



# **International Peer Review**

## **Wales Audit Office**

8 October 2009

## International Peer Review

We have prepared this report in fulfilment of our engagement by the Auditor General for Wales under paragraph 7 of Schedule 8 of the Government of Wales Act 2006 to provide an independent review of the progress of the Wales Audit Office.

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## Foreword by the Chair of the Peer Review

The Wales Audit Office is a relatively new organisation which has achieved a lot in its first four years. It has brought together the staff of its two predecessor organisations and has provided good services to the Welsh public sector while establishing its credibility and reputation.

The Wales Audit Office needs to build on these strengths in the light of the significant challenges and opportunities it now faces. Rising to them will require strong leadership, focus and common purpose. I am confident that stakeholders, both within the Wales Audit Office and in the wider public service, will fully support the Wales Audit Office as it develops its response to these challenges.

A measure of the Wales Audit Office's commitment to improvement is the Auditor General's commissioning of this independent, international Peer Review. Internationally, Supreme and Regional Audit Institutions use Peer Reviews to scrutinise performance and identify scope for improvement without compromising the crucial independence of an Auditor General. This Peer Review of the Wales Audit Office is the first Peer Review of one of the United Kingdom's audit offices even though the Wales Audit Office is the most recently created of them.

Unusually, this Peer Review had the benefit of an extremely robust and comprehensive self-assessment by the Wales Audit Office. This enabled the Peer Review team to develop an understanding of some of the key challenges facing the organisation much more quickly than would otherwise have been possible. I would also like to thank Jeremy Colman and all of his staff who met the Peer Reviewers – we were impressed by the commitment and unfailingly helpful attitude of the people we met.

Another striking aspect of this Peer Review has been the support we have received from across the Welsh public service. On behalf of the Peer Review team, I would like to thank all of the Wales Audit Office stakeholders who made time in their extremely busy schedules to feed into this Peer Review.

The Peer Review team brought together eminent colleagues from public life in various countries. As Chair of the Peer Review, I would like to thank my colleagues for their dedication, insight and support.

Finally, I would like to thank Rob Powell and Delyth Lewis who acted as Secretariat to the Peer Review. Rob has been outstandingly professional, independent and supportive throughout the Review, and Delyth did a superb job organising meetings and interviews and providing administrative support.

**Caroline Gardner**

*Chair of the Peer Review and Deputy Auditor General for Scotland*

## Summary

- 1** The Wales Audit Office and its staff are at a watershed. The Wales Audit Office was created on 1 April 2005 from the merger of the Audit Commission and National Audit Office in Wales under the first full-time Auditor General, Jeremy Colman. The Wales Audit Office has a successful track record during the organisation's first four years and has established itself as credible and independent. In its next stage of development, it now faces a number of major challenges and opportunities which make it essential to review its progress and make a number of important changes to remain fit for the future. The key issues are both short-term and long-term in nature.
- 2** The Auditor General commissioned this independent, international Peer Review to help support the ongoing development of the Wales Audit Office as it implements its second three year strategy. **Appendix 1** sets out its terms of reference and **Appendix 2** our approach to the Peer Review. The Wales Audit Office conducted a thorough, robust and honest self-assessment, which informed the Peer Review and was extremely helpful in focusing our work. The key internal issues we ourselves identified had been picked up in the self-assessment which encouraged the Peer Review team about the Wales Audit Office's capacity and desire to improve. The Peer Review involved interviews with 30 external stakeholders (**Appendix 3**), staff briefing sessions attended by 55 Wales Audit Office staff and individual interviews involving 41 members of Wales Audit Office staff.
- 3** The Wales Audit Office has a track record of success. In particular:
  - a** There has been generally positive feedback from the majority of external stakeholders.
  - b** The quality and professionalism of the Wales Audit Office's staff was clear from our work with them and from external stakeholder feedback.
  - c** The Wales Audit Office has shown itself able to respond effectively to crisis situations in public services, for example its work on ambulance services, and recent corporate governance inspections in Denbighshire County Council and Anglesey Council. It has established a strong reputation as an authoritative, independent and objective voice on public services with a unique reach across the public sector in Wales.
  - d** The Wales Audit Office's financial audit work, provided both in house and by its private sector suppliers, is a real strength. It has delivered to increasingly ambitious timescales and exacting standards without sacrificing quality.
  - e** National study reports are of a high quality and have reflected well on the Wales Audit Office. And we received positive feedback on some local performance audit work.
  - f** The Auditor General has successfully implemented his distinctive Issue Analysis Drawing Conclusions approach which has been recognised within and outside Wales, with the Wales Audit Office being engaged to train colleagues in the European Court of Audit and Malta on the approach.
  - g** The Wales Audit Office has a good record of innovation. For example, the Good Practice Exchange is at the cutting edge of public audit practice and is an excellent initiative. The infrastructure this initiative has created is very relevant to the Welsh public service which we consistently heard struggles to transfer good practice effectively. The effective transfer of good practice is likely to be even more important in the challenging years facing the Welsh public service.
  - h** Stakeholder feedback highlighted the high personal standing of the Auditor General who has clearly been an effective ambassador for

the Wales Audit Office and the wider Welsh public service. The Wales Audit Office has worked well in the context of devolution and has developed increasingly effective working relationships with the Assembly Government.

- 4 This is a watershed because the context for public services is changing significantly. The public service faces a period of prolonged austerity and there will be a major drive for efficiency savings across government. This will affect the Wales Audit Office as an auditor, inspector and regulator of public services but also as a publicly-funded body with a £25 million budget. There are very reasonable expectations that the Wales Audit Office should lead the drive for efficiency in the public service by demonstrating its own value for money in a strategic and systematic way.
- 5 There is also an important opportunity for the Wales Audit Office to add more value to the wider public service agenda through its work programme which needs to help support value for money and efficiency gains given the scale of current and future fiscal pressures. Incremental efficiency savings are unlikely to be sufficient; instead, within a much wider drive to maintain the quality of services against the twin pressures of financial constraints and rising demand, innovation will be a key competence for public service organisations. The Wales Audit Office is in a unique position to support improvement in public service delivery and value for money in Wales, particularly through its cross-cutting reach across the public sector.
- 6 Recent developments in public service governance and concerns about standards in public life are also changing the landscape in which the Wales Audit Office operates. While the independence of the Auditor General is absolutely critical to effective public audit, many stakeholders asked 'who guards the guardians'. The Auditor General is accountable to the National Assembly's Audit Committee and is supported by an Audit and Risk Management Committee made up of independent members. Although there is no suggestion that these arrangements are failing, the Peer Review has highlighted the scope to enhance and strengthen the governance of the Wales Audit Office and its management while ensuring that there is no restriction on the Auditor General's independence of audit opinion and judgment.
- 7 The Wales Audit Office also faces a number of specific opportunities and challenges which will affect it over the next five years and which offer a major opportunity to broaden the impact of the Wales Audit Office:
  - a The number of bodies it audits in the NHS will reduce significantly through the creation of seven new Health Boards from the 22 Local Health Boards and 12 Trusts. The volume of audit work will increase initially but is subsequently likely to fall as the new bodies increasingly improve their financial management.
  - b Through its Local Government Measure, the Assembly Government is about to make changes to the Wales Programme for Improvement and place new duties on the Auditor General. The Wales Audit Office is using the opportunity presented by the Measure to develop a methodology and approach that is much more effective in supporting continuous improvement, challenging performance and providing earlier warnings of potential service failures for key stakeholders.



- c** There are opportunities to build further on the Wales Audit Office's use of its cross-cutting reach in the Welsh public service, which has delivered a number of high quality cross-cutting projects. Structural changes within the NHS and local government inspection regime could make it easier to focus on issues from the citizen's perspective and to follow the public pound through to outcomes.
- 8** These changes may alter the skill mix the Wales Audit Office requires and will change the way it works. Having come through the inevitably difficult merger, it is vital that Wales Audit Office staff look to the future with less of a focus on internal matters during these challenging times.
- 9** The Wales Audit Office now faces the following priorities:

  - a** Staff need more directive leadership and greater clarity of direction, along with much clearer and more structured communication. The Wales Audit Office has operated a matrix structure which has delivered some significant benefits, but its operation now needs to be overhauled.
  - b** Recognising the rising public expectations of all public bodies, to strengthen the governance of the Wales Audit Office without compromising the Auditor General's independence.
  - c** Structural changes in the Welsh public services mean that the Wales Audit Office will need to be well placed to respond strategically to a reducing workload in the medium-term, one consequence of which is the likelihood of facing difficult decisions about the level of staff costs.
  - d** The Wales Audit Office needs to strengthen significantly its workforce planning and succession planning, and integrate Human Resources (HR) into decision making. The pay and progression project, building on the job evaluation process, now needs to be concluded rapidly and effectively.
  - e** Business processes need to improve in a number of important areas, particularly business planning, programme management and work allocation, and performance reporting.

## Recommendations

### On the Wales Audit Office's services

#### The design and content of work programmes to support improvement in the Welsh public service

- 1** The Wales Audit Office should develop a coherent overall programme and holistic approach to its delivery, making the most of the cross-cutting reach it enjoys across the Welsh public service. The links between work in different sectors should be effectively exploited and there should be a clear connection between the Wales Audit Office strategy and the content of its wider programme. In designing its work programme, the Wales Audit Office should identify more opportunities within its programme to:

  - a** use the Wales Audit Office's over-arching reach to focus on cross-cutting issues from the citizen's perspective to help improve outcomes and support the new models of public service delivery in Wales, such as Local Service Boards;

- b undertake work that identifies and reports on the variability in public service costs and performance, their underlying causes and how they have been successfully addressed within and beyond Wales;
  - c develop its Good Practice and Shared Learning work to support the more effective diffusion and application of good practice and reduce the marked variations in public service performance in Wales; and
  - d facilitate earlier identification of, and intervention in, cases of potential or imminent service failure; this process should include a review of the annual audit letter template to ensure the key messages are clear and accessible to key stakeholders, for example by including a short, sharp, citizen-focused document highlighting the key issues that require attention.
- 2 There is scope for the Wales Audit Office to improve the balance of its work programme. Although health should be a key feature of its programme given the large proportion of the Assembly Government's budget it represents, in the current economic circumstances it is important that studies relating to efficiency throughout the public service and to wider economic issues, such as job creation and maintenance as well as other initiatives designed to lessen the impact of recession, are given greater prominence in the programme. The Wales Audit Office should explore mechanisms to engage its stakeholders continuously in the generation of ideas for its work programme.

### Developing Performance Audit and Financial Audit practices

- 3 The Wales Audit Office should establish a system of ex-post quality review of performance audit reports, perhaps through a reciprocal arrangement with one of the other UK audit bodies.
- 4 Financial audit quality monitoring systems are sound but would benefit from greater emphasis on assessing the quality of audit judgements as well as procedural compliance.
- 5 There are longstanding problems with the quality and volume of in-house IT audit services. Remedial action is underway and should continue, building on the successes of recent external assignments.

### Co-ordination with other audit and inspection bodies

- 6 Notwithstanding the important role of audit and inspection in informing and assuring taxpayers and citizens, our analysis of stakeholders' views suggested consistent perceptions that there is over-inspection of Welsh public services by the various inspectorates. Given its unique overarching role across the Welsh public service, the Wales Audit Office is well placed to take on the lead responsibility for co-ordinating and streamlining inspection without compromising its independence. The Wales Audit Office has taken the lead in work on the implementation of the Local Government Measure that will support progress to deliver a more coherent, co-ordinated and proportionate common framework for external review. To deliver improved impact and value for money, consistent with the principles set out in the Assembly Government's draft Policy Statement on Audit, Inspection and Regulation, key

priorities should be to bring to fruition ongoing work to develop:

- a** common planning processes, as far as possible working to consistent timescales, which provide a clear rationale for the regulators' overall programmes of work;
- b** improved information sharing between the inspectorates;
- c** opportunities to increase the value added by external review through interventions more proportionate to performance;
- d** embedding a focus on outcomes as well as inputs and outputs;
- e** support for improvements in organisations' capacity to self-assess their performance objectively and transparently; and
- f** arrangements to ensure that better co-ordination does not hinder the Wales Audit Office in reporting on the efficiency and effectiveness of the other external review bodies.

### Developing the Good Practice Exchange and Shared Learning

- 7** We concluded that the Good Practice Exchange has been an excellent initiative which now needs to develop further. The Wales Audit Office should aim to:
  - a** integrate Good Practice and Shared Learning more effectively into its mainstream work in order to broaden and deepen its impact, while retaining a senior internal champion;
  - b** further develop its ongoing work to co-ordinate development of the Good Practice Portal collaboratively with other key players within the Welsh public service;

- c** identify wider mechanisms to measure the impact and effectiveness of the Good Practice Exchange; and
- d** develop sustainable arrangements to fund the Good Practice Exchange to ensure that there are effective arrangements to expand and keep up-to-date the Good Practice Exchange website.

### On governance, accountability and the Auditor General's wider regime

- 8** The current public service climate requires a rebuilding of trust in public services. In this new climate, all public bodies will need to demonstrate the highest possible standards of governance to enjoy the confidence of stakeholders. We believe that there is scope to enhance and strengthen the governance of the Wales Audit Office without restricting the Auditor General's crucial independence to examine whatever subjects he chooses, and to make independent audit judgements on them free from political interference. We do not believe that replicating the arrangements recently established for the UK National Audit Office would be appropriate to the Welsh context. In coming to a what will inevitably be a judgement call about the future governance of the Wales Audit Office, we recommend that:
  - a** The National Assembly's Audit Committee should exercise a stronger governance role in respect of the Auditor General, for instance by exercising its powers to commission studies of the value for money provided by the Wales Audit Office every three to five years.
  - b** In addition, we have identified two primary options to strengthen the governance of the Wales Audit Office. The Auditor General should consider and discuss these options,

their costs and potential impact with the National Assembly's Audit Committee, including their implications for the operation of the current Audit and Risk Management Committee. The two options are:

- i To introduce non-executive members appointed by open public appointment processes to a Governance Board, which the Auditor General would chair, and which would include members of the new Executive Committee. The terms of reference of the Governance Board should explicitly exclude audit judgements and the conduct of the audit work, but include strategic and business planning and performance monitoring, including the productivity and efficiency of the Wales Audit Office.
- ii The establishment of an Advisory Board to assist the Auditor General in developing strategy and work programmes. Unlike the Governance Board, the Advisory Board would be externally focused, providing a forum for regular, two-way dialogue between the Auditor General and a group of key external stakeholders about his strategy and work programme. The Advisory Board would also benefit from some input from relevant experts from outside Wales and/or a member who is from Wales but is not a major Wales Audit Office client or stakeholder. The Advisory Board would exist to advise the Auditor General but would not have any powers over the Auditor General's strategy or programme.

## On the management of the Wales Audit Office

### Organisational structure

- 9 The Wales Audit Office is in the process of designing a new top management structure to provide a directive style of leadership, incorporating a small and coherent Executive Committee. In that context it should seek to simplify the matrix structure, the many roles within it and the relationships between those roles. It should clarify staff and programme management responsibilities, particularly client facing roles and responsibilities. Any changes should preserve, as far as possible, the flexibility provided by the matrix in selecting the best team for projects from across the organisation. The Auditor General should carry out a review of the organisational structure after six months, including a review of the implications for the roles and composition of the Compliance and Technical teams.

### Leadership and culture

- 10 The Wales Audit Office should further develop its approach to communicating with its staff by emphasising ongoing, two-way dialogue between leaders and staff. Without relying entirely on the Auditor General himself, we propose a system of regular staff briefings, preferably held monthly on a face-to-face basis with Home Team Managers and their teams. The briefings should provide regular reports of progress against annual business plan targets and the financial performance of the Wales Audit Office, as well as updating staff on the significant changes facing the organisation. This system would also provide a regular and systematic way to obtain feedback from staff. There would be practical and financial challenges in organising

such meetings which the Wales Audit Office would have to consider in designing its approach.

## Human resources and people management

- 11** The Wales Audit Office needs to resolve the outstanding human resource issues around pay and progression as quickly as possible. There will need to be robust negotiations to deliver financially sustainable pay rates in a climate of austerity. Building on the long drawn-out job evaluation exercise, which involved external benchmarking on the basis of salary alone with wider benefits informing the setting of target rates, the ongoing negotiations on pay and progression need to be brought to an early conclusion. There will need to be openness and transparency in communicating difficult decisions to staff. Building on a recent agreement with Prospect, a key priority should be to re-establish effective industrial relations and significantly reduce the number of grievances.
- 12** The Wales Audit Office faces a complex external environment in which the volume of work is likely to reduce in the medium-term, as well as the likelihood that the mix and nature of skills required in the future will differ from those currently available. The Wales Audit Office needs to be planning its strategic response to these changes now, particularly as it is likely that difficult choices will have to be made. While we saw evidence of financial modelling of various potential future scenarios, we saw little evidence of workforce or succession planning. Having recently started to undertake formal workforce planning, it is crucial that the Wales Audit Office now develops a workforce plan that predicts what the organisation should look like and sets an establishment of the number of staff and type of skills it will require to deliver its mission. A key element of the workforce plan will be

consideration of movement into and out of the organisation to provide fresh thinking and new ideas.

- 13** Linked to the historical absence of workforce planning, there is no clear HR strategy while a new organisational development strategy for the Wales Audit Office is now emerging through the changes to the top management structure. There has been a tendency to rely on specific initiatives to tackle particular corporate issues, rather than developing a corporate programme which staff regard as co-ordinated and aligned with strategic goals. As well as progressing rapidly with the development of its HR and organisational development strategies, the Wales Audit Office should more effectively communicate its corporate programme which should be clearly aligned with clear strategic priorities.
- 14** The Wales Audit Office is conducting an internal review of its HR department. The overall size of the department should not be a barrier to providing an effective HR service for an organisation of the Wales Audit Office's size. In this context, the Wales Audit Office should seek to achieve a more influential HR department playing a more strategic role within the Wales Audit Office. In future, the Wales Audit Office's HR department should be more centrally involved in corporate decision making to support more effective organisational development.
- 15** We judge the success of the Home Team Manager role to be crucial to the organisational development of the Wales Audit Office. The Wales Audit Office should better support the Home Team Manager role by:
- a** ensuring Home Team Managers have more regular and timely feedback on the overall programme of work and how their staff are performing;

- b** within a regularly updated programme of audits and projects, producing a consolidated, frequently updated list of projects which require resources to make it easier for Home Team Managers to identify available work which their team members could take on; and
- c** in the context of specific Partners being allocated to each Home Team Manager, ensuring that Partners recognise their own people management responsibilities and provide consistently effective leadership support for Home Team Managers.

- e** within the new Executive Committee, prioritise: the improved production, use and sharing of management information, supported by clear and effective business processes; business planning, performance monitoring; and the evaluation of internal value for money.

## Strategy and programme management

- 16** The Wales Audit Office needs to increase the extent to which the strategy drives activity throughout the organisation, by improving business planning and performance management. Having established itself and developed key parts of its infrastructure the Wales Audit Office now needs to:
- a** agree, develop and communicate an overall annual business plan to show how the strategy will be delivered;
  - b** develop supporting strategies and business plans for the main parts of the business to more clearly translate the over-arching strategy into work programmes;
  - c** ensure that staff know how they contribute to the delivery of the wider strategy;
  - d** improve its capacity to measure impact and manage its performance more effectively than is possible through its current Balanced Scorecard, supported by improved reporting through the creation of the new Executive Committee; and

## The Wales Audit Office's use of resources

- 17** While we commend the Wales Audit Office for its robust approach to benchmarking its fees, we believe there may be scope for further reductions in fees that go beyond the one per cent cumulative annual efficiency target which the Auditor General has voluntarily applied to the Wales Audit Office and which has been exceeded each year. In particular, the Wales Audit Office needs to progress its work in the following areas:
- a** a zero-based exercise to cost a financial audit to ensure that there is a reasonable balance within its fees between the time required to undertake a financial audit and the performance audit elements, particularly to develop a zero-based cost of the activity required to deliver the Local Government Measure work and the cost of a financial audit for the new Health Boards;
  - b** within this exercise, to consider whether any aspects of the regime could streamline the auditing requirements without compromising effectiveness;
  - c** in the context of its contribution to any review of grants by the Assembly Government, the Wales Audit Office should consider the extent to which its grant certification represents good value for the public purse, and specifically:



# Chapter 1 – Context and introduction

## Public audit and accountability in the United Kingdom

- 1.1** Public accountability is a cornerstone of the management of public services in the UK. Ministers, elected members, governing bodies and public service managers are responsible for ensuring that public money is handled with integrity and delivers value for money.
- 1.2** Public audit is central to the accountability arrangements to maintain public confidence and promote the effective stewardship of public funds. Higher accountability is required for public expenditure because:
- a** there is an element of compulsion in raising public money, typically through taxation;
  - b** public money can only be used for the purposes intended and authorised by law;
  - c** those dealing with public money must be able to show they have done so in accordance with the standards expected by elected representatives and the public; and
  - d** scrutiny can help drive improvement in areas of the public service where there is no competition.
- 1.3** The main objectives of public audit are to:
- a** offer insight;
  - b** provide assurance, scrutiny and accountability; and
  - c** promote improvement.
- 1.4** Lord Sharman produced a seminal report in February 2001, *Holding to Account: The Review of Audit and Accountability for Central Government*<sup>1</sup>, which set out a number of recommendations to

strengthen the role and impact of audit and accountability arrangements in central government. The fundamental principles of public audit are that:

- a** public sector auditors should be fully independent from the organisations being audited and should operate with integrity and objectivity;
- b** public audit work should cover the audit of financial statements and the regularity (or legality) and propriety (or probity) of the conduct of public business;
- c** public auditors should audit the value for money and performance management of public services;
- d** public auditors should make the results of their audits available to the public, and to democratically elected representatives; and
- e** public auditors should demonstrate the highest standards of governance, performance and accountability for their own use of resources.

## The Public Audit Wales Act created the Wales Audit Office on 1 April 2005

- 1.5** The advent of devolution has led to the creation of new public audit institutions in the devolved administrations. Initially a part-time Auditor General for Wales, Sir John Bourn, served simultaneously as the United Kingdom Comptroller and Auditor General. He served the National Assembly between its creation in 1999 and the creation of the Wales Audit Office in 2005.

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<sup>1</sup> [http://www.hm-treasury.gov.uk/d/Holding\\_to\\_Account.pdf](http://www.hm-treasury.gov.uk/d/Holding_to_Account.pdf)



- 1.6** The Wales Audit Office was created on 1 April 2005 after the Queen appointed the first full-time Auditor General for Wales, Jeremy Colman. It brought together the staff of the National Audit Office Wales and Audit Commission in Wales.
- 1.7** All powers lie with the Auditor General rather than the Wales Audit Office, which has no legal powers in its own right. The Auditor General is independent of the Assembly Government. His current powers and functions derive mainly from the Public Audit (Wales) Act 2004<sup>2</sup> and Government of Wales Act 2006<sup>3</sup>. Jeremy Colman's appointment was for an initial five year period. In May 2009 this was extended to an eight year appointment which will end in March 2013.
- 1.8** The Wales Audit Office and other audit suppliers support the Auditor General who has comprehensive audit access rights. His statutory powers and responsibilities include:
- a** auditing the accounts of the Assembly Government and its sponsored and related public bodies, including NHS bodies in Wales;
  - b** reporting to the National Assembly on the economy, efficiency and effectiveness with which the Assembly Government and its sponsored and related public bodies have used, and may improve the use of, their resources in discharging their functions;
  - c** appointing auditors to local government bodies in Wales;
  - d** conducting and promoting value for money studies in the local government sector and inspecting for compliance with best value requirements under the Wales Programme for Improvement; and
  - e** overseeing and authorising payments from the Welsh Consolidated Fund and ensuring that proposed payments from the Fund are in accordance with legislation and budget authority.
- 1.9** The Wales Audit Office vision is 'Making Public Money Count' and its mission statement is "To promote improvement, so that people in Wales benefit from accountable, well-managed public services that offer the best possible value for money". Work undertaken on behalf of the Auditor General is governed by his statutory Code of Audit and Inspection Practice<sup>4</sup>. The Code is governed by the notion of 'co-ordinated' audit, where financial and performance audit are distinct but equal and complementary lines of Wales Audit Office business (**Figure 1**).
- 1.10** The Wales Audit Office operates through three-year Corporate Strategies. The first three year strategy (2006-2009) was called 'Making Public Money Count'<sup>5</sup>. The Wales Audit Office launched its next three-year strategy, 'Sustained Impact in a Time of Change'<sup>6</sup> at its second stakeholder conference on 20 May 2009 following a consultation process. The strategy contains six main objectives for the period 2009-2012 (**Figure 2**) and drives the creation of the Wales Audit Office programme.

2 [http://www.opsi.gov.uk/acts/acts2004/ukpga\\_20040023\\_en\\_1](http://www.opsi.gov.uk/acts/acts2004/ukpga_20040023_en_1)

3 [http://www.legislation.gov.uk/acts/acts1998/ukpga\\_19980038\\_en\\_1](http://www.legislation.gov.uk/acts/acts1998/ukpga_19980038_en_1)

4 [http://www.wao.gov.uk/assets/englishdocuments/Code\\_of\\_Audit\\_and\\_Inspection.pdf](http://www.wao.gov.uk/assets/englishdocuments/Code_of_Audit_and_Inspection.pdf)

5 [http://www.wao.gov.uk/assets/englishdocuments/Strategy\\_2006\\_eng.pdf](http://www.wao.gov.uk/assets/englishdocuments/Strategy_2006_eng.pdf)

6 [http://www.wao.gov.uk/assets/englishdocuments/WAO\\_strategy\\_eng.pdf](http://www.wao.gov.uk/assets/englishdocuments/WAO_strategy_eng.pdf)

**Figure 1 – The Wales Audit Office operates a co-ordinated audit approach**



Source: Wales Audit Office.

**Figure 2 – The Wales Audit Office strategic objectives 2009-2012**

- 1 Helping Welsh public bodies to improve their use of resources within the growing constraints of the economy and environment.
- 2 Promoting improved comparisons, clear performance data, and accessible reporting to decision makers and citizens.
- 3 Promoting better outcomes for citizens by working across boundaries to improve the way public services are planned, delivered and reviewed.
- 4 Supporting the reform of the NHS by providing high-quality and timely assurance, challenge and diagnosis.
- 5 Supporting the translation of Assembly Government strategy into action, both directly and through others.
- 6 Helping to ensure the implementation of the proposed Local Government Measure delivers improved services and relationships.

Source: Wales Audit Office strategy 2009-2012, Sustained impact in a time of change, May 2009.

## The future development of audit and inspection in Wales

- 1.11** The Wales Audit Office faces a number of opportunities and challenges within the strategic environment which will affect it over the next five years. In particular:
- a The number of bodies it audits in the NHS will reduce significantly through the creation of seven new Health Boards from the 22 Local Health Boards and 12 Trusts. The volume of audit work will increase initially but is then likely to fall significantly over time.



- b** The Assembly Government is changing the regime to support continuous improvement in local government. The 'Local Government Measure'<sup>7</sup> will change the role of the Wales Audit Office. The Wales Audit Office is far advanced with the development of a methodology and approach that is much more effective in supporting continuous improvement, challenging performance and providing earlier warnings of potential service failures for key stakeholders. The Measure will involve a more holistic focus on the capacity and track record of councils in improvement, and will produce a backward-looking report considering their track record of improvement and a forward-looking report examining their capacity to improve.
  - c** There are opportunities to build further on the Wales Audit Office's use of its cross-cutting reach in the Welsh public service, which has delivered a number of high quality cross-cutting projects. The structural changes in the NHS could make it easier to focus on issues from the citizen's perspective and to follow the public pound through to outcomes.
- 1.12** The Assembly Government recently consulted on its Policy Statement on Audit, Inspection and Regulation in Wales<sup>8</sup> which highlighted the following seven principles:
- a** citizen focus;
  - b** promoting improvement;
  - c** informing policy;
  - d** proportionality;
  - e** co-ordination;
  - f** making best use of resources; and
  - g** better regulation.
- 1.13** The Policy Statement signals a strong expectation for better co-ordinated external review activity to enhance impact and reduce duplication. These concerns featured strongly in feedback from stakeholders during interviews for the Peer Review (**Chapter 5**).
- 1.14** More widely, the global economic crisis will also affect the whole of the public service. The recent trend of increasing public expenditure will change to a position where reducing expenditure is likely to be the norm in the medium-term. These pressures will affect the Wales Audit Office through:
- a** a significant role in supporting public sector bodies in Wales to identify and deliver cashable efficiency gains;
  - b** pressure on its fee income and other funding – in common with the rest of the public sector, there will be a pressing imperative to do more for less and to find genuinely innovative solutions to the complex problems of the coming years;
  - c** the need to demonstrate the added value and cost-effectiveness of its work; and
  - d** a stronger imperative to collaborate with other external review bodies to deliver better value for money and more effective services.

<sup>7</sup> <http://www.assemblywales.org/bus-home/bus-legislation/bus-leg-measures/business-legislation-measures-lg.htm>

<sup>8</sup> <http://wales.gov.uk/docs//dpsp/consultation/081126inspectionauditeng.pdf>

## Chapter 2 – The provision of services by the Wales Audit Office

- 2.1** The Wales Audit Office provides two main types of service within the co-ordinated audit model:
- a** financial audit; and
  - b** performance audit work, which covers national studies and local performance audit and inspection work.
- 2.2** This section of the report considers service provision by these central elements of the Wales Audit Office's programme, along with some other elements of service delivery:
- a** collaboration and co-ordination of external review work with other audit and inspection bodies;
  - b** good practice and shared learning;
  - c** international work;
  - d** grant certification; and
  - e** fraud and governance.

### Financial audit services

#### Background

- 2.3** The Auditor General is responsible for the audit of £20 billion of public expenditure each year by the Assembly Government, local authorities, NHS bodies and a number of other public bodies in Wales. Overall, the Auditor General is responsible for 119 principal audits and the audit of 750 town and community councils. He also certifies £2.7 billion of grant claims each year.
- 2.4** The Auditor General is the auditor of central government and NHS bodies and is responsible for appointing auditors for local authorities. Each audit is led by an Engagement Partner or Appointed Auditor. In health and central government, the Auditor General is the auditor,

with an Engagement Partner responsible to him for the audit; in local government, the Auditor General appoints an independent Appointed Auditor who has specific statutory responsibilities. The Wales Audit Office has recently completed a Single Appointed Auditor pilot in which the Auditor General appointed a senior member of the Wales Audit Office's staff as the Single Appointed Auditor at a number of sites, with an Engagement Partner reporting to him.

- 2.5** Most of the Engagement Partners and Appointed Auditors are senior Wales Audit Office staff, but a number are from private sector suppliers such as PricewaterhouseCoopers, Grant Thornton and KPMG operating under framework contracts that cover approximately one third of the financial audit work. The Auditor General is responsible for regulating the market for public audit in Wales and has an interest in the maintenance of a sustainable market. The mix of internal provision and external firms enables the Auditor General to compare quality between internal and external suppliers to maintain standards. It also enables the Wales Audit Office to draw on and learn from the capacity of the major audit firms. The mixed market also offers the Auditor General flexibility in the delivery of work across his regime. As well as contracting out some principal audit work to the firms, the Auditor General also contracts out the audits of town and community councils to three smaller private firms.

#### Conclusions

- 2.6** The Wales Audit Office's financial audit work, provided both in-house and by private sector suppliers, is a real strength. It has delivered to increasingly ambitious timescales and exacting standards without sacrificing quality. Financial audits are carried out to International Auditing Standards and the results are reported within



statutory deadlines. Financial audit staff appear capable and committed, coping well with changes to the international audit standards and more exacting statutory deadlines.

- 2.7** The main general risk for all financial audit suppliers is the potential for a lack of consistency in the type of audit judgments applied. The recent Single Appointed Auditor pilot suggests this arrangement has the potential to overcome the problem of consistency. Although the firms did not have concerns about the principle of the Single Appointed Auditor they did point to specific difficulties that might arise in its operation.
- 2.8** There may well be scope for the quality monitoring regime to concentrate more on the quality of audit judgments than process. The Wales Audit Office utilises TeamMate™ software to manage its audits, which helps ensure that all processes are followed and quality assured. The independent quality monitoring regime, which covers auditors from both the Wales Audit Office and the firms, could benefit from a stronger focus on the quality of audit judgements.
- 2.9** There is an issue around whether there is over-auditing in the NHS, mainly due to the prescriptive nature of the regulations promulgated by the Assembly Government and the volume of testing and sample sizes they require. The reorganisation of the NHS in Wales could provide the opportunity to propose an appropriate revision of the applicable regulations.
- 2.10** There may be scope for some efficiency gains within the Wales Audit Office's financial audit work. Taking optimum assurance from prior systems review work where appropriate and challenge to proposed time budgets for financial audits could yield efficiency dividends.
- 2.11** Stakeholders we spoke to expressed concern about the quality of internal audit in the Welsh public service. Active support for the development of internal audit in the public service should be an important objective for the Wales Audit Office, which could include conducting a national study of internal audit services with a view to promoting improvement. As internal auditors develop and improve, the Wales Audit Office should be able to place greater reliance on their work for a more efficient and effective financial audit.
- 2.12** IT audit work reviews and reports on a range of IT-related issues to support the financial auditor's opinion. This ensures compliance with the international standards of auditing and ensures that there is proper understanding of the financial systems environment, including more detailed testing of controls relating to individual financial systems. The Wales Audit Office has experienced longstanding problems with the quality and coverage of IT audit. Building on some recent successes, such as a major systems review in Northern Ireland and work for the National Assembly for Wales Commission, remedial action is required to address the remaining problems within the IT audit team and to improve the quality of its work. There is also a need to ensure that there is a closer match between the volume of IT audit work and the supply of IT audit staff.
- 2.13** The Financial Audit practice of the Wales Audit Office deserves credit for its attempts to embrace good practice and shared learning. It has developed useful toolkits for grants management and community council money. The Wales Audit Office should also consider compiling an annual report on overall financial management and performance across local government.

**2.14** The contracting out of audits is well managed and none of the three main suppliers had any major problems with the letting of contracts and contract management. Internal audit has confirmed that all European Union rules were followed in the most recent contract round.

## Performance audit

### Background

**2.15** Performance audit work considers the economy, efficiency and effectiveness with which public sector bodies use their resources and deliver intended outcomes for citizens. There are two main strands to the Wales Audit Office's performance work:

- a** National studies which, other than for local government studies, generally lead to the Auditor General laying a public report before the National Assembly, usually for consideration by its Audit Committee – he publishes around 12 such reports in a typical year. These reports result from bespoke projects, or summarise the findings of local work across health or local government.
- b** Local performance audit and inspection work which has previously been composed largely of small local projects to support the audit of an organisation's accounts. Performance audit and inspection in local government has been part of the Wales Programme for Improvement but it will change fundamentally through the development of new methodologies to support the Assembly Government's Local Government Measure. These new methodologies will lead to far fewer individual projects, focusing instead on

an overall improvement assessment for each local authority, composed of a forward-looking Corporate Assessment and a backward-looking Performance Assessment.

**2.16** Each national performance audit project is headed by an Engagement Partner responsible to the Auditor General, supported by a Project Manager. Project teams are drawn from across the Wales Audit Office matrix, usually but not always through an expressions of interest process. In the NHS one Engagement Partner covers all local performance audit work; in local government, three Engagement Partners cover the 22 local authorities, with a named Partner for each. Local authorities also have a Relationship Manager who is responsible for the co-ordination of all regulatory activity at that Council. There is a Performance Project Manager for each health board area in the NHS. In local government, the Wales Audit Office is developing new arrangements in the light of the Local Government Measure, with Improvement Assessment Leads and Improvement Assessment Co-ordinators replacing the Performance Project Manager and Relationship Manager roles at each authority.

**2.17** Performance audit work is subject to the Wales Audit Office's Performance Audit Delivery Manual. The Auditor General introduced his distinctive Issue Analysis Drawing Conclusions (IADC) approach to performance audit work. This approach has been successfully implemented and has been recognised within and outside Wales, with the Wales Audit Office being engaged to train colleagues in the European Court of Audit and Malta on the IADC approach.

## Conclusions

- 2.18** The national study reports are of a consistently high quality and have reflected well on the Wales Audit Office with consistently positive feedback from the majority of stakeholders. It is also of great credit that senior stakeholders from organisations where there had been serious concerns over performance, which led to Wales Audit Office scrutiny, expressed positive feedback about the conduct and impact of such sensitive and high profile projects.
- 2.19** However, the quality of local performance audit and inspection reports is more variable as reflected by the Wales Audit Office's own client feedback systems, which identified lower levels of satisfaction with performance audit work than Financial Audit. The Wales Audit Office has recognised this point, culminating in an extensive cold review process personally led by the Auditor General. Concerns about the quality of the local reports have led to the introduction of an editing service and of a screening system for all report outlines and draft reports, whose initial results are encouraging. The regime for local performance audit following the coming into effect of the Local Government Measure later this year will no longer include large numbers of small local performance audit projects and routine inspection by the Wales Audit Office will disappear entirely.
- 2.20** Our discussions with stakeholders identified a number of key opportunities for the Wales Audit Office to build on the strengths of its performance audit work to support the Welsh public service in confronting the challenges it faces. In particular:
- a** Variability across public services in Wales is seen as a key issue by stakeholders, particularly at Ministerial and senior official level within the Assembly Government. There appears to be a growing consensus in support of the need for benchmarking to identify and publicly report variable performance levels, encapsulated in the Local Government Measure which requires local authorities to use performance data to compare their performance and account to citizens and communities about the levels of service they are providing.
  - b** There is an expressed need for the Wales Audit Office's programme of performance audits to encompass studies that examine the wider drivers of performance, causes of variable performance and costs. It should also include more hard-edged efficiency work. There is clear scope to link this focus on efficiency and variable performance with the Good Practice Exchange, which could be further developed to support the more effective diffusion and application of good practice to reduce the marked variations in public service performance in Wales.
  - c** Benchmarking of performance, cost and best practice needs to more consistently consider the position outside Wales because benchmarking solely within Wales may mask relatively poor performance in Wales and risk missing out on leading-edge practice from elsewhere.
  - d** While stakeholders commended the Wales Audit Office for its work once service failures had been identified, for example its work on ambulance services and corporate governance inspections of particular local authorities, there was an appetite, particularly

at Ministerial level, for the Wales Audit Office and other external review bodies to seek to identify potential service failures earlier.

- e The scope to deliver more cross-cutting work that uses the Wales Audit Office's reach across the whole of the Welsh public service, rather than work that focuses on specific programmes or organisations. Developing work that focuses on outcomes from the citizen's perspective should help support the new models of public service delivery in Wales, such as Local Service Boards, and so-called 'small country' government.

**2.21** The performance audit programme is more complex to manage than the financial audit programme, with significantly more flexibility and uncertainty. The programme is sufficiently flexible to accommodate client preferences about the timing of work and could be better managed to effect timely delivery. This complexity has led to significant challenges in terms of delivering the programme, with current delivery mixed. Performance audit staff consistently deliver a lower proportion of chargeable time than their colleagues in financial audit, which may also reflect problems with the adequacy of performance audit budgets. The Wales Audit Office is in the process of refining its time recording system to enable more effective monitoring of performance audit projects against planned timescales.

**2.22** There are also problems with the variable timeliness of some studies – while some have been delivered quickly, others have taken much longer than they should. There is a real and important relationship between timeliness and impact, notwithstanding the need for reports to be accurate and of high quality. Stakeholder feedback suggests that there is a serious reputational risk to the Wales Audit Office if

timeliness is not addressed. Using the data that should become available through the new monitoring arrangements, the Wales Audit Office should review its processes and identify good practice in delivering more timely studies. The protocol agreed earlier this year with the Assembly Government on clearing the factual accuracy of reports has demonstrated that this stage of studies needs no longer to be a source of undue delay in delivery.

**2.23** While we found robust internal quality assurance arrangements for studies, there is no external quality review. A system of external ex-post quality review of performance audit reports should be introduced, possibly by way of reciprocal arrangement with another national audit office. Similarly, there is a need to develop mechanisms to assess the impact of the Wales Audit Office's work generally and in performance audit particularly.

**2.24** The Wales Audit Office consults widely with senior Assembly Government officials and other stakeholders on its studies programme, which it presents to the National Assembly's Audit Committee each year. The programme is flexible, operating on a rolling basis. Health constitutes a large proportion of the Assembly Government's budget which leads to extensive coverage of health within the Wales Audit Office's programme. Nevertheless, in the current economic circumstances, it is important that studies relating to efficiency throughout the public service and to wider economic issues, such as job creation, job maintenance and other initiatives designed to lessen the impact of recession, are given greater prominence in the programme. The creation of the new Directors-General within the Assembly Government provides an opportunity for the Wales Audit Office to consult more strategically about potential studies and cross-cutting links.

## Other elements of the Wales Audit Office's service delivery

### Collaboration and co-ordination of external review work

**2.25** Collaboration with other inspection agencies is vital to ensure the delivery of proportionate audit and inspection services which improve performance and the use of resources in health, education and social care. The Wales Audit Office is developing mechanisms for effective co-ordination with HIW, Estyn and CSSIW to reduce the risk of overlap and duplication. Building on the progress that has been made in the last 18 months through the Heads of Inspectorate Forum, the Local Government Measure offers significant opportunity to improve co-ordination, particularly through the alignment of business planning processes. More effective collaboration should not deter the Wales Audit Office from reporting on the efficiency and effectiveness of those inspection agencies in carrying out their functions.

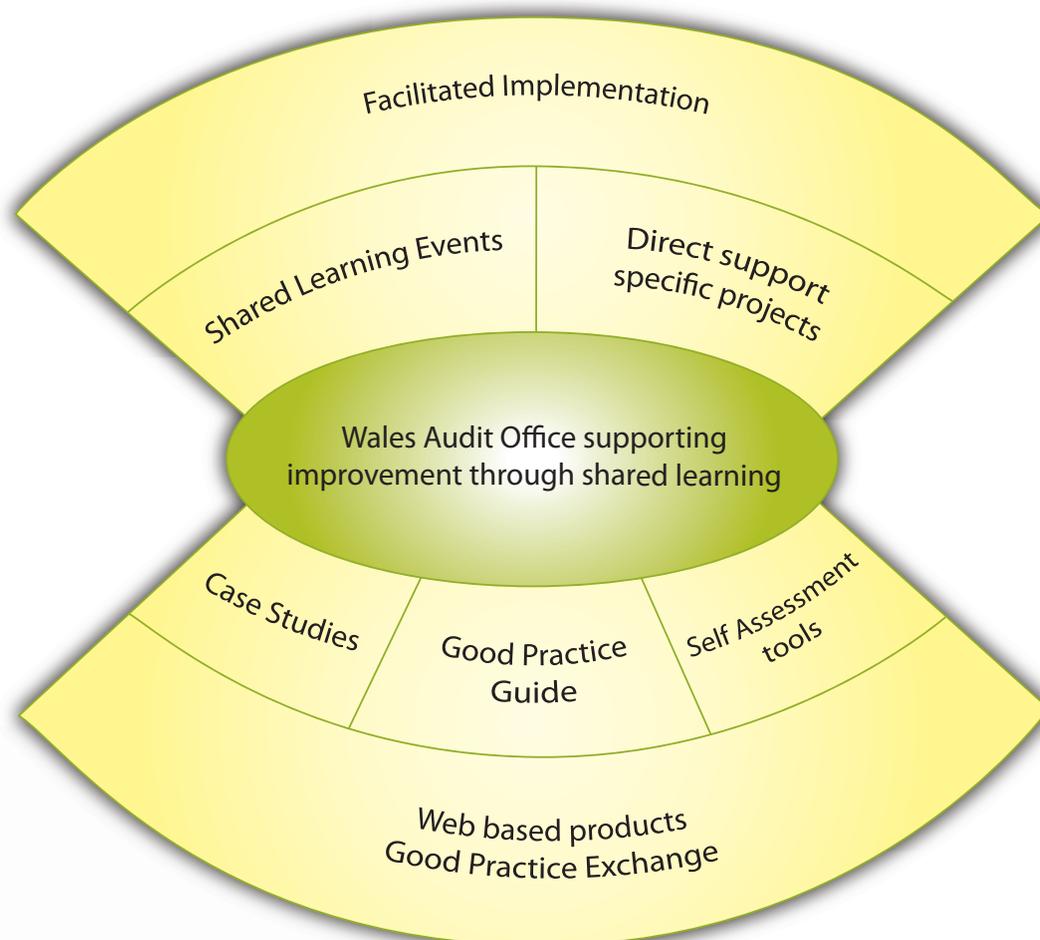
### Good Practice and Shared Learning

**2.26** Our interviews with external stakeholders demonstrated that sharing good practice from within and beyond Wales was a key priority, with a widespread perception that the Welsh public service has not been effective in sharing good practice because of parochialism and a 'not invented here' syndrome. The current fiscal pressures are likely to require public services to innovate and find ways to rapidly adapt good practice to deliver improved outcomes while reducing costs. This makes the effective transfer of good practice a priority for the public sector.

**2.27** Recognising these opportunities and challenges, the Wales Audit Office's first strategy focused heavily on good practice, and it is a market leader in good practice and shared learning in public audit. It has delivered a distinctive approach to good practice and shared learning which effectively exploits its remit and scope. There has been a significant investment in developing a web-based Good Practice Exchange website and associated good practice products. **Figure 3** shows the Wales Audit Office approach to good practice, which combines over 250 web-based case studies, toolkits and self-assessment guides, shared learning events and facilitated support. The Wales Audit Office has run a number of innovative shared learning seminars attended by over 350 Welsh Public Service Leaders and key decision makers since autumn 2007. Visits to the Good Practice Exchange website account for six per cent of visitors to the Wales Audit Office website and compare favourably with the equivalent statistics for national reports.

**2.28** Wales Audit Office staff have spoken about good practice at over 25 seminars and other events. They continue to receive requests to speak either through the good practice work stream or as part of mainstream projects, such as delayed transfers of care and fleet management. The Wales Audit Office recently won the Chartered Institute of Public Finance and Accountancy's Cliff Nicholson Award for innovation and excellence in public audit for its work on vehicle fleet management. This project involved detailed audit work across the Welsh public sector, reports to local bodies, a national briefing, an online good practice guide on fleet management complete with case studies, an A to Z directory, self assessment tools and other guidance, and a major conference to share good practice and learning.

Figure 3 – The Wales Audit Office approach to Good Practice and Shared Learning



Source: Wales Audit Office.

**2.29** The Wales Audit Office has undertaken thematic good practice work in the following areas:

- a** sickness absence management;
- b** occupational health;
- c** smarter ways of working;
- d** grants management;

**e** community council money; and

**f** asset management (fleet and buildings management).

**2.30** We concluded that the Good Practice Exchange has been an excellent initiative which now needs to develop further. The immediate challenges are to:



- a integrate Good Practice and Shared Learning more effectively into the Wales Audit Office's mainstream work in order to broaden and deepen its impact while retaining a senior internal champion;
- b further develop its ongoing work to co-ordinate development of the Good Practice Portal with other key players within the Welsh public service;
- c identify wider mechanisms to measure the impact and effectiveness of the Good Practice Exchange; and
- d develop sustainable arrangements to fund the Good Practice Exchange to ensure that there are effective arrangements to expand and keep up-to-date the Good Practice Exchange website.

## Grant certification

**2.31** Grant certification constitutes an important source of revenue for the Wales Audit Office, with £3 million in fee income expected from the certification of £2.7 billion of grant funding in 2009-10. The extent of grant certification is partly historical; the Audit Commission in Wales was required to undertake grant claim audits. The volume of work has grown since devolution because the Assembly Government makes widespread use of grants and frequently requires external audit certification of claims. Grant certification is also carried out for grants provided from the European Commission, which are significant because of Wales' eligibility for European Union Structural Funds.

**2.32** The Wales Audit Office has received legal advice suggesting that it cannot set a de minimis level for the certification of claims. The level of grant claim certification work carried out by the Wales Audit Office appears relatively high. This represents an expensive option for the Welsh

public service, and the scale of its contribution to Wales Audit Office income is a potential risk to its independence if it does not continue to manage this carefully.

**2.33** The Wales Audit Office has attempted to improve the quality of grant claims presented through workshops, seminars and training, including the Good Practice Exchange, but the high turnover of audited bodies' staff involved in preparing claims has made it difficult to deliver sustainable impact and build capacity. There may be scope for the Wales Audit Office to develop a joint approach with the Assembly Government to reduce the volume of certification required and improve the administration of remaining grant claims. Pending any change, there may be scope within the current regime for a less prescriptive approach which could lead to greater economy and efficiency as this activity gradually transfers to internal audit as the quality of this service improves.

## Fraud and governance

**2.34** The Wales Audit Office participates in the Audit Commission's National Fraud Initiative (NFI) which began in 1996, and now runs every two years. It is a data-matching exercise that helps detect fraudulent and erroneous payments from the public purse across the UK. Since 1996 over £11.5 million of fraudulent and erroneous payment have been detected in Wales, including housing benefit, pension and student loan payments. In 2006-07, NFI identified fraudulent and erroneous payments in Wales with a value of £4.5 million and resulted in 26 successful prosecutions. Nearly 70 public sector organisations in Wales participate. Since the creation of the Wales Audit Office, the Auditor General has laid two reports before the National Assembly summarising the main findings of the NFI in Wales.

**2.35** The Wales Audit Office conducts a wide range of other governance work, and is currently carrying out a study of governance in local government using a diagnostic developed by the Audit Commission.

## International work

**2.36** The Wales Audit Office undertakes a range of fee-paid work outside Wales. While this is a relatively small element of its work, the Wales Audit Office has a good track record of attracting work which helps develop its impact, capacity, reputation and staff. There are robust arrangements to manage the process of submitting tenders and there is ongoing work to develop a strategy for international work.

**2.37** Examples of overseas projects so far include:

- a** conducting a series of training events in the Wales Audit Office's Issue Analysis Drawing Conclusions approach at the European Court of Audit, including events for Members of the Court;
- b** delivering a similar event for the National Audit Office, Malta;
- c** a longstanding contribution to a National Audit Office project to build capacity in the Ghana Audit Service, with significant input from Wales Audit Office performance and HR specialists; and
- d** a commission from the Public Accounts Committee of the States of Guernsey to deliver a number of value for money and other studies.

## Chapter 3 – Governance, accountability and the Auditor General’s wider regime

- 3.1** The recent scandal over MPs’ expenses has raised the profile of trust in public services. As a result, the climate has changed significantly for all public bodies. Public audit bodies have a particularly significant dual role in this context, to hold public bodies to account for their use of resources, and themselves to demonstrate the highest standards of accountability. Independence is the central strength of public audit and is critical to its effective conduct. This independence needs to be balanced with accountability for the use of public resources.
- 3.2** As Accounting Officer for the Wales Audit Office, the Auditor General accounts to the National Assembly, and ultimately to Parliament, for his use of resources. To support him as Accounting Officer, the Auditor General has established an Audit and Risk Management Committee comprising three external independent members to advise on matters of audit, risk and governance within the Wales Audit Office. The Auditor General is currently expanding membership of the Audit and Risk Management Committee, and has extended its terms of reference. The Compliance Partner, Head of Internal Audit and Chair of the Audit and Risk Management Committee are empowered to report matters concerning the behaviour of the Auditor General directly to the Chair of the Audit Committee of the National Assembly.
- 3.3** The Audit and Risk Management Committee formally checks the quality and operation of governance arrangements in the Wales Audit Office, particularly with regard to matters of risk and control and the efficient, effective and economic conduct of business including:
- a** to review the draft annual accounts and advise on any amendments or improvements before they are submitted to the Auditor General for final approval and signature; and
  - b** to scrutinise and review:
    - i** financial and accounting policies, practices and processes;
    - ii** internal control systems including reviewing and advising on internal audit work plans;
    - iii** internal audit reports and the adequacy of management responses;
    - iv** the Head of Internal Audit’s annual report;
    - v** the ongoing implementation of audit recommendations;
    - vi** the Management Committee’s assessment and management of risk including a formal quarterly review of corporate risks; and
    - vii** the results of the external audit including the management letter and the response by management.
- 3.4** The Committee also gives advice on request, or as it feels is appropriate to providing external advice that the Auditor General would not otherwise have access to.
- 3.5** As regards the oversight of the Auditor General personally, the Audit Committee of the National Assembly has set out its expectations for how he will run the Wales Audit Office and as part of the recent extension of his appointment the National Assembly has clarified the arrangements for such matters as leave, expenses and the acceptance of external appointments.
- 3.6** Although there is no suggestion that the arrangements described above are failing, at a time when the accountability of public officials is so high on the political agenda, we believe that there is scope to enhance and strengthen

governance and accountability within the Wales Audit Office without restricting the Auditor General's independence of audit opinion and judgement. Key stakeholders within the Welsh public service hold similar views and consistently asked 'who guards the guardians?' In discussions with us, the Auditor General clearly understood and respected this view. He demonstrated his willingness to establish revised governance arrangements for the Wales Audit Office without compromising his ability to examine whatever subjects he chose and to make independent judgements on them free from political interference.

**3.7** **Appendix 4** sets out governance arrangements in a number of other audit and inspection organisations. This shows that there is a range of arrangements, many of which are consistent with the current governance arrangements for the Wales Audit Office.

**3.8** Following the Tiner Review<sup>9</sup>, governance of the UK National Audit Office is currently changing significantly. Legislation has been introduced before Parliament to make the National Audit Office a corporate entity with a Board; in advance of the legislation, the National Audit Office has decided to adopt the new governance model on a voluntary basis. We do not believe that replicating these arrangements would be appropriate in the Welsh context. The creation of corporate structures around an Auditor General who himself is a corporation sole poses risks. The creation of an independent Chair could confuse the accountability of the Auditor General as a corporation sole accountable to the National Assembly. Particular circumstances in England led to the new arrangements and the same factors are not at issue in Wales. A number of other issues which influenced recent changes to the governance of the UK National Audit Office

have now been addressed in the course of the Auditor General's recent re-appointment until 2013; these include formalising a maximum term of office for the Auditor General, ensuring robust oversight of his expenses through the Audit and Risk Management Committee and restricting other remuneration while in office.

**3.9** We have identified two primary options, which we believe would strengthen the governance of the Wales Audit Office without compromising the independence of the Auditor General, and fit the Welsh context. The Auditor General should consider and discuss these options with the National Assembly's Audit Committee, and consider their implications for the operation of the current Audit and Risk Management Committee. Ultimately, any changes in governance represent a complex judgement call requiring the judicious balance of independence and rising public expectations of all public bodies in terms of corporate governance and accountability. The financial implications would also need consideration. The two options are:

- a** To appoint non-executive members by open public appointment processes to a Governance Board, which the Auditor General would chair, and which would include members of the new Executive Committee. The terms of reference of the Governance Board should explicitly exclude audit judgements and the conduct of the audit work, but include strategic and business planning and monitoring of performance against them, including the productivity and efficiency of the Wales Audit Office.
- b** The establishment of an Advisory Board to assist the Auditor General in developing strategy and work programmes. Unlike the Governance Board, the Advisory Board would

<sup>9</sup> <http://www.parliament.uk/documents/upload/pac-nao-governance-080206.pdf>

be externally focused, providing a forum for regular, two-way dialogue between the Auditor General and a group of key external stakeholders about his strategy and work programme. The Advisory Board would also benefit from some input from relevant experts from outside Wales and/or a member who is from Wales but is not a major Wales Audit Office client or stakeholder. The Advisory Board would exist to advise the Auditor General but would not have any powers over the Auditor General's strategy or programme.

**3.10** Alongside such a change there is also scope to develop the National Assembly Audit Committee's role in the scrutiny of the Auditor General and governance of the Wales Audit Office. The Audit Committee approves the Auditor General's estimates of income and expenditure, and has links with the Wales Audit Office's Audit and Risk Management Committee. Depending on wider developments in the governance of the Wales Audit Office, there is scope for the National Assembly's Audit Committee to further develop its governance role in considering the Auditor General's budget and annual reports, as well as exercising its powers periodically to commission specific examinations of the value for money provided by the Wales Audit Office.

**3.11** In respect of internal governance, the Wales Audit Office has a Compliance Partner whose responsibilities include audit appointments, the operation of the Auditor General's wider regime, quality monitoring, legal issues and Freedom of Information, data security, risk management and internal audit. The Wales Audit Office self-assessment identified the scope for greater rotation into and out of roles within the

Compliance team, as well as the Technical team that provides advice on technical accounting issues. The Auditor General should review the role and composition of both the Compliance and Technical teams in the light of changes to wider governance arrangements and the top management structure.

## Chapter 4 – The management of the Wales Audit Office

**4.1** The Wales Audit Office is a relatively young organisation which was created in April 2005 from the merger of the regional offices of two different and much larger organisations. Since its creation, the organisation has had to develop its governance, management and infrastructure. This part of the report builds on the recent self-assessment exercise conducted by the Wales Audit Office, which provided a thorough, frank and realistic assessment of its progress and the current challenges it faces. We consider:

- a the Wales Audit Office's organisational structure;
- b leadership and culture;
- c people management and human resources;
- d strategy and programme management; and
- e the Wales Audit Office's use of resources.

### Organisational structure

**4.2** The Wales Audit Office has just over 280 staff (250 full-time equivalents), split between financial audit, performance audit and corporate services. **Figure 4** provides a breakdown of staff numbers by function.

**4.3** The Wales Audit Office operates a matrix management structure, which is organised around projects rather than traditional functions. Such structures are common in professional service organisations whose work programmes are driven by projects. The matrix has two elements – one side represents 'people' with staff sitting in home teams for the purposes of line management, work programmes, performance management and welfare; on the other side of the matrix are 'projects', each of which is led by an Engagement Partner accountable to the Auditor General for the delivery of that project.

**Figure 4 – Wales Audit Office staffing**

Group	Number of staff	Full-time equivalents
Financial Audit	136	109.81
Performance Audit	70	69.4
Corporate Services	75	70.34
TOTAL	281	249.55

Source: Wales Audit Office.

Staff across the Wales Audit Office are allocated to a range of projects. This structure is designed to achieve flexibility and agility, to enable the Wales Audit Office to respond rapidly to emerging issues and to make the best use of available skills by matching the right people to each project.

**4.4** Corporate services staff sit in functional teams largely outside the matrix, although they do on occasion contribute to operational projects. The Wales Audit Office has the following corporate services:

- a Human Resources;
- b Finance;
- c ICT;
- d Business Services;
- e Communications and Publishing;
- f Technical;
- g Knowledge Management;
- h Auditor General's office; and



understood by staff or stakeholders. In particular, the roles of Partnership Board and Management Committee appear poorly understood, including among senior staff, even though the Corporate Notices provide clear information about their respective roles and responsibilities.

**4.7** The Wales Audit Office is changing its client facing roles through its emerging approach to delivering the Local Government Measure. Previously, clients had separate Performance and Financial Audit Engagement Partners, supported by a Performance Project Manager and Client Manager respectively. In local government, there has also been a Relationship Manager responsible for the co-ordination of all regulatory activity at that site. For sites audited by one of the private sector suppliers, there is also a Liaison Partner. We judged this structure excessively complex for an organisation of the size of the Wales Audit Office. In local government, the Performance and Financial Audit Partners and Client Managers will remain, while the Relationship Manager and Performance Project Manager roles will be replaced by an Improvement Assessment Lead and Improvement Assessment Co-ordinator. It is not yet clear how the Wales Audit Office will relate to the new health boards.

**4.8** There is scope to provide more clearly focused responsibility for the work in particular sectors. For example, we heard the view that there was scope to improve the coherence of the Wales Audit Office's work across the NHS, and about opportunities to achieve further impact through the Wales Audit Office's unique position looking right across the public services. The Wales Audit Office has recently appointed Directors to build its capacity in health and social care and cross-cutting studies.

**4.9** Recognising some of these issues, the Auditor General is in the process of changing his top management structure and some of the key client-facing roles. The precise detail of these changes is emerging. The key points of the proposed structural changes are:

- a** The discontinuation of the Chief Operating Officer role in recognition of the establishment of the Wales Audit Office's external reputation and internal infrastructure.
- b** The abolition of the Management Committee and its replacement with an Executive Committee to run the business, chaired by the Auditor General and including a small number of Managing Partners for key parts of the business. The Partnership Board will continue but with a clearer strategic and advisory focus, and a stronger emphasis on internal and external communication; Partners who are not members of the Executive Committee will report to one or more of the Managing Partners.
- c** Changes in roles in local government to reflect the new approach implied by implementation of the Local Government Measure; the roles of Relationship Manager and Performance Project Manager will cease, and new roles are being established with a view to clearer senior responsibility for performance work and co-ordination of activity.
- d** Arrangements to maintain the Wales Audit Office's ability to draw project teams from the best available colleagues from throughout the organisation.

**4.10** The new structure offers the prospect of clearer accountability for delivery, a more coherent and visible senior management team, clearer and faster decision-making and improved internal and external communications. The Peer Review team has discussed the changes with the Auditor General and considers them consistent, at a high level, with the findings of this exercise. The implementation of the new structure will be crucial to its impact in these areas.

## Leadership and culture

**4.11** The Auditor General is well respected by external stakeholders and within the Wales Audit Office. However, beneath the Auditor General and Chief Operating Officer it has not been clear who makes up the leadership team of the Wales Audit Office. The 12 Partners should be key players, but they have not formed a coherent leadership team that provides staff with consistent and clear corporate messages, supported by proper levels of collective responsibility.

**4.12** Staff view the Partners as divided, with particular tensions between some Partners which we judge to have gone beyond healthy levels. All Partners have recently taken on management responsibility for particular home teams as part of the recent Home Team Management Review.

**4.13** The creation of a smaller and more coherent Executive Committee will clarify how decisions are made, although its effectiveness is likely to depend heavily on the extent to which its members are able to act in a corporate and collaborative manner at senior levels within the organisation.

**4.14** The key issue appears to be a lack of trust within the organisation. Senior managers recognise these concerns. The Auditor General is accessible and willing to speak to any member of staff, but there are clearly wider issues of trust and confidence in decision-making and the wider senior management team. Trust is two-way - the spate of leaks of staff surveys and other sensitive information is destructive and unnecessarily damaging to the organisation's reputation and affects colleagues on a day-to-day basis as they go about their business throughout the Welsh public service.

## People management and HR issues

**4.15** The most important asset of any audit organisation is its human capital and knowledge. Consequently, the strength, commitment and motivation of staff are critical to success.

**4.16** The Wales Audit Office inherited challenging circumstances from its predecessor organisations, one of which was itself the creation of a recent merger between District Audit, Best Value Inspectorate and the Audit Commission. The Wales Audit Office has experienced considerable difficulties with HR issues throughout its four years, and still faces an extremely challenging agenda to resolve them. While the merger of two organisations with different cultures, approaches and HR policies, including terms and conditions, is inevitably a difficult process we have been surprised by the extent of the tensions that still exist.

**4.17** The Wales Audit Office self-assessment showed that, despite negative comments from staff about pay and progression, and some concerns about workload and pressure of work, many staff see the Wales Audit Office as an excellent

employer offering very good terms and conditions. Staff regularly highlighted flexible working as a positive aspect of working for the Wales Audit Office. Other salient points are:

- a** the self-assessment identified the overwhelming recognition that the quality of people working for the organisation is a key strength and staff demonstrate high level of commitment and support for the public sector ethos, values and improvement;
  - b** the HR department has established the basic framework by developing a range of new policies and a staff handbook to govern the management of human resource issues;
  - c** staff have pride in the organisation, its people, mission, impact and expertise;
  - d** there are low levels of sickness absence (5.18 days per employee in 2008-09, which compares well with other public sector and public audit bodies); and
  - e** low levels of staff turnover help the organisation maintain continuity, (although they are not necessarily positive in all respects; in particular, low turnover can act as a barrier to fresh thinking and the regeneration of ideas).
- 4.18** Nevertheless, the Wales Audit Office faces a number of significant and longstanding problems relating to HR and wider issues of culture and trust within the organisation, particularly: matrix management; workforce planning and HR strategy; job evaluation, pay and performance; internal communications; and the HR department and industrial relations (80 per cent of Wales Audit Office staff are members of one of the two unions, Prospect and PCS).

## Matrix management

- 4.19** The Wales Audit Office self-assessment identified mixed views among staff about matrix management, which reflected the results of various staff surveys and our own discussions with staff. Some of the tangible benefits delivered by matrix management include:
- a** accelerated integration of staff from predecessor bodies – we noted that for a relatively newly merged organisation, staff rarely spoke about the predecessor bodies;
  - b** increased responsiveness and flexibility, demonstrated by the ability to pick up an unexpected, sensitive and high profile ambulance inquiry, set up a cross-functional team at short notice, and deliver a comprehensive and well-received report within four months; and
  - c** greater flexibility than a departmental structure would be likely to achieve, for example in selecting the best teams for projects from across the Wales Audit Office; the ambulance inquiry and the award-winning fleet management project are good examples of the selection of project teams from across the financial audit and performance audit disciplines to deliver cross-cutting projects.
- 4.20** There are also drawbacks to aspects of matrix management, as well as gaps in the supporting business processes and face-to-face corporate communications. In particular, it is not clear that the implementation of the matrix approach has taken sufficient account of the need to manage staff and programmes of work effectively.



**4.21** The role of Home Team Manager is critical to the effective management of the Wales Audit Office and the successful operation of matrix management. The Home Team Manager should provide core line management functions for staff (well-being, mentoring and coaching, performance management, housekeeping, personal development and the maintenance of a full and balanced work programme). However, Home Team Managers do not necessarily work regularly with their Home Team members on projects and only know individual team members' pay band rather than actual pay. Consequently, some Home Team Managers feel poorly placed to discharge their key functions because they lack full information about their team members and the ability to influence key aspects of their work such as workload. There are also problems in terms of the adequacy of feedback from project managers on individual project performance, with project managers inconsistently discharging their responsibilities for managing people on projects.

**4.22** It can be difficult for Home Team Managers to influence work allocation because they are not fully sighted of the overall programme of work and resource allocation, which is undertaken by resource managers. This makes it difficult for some Home Team Managers to identify opportunities for their team members. High levels of flexibility and autonomy seem to work well for some staff, particularly the most able and in demand, but others miss a sense of belonging.

**4.23** The Wales Audit Office recognised that there were inconsistencies in the discharge of the Home Team Manager role and has recently appointed a new cadre of Home Team Managers following a competitive internal recruitment process. The new Home Team Managers have received in-depth induction training and have recently concluded a dry run of the Wales Audit

Office's new performance measurement system which appeared to work effectively. This offers encouragement for the future of the Home Team Manager role. The Peer Review team was attracted to the Home Team Manager concept and was impressed with the sample of Home Team Managers we met to discuss the role. We judge its success crucial to the organisational development of the Wales Audit Office. Some of these concerns could be addressed through better implementation of the matrix, particularly:

- a** improvements in internal communication, emphasising face-to-face rather than e-mail communication;
- b** ensuring Home Team Managers receive more regular and timely feedback on the overall programme of work and how their staff are performing;
- c** within a regularly updated programme of audits and projects, producing a consolidated, frequently updated list of projects which require resources to make it easier for Home Team Managers to identify available work which their team members could take on; and
- d** more effective leadership support for Home Team Managers and a proper recognition by Partners of their own people management responsibilities.

**4.24** However, although matrix management has clearly helped bring the organisation together, the operation of the matrix needs to be overhauled to overcome perceived and actual difficulties. The structural changes the Auditor General is implementing may help to more clearly define responsibilities and accountabilities. The following issues will also need further attention:

- a variable leadership, exacerbated by perceptible tensions between senior staff, and an over-reliance on written and electronic communications has created considerable frustration and uncertainty among staff;
- b roles are too loosely defined and staff struggle to understand where responsibility for particular issues lies;
- c the self-assessment highlighted the significant impact of problems with programme management on staff perceptions of matrix management; while the situation is clearly improving, much better systems are needed to improve the current situation where staff perceive informal management systems to predominate over the formal management systems, to the detriment of allocation of staff to projects; and
- d a lack of business planning and weak corporate performance management make it difficult for staff to see how their role supports the delivery of the Wales Audit Office vision, mission and strategy.

### Workforce planning and HR strategy

**4.25** One significant concern in respect of HR is the lack of workforce planning within the Wales Audit Office. This concern links with weaknesses in business planning. It is crucial that the Wales Audit Office is well placed to respond strategically to the potential reduction in its workload in the medium term. Possible consequences of a reducing workload include a reduction in the size of the organisation, and that the mix and nature of skills required in the future will differ from those currently available. Workforce planning is starting to be developed

as part of the Wales Audit Office's response to the Local Government Measure and NHS restructuring. However, while we saw evidence of financial modelling of various potential future scenarios, we saw little evidence of workforce or succession planning. As the implications of the various changes in the Wales Audit Office's external environment become clearer, it is crucial that the Wales Audit Office predicts what the organisation should look like with links to the number of staff and type of skills it will require to deliver its mission.

**4.26** There is no HR or organisational development strategy for the Wales Audit Office which is clearly understood by staff. There appear to be many projects and initiatives but these could be more effectively communicated to ensure staff understand how they fit together and align with wider strategic objectives. A key element of any workforce plan will be consideration of movement into and out of the organisation to provide fresh thinking and new ideas.

### Job evaluation, pay and performance

**4.27** In 2006, the Wales Audit Office initially 'slotted in' staff to four pay bands but there were concerns about the rigour of this process and its compliance with equal pay requirements. Consequently, a job evaluation process was set up which has proved extremely time-consuming. The long-drawn out process has affected staff morale.

**4.28** Following a tendering process, a consulting firm, Insight, began work to design the job evaluation scheme in April 2007; it expected this to take between six and eight months but in the event it took over a year. Staff developed and agreed individual job descriptions with their Home Team Managers before each member of staff participated in an individual interview with



Insight. This resulted in each member of staff receiving a point score against the job evaluation scheme. Staff have had the right to appeal their job evaluation score and apply for a one-off job re-evaluation – 17 staff did so.

- 4.29** Insight also produced a proposed reward structure with 10 pay bands built around a mid-market rate for each band. The proposed market rates took account of a benchmarking exercise against comparable organisations and roles in the public and private sectors. The benchmarking was determined on the basis only of Wales Audit Office basic salaries and did not take account of what staff widely recognise as a good overall benefits package, for example the final salary pension scheme, car scheme and transport allowances which apply to some staff. However, total benefits did influence senior management's judgement in choosing how to position the Wales Audit Office in the recruitment market.
- 4.30** Management and unions have not yet agreed the final pay bands, systems to progress through the pay bands or arrangements to deal with those paid above current target rates. Wales Audit Office management re-commenced negotiations with the unions in June following the suspension of negotiations during an unrelated industrial relations dispute.
- 4.31** The original job evaluation exercise led to around 54 per cent of staff falling above the proposed target rate, and 42 per cent below the proposed target rate for their pay band. Those falling beneath the bottom of the proposed range were immediately brought up to the bottom of the proposed pay rate but arrangements have not yet been agreed to deal with the staff whose salaries are above the proposed target rate or to achieve progression through pay bands.
- 4.32** The Wales Audit Office has had arrangements in place to set objectives, appraise performance and undertake personal development planning since its inception. The Wales Audit Office invests heavily in staff development, with each member of staff having a ten day annual training budget. Since April 2008 it has used a competency profile to set out appropriate behaviours for its staff linked to objectives and performance. However, it has not had sufficiently mature appraisal systems to measure performance and link this to pay progression. This has meant that performance has not affected pay and progression at any point during the lifetime of the Wales Audit Office. The lack of pay progression is a major source of staff frustration. A particular obstacle in operating sufficiently robust appraisal system has been the difficulty of ensuring project managers and Partners provide Home Team Managers with robust and timely feedback on staff working on their projects.
- 4.33** In the April 2009 appraisal round, the Wales Audit Office operated its new Performance Measurement System for the first time. All members of staff have received a rating on a six point scale (point two is divided in to a or b) ranging from five at the top to one at the bottom for staff subject to the Wales Audit Office capability procedures. The results of the performance assessment exercise have been moderated at four levels to try to achieve consistency. This was a dry run of the system; pay changes will be linked to these performance measures from April 2010, subject to agreement on this issue and all other pay matters. Initial feedback suggested that the process had gone reasonably well, supported by substantial mandatory training for all staff in effective feedback and significant training for the new cadre of Home Team Managers. Eleven members of staff lodged appeals against their performance measure. The next round of

performance measurement will test whether the system is robust enough to withstand the pressures of linking pay changes to the measures.

- 4.34** Restrictions on the money likely to be available in future years as a result of fiscal pressures, and significant changes in the Wales Audit Office's operating environment, mean that the Wales Audit Office will inevitably face a number of difficult decisions in the near future. Our discussions with staff and their representatives suggested that, if senior management are open and straightforward about the issues facing the Wales Audit Office, staff are likely to be supportive of the tough decisions that are likely to be required.

### Internal Communications

- 4.35** The Wales Audit Office has put in place a range of written communication mechanisms, which have been supplemented by direct interactions with staff, generally led by the Auditor General and former Chief Operating Officer.
- 4.36** A number of written communication mechanisms provide very detailed information to meet the needs of the Wales Audit Office staff who value detail. However, the level of detail can make it difficult for all staff to fully understand the implications of change in the absence of consistent mechanisms to explain changes on a face-to-face basis. Where face-to-face meetings do take place through Home Team Managers or patch meetings, it is far from clear that all of the organisation's leaders deliver a clear and consistent corporate message about how the organisation is performing and its future direction. This can make it difficult for staff to understand their role in and contribution to the organisation.

- 4.37** The Wales Audit Office's future approach must include a disciplined approach to regular face-to-face communication with staff that does not rely solely on the Auditor General. This more structured two-way system of regular staff briefings, preferably conducted face to face with Home Team Managers, should be linked to regular reports of progress against annual business plan objectives on the finances and performance of the Wales Audit Office. Such a system could ensure the effective communication of key corporate messages and provide a systematic means of obtaining feedback from staff. We recognise that there are real practical problems in organising such meetings because of the pressure to deliver financial audits across a wide range of sites and the need to achieve appropriate staff chargeability, but we strongly believe the Wales Audit Office needs the discipline of a formal cascade briefing system delivered as far as possible on a face-to-face basis.

- 4.38** It is also critical, as an organisation that relies on the knowledge of its staff, that the Wales Audit Office progresses rapidly with its plans to improve knowledge sharing and knowledge management.

### Human Resources Department and Industrial Relations

- 4.39** The Wales Audit Office has a HR team of eight people, which is relatively large for an organisation of its size. HR has a purely advisory remit; decisions sit with the Partners, but there are concerns within the HR department that its advice is not always followed. Consequently, criticisms of the department sometimes reflect broader concerns about the management of the organisation. The self-assessment exercise and union survey raised serious questions about the

efficacy of the HR department, particularly the timeliness, quality and consistency of advice. While HR has put in place a wide range of HR policies which were needed for the new organisation, there are concerns about how consistently these have been applied. These concerns are in contrast to the Wales Audit Office's other corporate services which were generally well regarded.

**4.40** The Head of the Department stressed how much of her time had been taken in dealing with individual grievance cases, some of which have been extremely time-consuming and long-running. The historical impact of grievance cases is unsustainable and indicates a need for a genuine change in the industrial relations and management culture.

**4.41** A small number of grievance cases allege bullying and harassment. There was also a breakdown in relationships between the Prospect union and management. ACAS were brought in and have reported their findings. It is a matter of some concern that trade union and management surveys have repeatedly identified a perception of bullying within the Wales Audit Office although the number of actual complaints is very small. The Wales Audit Office has provided all staff with mandatory training on dignity at work and has developed policies and procedures with external advice. A further round of training is planned, linked to revised dignity at work policies. Central to improving perceptions of bullying will be action to address broader cultural issues within the Wales Audit Office.

**4.42** The breakdown of formal partnership working between October 2008 and June 2009 ended with a formal agreement between management and Prospect. Wales Audit Office management recognises that it is essential to re-establish effective working relationships with the two

unions, Prospect and PCS. The current negotiations with the unions on pay and progression is critical. We welcome the resumption of the Partnership Forum and negotiations on pay and progression which will require a mature, honest and realistic dialogue between the unions and management. The establishment of positive industrial relations is vital in restoring trust on both sides and addressing the various challenges now facing the organisation.

**4.43** The HR department expressed concern about its influence within the Wales Audit Office. There is no direct HR representation at the Management Committee, and the HR department has not played a central role in organisational development prior to the ongoing work in respect of the Local Government Measure. We believe that the Wales Audit Office would benefit from a smaller but more powerful HR department playing a more strategic role, particularly in respect of succession and workforce planning. The head of a revamped department should at least attend the new Executive Committee.

**4.44** The Auditor General has initiated a recent review of the role and efficacy of the HR function to identify immediate actions that can be taken in the short-term to improve its operation, and the work that is needed to address matters that require a longer-term approach. Although the review identified similar concerns to those set out in this report, its staff survey also found that the majority of staff were satisfied with the service they received from the HR department.

## Strategy, programme management and benefits realisation

### Strategy and programme design

**4.45** The Wales Audit Office recently published its second three-year strategy 2009-2012, following a period of consultation. The majority of stakeholders we spoke to were supportive of the strategy although a minority expressed some concern that the strategy did not sufficiently address the Wales Audit Office's own value for money.

**4.46** Although the strategic direction is reasonably well understood throughout the organisation, there are gaps in the machinery for implementation. The Wales Audit Office needs to improve the extent to which the strategy visibly drives activity throughout the organisation. In particular it needs to improve business planning through clearer links with the work programme and performance management.

**4.47** The Wales Audit Office strategy drives the construction of its work programme. The Auditor General has pursued a flexible and agile approach to his programme to enable the Wales Audit Office to respond quickly to emerging issues. It has a good track record in this respect, reporting quickly through corporate governance inspections of local authorities experiencing difficulties and through its work on the Welsh Ambulance Services NHS Trust.

**4.48** However, the programme is not constructed holistically and tends to be driven by sector, client or work stream. Some stakeholders perceived a lack of coherence in the overall programme and rationale for selecting projects although the Wales Audit Office has a reputation for delivering good projects. The Wales Audit

Office is a small enough organisation to produce and consult on an overall work programme that identifies all of the potential cross-cutting benefits of the Wales Audit Office's overarching reach across the public sector.

**4.49** Although stakeholders are asked to comment on concrete proposals for studies intended for the Auditor General's Forward Programme of work for the National Assembly's Audit Committee and are encouraged to make comments and suggestions at any time about any aspect of the Wales Audit Office's work, they consistently expressed the view that continuing dialogue about the content of the work programme and specific topics proposed would be helpful. While recognising that the content of the Wales Audit Office programme reflected the high proportion of overall Assembly Government expenditure devoted to health, some stakeholders suggested that it would be helpful to have a clearer rationale for the selection of topics and the wider balance of the programme.

### Programme management

**4.50** Programme management emerged as a significant concern in the Wales Audit Office self-assessment, the staff briefings we held and other meetings we had with key stakeholders. The allocation of people to projects has been a consistent concern in various staff surveys. Workload planning seems to be much more effective in relation to financial audit than performance audit, partly because the financial audit work follows a more predictable annual cycle and has fixed deadlines that have to be taken seriously by everyone. In future, following the coming into force of the Local Government Measure, performance work in that sector will also follow a more predictable annual cycle.



**4.51** Even following the changes flowing from the Measure, planning and delivering the performance audit work programme will be more complex than financial audit, with a wider range of factors affecting the timing of work. Allocating the right staff to performance audit projects, ensuring appropriate levels of staff chargeability and managing multiple projects and deadlines has proved challenging.

**4.52** The Programme Office was re-established in January 2008 and has proposed a number of improvements to workload planning which have been accepted by the Auditor General. There have been improvements in the mapping of supply and demand for work and a better system to track income and delivery of work by Engagement Partners. Other aspects of improving programme management require ongoing focus, particularly the allocation of staff to projects. Although work is underway to formalise the allocation of staff to projects, formal processes are sometimes circumvented by informal arrangements which meet the short term needs of individual Partners. This includes so-called 'cherry picking' of staff for projects and allocation of staff without the opportunity to express an interest in the work which contributes to perceptions of nepotism and a lack of transparency. Although it will never be possible to allocate all staff members to every project in which they have a special interest, managers should explain clearly to staff the reasons why they were not allocated to particular projects. The consequences of the problems with work allocation can include the following:

- a** some individuals are under-utilised;
- b** underlying problems with individual performance are not always tackled; and
- c** a lack of transparency in allocation to projects means that people do not always feel that they are treated fairly.

**4.53** The Wales Audit Office is an ambitious and forward-thinking organisation, which has delivered some effective and high impact changes in its operations. The work to embed Issue Analysis Drawing Conclusions, post-project learning, the editorial service and the development of the Good Practice Exchange are examples of good practice.

**4.54** The appointment in early 2009 of a new Corporate Affairs Business Manager is supporting the more robust management of the corporate programme of projects to develop specific areas of the organisation or its work. There have been some historical weaknesses in the management of the wider corporate programme. While corporate projects are listed on the Wales Audit Office Intranet, there is a feeling among staff that there has been a general tendency to rely on specific initiatives to tackle particular problems without communicating clearly how they fit together and link to a small number of strategic priorities. This feeling has contributed to some of the uncertainty within the organisation, with staff unclear about the big picture, particularly since a number of corporate projects are perceived to have 'melted away' having achieved little beneficial impact.

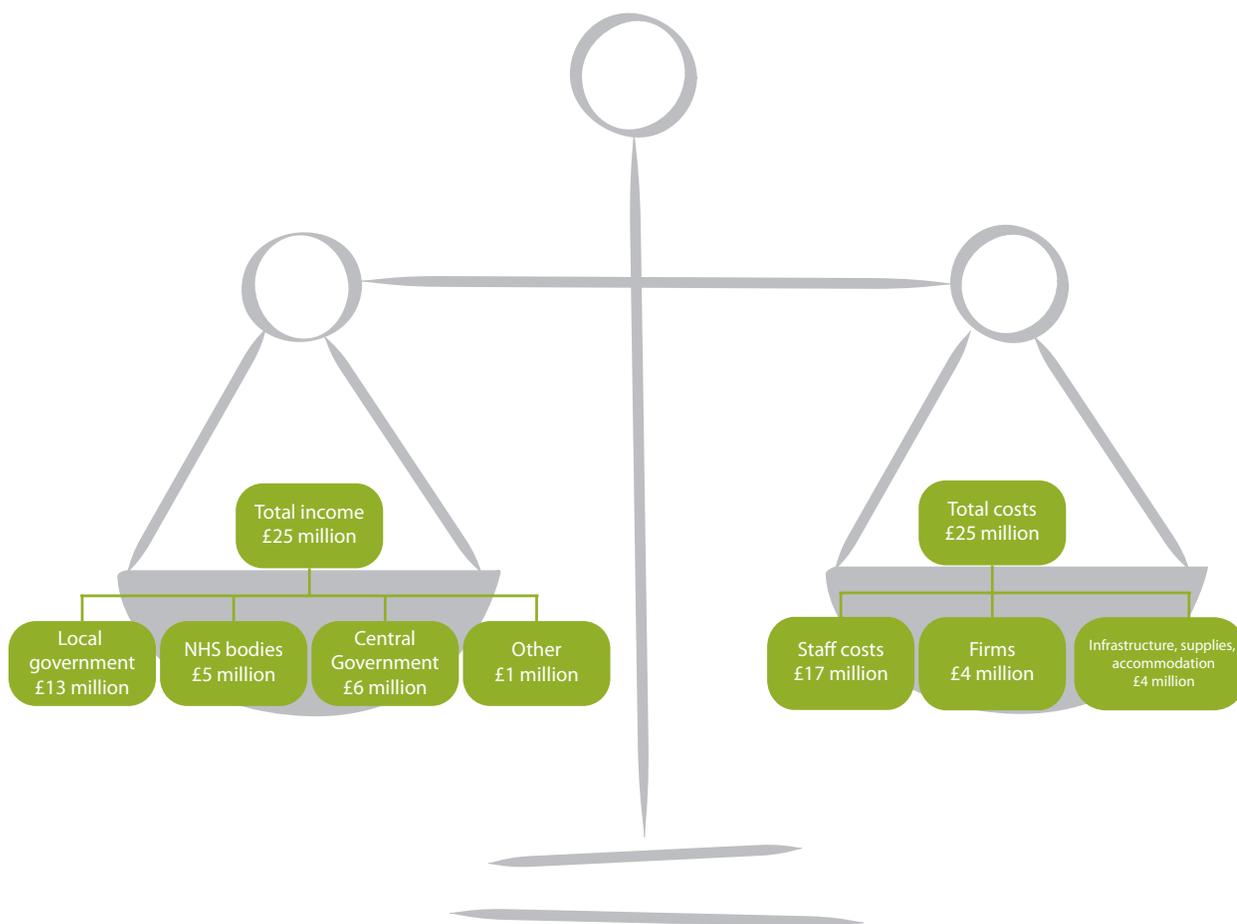
## Performance management and impact measurement

**4.55** Although the Wales Audit Office has a Balanced Scorecard which was based on a strategy mapping exercise using the first three-year strategy, this is still under development and is not used as a day-to-day management tool throughout the organisation. The Wales Audit Office needs to develop effective systems to manage its performance, particularly to assess and measure impact, which might usefully draw on narrative feedback as well as monitoring outcomes.

- 4.56** Having established itself and developed key parts of its infrastructure, the Wales Audit Office now needs to communicate supporting business plans that clearly translate the over-arching strategy into the work programmes of the main parts of its business. The development and integration of such supporting strategic plans, together with much improved reporting of progress to staff, is vital to ensure that people know how they contribute to the delivery of the wider strategy. Stronger internal governance through the creation of the Executive Committee is intended to provide significant opportunities to develop these areas.
- 4.57** Management information and business processes have been developed since the inception of the Wales Audit Office and a basic infrastructure is now in place. Over the period of its next strategy, the Wales Audit Office needs to improve its production, use and sharing of management information, supported by effective business processes. In particular, business planning, performance monitoring and the evaluation of internal value for money should be priorities for the new Executive Committee.
- 4.58** The Wales Audit Office receives around £25 million funding each year from a mixture of clients paying audit fees, contributions from private sector audit suppliers conducting audits on behalf of the Auditor General and funding from the National Assembly for Wales (**Figure 6**). National Assembly funding accounts for around 20 per cent of total income.
- 4.59** Overall, we concluded that the Wales Audit Office is reasonably well-resourced, which has enabled investment in the new organisation's infrastructure such as office accommodation, ICT and support services.
- 4.60** Fee levels and the overall cost of the Wales Audit Office are areas that will become more challenging with the imminent changes in the NHS and the introduction of the Local Government Measure. The Wales Audit Office will also be expected to continue to demonstrate leadership in delivering its own efficiencies against the backdrop of the significant financial pressures on the Assembly Government and individual audited bodies. Like all public bodies, the Wales Audit Office will need to build on its record of innovation and improve its services while delivering significant efficiencies. These pressures may also provide an opportunity to tackle the challenges facing the Wales Audit Office which we set out in this report.
- 4.61** Fee income represents the majority of the Wales Audit Office's income. The Auditor General consults each year on his fee scales and has arrangements in place to moderate fees for individual client bodies prior to their agreement. The Wales Audit Office also has a robust rolling programme to benchmark its fees externally and between Wales Audit Office and firm sites. This is based on a sound methodology that considers fees in Wales against a sample of local authorities in England and Scotland. It takes into account a range of factors including performance, socio-economic factors and the ratio of gross expenditure by audited bodies to fees.

## Use of resources

Figure 6 – Sources of income and main expenditure headings of the Wales Audit Office, 2008-09



Source: Wales Audit Office.

**4.62** The Wales Audit Office analysis shows that its audit and inspection fees in local government are similar to those in England and Scotland. Wales Audit Office fees have remained stable between 2005-06 and 2007-08 unlike England where total fees rose by 5.7 per cent over the same period. However, its total fees are relatively higher, largely because the proportion of the fee income for grants certification is much higher (30 per cent) than the proportion in England (18 per cent) reflecting the wide prevalence of grant funding in Wales. The Wales Audit Office’s

income from local government grants certification has remained stable while there has been a 20 per cent reduction in fee income from grant certification work in England. Paragraphs 2.31-2.33 and recommendation 17 provide further information on grant certification.

**4.63** Audit and inspection fee levels for local authorities in Wales broadly compare with those for authorities in England receiving a Comprehensive Performance Assessment performance rating of two or three from the

Audit Commission (the scale runs from zero to four stars). As in Scotland, fees as a proportion of authorities' gross expenditure fell by around 10 per cent between 2005-06 and 2007-08 despite authorities' gross expenditure rising by approximately 11 per cent over the same period. In England, fees as a proportion of authorities' gross expenditure fell by 4.4 per cent over the same period. The Wales Audit Office's total fee income from local authorities has not increased over the same period although some individual authorities' fees have increased as others have decreased.

- 4.64** NHS Trusts in Wales pay fees that are broadly comparable with those charged to Trusts in England rated as excellent or good by the Healthcare Commission and audited by the Audit Commission. The reorganisation of the NHS in Wales will require the Wales Audit Office to develop new fee scales for the integrated health boards. This is an important opportunity to develop fees from a zero base.
- 4.65** The Wales Audit Office inherited a number of income streams and historical arrangements to setting fees. We commend the Wales Audit Office for its approach to benchmarking and understanding its fees. Nevertheless, we believe there may be scope for reductions in fees that go beyond the one per cent cumulative annual efficiency target which the Auditor General has voluntarily applied to the Wales Audit Office and which has been exceeded each year. In particular, the Wales Audit Office needs to progress its ongoing work in the following areas:
- a** a zero-based exercise to cost a financial audit to ensure that there is a better understanding of the cost of an audit and greater consistency in fees which may lead to both upward or downward movement in individual

fees; there is a particular need to develop a zero-based cost of a financial audit for the new Local Health Boards;

- b** within this exercise, to consider whether any aspects of the regime could streamline the auditing requirements without compromising effectiveness;
  - c** contributing to any review by the Assembly Government of grants, to consider the value added by the volume of grant certification work undertaken by the Wales Audit Office in response to requests from organisations providing the grants (see paragraphs 2.31-2.33); and
  - d** building on the development of its approach to fees benchmarking, develop similarly rigorous arrangements to challenge budgets for other projects, such as studies and corporate projects.
- 4.66** In the context of current and likely future economic challenges, some external stakeholders expressed general concern that the Wales Audit Office should be more visible in demonstrating its own value for money. We believe there is scope for the Wales Audit Office to focus more strongly on demonstrating its own economy, efficiency and effectiveness. Its internal audit department and the Audit and Risk Management Committee have a key role to play in this process. It would be helpful for the Wales Audit Office to report on its efficiency and economy more prominently now that the organisation has undergone the initial period of establishment and developing its systems and infrastructure.

**4.67** In addition, the Wales Audit Office has very small financial reserves with which to face the significant challenges to its financial standing over the next two or three years. Its reserves were depleted by the significant and unexpected cost of moving all of the staff of the former Audit Commission in Wales onto the Principal Civil Service Pension Scheme immediately following the merger with the National Audit Office in Wales.

**4.68** The Wales Audit Office conducts scenario planning to develop a detailed financial strategy, supported by financial plans which include specific cost reductions plans in various possible income scenarios. Overall, the Wales Audit Office's income is likely to increase during the current financial year; there will be peak of audit work during the NHS reorganisation, which involves two sets of accounts during the current financial year. However, reduced workload is a possibility from the 2010-11 financial year onwards, and there is additional uncertainty over fee levels for the new Health Boards and the emerging financial implications of the Local Government Measure.

## Chapter 5 – Stakeholder relationships

**5.1** In the course of interviewing a wide range of external stakeholders from the Welsh Public Service, we found that the Wales Audit Office generally has good relationships with its stakeholders and has established itself as a well-respected organisation providing independent and authoritative assurance and insight about public services.

### The National Assembly for Wales

**5.2** We met the current and previous Chairs of the National Assembly's Audit Committee, which is a key stakeholder of the Wales Audit Office. Both expressed extremely positive views about the work of the Wales Audit Office and the quality of their relationship with the Auditor General.

*“The Wales Audit Office provides excellent reports of quality, rigour and independence and the Auditor General provides a sterling service. There is a need to get the balance right between the Committee determining its own work and the relationship with the Auditor General. This year there has been a substantial shift from the Committee’s previous operating model, moving towards the approach of the Scottish Parliament’s Public Audit Committee. Usually, this has led to the Committee selecting the option of undertaking a full inquiry other than on one report, but the greater flexibility of options certainly helps the Committee.”*

*Jonathan Morgan, AM, Chair of the National Assembly for Wales’ Audit Committee*

They cited the credibility, reputation and independence of the Auditor General, the quality of specific Wales Audit Office products, including specifically its work on ambulance services and the Good Practice Exchange.

**5.3** We welcome the development of the Committee’s new working arrangements, which are based on the model operated by the Scottish Parliament’s Public Audit Committee. The new arrangements broaden the approach of the Committee by providing a wider range of options in considering and scrutinising the Auditor General’s reports. The arrangements will inevitably take time to bed in fully, but in our view they offer considerable opportunities to improve the impact both of the Audit Committee and Wales Audit Office.

**5.4** The Committee could develop its role in commenting on the Auditor General’s programme of work. The Auditor General traditionally presents a paper containing options for potential studies in the autumn, but there would be benefits from more regular dialogue about potential work, particularly given the Auditor General’s desire to be flexible and responsive. More frequent dialogue could help the Committee broaden its impact, mitigate perceptions of an over-emphasis on health work, and also develop the profile of the Committee.

### Welsh Assembly Government

**5.5** We met the First Minister and three other Assembly Government Ministers. We found that the Ministers generally held positive views of the Wales Audit Office, although there were some concerns within the health sector.

**5.6** Ministers highlighted a number of helpful areas of focus for the Wales Audit Office to consider in the future:



- a continuing to work with other external review bodies to deliver a more co-ordinated and coherent overall approach to audit and inspection, particularly the need to develop:
  - i common planning processes;
  - ii improved information sharing;
  - iii ways to reduce the burden and increase the value added by external review through interventions more proportionate to performance;
  - iv a stronger focus on outcomes as well as inputs and outputs; and
  - v systems supporting the earlier identification of and intervention in cases of potential or imminent service failure.
- b providing a stronger focus on benchmarking value for money, efficiency and good practice to support innovation and overcome problems arising from unacceptable variations in public service performance; and
- c consistent with the Assembly Government's Policy Statement on Audit, Inspection and Regulation, and the Local Government Measure, the need to support improvements in scrutiny and organisations' capacity to self-assess their performance objectively and transparently.

5.7 We met a number of senior civil servants within the Assembly Government, including the Permanent Secretary. They were generally satisfied with their engagement with senior Wales Audit Office personnel and spoke about good and improving relationships. Within this broadly positive feedback, senior civil servants highlighted a number of points for the future:

"There will need to be a culture change towards re-engineering the Welsh public service and a more mature approach to the funding and performance of public bodies. The current economic crisis also presents and opportunity to change the service culture of the public sector which can help build capacity in Welsh public service organisations to re-jig how they perform and how they measure performance. I would like to think of the Wales Audit Office as part of the whole agenda of extracting more value for money for the Welsh pound, not just by improving efficiency, but changing the way services are delivered, spreading good practice and innovation and getting local authorities, the NHS and other Partners to collaborate on service redesign."

*Rt Hon Rhodri Morgan AM, First Minister for Wales*

- a Some concern about whether the Wales Audit Office had yet delivered all of the potential benefits of its creation. There is scope for the Wales Audit Office to deliver more consistently the benefits of a single audit body, particularly whole systems work building on and expanding successful examples of cross-cutting work. In addition, changes in governance in Wales, particularly the evolution of Local Service Boards and the collaborative agenda, will require new approaches to audit and inspection, particularly focusing on outcomes.

**“The Wales Audit Office has established a reputation as a well-informed, independent evaluator of Welsh public services whose opinion is mainly and justly seen as authoritative.”**

*Dr Brian Gibbons AM, Minister for Social Justice and Local Government*

- b** Benchmarking, good practice and efficiency were important concerns, particularly reporting comparative performance within and beyond Wales and the scope to provide a clearer perspective on performance across the Welsh public service.
- c** Developing the Wales Audit Office programme of work to support the wider public service improvement and efficiency agenda; this may require less work focusing on particular programmes and more work that looks across the public service.
- d** Co-ordination of inspection, audit and regulation, with a view to collectively supporting the earlier identification of potential service failures.

**“The Wales Audit Office has a key role to play in leading a more integrated approach to audit, inspection and regulation which is beginning to emerge via the Heads of Inspectorate Forum.”**

*Andrew Davies AM, Minister for Finance and Public Service Delivery*

- e** Identifying and sharing good practice from within Wales and beyond, and using the reach of the Wales Audit Office to speed up its adoption.

**5.8** Overall feedback at Government level was positive, although senior stakeholders from the NHS expressed some specific concerns about the Wales Audit Office’s work in this sector. This is significant given that the NHS has a significant impact on people’s lives and is a politically sensitive issue given its value to citizens. Its expenditure also accounts for around 40 per cent of the Assembly Government’s expenditure. Senior NHS stakeholders expressed some concerns about:

- a** the time it has historically taken to clear the accuracy of reports, which a new protocol agreed between the Wales Audit Office and the Assembly Government addresses;
- b** even though the content of press releases is routinely discussed with officials, the tone of Wales Audit Office press releases was thought to highlight what had gone wrong;
- c** lack of early dialogue about the Wales Audit Office programme in health; and
- d** scope for better co-ordination and coherence with other audit and inspection bodies in the NHS via the Concordat.

## Other audit and inspection bodies

**5.9** We found that relationships between the Wales Audit Office and other audit, inspection and improvement agencies were generally good. There are many examples of collaboration between the Wales Audit Office and Estyn on the inspection of Local Education Authorities, national studies undertaken by the Auditor

General, and training of staff. The Wales Audit Office and the Care and Social Services Inspectorate have worked together on two rounds of Joint Reviews of Social Services, while there have been a number of joint projects with the Healthcare Inspectorate for Wales. There have been numerous other examples of co-operation, for example contributions to national studies through expert panels or information sharing. The other external review bodies generally praised the professionalism of Wales Audit Office staff and the rigour of its work.

**5.10** We heard that the Heads of Inspectorate Forum is moving towards a greater clarity of purpose in addressing the widespread concern about poorly co-ordinated external review activity which featured heavily in the principles set out in the Assembly Government's draft Policy Statement on Audit, Inspection and Regulation. Key priorities appear to be improvements in strategic and business planning between the external review bodies, more effective joint projects with better links between work undertaken individually or jointly by the various bodies. Our sense is that the external review bodies, through the Heads of Inspectorate Forum, now have a stronger common purpose. A particular opportunity was identified for the various external review bodies to discuss more effectively the contents of their respective work programmes.

**5.11** The main scope for improvement seemed to be in the field of health, where there is clearly significant scope for the various external review bodies to deliver a more co-ordinated approach to inspection and audit through more effective implementation of the *Concordat Between Bodies Inspecting, Regulating and Auditing Health and Social Care Bodies in Wales*<sup>10</sup>. There are obvious opportunities to improve the Wales Audit Office's relationship with the National Leadership and

**"The Wales Audit Office needs to be more proactive in promoting good practice and exemplars, with a stronger focus on efficiency, the use of resources and value for money. In health, there is particular scope to look at efficiency savings and value for money, with a broad definition of value for money that recognises that the most effective option is not always the cheapest with reference to value for the citizen."**

*Edwina Hart MBE AM, Minister for Health and Social Services*

Innovation Agency for Healthcare (NLI AH), to enable data to be shared more effectively and for NLI AH to build capacity to support the implementation of Wales Audit Office recommendations. Relationships between the two organisations have not been close enough to support such an approach in the past.

## Audit suppliers

**5.12** We spoke to Partners from each of the three main suppliers providing audit services to public sector bodies in Wales under framework contracts with the Wales Audit Office. We found that the suppliers were generally positive about the Wales Audit Office, highlighting an effective contract letting process and contract monitoring, good relationships with senior Wales Audit Office staff, and positive views about the implementation of the Issue Analysis Drawing Conclusions approach, the Good Practice Exchange and particular national studies.

<sup>10</sup> <http://www.walesconcordat.org.uk/Documents/591/concordat-e.pdf>

**“Performance comparisons need to be strengthened in Wales which has been isolationist in terms of performance. Strategic planning must be supported by a strong focus on value for money and efficiency. The Wales Audit Office staff know the field and are helpful. More work is needed on the Concordat. In fast-moving times, studies need to be delivered more quickly so that they are timely. The concept of ‘real-time’ audit may be helpful in providing a snapshot to support faster change.”**

*Mike Ponton, Director, NHS Confederation Wales*

- 5.13** Suppliers expressed some concerns about whether they were as consistently integrated into the Wales Audit Office team as they could be. Suppliers highlighted the scope to involve them more fully in developing ideas for the Wales Audit Office strategy and programme of work, which they thought could be more clearly linked to strategy. Suppliers also expressed the view that their expertise and capacity in product development was not as well used as it could be.
- 5.14** The Single Appointed Auditor Pilot was generally supported as a principle, although suppliers saw other mechanisms through which to improve consistency within the Auditor General’s regime, such as a stronger technical forum. However, while these issues arise in all of the Wales Audit Office’s work, there were also some concerns about the practical operation of the arrangement, for example if difficult technical issues arose or if the Single Appointed Auditor instructed a firm to do something which their own internal compliance function could not support.

## Clients

- 5.15** As well as central government clients (paragraphs 5.2-5.8), we spoke to a small number of the Wales Audit Office’s local clients or their representatives. In local government, we met one Council Chief Executive where there had been significant involvement from the Wales Audit Office, and the Chief Executive of the Welsh Local Government Association. And in health, we met the Director of the NHS Confederation Wales and the Chief Executive and Chairman of the Welsh Ambulance Services NHS Trust where there had been significant Wales Audit Office involvement. We also considered the Wales Audit Office’s own client feedback.
- 5.16** Overall we found generally positive views of the work of the Wales Audit Office. The Welsh Ambulance Services NHS Trust praised the rigour, quality and sensitivity of the Wales Audit Office’s handling of its reviews of the Trust. They highlighted the Issue Analysis Drawing Conclusions approach, and also the focus groups held with staff and use of expert panels. The NHS Confederation’s impression is that people find the Wales Audit Office to provide a much better and more appropriate service than its predecessor organisations: its staff know the field and are helpful. More work is needed on the Concordat to deliver a more co-ordinated approach, and studies need to be delivered more quickly so that they are timely. The concept of ‘real-time’ audit may be helpful in providing a snapshot to support faster change, particularly in the context of the NHS reorganisation.
- 5.17** In local government we heard of supportive and positive relationships in helping local authorities improve, although greater co-ordination of external review activity was a key concern. The Local Government Measure was seen to offer the potential to deliver a more proportionate



and co-ordinated approach to local government inspection, although there were some concerns about the potential loss of locally-focused work and the ending of the Relationship Manager role.

## Citizens and the media

**5.18** The Wales Audit Office has developed some effective approaches to citizen engagement, particularly through its correspondence work, website and direct engagement on various national studies. It also ran eight public hearings around Wales as part of the original ambulance inquiry. Although these represent exemplars of good practice, the Wales Audit Office is aware of the need to develop a more consistent approach to citizen engagement in its work. A number of projects are underway to improve its engagement with citizens.

**5.19** The Wales Audit Office has effective communications and has good relationships with the media. The Communications team has won two external awards, and the Welsh Language Board has commended the Wales Audit Office for working bilingually to a high standard; the Board cited the Wales Audit Office website as an example of bilingual best practice.

**5.20** The Wales Audit Office produces an Annual Audit Letter for each of its clients. In local government, the annual letter will be superseded by the new reporting arrangements under the Local Government Measure. The annual letters are comprehensive public documents, but their format carries the risk that the importance of individual points can be overlooked because of the volume of background material they contain. This is in contrast with other Wales Audit Office outputs which more clearly apply the Issue Analysis Drawing Conclusions approach. A number of stakeholders highlighted the difficulty in identifying the key issues within the annual

letters both within individual bodies and across sectors. There is a strong case to include within the letter a short, sharp, citizen-friendly document highlighting the major issues that need immediate attention.

**5.21** In the challenging times facing Welsh public services, effective and timely engagement of the public in key decisions about service design and delivery will be crucial. It may be helpful if the Wales Audit Office is able, without stifling local creativity, to provide some kind of national guidance on best practice in public engagement, drawing in best practice from outside Wales.

# Appendix 1 – Terms of Reference for the Peer Review

## Scope

- 1** The review will assess the efficiency and effectiveness of the Wales Audit Office, in particular how well it is achieving the outcomes it seeks for its stakeholders. The review is to be forward-looking and consider practical steps with which the Wales Audit Office can continue the development of its services, organisation and people.
  - 2** The review should cover the broad headings **a**, **b** and **c** below. Beneath each heading there are a series of sub-issues which the Peer Review Team could use to select a number of specific areas for more detailed focus:
    - a** The quality, effectiveness and impact of the external services provided by the Wales Audit Office, which include:
      - i** financial audit work, including grant certification and the value for money conclusion;
      - ii** governance and fraud;
      - iii** performance audit and inspection work, including local performance audit work, mandated national studies and value for money reports laid before the National Assembly; and
      - iv** the Good Practice Exchange and shared learning.
    - b** The running of the Wales Audit Office, which could include:
      - i** the effectiveness of arrangements to support learning and improvement;
      - ii** staff management, development and the HR function;
      - iii** leadership, strategy and direction;
      - iv** quality control systems, arrangements for contracting out audit work and compliance arrangements;
      - v** financial management, the setting and monitoring of audit fees and use of resources;
      - vi** programme management – the selection of projects, organisation of resources and allocation of work – including the responsiveness of such arrangements; and
      - vii** governance arrangements.
    - c** Effectiveness of external relationships, communication and stakeholder relationships. This could focus on one or more of the following:
      - i** the National Assembly;
      - ii** the Assembly Government;
      - iii** local government;
      - iv** NHS;
      - v** other external review bodies within and outside Wales; and
      - vi** effectiveness of the overall approach to external communications, reporting and use of the Internet.
- 
- 3** The output of the Peer Review will be a report containing the Review Team's conclusions, findings and recommendations for improvement.

## Outputs

## Timing

- 4 The Peer Review will commence in March 2009 and report no later than 30 June 2009. The Peer Review team completed final fieldwork interviews on 19 June. We reported our initial findings to the Auditor General in June 2009 and finalised our report in September 2009.

## Appendix 2 – Conduct of the Peer Review

### Terms of reference

- 1** The Peer Review had broad terms of reference to assess the efficiency and effectiveness of the Wales Audit Office, in particular how well it is achieving the outcomes it seeks for its stakeholders. The review was to be forward-looking and consider practical steps through which the Wales Audit Office could continue the development of its services, organisation and people.
- 2** The terms of reference (**Appendix 1**) had three parts:
  - a** the quality, effectiveness and impact of the external services provided by the Wales Audit Office;
  - b** the running of the Wales Audit Office; and
  - c** the effectiveness of external relationships, communication and stakeholder relationships.
- 3** The Wales Audit Office conducted a thorough self-assessment exercise to inform the Peer Review. This enabled the Peer Review team to rely on the self-assessment to cover certain aspects of its terms of reference and to focus its attention on specific areas. The self-assessment was an extremely thorough exercise which involved focus groups in which 135 members of staff participated, self-assessments by each part of the Wales Audit Office and interviews with 46 staff. The self-assessment also analysed and collected a wide range of documentary evidence and data which was available to the Peer Review team.

### Scope

- 4** The Auditor General asked the Peer Review team to determine the particular areas on which it wished to focus attention, based on a very helpful induction day and the outcome of the Wales Audit Office self-assessment.
- 5** The self-assessment drew only on secondary feedback from external stakeholders, which meant that the Peer Review focused heavily on external stakeholders. In addition, we determined the following priorities for the Peer Review:
  - a** people and Human Resource Management;
  - b** matrix management;
  - c** accountability, governance and the general framework for the Auditor General's regime and the Wales Audit Office;
  - d** workload, planning and management (including scenario planning to meet future challenges);
  - e** benchmarking, fees and charges;
  - f** delivery and quality of operational work:
    - i** financial audit; and
    - ii** performance audit.
  - g** stakeholder relationships, including co-ordination of inspection and audit work and collaboration with other external review bodies.



## Approach

- 6 We attended the Wales Audit Office Stakeholder Conference on 20 May. This provided an invaluable opportunity to speak to a wide range of stakeholders and to observe the Wales Audit Office running a major event.
- 7 We invited a wide range of stakeholders to meet us to discuss the current and future work and impact of the Wales Audit Office. These included Ministers, senior Assembly Government officials and stakeholders in health, local government and other external review bodies (a full list may be found in **Appendix 3**). We are extremely grateful to all of the stakeholders who gave so generously of their time and provided honest, constructive and thoughtful views about the future development of the Wales Audit Office.
- 8 We reviewed a wide range of documents and interviewed key Wales Audit Office staff. We also requested data analysis to support our work in relevant areas.
- 9 We set up a wide range of mechanisms through which to engage internal Wales Audit Office stakeholders, building on the thorough engagement of staff in the Wales Audit Office's own self-assessment exercise. We set up two e-mail addresses through which internal and

## Biographies of the Peer Review team

Caroline Gardner (Chair)	Caroline has been Deputy Auditor General since 2000, and was appointed Controller of Audit by Scottish Ministers in 2004. Before this she worked for the Accounts Commission for Scotland and the Audit Commission in England and Wales, Her early career was spent with Wolverhampton MBC and District Audit. Caroline was President of CIPFA in 2006/07.
Sir Alistair Graham	Chairman of PhonepayPlus the regulator for premium rate telephone services, previously Chairman of the Committee on Standards In Public Life from 2004 to 2007, Chairman of Police Complaints Authority from 2000 to 2004 and Chairman of the Northern Ireland Parades Commission from 1997 to 2000.
Paul Boeding	Paul Boeding is Senior Counsellor at the Netherlands Court of Audit and deals with complex public problems. He was Head of the Policy and Legal Affairs Division of the Netherlands Court of Audit and was involved in strategic development, audit planning, organisational development and stakeholder management. Before he became a civil servant he was senior policy officer at Schiphol Airport. Paul started his career as a management consultant at a private firm in the Netherlands.
Roel Praat	Since 2002, Roel Praat has been a member of the management team of the Algemene Rekenkamer in the Netherlands. International affairs and internal affairs are among his responsibilities. Previously, he worked at the Ministry of Finance, the Ministry of Health and at a medium-sized bank in the Netherlands. Roel graduated as an economist he started his career as a teacher at a high school in his home city, The Hague.
John Purcell	John Purcell is the former Comptroller and Auditor General of the Republic of Ireland and also a former member of that Country's Standards in Public Office Commission and Referendum Commission. He is currently working as the appointed Special Investigator into certain matters associated with the banking crisis in Ireland.

external stakeholders could provide written views. We ran three open briefing and question and answer sessions with staff at the Wales Audit Office's three main locations – Cardiff, Ewloe and Swansea attended by a total of 55 staff. The sessions involved a briefing by one or two members of the Peer Review team, followed by any staff questions about the Peer Review process, followed by an open discussion of any relevant issues from the staff perspective.

- 10 The Peer Review team had an initial induction day at which the Auditor General and senior colleagues provided a thorough briefing on the operations of the Wales Audit Office, the strategic context and the conduct and results of its own self-assessment exercise. The Peer Review team met on three subsequent occasions to review progress and discuss its findings. These meetings of the Peer Review team were supported by Rob Powell, a Director of the Wales Audit Office, who acted as Secretariat to the Peer Review team.

## Cost of the Peer Review

- 11 The estimated cost of the Peer Review is £50,000.

## Appendix 3 – List of external stakeholders interviewed as part of the Peer Review

Name	Title	Organisation
David Hands	Audit and Risk Management Committee Member	Wales Audit Office
Dr Bill Maxwell	Chief Inspector	Estyn
Simon Brown	Head of Directorate - Education Partnerships, Training and Inclusion	Estyn
Andrew Davies AM	Minister for Finance and Public Service Delivery	Welsh Assembly Government
Dr Brian Gibbons AM	Minister for Social Justice and Local Government	Welsh Assembly Government
Rt Hon Rhodri Morgan AM	First Minister for Wales	Welsh Assembly Government
Steve Thomas	Chief Executive	Welsh Local Government Association
Dr Christine Daws	Director General – Finance	Welsh Assembly Government
John Golding	Partner	Grant Thornton
Dr Emyr Roberts	Director General – Public Services and Local Government Delivery	Welsh Assembly Government
Dame Gillian Morgan DBE	Permanent Secretary	Welsh Assembly Government
Stuart Fletcher	Chair	Welsh Ambulance Services NHS Trust
Alan Murray	Chief Executive	Welsh Ambulance Services NHS Trust
Jonathan Morgan AM	Chair of the Audit Committee	National Assembly for Wales
Gilbert Lloyd	Partner	KPMG
Lynn Hine	Partner	PricewaterhouseCoopers LLP
David Melding AM	Former Chair of the Audit Committee	National Assembly for Wales
Peter Laing	Chair, Audit and Risk Management Committee	Wales Audit Office
Andrew Lewis	Acting Chief Executive	National Leadership and Innovation Agency for Healthcare
Vivienne Sugar	Chair	Consumer Focus Wales
Paul Williams OBE	Chief Executive, NHS Wales and Director General for Health and Social Services	Welsh Assembly Government
Dr Peter Higson	Chief Executive	Healthcare Inspectorate Wales

Name	Title	Organisation
Rosamund Blomfield-Smith	Audit and Risk Management Committee Member	Wales Audit Office
Edwina Hart AM MBE	Minister for Health and Social Services	Welsh Assembly Government
Rob Pickford	Chief Inspector	Care and Social Services Inspectorate Wales
Mike Ponton	Director	Welsh NHS Confederation
Dr Jo Farrar	Chief Executive	Bridgend County Borough Council
Debra Wood-Lawson	Managing Consultant	Insight
Gareth Howells	Negotiations Officer	Prospect
Tony Bell	National Officer	Prospect

## Appendix 4 – External input into Governance and Accountability in other audit and inspection bodies

Wales Audit Office	<p>The Auditor General for Wales, in his capacity as Accounting Officer for the Wales Audit Office, is accountable to the National Assembly for Wales' Audit Committee. He has also established an Audit and Risk Management Committee to support him in the discharge of his responsibilities for issues of risk, control and governance and associated assurance within the Wales Audit Office. The Committee currently comprises four independent members; one position is vacant. The Auditor General is currently inviting applications for the vacancy and to engage an additional two members to serve on the Committee.</p> <p><a href="http://www.wao.gov.uk/whoweare/946.asp">http://www.wao.gov.uk/whoweare/946.asp</a>  <a href="http://www.wao.gov.uk/assets/ARMC_TofR_.pdf">http://www.wao.gov.uk/assets/ARMC_TofR_.pdf</a></p>
Audit Scotland	<p>Board currently includes one independent non-executive director, appointed by the Auditor General and Chair of the Accounts Commission.</p> <p><a href="http://www.audit-scotland.gov.uk/about/as/people.php">http://www.audit-scotland.gov.uk/about/as/people.php</a></p> <p>The accountable officer is answerable to the Scottish Parliament via the Scottish Commission for Public Audit (SCPA) for the exercise of his/her functions. In a review of Audit Scotland's corporate governance, the SCPA recently recommended that the Board should consist of the Auditor General and the Chair of the Accounts Commission together three other independent non-executive members (appointed for a fixed term) with no connection to either. The Scottish Parliament and Scottish Government have agreed with this recommendation and are amending the relevant legislation.</p> <p><a href="http://www.scottish.parliament.uk/s3/committees/scpa/reports-08/scpar08-01.htm">http://www.scottish.parliament.uk/s3/committees/scpa/reports-08/scpar08-01.htm</a> - 9  <a href="http://www.scottish.parliament.uk/s3/committees/scpa/documents/SPCResponse-05-12-08.pdf">http://www.scottish.parliament.uk/s3/committees/scpa/documents/SPCResponse-05-12-08.pdf</a>  <a href="http://www.scottish.parliament.uk/s3/committees/scpa/documents/SGresponseCorporateGovernance.pdf">http://www.scottish.parliament.uk/s3/committees/scpa/documents/SGresponseCorporateGovernance.pdf</a></p>
Audit Commission	<p>Formal governing board is currently made up of 14 commissioners appointed by the Secretary of State for Communities and Local Government. The Chief Executive is one of the commissioners; the remainder are not members of staff of the Commission.</p> <p>The Commission is accountable, through the Secretary of State for Communities and Local Government and other ministers, to Parliament for the activities of the Commission, stewardship of public funds and the extent to which performance targets and objectives have been met. To help ensure transparency and accountability, the Audit Commission publishes actual Board minutes rather than summaries.</p> <p><a href="http://www.audit-commission.gov.uk/SiteCollectionDocuments/Downloads/CorporateGovernanceFramework.pdf">http://www.audit-commission.gov.uk/SiteCollectionDocuments/Downloads/CorporateGovernanceFramework.pdf</a>  <a href="http://www.audit-commission.gov.uk/aboutus/howwearerun/pages/default.aspx">http://www.audit-commission.gov.uk/aboutus/howwearerun/pages/default.aspx</a></p>
National Audit Office	<p>The Constitutional Reform and Governance Bill was introduced in Parliament on 20 July 2009. The Bill includes clauses relating to the governance of the National Audit Office and in particular to establish the National Audit Office as a corporate entity consisting of nine members, five of whom are not National Audit Office employees. The Bill followed a review commissioned by the Public Accounts Commission in 2007, the results of which were published by the Commission in March 2008.</p> <p>In advance of the legislation the National Audit Office has decided to operate the new governance model on a voluntary basis. The non-executive Chair was appointed with effect from 1 January 2009, the four other non-executive Members were appointed with effect from 1 June 2009, and the three executive Members in addition to the Comptroller and Auditor General were appointed on 17 July 2009.</p> <p>The draft legislation can be found on the Parliament website  <a href="http://www.publications.parliament.uk/pa/cm200809/cmbills/142/2009142.pdf">http://www.publications.parliament.uk/pa/cm200809/cmbills/142/2009142.pdf</a></p>

Northern Ireland Audit Office	<p>The Northern Ireland Audit Office is modelled on the National Audit Office, although a number of changes have recently been made to governance arrangements. There are two non-executive members of the Northern Ireland Audit Office senior management Board.</p> <p><a href="http://www.parliament.uk/documents/upload/pac-nao-governance-080206.pdf">http://www.parliament.uk/documents/upload/pac-nao-governance-080206.pdf</a></p>
Office of the Comptroller and Auditor General for Ireland	<p>The Office's strategy and operational performance is overseen by an Audit Board comprising the Comptroller and Auditor General and the three most senior managers (the Secretary and Director of Audit and two Directors of Audit).</p> <p>The Office has an Audit Committee which operates under a Charter. The Audit Committee's role is to offer independent advice on the effectiveness of the systems and controls operating within the Office of the Comptroller and Auditor General.</p> <p><a href="http://audgen.gov.ie/ViewDoc.asp?fn=%2Fhome%2Easp&amp;CatID=2">http://audgen.gov.ie/ViewDoc.asp?fn=%2Fhome%2Easp&amp;CatID=2</a></p>
Estyn (the Office of Her Majesty's Chief Inspector of Education and Training in Wales)	<p>A Board of directors has been established including three non-executives.</p> <p>An Audit Committee comprising the non-executive directors of Estyn's Board is chaired by one of the non-executive directors. The Audit Committee supports the Accounting Officer (Chief Inspector) in his responsibilities for issues of risk, control, governance and assurance.</p> <p><a href="http://www.estyn.gov.uk/about_estyn/estyns_board_report_2007_2008.pdf">http://www.estyn.gov.uk/about_estyn/estyns_board_report_2007_2008.pdf</a>  <a href="http://www.estyn.gov.uk/about_estyn/estyn_corporate_plan_2009_2012.pdf">http://www.estyn.gov.uk/about_estyn/estyn_corporate_plan_2009_2012.pdf</a></p>
Ofsted	<p>Governance arrangements are similar to the Audit Commission with a Board consisting of a chairman and not more than 10 other independent members appointed by the Secretary of State, alongside the Chief Inspector.</p> <p><a href="http://www.ofsted.gov.uk/Ofsted-home/About-us/Our-structure-and-leadership/The-Ofsted-board/Board-Meetings/Board-meeting-documents/Ofsted-s-corporate-governance-framework/(language)/eng-GB">http://www.ofsted.gov.uk/Ofsted-home/About-us/Our-structure-and-leadership/The-Ofsted-board/Board-Meetings/Board-meeting-documents/Ofsted-s-corporate-governance-framework/(language)/eng-GB</a></p>
Care Quality Commission	<p>Governance arrangements are similar to those of the Audit Commission and Ofsted.</p> <p><a href="http://www.cqc.org.uk/aboutcqc/whoware/ourpeople.cfm">http://www.cqc.org.uk/aboutcqc/whoware/ourpeople.cfm</a></p>
Audit New Zealand/Office of the Auditor General	<p>A four person audit and risk committee meets four times a year to provide the Auditor General with the assurance he requires on key internal controls and processes. The Committee is composed of three external appointees, all of whom are chosen for their expertise and experience, and the Deputy Comptroller and Auditor-General (who, like the Comptroller and Auditor General, is a statutory officer appointed by the Parliament). Its main functions are risk management and internal control, the internal audit function, financial and other reporting, governance framework and systems, compliance with legislation and policy. These functions are set out clearly in the Committee's Charter.</p> <p>The Office's internal audit function has recently been contracted out to a major accounting firm. Previously, it was handled by a staff member – an arrangement which was not entirely satisfactory to either the Auditor-General or the Audit and Risk Committee.</p> <p>The Auditor General has taken the numerous other steps to open the Office to external scrutiny, including a major Peer Review. Others include advisory groups, external reviews of performance audits, independent checks on audit allocation decisions and fee monitoring processes, consultation with members of Parliament and other stakeholders on the discretionary work programme, staff climate surveys and external client and stakeholder surveys , and publication of its website of the Auditor General's expenditure on international travel.</p> <p><a href="http://www.oag.govt.nz/2008/peer-review/docs/peer-review-report.pdf">http://www.oag.govt.nz/2008/peer-review/docs/peer-review-report.pdf</a></p>

Office of the Auditor General of Canada	<p>The Auditor General receives external advice through several committees, including an Audit Committee, a panel of senior advisors, and an independent advisory committee, that have members from outside of the Office of the Auditor General of Canada.</p> <p><a href="http://www.oag-bvg.gc.ca/internet/English/au_lp_e_8072.html">http://www.oag-bvg.gc.ca/internet/English/au_lp_e_8072.html</a></p>
Netherlands Court of Audit	<p>The Court of Audit's Board comprises three executive members, one of whom is the President, plus two extraordinary members. Extraordinary Board members may be called upon to take part in certain activities. They can be asked, for example, to supervise audits, carry out external activities or deputise for a Board member.</p> <p>An Audit Committee made up of three members provides independent advice to the President in her capacity as head of the Court of Audit and to the Secretary General in her capacity as head of staff.</p> <p><a href="http://www.rekenkamer.nl/9282400/v/">http://www.rekenkamer.nl/9282400/v/</a></p>
Australian National Audit Office	<p>An Executive board of management provides leadership to the Australian National Audit Office in achieving the objectives and strategies outlined in its Corporate Plan, and assists the Auditor General to meet his statutory responsibilities. EBOM is responsible for setting and monitoring strategic directions, overseeing key business opportunities and risks, and the Australian National Audit Office budget.</p> <p>Auditor-General has established an Audit Committee, chaired by an external independent member to enhance the control framework, improve the objectivity and reliability of externally published financial and other information, and assist the AuditorGeneral to comply with all legislative and other organisational objectives.</p> <p><a href="http://www.anao.gov.au/uploads/documents/2007-08_Annual_Report1.pdf">http://www.anao.gov.au/uploads/documents/2007-08_Annual_Report1.pdf</a></p>
Riksrevisionen – the Swedish National Audit Office	<p>The Swedish National Audit Office is lead by three Auditors General who are appointed by the Swedish Parliament.</p> <p>The Swedish National Audit Office board members are appointed by the Swedish Parliament and chosen among present and former members of parliament. The board consists of eleven members and eleven deputies. Its tasks are to monitor auditing operations and to determine, without any restrictions, what policy decisions may have to be made in connection with the conclusions and recommendations presented by the Auditors General in their audit reports.</p> <p>The Swedish NAO also has a Scientific Council whose task is to provide advice and support in methodological and quality issues as well as other strategic issues. The members of the council are appointed jointly by the Auditors General.</p> <p><a href="http://www.riksrevisionen.se/templib/pages/NormalPage___1768.aspx">http://www.riksrevisionen.se/templib/pages/NormalPage___1768.aspx</a></p>
Riksrevisjonen – Office of the Auditor General of Norway	<p>The Office of the Auditor General is managed by a Board of five Auditors General. The Board discusses the reports to Parliament and other major documents at a plenary meeting. The Auditors General and their personal deputies are appointed by the Parliament for a period of four years. The Chairman of the Board is the chief executive officer of the Office of the Auditor General. The Auditors General each hold one vote. Decisions made by the Board require support from at least three of the Auditors General. Each Board member has a political affiliation in a similar fashion to the Swedish model.</p> <p><a href="http://www.riksrevisjonen.no/en/AboutRR/BoardOfAuditorsGeneral/">http://www.riksrevisjonen.no/en/AboutRR/BoardOfAuditorsGeneral/</a></p>