



Estimate of the income and expenses of the Auditor General for Wales for the year ending 31 March 2005

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

9 October 2003

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Introduction by the Auditor General for Wales

Background

1. Under Section 93(4) of the Government of Wales Act 1998, I am required to submit an annual estimate of my income and expenses to the Audit Committee of the National Assembly for Wales. This estimate is for the financial year ending on 31 March 2005 and, as in previous years, should be read in conjunction with the memorandum on my proposed forward programme of value for money work, which I will discuss with the Committee on 23 October 2003.
2. Since the establishment of the National Assembly in 1999 I have, in accordance with Section 92(1) of the 1998 Act, arranged for the National Audit Office Wales to provide administrative, professional and technical services to support my statutory functions. These arrangements will continue for 2004-05.
3. In April of this year, the Secretary of State for Wales published a draft Public Audit (Wales) Bill for consultation. If enacted, the Bill would transfer to the Auditor General for Wales the functions currently exercised by the Audit Commission in Wales. It would also create a “Wales Audit Office” headed by the Auditor General and transfer to the new organisation the employment contracts of National Audit Office and Audit Commission staff based in Wales. The Assembly Government is currently working on the assumption that the new arrangements will take effect from 1 April 2005. Therefore, my estimates for 2005-06 and later financial years are likely to be based on radically different arrangements from those in place at present.
4. As in previous years, my estimate for 2004-05 can be analysed under the following categories:

- audit of accounts;
- value for money audit;
- other audit work; and
- professional, technical and other services.

A more detailed explanation of each category is contained in the explanatory notes following the Estimate.

Support to the National Assembly for Wales – Financial audit

5. The primary objective of my financial audit work is to provide independent assurance, information and advice to the Assembly on the proper accounting for and use of public resources. In addition to reporting the results of this work to the Assembly, I aim to help public bodies improve their financial management.
6. My financial audit work contributes to these objectives in three ways:
 - by providing the Assembly with assurance that the financial statements show a true and fair view, have been prepared in accordance with relevant accounting and other requirements, and that the financial transactions comply in all material respects with the authorities that govern them;
 - by identifying, assessing and examining risks to propriety and financial control and reporting on significant weaknesses; and
 - by giving audited bodies constructive advice to help them improve their corporate governance, financial management, control and reporting.
7. During 2004-05, I will provide audit opinions on 32 accounts covering the 2003-04 financial year (see Annex A). In order to support these opinions, the National Audit Office Wales will conduct its work in accordance with UK Auditing Standards issued by the Auditing Practices Board. If a material regularity, propriety or financial management matter arises during the course of this work that, in my view, merits drawing to the attention of the Assembly, I will supplement the audit opinion with an explanatory report. As in previous

years, I also plan to publish a report on the Finances of NHS Wales and a General Report on issues arising from my financial audit work.

8. In addition to the published audit opinions and reports, I will, in accordance with best practice, continue to advise the management of the public bodies on areas where their financial management, accounting and corporate governance arrangements might be improved. As a matter of course, staff of the National Audit Office Wales attend meetings of those bodies' audit or corporate governance committees to discuss the audit work and our findings.
9. The National Audit Office Wales continues to develop its financial audit methodology to keep abreast of developments within the accounting and audit professions, to focus on key areas of audit risk and to make best use of technological developments. Its work is subject to a range of measures to ensure that standards laid down by the Auditing Practices Board have been properly applied, including 'hot' reviews of ongoing audits of high profile accounts by independent National Audit Office directors and 'cold' reviews of completed audits. The accounting profession's Joint Monitoring Unit also undertakes regular independent inspections of its financial audit activities. Such inspections place the National Audit Office on a par with the private sector accountancy firms where such inspections are mandatory.

Support to the National Assembly – Value for money work

10. The primary objective of value for money work is to provide the Assembly with independent information and advice about the economy, efficiency and effectiveness with which public money has been used. My value for money work covers the full range of activities undertaken by the Assembly, its sponsored bodies and other public organisations such as the NHS and further and higher education institutions. In addition to enhancing accountability by publishing the results of these investigations, I aim to encourage audited bodies to improve their own performance in achieving value for money. This includes identifying lessons of good practice while providing independent scrutiny and assurance about the proper conduct of public business and encouraging well-managed risk taking.

11. My aim is to develop a well-balanced programme of value for money studies, with a good mix of subject areas and types of examination. I attach considerable importance to my programmes including a range of topics specifically designed to identify the scope for financial savings. In the four years since my post was established in 1999, my work has identified scope for up to £90 million of potential savings, as well as a large number of unquantifiable improvements to systems and the delivery of public services.
12. Under the 1998 Act, I am required to take into account the views of the Audit Committee in planning my programme of value for money examinations. In my view, such consultation is invaluable – not least because my reports provide the foundation for the Committee’s own programme of work. My audit examinations and the subsequent taking of evidence and reporting by the Committee are interdependent and form a key element in the accountability process for the Assembly and its related bodies. My proposed programme of value for money work is set out in a separate memorandum.

Other services

13. In addition to the statutory financial and value for money audit work, I aim to provide a range of complementary services for the Assembly, other public sector bodies in Wales and taxpayers. Such services include:
 - (i) Providing briefing for Audit Committee Members on my reports and work in advance of evidence sessions, advising the Committee on the drafting of its own reports, and following-up action taken in response to the Committee’s recommendations and the Cabinet’s response;
 - (ii) Undertaking work in order to respond to correspondence from Assembly Members, Members of Parliament and the European Parliament, and the public. Such correspondence sometimes acts as a trigger for an in-depth audit investigation and a report to the Assembly – the recent reports on the sale of Talgarth Hospital and the Management of Innovation and Development Projects by the National Council for Education and Training for Wales are recent examples of this.

- (iii) Specific work undertaken at the request of audited bodies. For example, the National Audit Office Wales, on my behalf, is being asked to certify an increasing number of claims submitted to the Welsh European Funding Office by Assembly-sponsored public bodies as a direct result of the new programmes supported by the European Union's structural funds; and
- (iv) Investigations undertaken at the request of Ministers or senior officials usually to provide an independent and objective view on specific matters for which they are responsible. For example, in 2002 I was asked by the Minister for Health and Social Services to review the estimated costs of restructuring NHS Wales. Before accepting such requests, I consider the terms of reference carefully to ensure that they will not prejudice future work and that I am not drawn into issues of policy development, which are outside my statutory powers.

Factors affecting the cost of audit services – Staff development

14. The key factor in maintaining and enhancing the standard of the outputs is the quality of the people engaged on audit assignments and the training provided. To audit 32 accounts a year, deliver a high quality value for money programme and undertake a wide range of other audit and support services in order to provide a first class audit service to the National Assembly, the National Audit Office Wales needs to be able to recruit, retain and reward staff with the necessary skills and abilities. This is challenging at a time when there continues to be keen competition for high calibre accountancy and other specialist staff across the economy as a whole. In particular, competition for able graduates remains strong, with the Association of Graduate Recruiters expecting vacancies to rise by 8 per cent in 2003.
15. Salary is not the only factor in determining career choice, and public sector audit in Wales can offer an interesting range of work to potential recruits and opportunities to make a direct contribution to the work of the National Assembly. However, pay remains an important part of any package and the

National Audit Office has no option but to remain at least within striking distance of its main competitors.

Factors affecting the cost of audit services – Equipment and accommodation

16. It is important that staff are properly equipped to deal with changes in the audit environment arising from the quickening pace of technological change and electronic government. The National Audit Office has invested in new technology to support its financial audit operations but significant continued investment, in hardware, software and training, is needed to ensure that the increasing challenges of auditing in a 21st century environment can be met.

Factors affecting the cost of audit services – Changes to the audit field

17. The 2002 Comprehensive Spending Review saw an increase in the Welsh Block Budget from £9.7 billion in 2002-03 to £12 billion in 2005-06, an increase of 24 per cent. In addition, there will be increased levels of spending from the provision of Objective One funds as further projects get under way. The extra spending arising from these budgetary measures will need to be audited to ensure that Wales is securing proper value for money and that the funds are used for regular and proper purposes.
18. The restructuring of NHS Wales took effect from April 2003. The new organisations and ways of working will take some time to settle down but it is essential that the requirement for proper financial management, corporate governance and value for money is not overlooked. Another consequence of the restructuring is that from 2004-05, in place of the summarised account of five health authorities, I will have to audit the summarised account of the 22 new local health boards, as well as the accounts of the Wales Centre for Health, and the Health Commission Wales (Specialist Services) Agency.
19. The Treasury aims to produce an audited set of Whole of Government accounts for 2005-06. There will be a corresponding Whole of Government of Wales account produced by the Assembly Government that I will audit. This is being introduced in a phased approach. For the 2003-04 financial year, the account will comprise a consolidation of the financial results of the Assembly, its

executive agencies, sponsored public bodies and local health boards. In subsequent years the boundary will be widened to incorporate NHS trusts, local authorities and other public bodies. Thus, my audit will become correspondingly more complex in the years ahead. We are already assisting the Assembly Government by participating in developmental work and trial runs.

20. I will need to continue to provide considered responses to correspondence from Assembly Members and others. This is substantial element of my work that continues to grow, in part because of increasing public awareness of my work and that of the National Audit Office Wales and the Audit Committee. In 2002-03, I received 95 letters requiring a substantive response – an increase of 76 per cent on the previous year and 179 per cent on 2000-01; and this rising trend is being maintained in the current year to date.
21. Another example of unplanned work is my recent report on the National Council for Education and Training for Wales (considered by the Committee in September 2003). It is, of course, very important for me to be able to continue to be able to undertake such investigations and report the results when the need arises.
22. The known changes to the audit field summarised above, will result in an increase in the amount of work required to discharge my statutory responsibilities, and therefore needs to be considered in the context of my request for resources in the next financial year.

Request for resources

23. Despite the cost pressures generated by the factors above, I have been able to contain my basic request for resources to £2,750,000 (an increase of £205,000 on the 2003-04 estimate of £2,545,000 and proportionately less than the increase in public expenditure that is subject to my scrutiny). The corresponding net cash requirement is £2,725,000 (£2,518,000 in 2003-04).
24. In my Estimate for 2003-04, I increased my basic request for resources by £100,000 to cover the cost of specific exercises undertaken at the request of Assembly Ministers and senior officials. Such unplanned work had been

invoiced direct by the National Audit Office in previous years as, for legal reasons, the Auditor General for Wales was unable to invoice for the cost of such work. In the interests of transparency, I considered that the cost of this work should feature directly in my annual accounts and be considered as part of my annual estimate, and this was agreed by the Committee last year.

25. Assembly Government officials have asked me to undertake some specific tasks in the current financial year that will necessitate drawing on part of this contingency (for example, an update on the costs of restructuring NHS Wales and certification of EU grant claims prepared within the Assembly) and I expect to receive similar requests during 2004-05.
26. I am therefore once again increasing my request for resources by an additional £100,000 to £2,850,000, and have made a similar increase to the net cash requirement. I will draw on this additional contingency resource only to cover the cost of any the additional work that I am asked to undertake and in consultation with the Assembly's Finance Group and the Chair of the Audit Committee. I would stress that this is purely a funding mechanism and does not affect the amounts payable from the Assembly's overall budget. For 2005-06 and later years, the provisions contained within the Public Audit (Wales) Bill would enable me to invoice directly for such work.

Establishment of the Wales Audit Office – costs likely to be incurred in 2004-05

27. In the Regulatory Impact Assessment published with the draft Public Audit (Wales) Bill, the Government indicated that the one-off costs of establishing the Wales Audit Office had yet to be determined but were unlikely to exceed £500,000. Much of these costs are likely to fall in 2004-05 – for example, capital and revenue expenditure on creating stand-alone information technology, and revenue costs incurred on managing the establishment of the new office and transferring staff from the two legacy bodies.
28. For legal reasons, it would not be proper to include these one-off costs in my 2004-05 request for resources at this stage before the Bill has been formally introduced into Parliament. The Audit Commission and the National Audit Office are currently working with Assembly Government officials to assess and

cost the additional capital equipment and organisational/ human resources work that will be needed to establish a stand-alone Wales Audit Office, and I intend to prepare a separate memorandum on this area for the Committee's information. Where such costs fall to be met by the Auditor General for Wales, I propose to seek the Committee's formal approval by way of a supplementary request for resources after the Bill has received its second reading in the House of Commons.

29. A breakdown of my Estimate for 2004-05, with explanatory notes, is contained in the following pages.

John Bourn
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	2004-05 resource-based estimate £000	2003-04 provision £000	2002-03 outturn £000	Note reference
Audit of accounts	1,370	1,205	1,163	1
Value for money audit	1,395	1,300	1,213	2
Other audit work	305	185	245	3
Professional, technical and other services	295	370	154	4
Total expenses	3,365	3,060	2,775	
Fee income	(615)	(515)	(504)	5
NET REQUEST FOR RESOURCES	2,750	2,545	2,271	
Net cash requirement	2,725	2,518	2,256	
Net resource request including additional work for Ministers and senior officials	2,850	2,645	n/a	6
Net cash requirement including work for Ministers and senior officials	2,825	2,618	n/a	6

The estimate excludes the cost of the Auditor General's salary, which is payable by the Assembly direct under Section 91 of the 1998 Act. The net cash requirement excludes non-cash costs (for example, depreciation) and movements in debtors and creditors.

At this stage in the financial year, the outturn for 2003-04 is not expected to be significantly adrift from the provision.

Explanatory notes

1. The cost of auditing accounts covers the work that I am required to undertake in accordance with standards laid down by the Auditing Practices Board in order to form opinions on the accounts listed at Annex 1 for the 2003-04 year of account. It also includes initial work on the accounts for the 2004-05 financial year, and other financial audit tasks.
2. Value for money work involves the undertaking of economy, efficiency and effectiveness examinations and reporting to the Assembly. It also includes the preparation of briefing notes on ad hoc topics to the Committee, advice to clients, monitoring the Assembly Government's activities across the full range of its functions and developing my forward value for money programme. Further details on my value for money work to date and examinations proposed for the future are contained in the memorandum submitted separately to the Audit Committee.
3. Other audit work includes the cost of corporate governance work, inspection visits to bodies in receipt of public funds not audited by myself and additional audit work that I undertake on Assembly sponsored public bodies at the request of the Assembly Government. It also includes the cost of producing my annual General Report for Wales and my annual report on the finances of NHS Wales.
4. Professional, technical and other services include the support that I provide to the Audit Committee for evidence sessions and advice on subsequent reports, preparation of my annual estimate, the accounting and bookkeeping services required by my office, the cost of my external auditors (appointed by the Assembly), and other administrative costs incurred in running my office.

5. Under Section 93(3) of the Government of Wales Act 1998, I am required to charge a fee for auditing the accounts of all public bodies, with the exception of those prepared by the Assembly itself. I also levy a fee for the other financial audit work that I undertake on the Assembly's sponsored public bodies. The increase over last year's budgeted income is mainly due to fees for new work.
6. The additional £100,000 added to the request for resources and the corresponding cash requirement is included on a 'contingency' basis to cover the cost of any additional work undertaken at the specific request of Ministers or senior officials. It will only be drawn down only to cover the cost of this work.

Audits of accounts for the 2003-04 financial year scheduled for completion in 2004-05

Accounts prepared by the National Assembly for Wales

Assembly resource account (core activities)
Consolidated resource account
Whole of Government of Wales account
Cadw: Welsh Historic Monuments
Welsh Non-Domestic Rating Account
Assembly Members' Pension Fund
Summarised account of Welsh Local Health Boards
Summarised account of Welsh NHS trusts
Health Commission Wales (Specialist Services) Agency
Health Professions Wales [10 accounts]

Accounts prepared by Assembly sponsored and related public bodies

Arts Council of Wales*
Countryside Council for Wales
Care Council for Wales
Children's Commissioner for Wales
Estyn
Forestry Commission Wales
Forest Enterprise Wales
General Teaching Council for Wales
Higher Education Funding Council for Wales
Local Government Boundary Commission for Wales
National Council for Education and Training for Wales
National Library of Wales
National Library of Wales Pension Fund
National Museums and Galleries of Wales
Qualifications, Curriculum and Assessment Authority for Wales

Sports Council for Wales*

Sports Council for Wales Trust

Welsh Administration Ombudsman

Welsh Development Agency

Welsh Language Board

Welsh NHS Commissioner

Wales Tourist Board

[22 accounts]

* The National Lottery Distribution accounts for these two bodies will continue to be audited by the Comptroller and Auditor General and laid before both Parliament and the Assembly