales will consider:

"...the overall balance of our audit coverage across different policy areas set out by the Welsh Government in its Programme for Government 2021-2026 and the broader context of the seven well-being goals for Wales."¹⁰²

Audit Delivery

95. Audit Wales identifies six priority actions to support delivery of its audit work in 2022-23:

- Further develop its operating model;
- Develop its work programme;

⁹⁸ [Public Audit \(Wales\) Act 2013](#)

⁹⁹ [Annual Plan 2022-23](#)

¹⁰⁰ [Interim Report, October 2022](#)

¹⁰¹ [Annual Plan 2022-23, pages 4-5](#)

¹⁰² [Annual Plan 2022-23, page 12](#)

- Develop more efficient, accessible and, where appropriate, automated management information processes, including implementation of a new time and resource management system;
- Develop the audit delivery element of its workforce plan so that it more effectively supports the delivery of its work programme and reinforces its learning and development strategy;
- Maximise opportunities to influence the debate about the future of public audit in the UK and expand its input into other professional audit and accounting developments;
- Use technology and data analytics to continue to modernise the way it delivers its audit work.¹⁰³

Running the business

96. Audit Wales identifies five priority actions to support its running of the business in 2022-23:

- Determine its 'new normal' ways of working as it moves into a pandemic recovery phase;
- Finalise its work on developing a five-year strategy and 'road map' for delivering its overarching ambitions;
- Finalise its work on developing proposals for meeting its future accommodation needs, to enable a Board decision later in 2022-23;
- Embed the sustainable development principle to a greater extent in all its decision-making processes;
- Publish and implement a revised suite of equality objectives that are fit for purpose.¹⁰⁴

¹⁰³ [Annual Plan 2022-23, page 17](#)

¹⁰⁴ [Annual Plan 2022-23, page 20](#)

Performance measures

97. Performance measures for 2022-23 are broadly the same as the previous year. Eleven measures relate to audit delivery, with the remaining seven relating to “running the business”. However, there are some changes, including those to the targets discussed in Chapter 3.¹⁰⁵

Five-year Strategy

98. In May 2021, Audit Wales’s ELT agreed the need for a more detailed medium-term strategy. Audit Wales indicates widespread support for, and buy-in to, the proposed direction of travel.¹⁰⁶

99. In June 2022, Audit Wales launched its five-year strategy, ‘Assure, Explain, Inspire: Our Strategy 2022-27’, outlining a plan with greater emphasis on thematic reporting and developing a range of outputs to make use of “intelligence” obtained through financial audit. The strategy identifies three areas of focus where it will “prioritise action”:

- Strategic, dynamic and high-quality audit programme;
- Targeted and impactful approach to communications and influencing;
- Culture and operating model that enables it to thrive both now and in the future.¹⁰⁷

100. When asked how resources would be spread across the ‘Assure, Explain, Inspire’ headings, the Auditor General said:

“Assure, explain and inspire has been our headline for four years now. It’s not possible to put precise numbers on it, because they all obviously interconnect. But, if I had to, the guts of our work is about assurance. So, probably 60 to 70 per cent of our staff resource and effort goes into that, maybe 20 to 30 per cent on the inspire piece, which is about driving improvement in the wider public sector, and the remainder on the explain strand, which is about explaining some of the issues that the public sector faces to the wider public.”¹⁰⁸

¹⁰⁵ Annual Plan 2022-23, pages 22-23

¹⁰⁶ Annual Report and Accounts 2021-22, page 48

¹⁰⁷ Assure, Explain, Inspire: Our Strategy 2022-27

¹⁰⁸ Finance Committee, RoP, 22 September 2022, paragraph 186

101. The Auditor General signalled that future annual plans “will show what we have to do in that year in order to progress along the road to the completion of the strategy”.¹⁰⁹

Interim Report

102. The Interim Report states that “nearly all planned work has either been delivered or is progressing to plan”. However, it notes that Audit Wales has been unable to achieve its target of completing all Local Government audits by the end of October. It cites the late submission of accounts by some audited bodies and “ongoing uncertainties regarding the accounting infrastructure in public bodies” among the reasons why. NHS body work was completed in June, aside from at Betsi Cadwaladr, where issues were identified during Audit Wales’s work. By the end of September most central government audits were complete.¹¹⁰

103. The Interim Report states that Audit Wales’s national work programme “retains flexibility to respond to changing circumstances”. It refers to the consultation on the Auditor General’s work programme (March 2022)¹¹¹, but notes that this was launched as the impact of the conflict in Ukraine and cost-of-living pressures was only just beginning to emerge.¹¹² In terms of its national value-for-money examinations and studies, Appendix 2 states:

“We keep our plans under regular review, taking account of our audit priorities, the context of our own resourcing and the capacity of our audited bodies to engage with us. We will be bringing some additional new work into our programme during the rest of 2022-23.”¹¹³

104. The Interim Report sets out progress against Audit Wales’s KPIs. While it is difficult to assess progress against some indicators, two indicators relating to deadlines/timeliness are currently not being met:

- Proportion of audit products delivered by the required statutory deadline (target: 100 per cent / performance at 30 September: 93 per cent).
- Proportion of other key audit products delivered in accordance with the planned timetable for ensuring timely and impactful reporting (target 90 per cent / performance at 30 September: 82 per cent).¹¹⁴

¹⁰⁹ Finance Committee, RoP, 22 September 2022, paragraph 186

¹¹⁰ [Interim Report, October 2022, pages 5-6](#)

¹¹¹ [Consultation: Seeking Views on the Auditor General’s Work Programme, March 2022](#)

¹¹² [Interim Report, October 2022, page 7](#)

¹¹³ [Interim Report, October 2022, page 25](#)

¹¹⁴ [Interim Report, October 2022, pages 17-20](#)

105. Outlining how local government audit work is progressing in year, the Executive Director of Audit Services referred to a number of significant challenges:

*"We've also had an issue I won't bore you all with—a very technical issue to do with accounting for infrastructure assets—which is impacting local government bodies. The Chartered Institute of Public Finance and Accountancy, the professional accountancy body that deals with much of this, and the Financial Reporting Advisory Board have been trying to resolve this issue, but so far unsuccessfully. It looks like it's going to need a longer term solution. The Welsh Government are therefore likely to make a regulation in the short term to see us through to be able to complete the 2021-22 audits of local government."*¹¹⁵

106. She indicated that these challenges have led to the reallocation of staff from performance audit to accounts audit work in order to meet the statutory timescales. In turn, this has impacted on the KPI for 'other key audit products', delivering nine of 11 planned outputs on time.¹¹⁶

107. The Interim Report notes that Audit Wales, jointly with other UK audit agencies in the Public Audit Forum, has responded to the Department for Business, Energy and Industrial Strategy consultation on the future of the UK audit profession. It also mentions a series of conversations with the Treasury and the Welsh Government on potential developments, including the possibility of the quality of Audit Wales work becoming subject to oversight by a committee of the Senedd.¹¹⁷

108. The Executive Director of Audit Services updated the Committee on the discussions so far, including how the issue is progressing across the UK.¹¹⁸

109. She highlighted a need to keep the Committee sighted on "a wider discussion around the supervision of the work of auditors general per se", with the Auditor General adding:

"It's in the early stages, but obviously this committee is the natural home for oversight functions, and you oversee us at the moment. But, what Ann-Marie is describing is a much more specific and detailed role in respect of the quality

¹¹⁵ Finance Committee, 9 November 2022, RoP [draft], paragraph 378

¹¹⁶ Finance Committee, 9 November 2022, RoP [draft], paragraph 379

¹¹⁷ [Interim Report, October 2022, page 10](#)

¹¹⁸ Finance Committee, 9 November 2022, RoP [draft], paragraph 383

*of our work. We touched on our quality indicators in the recent session, but it would be a significant extension of that.*¹¹⁹

Committee view

110. The Committee acknowledges the external factors impacting on Audit Wales's performance against the two KPIs relating to delivery of audits to certain timescales and welcomes the action taken to mitigate the risk of missing statutory deadlines.

111. The wider discussions taking place in relation to the independent supervision of the work of auditors general is also noted and we welcome the opportunity to learn more about these developments in due course.

Recommendation 8. The Committee recommends that Audit Wales provides further information on the technical issue concerning infrastructure assets and the potential impact on the delivery of its audit work.

¹¹⁹ Finance Committee, 9 November 2022, RoP [draft], paragraphs 384 and 387

5. Estimate of the income and expenses for the year ended 31 March 2024

112. The Estimate of the income and expenses for the year ended 31 March 2024 (“the Estimate”)¹²⁰ was jointly prepared by the Auditor General and the Chair of the Board and laid before the Senedd on 1 November 2022, in accordance with Section 20(1) of the Act.¹²¹

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

“The responsible committee [Finance Committee] under Standing Order 18.10(i) must consider and lay before the Senedd, no later than 22 November, a report including the estimate, with any modifications which the responsible committee, having consulted and taken into account any representations made by the Auditor General and the Wales Audit Office, considers appropriate.”¹²²

Context

114. In May 2019, the previous Finance Committee issued a Statement of Principles to bodies directly funded from the WCF (directly funded bodies (DFBs)) to consider when formulating budget requests.¹²³

115. In July 2021, the Committee agreed that DFBs should continue to follow the current Statement of principles¹²⁴ when preparing their budget documentation.

116. On 14 July 2022, the Minister for Finance and Local Government wrote to the Committee to set out various factors to inform the forward financial planning for DFBs as they prepare their budgets for the 2023-24 financial year.¹²⁵

¹²⁰ [Part 1 – Budget ambit – Estimate 2023-2024](#)

¹²¹ [Public Audit \(Wales\) Act 2013](#)

¹²² [Standing Orders of the Welsh Parliament, Standing Order 20.22](#)

¹²³ [Statement of Principles for directly funded bodies, May 2019](#)

¹²⁴ [Statement of principles, July 2021](#)

¹²⁵ [Letter from the Minister for Finance and Local Government, 14 July 2022](#)

Overview

117. At the request of the previous Finance Committee following its scrutiny and modification of the Estimate for 2020-21¹²⁶, the Estimate 2023-24 is presented in two parts:

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

118. Part 2 of the Estimate identifies that Audit Wales is seeking an increase in its baseline call on WCF resource funding of 3.8 per cent (or £328,000) in 2023-24 compared to its original Estimate for 2022-23. This is an increase from £8.6 million to £8.9 million. The figure comprises £8.6 million revenue and £310,000 capital.¹²⁷

119. Audit Wales indicates that the cash change to its baseline is an increase of “just under 3%”, but the Estimate does not set out a separate cash value or a cash baseline.¹²⁸

120. Audit Wales refers to its increases in terms of its ‘baseline’, which excludes:

- a funding reduction to the travel allowance (a reduction of £354,000)
- the cyclical reduction in National Fraud Initiative (NFI) costs (a reduction of £130,000).¹²⁹

121. The total resources identified in the Estimate, including these items, is therefore lower than the 2022-23 baseline of £8.5 million.¹³⁰

122. The Auditor General told the Committee that the Estimate is a “no-frills proposal”, with an increase in pay and other inflationary pressures being the biggest driver of the 3 per cent cash increase.¹³¹ He continued:

“It is going to be challenging for us to live within and it looks, essentially, to do what we feel is the absolute minimum to protect the basic functioning of

¹²⁶ Letter from the Finance Committee (Fifth Senedd) – Modified Estimate of the Income and Expenses for the Year Ended 31 March 2021 and Fee Scheme 2020-21, 15 January 2020

¹²⁷ Part 2 – Supporting information - Estimate 2023-2024, Exhibit 3

¹²⁸ Part 2 – Supporting information - Estimate 2023-2024, Page 3

¹²⁹ Part 2 – Supporting information - Estimate 2023-2024, Exhibit 3

¹³⁰ Part 2 – Supporting information - Estimate 2023-2024, Exhibit 3

¹³¹ Finance Committee, 9 November 2022, RoP [draft], paragraph 217

the organisation whilst recognising the incredibly challenging financial environment in which we're all operating."¹³²

123. The Committee sought clarification on the cash change to the baseline 2022-23 WCF revenue and capital costs. The Executive Director of Corporate Services explained:

*"...our baseline for 2022-23 for both cash and resource is the £8.608 million that's set out in exhibit 3 of the second part of the estimate, along with the changes that make up the new baseline for 2023-24 of the 8.936 million. So, that represents an overall increase in resource of 3.8 per cent. The difference, then, in terms of the cash is that that includes a non-cash adjustment of £80,000, which relates to the IFRS 16-related depreciation amount, and when you exclude that, that brings the cash increase down to just under 3 per cent..."*¹³³

124. In addition, Audit Wales also refers to additional cash being required for dilapidation costs in the supporting information, which it quantifies as a maximum of £550,000.¹³⁴

125. The Estimate also includes information on fee income, which is expected to increase by £1.1 million (or 7.0 per cent) from £15.1 million to £16.1 million. Audit Wales notes that, taken together, its total budget will increase by 5.4 per cent.¹³⁵

Net cash requirement

126. The Estimate makes other non-cash adjustments: for depreciation and interest charges (-£360,000) and lease rental payments (£280,000) and movements in working capital (£550,000).¹³⁶ After making those adjustments, the total net cash requirement for 2023-24 is £8.9 million.¹³⁷

127. The original Estimate 2022-23¹³⁸ and subsequent First Supplementary Budget for 2022-23, included adjustments associated with the Travel Allowance buyout and adjustments for the accounting for leases under International Financial Reporting Standard (IFRS) 16.¹³⁹ Therefore, they are not directly comparable with the Estimate for 2023-24.

¹³² Finance Committee, 9 November 2022, RoP [draft], paragraph 219

¹³³ Finance Committee, 9 November 2022, RoP [draft], paragraph 229

¹³⁴ [Part 2 - Supporting information - Estimate 2023-2024, Page 27](#)

¹³⁵ [Part 1 - Budget ambit - Estimate 2023-2024](#)

¹³⁶ [Part 2 - Supporting information - Estimate 2023-2024, 27](#)

¹³⁷ [Part 2 - Supporting information - Estimate 2022-2023, page 7](#)

¹³⁸ [Finance Committee, RoP, 10 November 2021, paragraphs 22-23](#)

¹³⁹ [Letter from Audit Wales, 1 June 2022](#)

128. In previous years, Audit Wales has included adjustment for other non-cash items, such as the depreciation charge for other assets (such as its IT), as well as another, which it described as ‘movements in working capital’ and which Audit Wales has said related to year-end accruals. Audit Wales has outlined that these are “notoriously difficult to forecast”.¹⁴⁰ In Part 2 of the Estimate, Audit Wales says its IFRS 16 depreciation and interest (non-cash) charges are £360,000 for 2023-24 and this is the same as the total depreciation charge included in the breakdown of revenue costs.¹⁴¹

129. The Executive Director of Corporate Services confirmed that “movements in working capital” includes, but is not exclusively, dilapidation costs. He indicated that a breakdown has not been included due to the commercially sensitive negotiations taking place regarding dilapidation costs for the Cardiff office.¹⁴² However, Part 2 of the Estimate states that £550,000 has been included in the Estimate for dilapidations, with any unused cash being returned to the WCF.¹⁴³

130. The Committee questioned the movements in working capital during last year’s scrutiny. It noted a lack of explanation around movements, going on to say:

“In terms of the adjustment for estimates of movements in working capital more generally, and considering Audit Wales’s comments on the difficulty of estimating this aspect of the Estimate, a fuller description of this element would also be helpful.”¹⁴⁴

Comparisons with 2022-23

131. Audit Wales has submitted two Supplementary Estimates to the Committee for 2022-23. The First Supplementary Estimate returned £394,000 cash to the WCF and made adjustments for IFRS 16.¹⁴⁵ The Second Supplementary Estimate (yet to be formally approved by the Senedd) increases capital by £575,000 and revenue by £100,000 in 2022-23 (as well as other IFRS 16 changes).¹⁴⁶

132. However, Exhibits 1 and 3 in the supporting information of the 2023-24 Estimate appear to use the total resources figure in the original Estimate 2022-23 (£8.6 million) as the baseline. Whereas, the breakdown of revenue funding at Appendix 1, states that it uses the First

¹⁴⁰ [Estimate 2020-21, page 33](#)

¹⁴¹ [Part 2 - Supporting information - Estimate 2023-2024, page 27](#)

¹⁴² Finance Committee, 9 November 2022, RoP [draft], paragraphs 315 and 317

¹⁴³ [Part 2 - Supporting information - Estimate 2023-2024, page 27](#)

¹⁴⁴ [Annual Scrutiny of the Wales Audit Office and Auditor General for Wales, November 2021, page 51](#)

¹⁴⁵ [Letter from Audit Wales, 1 June 2022](#)

¹⁴⁶ [Letter from Audit Wales, 7 September 2022](#)

Supplementary Estimate. The Second Supplementary Estimate is referenced in the narrative only.¹⁴⁷

133. Addressing Audit Wales's approach to comparing the Estimate 2023-24 with the funding provided in 2022-23, the Auditor General said:

"It's a slightly confusing picture. The core comparisons made in the estimate are between our estimate for next year and the position after the first supplementary from last year. So, that was the one that addressed the travel and subsistence review and the consequential payback of funding. So, there should not be anywhere in the estimate any direct comparison either with the original estimate that we put forward last year or with the second supplementary. Had we done that, ironically, we could be sitting here presenting ourselves in a rosier picture, because on paper, it would look like we were asking for a lower increase. But that wouldn't have been a legitimate or meaningful comparison to make..."¹⁴⁸

Local Performance Audit work funding switch

134. In its previous Estimate 2022-23, Audit Wales noted proposals to switch some fee funded local performance work to be funded through the WCF.¹⁴⁹ Following scrutiny last year, the Committee said that understanding the views of audited bodies would be crucial to gaining the Committee's support. It recommended:

"...that Audit Wales provides detailed feedback from its consultation on fees, particularly in relation to the proposed funding switch in 2023-24."¹⁵⁰
[Recommendation 21]

135. The Committee subsequently wrote to Audit Wales to indicate that it would also be necessary to demonstrate the Welsh Government's formal support for the proposal prior to presenting the Estimate 2023-24.¹⁵¹

136. Audit Wales has previously made switches to move certain work to be funded from the WCF rather than fees.¹⁵² During scrutiny of previous proposals, the Auditor General

¹⁴⁷ [Part 2 - Supporting information - Estimate 2023-2024](#)

¹⁴⁸ Finance Committee, 9 November 2022, RoP [draft], paragraph 221

¹⁴⁹ [Part 2 - Supporting information - Estimate 2022-2023, page 19](#)

¹⁵⁰ [Annual Scrutiny of the Wales Audit Office and Auditor General for Wales, November 2021, Recommendation 21](#)

¹⁵¹ [Letter from the Finance Committee, 26 September 2022](#)

¹⁵² [Estimate 2020-21, page 17](#)

acknowledged that switching resources from fee funded audit work to WCF funded activity is “an important point of principle”.¹⁵³

137. However, the Estimate does not include the switch. It states:

*“The Welsh Government was unable to confirm, prior to submission of this Estimate, its support for making the adjustments in local authority and health body funding necessary to hold the WCF harmless. Consequently, the change is not reflected in this Estimate. That will constrain our ability to undertake cross-cutting and whole-system work, which had been widely welcomed by stakeholders during the development of our 5-year strategy.”*¹⁵⁴

138. Audit Wales included the funding switch proposal in its consultation on its draft Fee Scheme 2023-24.¹⁵⁵ It received three responses only in this area, including, a response from the Welsh Government. Audit Wales says “clarification is being provided directly” to the Welsh Government on points raised in its response.¹⁵⁶

139. Having sought confirmation of the Welsh Government’s support for the proposal from the Permanent Secretary at the start of October, the Auditor General explained that the response received at the end of the month “requested further conversations with us and signalled that officials might feel they needed to refer the matter to Ministers before coming to a final decision”.¹⁵⁷

140. In terms of pursuing the proposal further and the timescales involved, the Auditor General said:

*“That depends on the Welsh Government, rather than me. It doesn't strike me as a particularly complex matter... So, of course, I want to pursue it further, and we'll try to address any questions that the Welsh Government has, but what I don't want it to turn into is another version of the very extended debate that we had around the reform of the public audit legislation...”*¹⁵⁸

¹⁵³ Finance Committee (Fifth Senedd), RoP, 7 November 2019, paragraph 48

¹⁵⁴ Part 2 – Supporting information - Estimate 2023-2024, page 21

¹⁵⁵ Consultation on Fee Scales 2023-24

¹⁵⁶ Part 2 – Supporting information - Estimate 2023-2024, page 36

¹⁵⁷ Finance Committee, 9 November 2022, RoP [draft], paragraph 233

¹⁵⁸ Finance Committee, 9 November 2022, RoP [draft], paragraph 236

141. The Auditor General acknowledged that, even if the issues could be resolved quickly, resubmitting the Estimate would be complex, indicating that he would be happy to take a steer from the Committee.¹⁵⁹

Revenue costs

142. The Estimate outlines that the majority of Audit Wales's costs are revenue, with around 34 per cent of those costs met from the WCF for 2023-24. The remainder is funded via fees charged for audit work.¹⁶⁰

Staff

143. The most significant individual cost to Audit Wales is staff, around 84 per cent. Audit Wales employs 288 full-time equivalent staff at a cost of £20.4 million for 2023-24.¹⁶¹

144. The Estimate includes a total increase of £702,000 for 'increased staff costs' compared with the original Estimate for 2022-23. Of this increase, £272,000 is associated with the WCF element of funding (Exhibit 3 outlines £221,000 of cost associated with 'increased cost of audit work'). Audit Wales also include an overall increase of £800,000 to account for changes to auditing standards (ISA315), funded in full by increased fees.¹⁶²

145. The Committee sought clarification on how much of the £272,000 increase relates to an increased cost of audit, the pay award and whether any relates to undertaking additional work. The Chair confirmed that the increase makes provision for a pay award in 2023-24, covers the ongoing cost of the pay award in 2022-23 and takes account of the reduction in employers' national insurance contributions announced by the UK Government. She explained that no provision has been made for additional audit work or for more staff.¹⁶³

146. The Estimate outlines that, like other public bodies, Audit Wales is facing inflationary pressures. It notes that the 3 per cent pay award in 2022-23 was more than had been allowed in the Estimate and had to be funded by making saving on other budgets.¹⁶⁴ Last year, Audit Wales highlighted recruitment and retention issues.¹⁶⁵ Audit Wales reiterates this in its Estimate, stating:

"Audit Wales competes directly with the private sector to attract and retain the professional staff that we require. We are increasingly unable to match

¹⁵⁹ Finance Committee, 9 November 2022, RoP [draft], paragraph 238

¹⁶⁰ [Part 2 – Supporting information - Estimate 2023-2024, page 35](#)

¹⁶¹ [Part 2 – Supporting information - Estimate 2023-2024, pages 10 and 29](#)

¹⁶² [Part 2 – Supporting information - Estimate 2023-2024, pages 4 and 18](#)

¹⁶³ Finance Committee, 9 November 2022, RoP [draft], paragraph 263

¹⁶⁴ [Part 2 – Supporting information - Estimate 2023-2024, page 5](#)

¹⁶⁵ [Annual Scrutiny of the Wales Audit Office and Auditor General for Wales, November 2021, page 44](#)

the remuneration offered by private sector audit firms, making the loss of talent and expertise the number one risk to the organisation.”¹⁶⁶

147. The Estimate 2023-24 includes a further “modest” pay uplift.¹⁶⁷ When asked about the level of the pay uplift and the support available for staff on lower grades, the Chair explained:

“We’ve allowed a 4 per cent increase, but for budget purposes. However, as I’m sure you appreciate, the exact level will be decided through negotiation, but that’s what’s been allowed in the estimate. In terms of the support that we’ve made available for lower grades, we’ve taken that issue very seriously and, over recent years, we’ve structured pay awards to target a greater benefit to staff at the lower end of the pay scales. We’ve retained that approach for 2022-23. However, initially, the unions asked that we gave a flat rate settlement and that we aim to deliver a quick settlement, understandably in the sense that that would mean that staff would have money in their pockets as quickly as possible. However, whilst the trade unions then did change their position later, by that point we decided it would be best to finalise a straightforward across-the-board settlement so that we could reach that conclusion as quickly as possible. I’d add that we have also recognised that the removal of the travel allowances, as we’ve brought to you before, would impact our trainees and apprentices to a greater extent than our more highly paid staff. So, we ensured that these, for our lowest paid staff, were fully protected by introducing a new benchmarked salary range for trainees and apprentices.”¹⁶⁸

148. The Estimate references investment included in its Estimate 2022-23 for investment in audit quality (£80,000 of WCF funding).¹⁶⁹ While this was originally anticipated for two years, the Estimate 2023-24 states:

“It is now evident that for us, and the whole audit profession worldwide, that the scale and pace of audit development, coupled with the increasing expectation of regulators, will require ongoing and sustained investment in audit quality.”¹⁷⁰

¹⁶⁶ Part 2 – Supporting information - Estimate 2023-2024, page 5

¹⁶⁷ Part 2 – Supporting information - Estimate 2023-2024, page 5

¹⁶⁸ Finance Committee, 9 November 2022, RoP [draft], paragraph 265

¹⁶⁹ Part 2 – Supporting information - Estimate 2022-2023, page 7

¹⁷⁰ Part 2 – Supporting information - Estimate 2023-2024, page 10

Trade Union correspondence

149. The Committee also received correspondence on staff pay from the Prospect and Public Services and Commercial (PCS) unions. The letter says that both unions are “in dispute” with the Board “after it imposed the 3% pay award for 2022-23”.¹⁷¹

150. It states that the unions have agreed to “work with management to discuss 2023-24 pay and rewards much earlier than in previous years”. The unions have “tabled a claim for 10%”. The letter discusses inflation, recruitment and retention. It says:

“On behalf of our members, we ask you to consider if the estimate before you is sufficient to allow an appropriate pay-award for staff in 2023-24 that goes some way towards helping Audit Wales in its recruitment and retention difficulties and provides a fair and reasonable pay award for staff.”¹⁷²

151. Addressing the Minister for Finance and Local Government’s letter in July, which suggested “the pay bill will have to be managed within existing resources”¹⁷³, the Auditor General said “we are attempting to cover as much of the inflationary pressures we face from within our existing resource” with a £500,000 savings target next year. He added:

“We feel it is unrealistic not to give some sort of pay award to our staff next year. You’ll have seen the letter from our trade unions, who are understandably disappointed with the settlement we were able to give this year. I don’t think they’ll be delighted with the figure we’re able to settle on next year. But, coupled with the pressure that I mentioned from competition with the firms, we feel we’ve got to go some way to give staff greater remuneration next year, but we’re doing our best to eat up as much of that additional cost from within our existing resource.”¹⁷⁴

152. The Executive Director of Corporate Services outlined how the concerns of the trade unions are being incorporated into decisions around pay:

“We have very regular meetings with our trade unions partners on pay at the moment. We’re having fortnightly meetings to discuss that. Of course, we recognise the concerns that they’ve set out in the letter, we recognise the huge pressures on staff with cost-of-living issues, but we have had to be open with the trade unions in saying that we don’t think we’ll be able to meet or

¹⁷¹ [Letter from PCS Union and Prospect Union branches, 3 November 2022](#)

¹⁷² [Letter from PCS Union and Prospect Union branches, 3 November 2022](#)

¹⁷³ [Letter from the Minister for Finance and Local Government, 14 July 2022](#)

¹⁷⁴ Finance Committee, 9 November 2022, RoP [draft], paragraphs 266-267

even come close to the uplift that they're looking for of 10 per cent across the board on salaries. We do benchmark with other organisations as part of our work, so that very much influences our thinking when we make decisions around pay."¹⁷⁵

153. He indicated that Audit Wales and the trade unions are exploring whether other mechanisms for pay negotiations in the future might be helpful, such as the annual survey of hours and earnings index.¹⁷⁶

National Insurance

154. The Estimate 2022-23 included £51,000 of WCF funding associated with the National Insurance increase.¹⁷⁷ The total cost of the increase to Audit Wales was £145,000, with fees also increasing to account for the increase.

155. It is not clear from the Estimate how the change in NI contributions is being treated, following the reduction in NI rates from November 2022.¹⁷⁸

156. The Executive Director of Corporate Services confirmed that there were no plans to submit a further supplementary Estimate in 2022-23 to return any of the funding allocated for NI and which will no longer be required, adding:

*"...for 2023-24, the timing of the announcement meant that we were actually able to reflect the latest NI rates in this estimate. That's also reflected in reduced fee rates in the draft fee scheme as compared to the ones that we consulted on. So, we consulted on a 5.5 per cent increase, but that's now been reduced to 4.8 per cent."*¹⁷⁹

National and Local Government Studies

157. The Estimate states that the Auditor General's programme of national value for money studies is undertaken to "provide support to the scrutiny work of the Senedd" and reported to the Senedd's PAPAC. It also says "increasingly, we also support the work of other Senedd Committees", and it has increased funding for these areas of work in 2023-24 in line with its proposed fee rate increases.¹⁸⁰

¹⁷⁵ Finance Committee, 9 November 2022, RoP [draft], paragraph 270

¹⁷⁶ Finance Committee, 9 November 2022, RoP [draft], paragraph 271

¹⁷⁷ [Part 2 – Supporting information - Estimate 2022-2023, page 8](#)

¹⁷⁸ [UK Government: Reversal of National Insurance Increase takes effect today, 6 November 2022](#)

¹⁷⁹ Finance Committee, 9 November 2022, RoP [draft], paragraph 284

¹⁸⁰ [Part 2 – Supporting information - Estimate 2023-2024, page 20](#)

158. While most of Audit Wales's support is channelled into the PAPAC, the Auditor General highlighted that "an awful lot of work goes on behind the scenes" to support Chairs, Members and staff, drawing particularly heavily on senior staff time. He also referred to other committees' consideration of Audit Wales reports and support for individual Members, such as on Private Members' Bills. He added:

*"We don't discuss the cost implications of things like that with individual Members or committees, as I say, because it is baked into our WCF funding, and I, for one, feel as though it's a really important part of what we do. Your national audit office ought to be supporting you as a Parliament in the round, not just through the PAPAC."*¹⁸¹

159. When asked how the value of national and local government studies are assessed in terms of supporting committees, the Auditor General said it was the Committee's role "to scrutinise and decide how best to resource our work".¹⁸² On assessing performance work specifically, the Auditor General added:

*"...the first place we'd go to is the feedback from those who are on the receiving end, those who receive our reports. We did a big exercise with our stakeholders just in spring of this year to assess their views on our work. I'll just quote a few figures: 95 per cent felt that the auditor general, or Audit Wales, was an independent and authoritative communicator on governance and stewardship; 96 per cent felt they'd gained useful insight that they otherwise wouldn't have done; 91 per cent felt that our work helped drive improvement for public services. So, I think those are pretty stellar feedback scores. I'm not complacent about it, though, at all. So, we're in the process internally at the moment of adopting some international standards of best practice in relation to our performance work, set by the international body that represents audit agencies around the world."*¹⁸³

ICT

160. Audit Wales is planning to spend an additional £66,000 on Cyber Security and ICT in 2023-24, £60,000 of which will be funded via the WCF. Cyber Security was outlined as a high risk in Audit Wales's Annual Report and Accounts 2021-22, discussed in Chapter 3.

¹⁸¹ Finance Committee, 9 November 2022, RoP [draft], paragraph 265

¹⁸² Finance Committee, 9 November 2022, RoP [draft], paragraph 280

¹⁸³ Finance Committee, 9 November 2022, RoP [draft], paragraph 281

161. The Executive Director of Corporate Services outlined this investment is to:

*"...put in place a cyber incident response contract so that in the event that we do have a suspected or actual attack we're able to call on specialist support immediately to help us firstly find out how the attack happened, look to plug that gap as soon as possible, and also then to advise us on how to repair any damage to systems and information that have occurred as part of that. Of course, we won't necessarily get an attack—a successful attack—each year, so the sorts of contracts we're looking at are ones where you can actually repurpose the fee if there isn't an attack on cyber security investments, strengthening to systems, et cetera, so that, in any one year, the fee is always put to good use."*¹⁸⁴

External training

162. Audit Wales notes an increase in its budget for external training of £63,000 in 2023-24, £50,000 of which is in respect of higher costs associated with financial training and will be funded via the WCF. The Estimate states that the increase is associated with its graduate trainees.¹⁸⁵

163. Audit Wales currently has around 60 graduate trainees and apprentices. WCF funding is used to provide secondment opportunities, target recruitment to improve diversity and to support training costs.¹⁸⁶

164. The Executive Director of Audit Services confirmed that the £50,000 increase relates to the professional accountancy qualification for around 50 trainees, as a result of needing to go out to tender for a new supplier next year. While Audit Wales will try to secure a discount, having negotiated quite a significant discount previously, an increase in costs is expected - though any surplus will be returned to the WCF.¹⁸⁷

National Fraud Initiative

165. In 2022-23, the Committee agreed to an £80,000 increase to NFI funding in relation to Wales-specific enhancements that would support "public bodies to undertake bank verifications and trading status checks on organisations that have applied for COVID business support

¹⁸⁴ Finance Committee, 9 November 2022, RoP [draft], paragraph 288

¹⁸⁵ [Part 2 – Supporting information – Estimate 2023-2024, pages 13 and 22](#)

¹⁸⁶ [Part 2 – Supporting information – Estimate 2023-2024, page 22](#)

¹⁸⁷ Finance Committee, 9 November 2022, RoP [draft], paragraph 295

funding". Audit Wales advised that as well as one-off costs of £35,000 incurred in 2022-23, there would be ongoing costs of £45,000.¹⁸⁸

166. Overall NFI costs are also £130,000 less than in 2022-23 due to the cyclical nature of the scheme's funding (it is anticipated to increase by the equivalent amount in 2024-25).¹⁸⁹

Other supplies and services

167. Exhibit 1 outlines additional total costs of £128,000 in 2023-24 for "other supplies and services", of which £43,000 is associated with the WCF.¹⁹⁰

168. The Executive Director of Corporate Services indicated that the increase reflects inflationary rises in ongoing costs for non-pay budgets such as legal and professional fees, insurances and the 28 per cent increase in Audit Wales's own external audit fees.¹⁹¹

Capital

169. Audit Wales is requesting £310,000 of capital investment in 2023-24. This is presented under two headings, across 2022-27.¹⁹² The Estimate suggests this is the same as 2022-23. However, as noted earlier, Audit Wales does not account for the Second Supplementary Estimate 2022-23 in the information presented. That increases capital by £575,000 to £885,000 in 2022-23 to support the relocation of Audit Wales's Cardiff office (and also decreased the request for 2023-24).¹⁹³ Whereas, the original Estimate for 2022-23 proposed a significant increase in capital in 2023-24 for similar purposes.

ICT strategy

170. Capital investment priorities includes a recurring annual capital investment of £110,000 for Audit Wales's ICT strategy.¹⁹⁴

Change programme

171. In 2023-24, £200,000 of capital is requested for Audit Wales's Change Programme. This includes:

¹⁸⁸ [Annual Scrutiny of the Wales Audit Office and Auditor General for Wales, November 2021, page 32](#)

¹⁸⁹ [Part 2 – Supporting information - Estimate 2023-2024, page 23](#)

¹⁹⁰ [Part 2 – Supporting information - Estimate 2023-2024, Exhibit 1](#)

¹⁹¹ Finance Committee, 9 November 2022, RoP [draft], paragraph 299

¹⁹² [Part 2 – Supporting information - Estimate 2023-2024, page 24](#)

¹⁹³ [Letter from Audit Wales, 7 September 2022](#) and [Second Supplementary Estimate 2022-23, September 2022](#)

¹⁹⁴ [Part 2 – Supporting information - Estimate 2023-2024, page 24](#)

- **Future workplaces:** Audit Wales says this is its “most significant change project to date” and references the changes identified in its Second Supplementary Estimate for 2022-23¹⁹⁵ presented to the Committee in September. The Estimate indicates that in years 2024-25, 2025-26 and 2026-27 the value of investment in Audit Wales’s Change Programme will double, to £400,000 per year.¹⁹⁶
- **“Our Digital Strategy”:** The Estimate states that Audit Wales continues to invest in digital tools to ensure it can deliver its work “as efficiently and effectively as possible”. In 2023-24 it plans to invest in:
 - completing the development of new audit platform software for both its Financial and Performance audit work;
 - the proposed development of its external website to better meet stakeholder requirements; and
 - improvements to management information systems.¹⁹⁷

172. The Executive Director of Corporate Services assured the Committee that all of the funding received through the Second Supplementary Estimate 2022-23 will be used to complete the relocation of the Cardiff office by March 2023. Of the £200,000 capital investment requested for Audit Wales’s Change Programme in 2023-24, he indicated that £30,000 relates to the future workplaces project to make improvements to the Abergele and Penllergaer offices.¹⁹⁸

173. In terms of the anticipated doubling of capital investment to £400,000 in 2024-25 and the two subsequent years, the Executive Director of Corporate Services said:

“...that's just an indicative increase at the moment. It reflects our digital strategic ambitions, which we've set out in our five-year strategy, both in terms of how we run our organisation and in terms of how we deliver our audit work. It's too early for us, really, to have firm plans at this stage. And, of course, if we don't require that, then we'd adjust the estimate accordingly in the year in which we submit it.”¹⁹⁹

¹⁹⁵ Second Supplementary Estimate 2022-23, September 2022

¹⁹⁶ Part 2 – Supporting information – Estimate 2023-2024, page 24

¹⁹⁷ Part 2 – Supporting information – Estimate 2023-2024, page 25

¹⁹⁸ Finance Committee, 9 November 2022, RoP [draft], paragraph 331

¹⁹⁹ Finance Committee, 9 November 2022, RoP [draft], paragraph 333

Savings

174. Audit Wales notes that it is responding to cost pressures by identifying savings in its non-pay budgets, where possible. It references the removal of the fixed travel allowance and savings associated with that change, which are forecast at £200,000 following the end of transitional arrangements in 2024.²⁰⁰ The Estimate outlines an expectation of around 60 per cent reduction “as compared to previous years” in terms of the total spend on travel and subsistence.²⁰¹

175. The Estimate also outlines £220,000 of savings associated with the proposed March 2023 office relocation.²⁰²

176. Audit Wales committed to savings as part of changes to its Travel and Subsistence arrangements. It returned £354,000 in its First Supplementary Estimate 2022-23²⁰³ and was due to return £354,000 in 2023-24 in order to pay back funding utilised for the buyout. This figure is accounted for in Exhibit 1 in the Estimate for 2023-24, outside of the baseline, alongside the annual change in NFI funding.²⁰⁴

177. The Estimate also outlines reductions in travel costs of £68,000, accommodation costs of £74,000 and the reduction in the one year NFI funding of £35,000.²⁰⁵

Accommodation

IFRS 16 adjustments

178. For 2023-24, Audit Wales will be signing a new lease on an office at the Capital Quarter and terminating a lease at Cathedral Road. Additional resource cover of £80,000 is required for IFRS 16 related to depreciation, no additional cash is required.²⁰⁶

Dilapidations

179. In correspondence related to its Second Supplementary Budget 2022-23, Audit Wales highlighted that some additional cash would be required to meet its obligations under the lease for Cathedral Road. Audit Wales’s overall dilapidations provision was £650,000 resource (non-cash).²⁰⁷

²⁰⁰ [Part 2 – Supporting information - Estimate 2023-2024, page 6](#)

²⁰¹ [Part 2 – Supporting information - Estimate 2023-2024, page 13](#)

²⁰² [Part 2 – Supporting information - Estimate 2023-2024, page 6](#)

²⁰³ [Letter from Audit Wales, 1 June 2022](#)

²⁰⁴ [Part 2 – Supporting information - Estimate 2023-2024, Exhibit 1](#)

²⁰⁵ [Part 2 – Supporting information - Estimate 2023-2024, Exhibit 1](#)

²⁰⁶ [Part 2 – Supporting information - Estimate 2023-2024, page 26](#)

²⁰⁷ [Letter from Audit Wales, 7 September 2022](#)

180. The Estimate sets out that a maximum of £550,000 cash will be required.²⁰⁸

181. As a resource provision has been built up in the Accounts, this charge does not impact the overall increase in resources. However, Audit Wales will require cash to fund the charge. The Executive Director of Corporate Services confirmed that “movements in working capital” includes dilapidation costs.²⁰⁹

182. When asked whether the movement in working capital for dilapidations costs could be clearer, the Executive Director of Audit Services explained:

“...in terms of resource accounting, you would want to, and be required to, show how resource tallies or is reconciled to your net cash requirement, and movement in working capital enables you to do that. Because, obviously, something like dilapidations doesn't necessarily cost you money, as you make it a provision every year. And increasing your debtors or creditors doesn't actually cost you money. But what it does is it affects that balance between the amount of resource we need and the cash we need, and that's why it's been set out the way it has. But we can certainly look at a new way of doing it next time.”²¹⁰

Potential future costs

Well-being of Future Generations (Wales) Act 2015

183. In July, the Welsh Government launched a consultation²¹¹ on the proposed extension of the Well-being of Future Generations (Wales) Act 2015 (WFG Act) to an additional eight bodies. This includes bodies for which the Auditor General is not the external auditor and some bodies where the Auditor General does not have local performance audit arrangements within which to embed the work this will entail. The change is proposed to come into effect on 1 April 2023.²¹²

184. If Audit Wales is required to discharge its duties in respect of the WFG Act in relation to these bodies, it will be required to do so by March 2025. It says this will have a bearing on the shape of its discretionary work programme, with additional resources required from 2024-25.

²⁰⁸ Part 2 – Supporting information - Estimate 2023-2024, page 27

²⁰⁹ Finance Committee, 9 November 2022, RoP [draft], paragraph 315

²¹⁰ Finance Committee, 9 November 2022, RoP [draft], paragraph 321

²¹¹ [Welsh Government Consultation: Additional public bodies subject to the well-being duty \(Part 2\) of the Well-being of Future Generations \(Wales\) Act 2015](#)

²¹² Part 2 – Supporting information - Estimate 2023-2024, page 28

The outcome of the consultation could lead to that work having to start earlier than expected, and Audit Wales suggests this could result in a Supplementary Estimate in 2023-24.²¹³

185. In terms of the potential resource implications of the proposed extension, the Auditor General confirmed:

"...we've not built anything into the 2023-24 estimate. So, we're hoping that we wouldn't be required to do additional significant amounts of additional work in that year. If we were to, we might have to come back to the committee...depending on how the consultation pans out—and I know the future generations commissioner has recommended that it ought to be more bodies—that potentially has a significant impact on the costs that we will have to bear to fulfil the duties that rest with me under the Act."²¹⁴

186. The Auditor General indicated that all work related to the WFG Act is met from within the WCF element of funding rather than fees, with the exception of the Welsh Government and Natural Resources Wales.²¹⁵

187. The Auditor General subsequently shared Audit Wales's response to the consultation by correspondence, and clarified how the duties flowing from the WFG Act have been funded:

"For the relevant local government and health bodies we have, from the outset, absorbed this work within the overall performance audit plans and fees for the relevant bodies without any uplift in those fees to reflect the additional duties flowing from the Act. In central government, the situation I was describing about having charged some fees for work at the Welsh Government and NRW related to the first reporting cycle leading up to my May 2020 statutory report. In the current reporting cycle, we have been adopting the approach of absorbing work under the Act in all relevant central government bodies as part of the funding we receive from the Welsh Consolidated Fund."²¹⁶

²¹³ [Part 2 – Supporting information - Estimate 2023-2024, page 28](#)

²¹⁴ Finance Committee, 9 November 2022, RoP [draft], paragraph 345

²¹⁵ Finance Committee, 9 November 2022, RoP [draft], paragraph 346

²¹⁶ [Letter from the Auditor General, 11 November 2022](#)

Draft Fee Scheme 2023-24

Overview

188. Around 66 per cent of Audit Wales's expenditure is planned to be met from fees in 2023-24. The Estimate says Audit Wales is "acutely aware of the financial pressures" on the public sector.²¹⁷ Fee income is governed by the Fee Scheme, which is approved by the Finance Committee. As recommended by the Committee last year, Audit Wales includes in the Estimate, a draft Fee Scheme for 2023-24.²¹⁸

189. The average increase to fee rates included in the draft Fee Scheme is 4.8 per cent.²¹⁹

190. The draft Fee Scheme says Audit Wales needs to "recognise cost of living pressures" on its staff and have made provision for pay increases in line with the rest of the public sector.²²⁰

191. In its Estimate, Audit Wales says, additionally, for the audit of 2022-23 accounts, Audit Wales is required to apply a revised auditing standard (International Standard on Auditing, ISA315). Audit Wales summarises the change:

"In broad terms these changes require more detailed work to identify, analyse and assess risks that the accounts may be materially misstated.

In practical terms this will require us to use more highly qualified and experienced auditors on those audits to which the standard applies..."²²¹

192. This means, while an average increase of 4.8 per cent is outlined, fee scales associated with its audit of accounts will increase by an estimated 12-18 per cent. Audit Wales says this "is an estimate at this point and will be reviewed following the implementation of our revised approach in the first half of 2023".²²²

193. Audit Wales says, while it is expected that audits "particularly in the first year of implementation" will require the use of more qualified staff, it is "unclear at present if this increase will be sustained in future years as this will likely depend on risk factors at individual audited bodies".²²³

²¹⁷ Part 2 – Supporting information - Estimate 2023-2024, page 14

²¹⁸ Annual Scrutiny of the Wales Audit Office and Auditor General for Wales, November 2021, Recommendation 19

²¹⁹ Part 2 – Supporting information - Estimate 2023-2024, page 14

²²⁰ Part 2 – Supporting information - Estimate 2023-2024, page 34

²²¹ Part 2 – Supporting information - Estimate 2023-2024, pages 14-15

²²² Part 2 – Supporting information - Estimate 2023-2024, page 15

²²³ Part 2 – Supporting information - Estimate 2023-2024, pages 15 and 38

194. Audit Wales is anticipating fee income to increase by £11 million or 7.0 per cent from £15.1 million to £16.1 million.²²⁴

195. Audit Wales says it is aware that private sector audit firms have written to clients informing them that that fees are likely to increase by up to 20 per cent as a result of the new requirement.²²⁵

Consultation

196. Audit Wales consulted all audited bodies and representative groups on its proposed fee scales for 2023-24, which made allowance for an estimated increase in fee rates of 5.5 per cent. It received 17 responses which told them:

- The proposed increase would be “challenging for those bodies whose own budgets are constrained by funding settlements” and “who are facing the same cost of living pressures as Audit Wales”.
- Audited bodies value Audit Wales’s work and recognise that implementation of ISA315 is unavoidable.
- Trade Unions suggested Audit Wales should make provision for a pay award to match inflation.
- Timescales for consultation were difficult for a number of bodies.²²⁶

197. After reflecting on the responses, the proposed increase was reduced to 4.8 per cent. Audit Wales says it will work closely with audited bodies to mitigate the impact of ISA315 on their audit fee.²²⁷ The Executive Director of Corporate Services noted that the reduction reflected the reduction in National Insurance rates.²²⁸

198. In terms of feedback on the fee increase, the Executive Director of Audit Service signalled that audited bodies are understandably concerned, adding:

“We work with them to minimise the extent of any increases where we can. I think this year, though, they do understand that this is outside of our control. There’s a completely new auditing standard. We have to apply that. We apply best practice, and that would be best practice. And they’ve only got to look, I

²²⁴ Part 2 – Supporting information - Estimate 2023-2024, page 31

²²⁵ Part 2 – Supporting information - Estimate 2023-2024, page 38

²²⁶ Part 2 – Supporting information - Estimate 2023-2024, page 15

²²⁷ Part 2 – Supporting information - Estimate 2023-2024, page 16

²²⁸ Finance Committee, 9 November 2022, RoP [draft], paragraph 283

suppose, or we've only got to look, across the border into England to see the likely scale of fee increases in local public audit there, and we see similar increases in the fees the private sector firms are charging their clients as well. So, I think we'll be working very closely, as we always do, with the audited bodies, to make sure that we minimise any increases, but I think there's an acceptance that it is inevitable and outside of our control this year."²²⁹

199. In relation to the practical impact of implementing the new ISA315 standard, the Executive Director of Audit Services explained that it involved a completely new methodology, requiring "a much more in-depth understanding of the risks that an organisation is facing" as well as a "much broader and more in-depth assessment of the IT environment". She went on to say:

*"All the indications are that this is going to require a much richer skill mix, so we're going to need staff who are more experienced. Those sorts of requirements for high levels of professional scepticism, performing judgement when you're looking at risks and what you do about those requires a much richer and more experienced group of staff to do that work. So, that's where the increased fees are coming from. It's not necessarily there will be more days—it's that those days will need to be done by more experienced staff."*²³⁰

200. Audit Wales says a lot of learning and development and collaboration with the Northern Ireland Audit Office has taken place to get an "efficient, effective methodology, which is compliant with the standard", however, it is too early to say whether fees might reduce after a transitional period.²³¹

201. Given the requirement for more experienced staff and technical expertise, the Committee sought information on Audit Wales's staff retention strategy. The Executive Director of Audit Services reported an uptick in staff departures at the critical "audit leads and senior auditor level". However, she said that Audit Wales is "protected maybe in a way that other audit bodies might not be" as a result of really good staff coming through its training programme, and suggested that money is not the only driver for its staff. The Auditor General added:

"...almost everybody who works in the public sector; we do it for different reasons, and our staff share the public sector ethos. They like the work that they do, the sort of flexibility and work-life balance that we're able to offer. So, money isn't everything, but it's undeniable that we're not able to match

²²⁹ Finance Committee, 9 November 2022, RoP [draft], paragraph 351

²³⁰ Finance Committee, 9 November 2022, RoP [draft], paragraphs 356-357

²³¹ Finance Committee, 9 November 2022, RoP [draft], paragraphs 358-359

*the sort of increases that are being offered now by the PwCs of the world. And when that gap gets to a certain stage, for some people, it's too difficult to ignore. When our graduate trainees qualify with their final suite of exams, those results will be published by the professional institutes, and they will be bombarded with offers straight away that are very tempting. So, the challenge for us is how we hold on to that sort of talent in the organisation."*²³²

Committee view

202. The Committee welcomes the prudent way in which Audit Wales has developed its budget proposals given the difficult economic climate and believes the Estimate 2023-24 is reasonable and proportionate.

203. While recognising the complexities involved in reflecting in-year budget adjustments in 2022-23, we have found the presentation of the Estimate particularly challenging for a number of reasons. The Committee requires a meaningful baseline for comparison, in both cash and resource terms, but the cash value of the cash baseline and requested increase are not quantified in the Estimate document. We were told that both the cash and resource baseline was the same (£8.6 million), this figure is identified in Exhibit 1 and 3. However, we are unclear why this is the case since the revenue budget, set out on pages 31 of Part 2 of the Estimate, includes non-cash items, such as depreciation. Additionally, Exhibit 1 and Exhibit 3 provide a different analyses of the changes requested, but there is little explanation as to why they differ in the narrative of the Estimate.

204. Furthermore, we note the confirmation provided during evidence, that the core comparisons made in the Estimate are to the position after the First Supplementary Estimate 2022-23. While the Committee agrees the First Supplementary Estimate 2022-23 is the most appropriate comparison, the stated approach appears to be inconsistent with the baseline figure provided in Exhibit 1. This shows a total resource figure of £8.6 million for 2022-23, which is the value of resource set out in Audit Wales's original Estimate for 2022-23, whereas the total resources identified in the First Supplementary Estimate 2022-23 were £8.3 million.²³³ The Estimate must be clear about how it is making comparisons and consistent in its approach throughout. Comparisons should be made with the most recent approved Estimate and where this cannot be done, the reasons should be explained.

²³² Finance Committee, 9 November 2022, RoP [draft], paragraphs 362-363

²³³ [Letter from Audit Wales, 1 June 2022, page 10](#)

205. We also reiterate our views expressed last year, that Part 2 of the Estimate would benefit from more detail on how specific elements of additional funding will be spent, such as the value of pay awards and what activities make-up increases to each category, for example, in relation to other supplies and services. This type of information is integral to the Committee's consideration of the Estimate. While we are grateful for explanations provided during oral evidence, it is important for transparency, as well as to assist others wishing to explore the Estimate, for this level of detail to be provided in the Estimate document.

206. The Estimate includes additional cash for dilapidations and, though we note the commercial sensitivities involved, it is not explicit where and how this is accounted for in the Estimate. The Committee notes the movements in working capital figure of £550,000 and the explanation from the Executive Director of Corporate Services that movements in working capital includes, but is not exclusively related to, dilapidations. However, the Executive Director did not describe what was included. While we accept commercial sensitivities around this figure, Part 2 of the Estimate specifically states that a maximum cash requirement of £550,000 has been included for dilapidations.

207. We are also unclear as to why other adjustment for non-cash items are not included in the reconciliation between the resources and cash requested in 2023-24 in Part 1 of the Estimate. The reconciliation and information included in Part 2 of the Estimate suggests that the only other non-cash items in its resource budget are the depreciation and interest charges required under IFRS 16 (relating to the new lease for office accommodation). This suggests this is the only charge for depreciation in the resources Audit Wales requests for 2023-24. However, in previous years, Audit Wales has included adjustments for the depreciation of other assets, as well as for 'movements in working capital' linked to accruals. The Executive Director of Corporate Services suggested that movements in working capital was not exclusively dilapidations.

208. We note that the proposal to switch some currently fee funded performance audit work through the Welsh Consolidated Fund was not included in the Estimate as the Welsh Government was unable to confirm its support prior to submission and requested further discussions. The Committee will be unable to support the proposal without further information on the issues raised and outcome of those discussions and, if the proposed switch is to be pursued, requests that it is deferred until the Estimate 2024-25.

209. The Committee notes that the Estimate includes pay assumptions of a 4 per cent increase, below inflation and indicators of average wage growth. We are concerned that increases in living costs will have a detrimental impact on staff, particularly those on lower grades, and that

this will result in more staff facing financial difficulties in the months ahead. However, the Committee supports the steps taken to mitigate the impact of these pressures, such as structuring pay awards to target staff at the lower end of the pay structure and introducing a new benchmarked salary range for trainees and apprentices.

210. We note the correspondence received from the Prospect and Public Services and Commercial unions on staff pay. However, it would be inappropriate for us to take a view on the issues raised by the trade unions, as they relate to operational matters that are the responsibility of the Audit Wales Executive Leadership Team and Board.

211. Following the UK Government's decision to reverse the increase for National Insurance contributions from 6 November, we note that there are no plans to return any unspent funding associated with the £51,000 allocated for this purpose in 2022-23, via a third supplementary Estimate in 2022-23. We further note that the reduced National Insurance contributions are reflected in the Estimate 2023-24 and in the reduced fee rates increase of 4.8 per cent, but that the baseline has not been adjusted to remove this funding from the Estimate.

212. To aid transparency, the Committee would have expected the unspent funding to be taken out of the baseline for 2022-23. This is also a further area that is not described in the Estimate and the approach only became apparent following oral evidence. The Committee expects Audit Wales to be clear about its use of funding requested for specific purposes and, where funding is no longer required for the purposes it was originally sought, this must be explained and should be returned. If Audit Wales identifies that this funding could be used elsewhere, this should be outlined in the Estimate. The Committee expects any unused funding from 2022-23 to be returned to the Welsh Consolidated Fund and for baselines to be adjusted to take account of the reduction in National Insurance contributions. The status of this funding for 2023-24 should also be explained.

213. The Committee notes the work described by the Auditor General that is undertaken for other committees and Members. While we consider this work to be valuable, we are keen that Audit Wales continues to ensure this provides value for money. We are mindful that this work comes at cost to the public purse via the Welsh Consolidated Fund. We welcome the work Audit Wales has undertaken in terms of the exercise with stakeholders in the spring to assess their views on its performance work. The Auditor General also noted that Audit Wales is in the process of adopting some international standards of best practice in relation to that work. The Committee is keen to see how this will be applied and what perspective it provides Audit Wales.

214. We note that the £50,000 increase for training relates to an anticipated rise in professional accountancy training costs when Audit Wales tenders for a new supplier next year and further notes the commitment to return any surplus to the Welsh Consolidated Fund.

215. The Estimate identifies significant increases in Audit Wales's capital programme from 2024-25 onwards and we understand the figures are indicative, with no firm plans in place. The Committee is unable to commit to increasing the capital budget to the levels identified in the Estimate for future years without further detail and justification being provided.

216. The Estimate also outlines areas where Audit Wales is planning on utilising capital funding, however, it does not provide a breakdown of how much funding will be made available to each area. Audit Wales must provide further information in future to enable the Committee to understand how it plans on investing the funding it is allocated. This must be to a more detailed level than the broad headings it includes in the Estimate. The Committee expects to see capital funding allocated by specific activity in next year's Estimate.

217. The Committee is grateful for the information provided in relation to the potential extension of duties associated with the Well-being of Future Generations (Wales) Act 2015 and welcomes further information when the proposals become clearer.

218. The Committee recognises that implementing the new international financial reporting standard ISA315 will be a significant change in approach to relevant audits and understands what Audit Wales has said about how this will impact audits and audit fees. We acknowledge the uncertainty about the extent to which this standard will impact fees in future years and are keen that future Estimates and reports provide as much information on the implementation as possible. We note the average increase in fee scales of 4.8 per cent, but that audits of account work could increase by between 12 and 18 per cent. While this is a significant increase, we accept the evidence that private sector audit firms have written to clients informing them that fees are likely to increase by up to 20 per cent.

219. We note that the new approach will require audits to be resourced with more experienced and professionally qualified staff and that Audit Wales is in direct competition with private sector firms. While we are concerned that there has been an uptick in staff departures at the critical senior audit level, we acknowledge the worldwide labour shortages and the limitations of public sector budgets, and recognise the measures being taken in an effort to address these issues.

Recommendation 9. The Committee recommends that Audit Wales provides a breakdown of the non-cash items within its resource baseline and a reconciliation between cash and

resource baselines identified in Part 2 of the Estimate for its Welsh Consolidated Fund funding for 2023-24 and in future Estimates.

Recommendation 10. The Committee recommends, for all future Estimates, Audit Wales provides the same level of detail for the support it is seeking on a resource and cash basis, including information on its baseline position and any changes to its budgets.

Recommendation 11. The Committee recommends that Audit Wales considers how the presentation of the Estimate can be improved in future years to:

- compare the resource and cash requested with the approved budget for the previous financial year, and where this is not the case, this should be clearly set out in the Estimate, with reasons to explain why it was not possible to do so;
- provide further detail and a breakdown of how increases in specific elements of funding will be spent.

Recommendation 12. The Committee recommends that Audit Wales:

- provides a breakdown of the £550,000 movements in working capital figure, and
- includes more information on movements in working capital in future Estimates, including detailing their purpose and to what each movement relates to.

Recommendation 13. If Audit Wales wishes to pursue the proposed funding switch for local performance audit work, the Committee recommends that it:

- provides further information on the queries raised by the Welsh Government and progress of those discussions, as these happen, and
- defers the proposal until the Estimate 2024-25.

Recommendation 14. The Committee recommends that Audit Wales considers further ways in which it could provide additional support for lower paid staff and/or staff who may experience difficulties as the effects of the increases in living costs are felt and takes steps to evaluate its package of support to ensure it reaches those who need it most.

Recommendation 15. The Committee recommends that Audit Wales returns the unspent funding for National Insurance contributions from 2022-23 to the Welsh Consolidated Fund and adjusts the baseline for 2023-24 accordingly.

Recommendation 16. The Committee recommends that Audit Wales provides further detail on the feedback received on its performance work and updates it on the process of adopting international standards of best practice in this area, including its expectations of what this will deliver.

Recommendation 17. Following the tendering for professional accountancy training, the Committee recommends that any surplus funds are returned to the Welsh Consolidated Fund and removed from the baseline.

Recommendation 18. The Committee recommends that Audit Wales provides further detail and a breakdown of how specific elements of its capital funding will be spent in 2023-24 and also includes the same level of detail in all future Estimates.

Recommendation 19. The Committee recommends that Audit Wales provides an update on developments with the potential extension of duties associated with the Well-being of Future Generations (Wales) Act 2015, as and when it becomes apparent what the implications will be for Audit Wales.

Annex A: List of oral evidence sessions.

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

Date	Name and Organisation
22 September 2022	<p>Adrian Crompton, Auditor General for Wales Audit Wales</p> <p>Lindsay Foyster, Chair of the Wales Audit Office Board Audit Wales</p> <p>Kevin Thomas, Executive Director of Corporate Services Audit Wales</p> <p>Ann-Marie Harkin, Executive Director of Audit Services Audit Wales</p>
9 November 2022	<p>Adrian Crompton, Auditor General for Wales Audit Wales</p> <p>Lindsay Foyster, Chair of the Wales Audit Office Board Audit Wales</p> <p>Kevin Thomas, Executive Director of Corporate Services Audit Wales</p> <p>Ann-Marie Harkin, Executive Director of Audit Services Audit Wales</p>

Annex B: Estimate of Income and Expenses for Audit
Wales for the year ended 31 March 2024



Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2024

October 2022

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

Lindsay Foyster

Chair, Wales Audit Office

Adrian Crompton

Auditor General for Wales

Audit Wales
24 Cathedral Road
Cardiff
CF11 9LJ

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

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

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

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

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

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

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

Contents

Foreword	4
Budget Ambit 2023-24	6



Foreword

Audit Wales exists to give the Senedd and the people of Wales confidence in a high-performing and accountable public sector.

Our Estimate for 2023-24 is the Budget Ambit contained in this document. We will provide separate supporting information on the Estimate for Finance Committee to understand how we will use the funding requested.

The Minister for Finance and Local Government set out the continuing uncertainty around future spending in her letter of 14 July 2022. We recognise this; but are also cognisant of inflationary pressures most notably on staffing costs and the need to respond to a new auditing standard – ISA315 – which we expect to have a significant impact on the cost of our audit work and consequently the fees that we will need to charge for that work. It was recently announced that audit fees in England for local government bodies could rise by as much as 150%.

For these reasons, our Estimate allows for an increase in our call on WCF for Audit Wales of just under 3% but a more significant increase in our audit of accounts fees associated with the implementation of ISA315. Taken together our total budget for the year will increase by 5.4%.

Our wide-ranging programme of value for money work is vital to robust parliamentary accountability through the Senedd Public Accounts and Public Administration, Finance and other Committees. We audit the accounts and governance of over 800 public bodies across Wales, providing the principal means of assurance about how public money in Wales is being managed. From the Welsh Government itself to the smallest community council, through almost every area of public service delivery, the Auditor General can follow the public pound wherever it is spent.

We are acutely aware of our responsibility to other parts of the public sector to contain our own operating costs and the fees we charge, provided that does not risk audit quality and the assurance we can provide. Our supporting information sets out details of the savings we expect on our travel and accommodation costs which help to offset expected increases in staff costs.

For 2023-24 we have once again set challenging savings targets from both staff vacancy management and other areas of expenditure.

Our Annual Report and Accounts for 2021-22 sets out our record of achievement for the last financial year. In March this year we laid our Annual Plan for 2022-23 at the Senedd. This Estimate secures funding for our forward priorities for 2023-24 and provides indicative funding requirements to 2027-28. Our Annual Plan for 2023-24 will be laid before the Senedd before March 2023.

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



Lindsay Foyster

Chair, Wales Audit Office



Adrian Crompton

Auditor General for Wales

Budget Ambit 2023-24

Estimated budget requirements of the Wales Audit Office for the year ending 31 March 2024

- 1 Under Section 125 of the Government of Wales Act 2006, Ministers must move a Budget Motion in the Senedd to authorise the use of resources, retention of income and drawings of cash from the WCF for certain relevant persons, including the Wales Audit Office.
- 2 In respect of the services and purposes of the Wales Audit Office and the Auditor General in the year ending 31 March 2024, the Budget Motion will authorise:
 - the amount of resources which may be used in the financial year by the Wales Audit Office (in line with the budget for the year);
 - the amount of resources accruing to the Wales Audit Office in the financial year, which may be retained rather than being paid into the WCF; and
 - the amount which may be paid out of the WCF to the Wales Audit Office.
- 3 These requirements, which due to the variability of income streams can only be estimates, are summarised in **Exhibit 1**.
- 4 Details of how we propose to use this funding to deliver public audit in Wales in 2023-24 are set out in our supporting information.

Exhibit 1: summary of the estimated 2023-24 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	8,142
• Capital	310
Accruing resources from fees and charges for audit, grant certification and related services; other recoveries of costs associated with the functions of the Auditor General or Wales Audit Office; miscellaneous income such as from publications, conferences, provision of administrative, professional and technical services and recoveries of costs incurred for a third party – all for use by the Wales Audit Office on the discharge of the functions of the Auditor General and on related services and the administration of the Wales Audit Office.	16,133
Net cash requirement from the WCF to meet the net amounts falling due for payment in the year by the Wales Audit Office.	8,922

- 5 **Exhibit 2** provides a reconciliation of the Wales Audit Office's total resource request with its net cash requirement for the year ended 31 March 2024.

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

	£'000
Net request for resources – revenue and capital	8,452
Non-cash adjustment – depreciation and interest charges	(360)
Lease rental payments	280
Non-cash adjustment – movements in working capital	550
Net cash requirement from the WCF to meet the net amounts falling due for payment in the year by the Wales Audit Office	8,922



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