



WALES **AUDIT** OFFICE

SWYDDFA **ARCHWILIO** CYMRU

International Peer Review of the Wales Audit Office – Covering report of the Auditor General for Wales



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Under paragraph 16 of Schedule 8 of the Government of Wales Act 2006, the Auditor General is the accounting officer for the Wales Audit Office and has the responsibilities specified from time to time by the Audit Committee of the National Assembly. The Committee has specified that the essence of my role as accounting officer is a personal responsibility for, among other things, prudent and economical administration and for the efficient and effective use of resources. In order to help me discharge that responsibility, I have commissioned an independent, international Peer Review of the Wales Audit Office under paragraph 7 of Schedule 8 of the Government of Wales Act 2006. I present the report of that review, together with this, my response, for the Committee's consideration.

1 I annex to this covering report the report I have received from the international Peer Review team I commissioned earlier this year.

2 In the following paragraphs, I set out:

- a** the context for the Peer Review and how it fits in with the totality of the governance and accountability arrangements applying to the office of Auditor General for Wales; and
- b** my observations on the substance of the Peer Review team's work and how I am implementing the recommendations.

Context

3 Throughout the democratic world it is recognised that in order to carry out their functions effectively state audit institutions need to be independent. That means that the way they exercise audit judgements may not be subject to inappropriate influence from the public bodies they audit (constituting parts of executive government) or from those to whom the auditors report (normally the elected legislature). The independence of audit institutions needs to be safeguarded both from direct intervention in audit judgements and indirectly from inappropriate intervention in matters of internal management of the audit institution.

4 Yet state audit institutions are public bodies too and have a responsibility to account to citizens for their own use of public resources. Although they are relatively small in relation to the scale of their responsibilities (the Wales Audit Office budget represents 0.1 per cent of the total spending which it audits), they are in absolute terms sizeable bodies.

5 A question sometimes asked in relation to audit institutions is 'who guards the guards?' The normal arrangements for holding public bodies to account are generally based on the assumption that such bodies are subject to some external control, normally by the executive government but sometimes directly by the legislature. That kind of arrangement would be incompatible with the necessary independence of a state audit institution. So, the governance and accountability framework for a state audit institution needs to be rather different from what one would normally see applying to the generality of public bodies.

6 In Wales the governance and accountability arrangements applying to the Auditor General are as follows:

- a** Statute designates the Auditor General as the accounting officer for the Wales Audit Office and requires him to meet the responsibilities specified by the Audit Committee of the National Assembly.
- b** The Auditor General's estimate of income and expenditure is subject to annual scrutiny and review by the Audit Committee.
- c** The Auditor General's accounts are subject to annual audit by auditors appointed by the National Assembly.
- d** The National Assembly is empowered to engage auditors to carry out examinations, on a similar basis to the Auditor General's own examinations of the bodies he audits, into the value for money achieved by the Auditor General.

- e The Auditor General, in accordance with the Audit Committee's requirements for arrangements, including independent external contribution, to provide comment and advice on the operation of governance arrangements in the Wales Audit Office, has appointed an audit committee (known, for the avoidance of confusion, as the Audit and Risk Management Committee). The members of that committee are all external to the Wales Audit Office and were appointed through open competition.
 - f In addition to its normal audit committee functions, the Audit and Risk Management Committee has specific functions, as required by the Audit Committee, in relation to the personal behaviour of the Auditor General, including expenses and hospitality, including an independent reporting line to the Chair of the National Assembly's Audit Committee.
- 7 Turning specifically to this Peer Review, I saw a number of reasons for commissioning it, the first two specific to the situation of the Wales Audit Office, and the third more generic:
- a Because the Wales Audit Office as an audit institution is a very specialised type of organisation, peers from other audit institutions are a particularly relevant source of external counsel on where and how to promote improvement within the Wales Audit Office.
 - b Because a Peer Review is wholly independent both of audited bodies, including the Assembly Government, and of the National Assembly, there can be no question of the Peer Review compromising the independence of the Auditor General.
 - c Any organisation needs to carry out frank self-examination from time to time. Our own internal self-assessment has been a rigorous guide to action. By exposing it to the Peer Review we gain further assurance as to its robustness and also the benefit of a richer interpretation of the weight of the evidence emerging from the self-assessment.
- 8 So the Peer Review plays a very important role in the totality of the arrangements whereby assurance is obtained as to the running of the Wales Audit Office. It is not a substitute for external scrutiny, which is rightly applied to all public bodies, but could provide a much firmer base for any subsequent external scrutiny as well as a guide to management action.

Implementing the Peer Review team's recommendations

- 9 The Peer Review has been conducted taking our internal self-assessment as a starting point. In parallel with the Peer Review, I have been taking action to address the issues identified in the self-assessment and doing so in dialogue with the Peer Review Team. In consequence, not only do I accept the team's diagnosis, but I have already commenced actions to implement the broad thrust of the team's very extensive recommendations. I accept all the recommendations as they apply to me. The team's recommendations as to the governance of the Auditor General cannot be implemented by me unilaterally and will require discussion with the National Assembly's Audit Committee.

- 10 I agree that changes in the external environment place the Wales Audit Office at a watershed. As regards the increased focus on efficiency, I shall also be publishing later this year a full report on the Wales Audit Office's activities and approach to internal efficiency. As set out in a separate paper, the Wales Audit Office has more than achieved audited savings in line with the one per cent cumulative target set for public bodies generally in 2004. As regards our audit, I shall be bringing forward a programme of studies that will include more work focusing specifically on efficiency and cost-saving and, in addition, in line with the review team's recommendations, including more innovative studies of a whole systems nature.
- 11 Aside from the public expenditure situation, the review team identify two specific changes that are likely to have a significant effect on the Wales Audit Office. They are the restructuring of the NHS and the coming into force of the Local Government (Wales) Measure 2009. The NHS changes, drastically reducing the number of NHS bodies subject to audit, present an opportunity for us to think through from a zero base what audit work is appropriate and how much it should cost. We had already set up an internal Wales Audit Office project to take that work forward, and, now that the majority of the new NHS bodies are coming into existence, we will soon be able to decide what audit work will be needed in the near future. In the short-term, it will certainly increase, but the longer-term picture regarding the audit of NHS bodies remains uncertain, however, depending, as it does, on the progress the new bodies make in implementing effective systems of financial management in what will be much larger and more complex bodies than hitherto.
- 12 The Local Government Measure brings about a fundamental change – for the better – in the arrangements for auditing the performance of local government bodies. A major restructuring of the relevant parts of the Wales Audit Office is under way currently, and a new methodology is at an advanced stage of development. Uncertainties remain as to the volume of audit work that will be needed to implement the Measure, but, overall, I expect the total volume, and the associated fees, to fall somewhat compared with recent experience of performance audit and inspection. Fees may, however, need to increase at some local government bodies.
- 13 What these changes might mean for the size of the Wales Audit Office is unclear. There are opportunities to which the review team draws attention for efficiency improvements that the Wales Audit Office will be pursuing vigorously. As is clear from the preceding paragraphs, we also face major uncertainty about the volume of future audit work after 2010-11. In addition, we will be making decisions during 2010-11 as to the extent of future use of private firms to undertake audit work on behalf of or on appointment by the Auditor General. These points mean that it is impossible to construct a detailed workforce plan for later years, although we are currently developing some scenarios. It is possible, as the review team notes, that the size of the Wales Audit Office may need to be reduced or that the mix of skills will need to change.
- 14 The review team note that effecting a merger has inevitably led to a great focus within the Wales Audit Office on internal matters since 2005. They suggest that more of an outward focus is now required, but, nevertheless, they do make recommendations about internal changes. The key point, as I see it, is that the

review team see the need for a more directive management style in future. I entirely agree and had already announced in June this year that I would be establishing a new Executive Committee which will be charged with the internal management of the organisation. An organisational development exercise, assisted by external consultancy, is currently at an advanced stage in devising detailed internal structures in which the Executive Committee will work. I expect to make appointments to the Executive Committee later in the autumn.

- 15** I wish to record my thanks to the Peer Review team. Their determination to conduct a thorough review was matched only by their commitment to do so to a very demanding timetable. Their work establishes clearly an agenda for continuing improvement in the Wales Audit Office.