



## **Set-up costs of the Wales Audit Office: request for resources**

**Submitted to the Audit Committee of the National Assembly for Wales  
under Section 93(4) of the Government of Wales Act 1998**

**29 April 2004**

## Introduction

1. At the Audit Committee meeting on 23 October 2003, I presented a memorandum on the costs that were likely to be incurred in setting up the Wales Audit Office. At that time the National Audit Office and the Audit Commission had yet to commence substantive work on identifying and costing the infrastructure and support that would be needed to establish a free-standing Wales Audit Office.
2. I referred in that memorandum to the indicative estimate of £500,000 that emerged from the Government's Regulatory Impact Assessment, published by the Secretary of State for Wales alongside the draft Public Audit (Wales) Bill in April of last year. However, that memorandum was not, and could not be, a formal request for resources as it preceded the Queen's Speech made at the November 2003 State Opening of Parliament and the inclusion of the measure in the Government's legislative programme.
3. The Public Audit (Wales) Bill was introduced into the House of Lords on 27 November 2003 and is currently awaiting a Third Reading before being passed to the House of Commons. Subject to the Bill being enacted in the present Session of Parliament and the making of the necessary secondary legislation and commencement orders, the working assumption is that the Wales Audit Office will come into existence on 1 April 2005.

## Forecast costs

4. I expect to incur expenditure in establishing the Wales Audit Office in 2004-05 - the year before it comes into existence - and 2005-06. My latest estimate of these costs based on work undertaken and provisional quotes obtained by the National Audit Office and the Audit Commission is shown in the Table below. The Table also shows the proportion of these costs expected to fall in 2004-05. The remainder will be incurred in 2005-06, the first year of the operation of the new organisation and will therefore be requested formally as part of my Estimate for that year which I shall bring to the Audit Committee in the usual way in the autumn.

## Forecast set up costs of the Wales Audit Office

<i>Element</i>	<i>Total forecast cost £000</i>	<i>Forecast cost in 2004-05 £000</i>	<i>Note ref.</i>
Legal	10	10	i
Finance	100	80	ii
Communication	80	80	iii
Accommodation	25	0	iv
Information and Communications Technology	350	350	v
Support Services	20	20	vi
Human Resources	80	60	vii
Audit Methodology	55	55	viii
Project Management	120	70	ix
SUB-TOTAL	840	725	
VAT	147	127	x
<b>TOTAL</b>	<b>987</b>	<b>852</b>	

## Explanatory notes

- i. **Legal** costs include those relating to the Public Audit (Wales) Bill and its related transfer orders.
- ii. **Finance** costs include the acquisition and implementation of essential finance (accounting), payroll and timesheet recording systems.
- iii. **Communication** costs include new stationery, signage and the establishment of an internet website and intranet.
- iv. **Accommodation** costs relate to the need to make some minor alterations to existing buildings to cater for the integration of the staffs of the two existing organisations.
- v. **Information and Communications Technology** costs cover the purchase and installation of new IT infrastructure, networking and telecommunications for the new organisation.
- vi. **Support Services** costs cover specialist support and set-up costs associated with the provision of services such as facilities management, health and safety and business processing.

- vii. **Human Resources** costs include the acquisition and implementation of an HR system, specialist support in the development of integrated terms and conditions for the staff who will be merging to form the new organisation, and the outsourcing of pensions administration.
  - viii. **Audit Methodology** costs cover the preparation of a unified Audit Manual, and the development costs of audit support software.
  - ix. **Project management** costs are those of the specialist project manager to oversee the process to ensure a smooth transition to the new organisation.
  - x. **VAT** is payable by the Auditor General on the above expenses and is not recoverable.
5. The request for resources for setting up the Wales Audit Office is greater than the indicative estimate initially made by the Government which I drew to the Committee's attention last autumn. The amount that I now request is no longer an estimate, but is the product detailed investigations and analysis of the costs that I need to incur.
6. In my view, funding at this level is essential to ensure that the staffs of the NAO and the Audit Commission in Wales can be transferred to the new organisation in line with the legal requirements and good practice as expected in the public sector, and to ensure that the necessary infrastructure and support services are in place by 1 April 2005 to enable the continuity of business operations. For example, the single largest area of expenditure is for information and communications technology. If the new organisation is to be up and running on its first day, as I fully intend, then significant up front investment is required to ensure that robust, integrated systems are in place and have been fully tested.
7. In setting up the Wales Audit Office from the two current organisations, I shall naturally be keen to realise operational and product efficiencies wherever possible. The amount of financial audit work to be undertaken will essentially be unchanged. However, it may be possible as processes bed in to make modest economies where the value for money audit remits of the two predecessor organisations overlap, such as in the health sector.

8. In terms of support services, both the NAO Wales and the Audit Commission in Wales currently benefit from the economies of scale derived from being part of much larger England and Wales organisations - the National Audit Office and the Audit Commission (England and Wales). The Wales Audit Office will be required to source support services for itself and such services are therefore unlikely to offer scope for significant efficiency savings.
9. Assuming the Committee approves this request, for legal reasons, I will be unable to draw on the funds until the House of Commons has passed the necessary Financial Resolution (normally passed immediately after the bill is given a Second Reading). I propose to draw on the funds only as and when they are needed; the expenditure will be shown separately in my annual accounts and will therefore be subject to examination by my external auditors, appointed by the Assembly.

**John Bourn**  
**Auditor General for Wales**

*3-4 Park Place*  
*Cardiff*  
*CF10 3DP*

*29 April 2004*