

Agenda – Finance Committee

Meeting Venue:	For further information contact:
Video Conference via Zoom	Owain Roberts
Meeting date: 28 January 2022	Committee Clerk
Meeting time: 09.15	0300 200 6388
	SeneddFinance@senedd.wales

- 1 Introductions, apologies, substitutions and declarations of interest**
(09.15)
- 2 Scrutiny of the Welsh Government Draft Budget 2022–23:
Consideration of draft report**
(09.15–10.05) (Pages 1 – 109)
Supporting Documents:
FIN(6)–04–22 P1 – Draft report
- 3 Audit Wales Fee Scheme**
(10.05–10.15) (Pages 110 – 176)
Supporting documents:
FIN(6)–04–22 P2 – Fee Scheme 2022–23
FIN(6)–04–22 P3 – Letter from Audit Wales: Response to the Finance
Committee Annual Scrutiny of the Wales Audit Office – 18 January 2022
FIN(6)–04–22 P3a – Board effectiveness review report



Document is Restricted

Fee Scheme 2022-23

This is a fee scheme prepared by the Wales Audit Office under section 24 of the Public Audit (Wales) Act 2013.

This fee scheme is laid before the Senedd under section 24(4)(c) of the Public Audit (Wales) Act 2013.

Mae'r ddogfen hon hefyd ar gael yn Gymraeg.

This document is also available in Welsh.

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Auditor General for
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Lindsay Foyster

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Contents

Overview	4
Introduction	4
Fee rates and fee scales	4
Charging of fees	8
Appendices	10
1 Public Audit (Wales) Act 2013 – full text of section 24	10
2 List of enactments under which the Wales Audit Office may and must charge fees	12
3 Fee scales from 1 April 2022	15

Introduction

Fee rates and fee scales

- 1 This Fee Scheme has been prepared under section 24 of the Public Audit (Wales) Act 2013 (the Act) (**Appendix 1**). The Fee Scheme, following approval by the Senedd, provides the basis on which we charge fees.
- 2 As set out in our [consultation on proposed fees](#) December 2021 and our [Estimate for 2022-23](#), we need to make additional investment in audit quality to respond to recent UK-wide reviews¹ of audit which have potential wide-ranging implications for the whole audit profession. These various reviews reflect increasing expectations of audit and of the quality of that audit.
- 3 We also need to respond to a legal ruling which means that we can no longer require our audit staff to undertake travel to client sites in their own time. Whilst our future ways of working will significantly reduce our requirement to travel, there will still be occasions where this will be necessary to complete our audit work.
- 4 Through the identification of cost savings and audit efficiencies, we have managed to hold our fee scales at the same level since 2016, but due to the pressures mentioned above, we are having to pass on a 3.7% increase in fee rates and fee scales for 2022-23. We do, however, remain committed to minimising fees where we can do so through audit efficiencies.
- 5 Our Engagement Directors will discuss audit-specific fees with each body as we approach the next audit year.
- 6 We also plan to continue to provide access to the National Fraud Initiative and our GPX events at no cost to participating bodies.
- 7 This Fee Scheme sets out:
 - the enactments under which we charge audit fees.
 - the arrangements for setting those fees, which comprise either:

1 Competition and Markets Authority Review; Kingman Review; and Brydon Review

- fee scales that set out fee ranges for particular areas of audit work in local government; or
 - fee rates for work not covered by fee scales.
- 8 Broadly, 65% of our expenditure is funded through fees charged to audited bodies. The remaining 35% is provided from the Welsh Consolidated Fund through the budget motion passed by the Senedd.
- 9 Legislation requires that the fees we charge a body **may not exceed** the full cost of exercising at that body the function to which the fee relates. We set our audit fees based on our estimated cost base, the estimated skills mix for audit work and the estimated number of days required to complete the work. We do not and cannot make profits on our work. Our fee rates are set at a level to recover the estimated full cost but no more.
- 10 There is a tension between providing audited bodies with an up-front fee for the work to be undertaken on specific audits and having a sufficiently flexible regime that recognises the inevitability of variances. We set our audit fees based on our estimated expenditure, the estimated skills mix and the estimated number of days required to complete the work. Where the required work is significantly greater than that originally estimated, as a result of complexities experienced during the audit, we may charge a higher fee, as permitted by legislation.
- 11 We went beyond the statutory fee consultation requirements and, in November 2021, consulted all audited bodies and other stakeholders on our proposed fee rates and fee scales for 2022-23
- 12 A total of 78 different bodies were consulted. We received just four responses, suggesting that for most bodies, our fees are not a significant area of concern. Responses received told us that audited bodies:
- highly regarded the work done by our audit teams.
 - welcome the proposal to continue to provide access to the National Fraud Initiative on a nil-fee basis.
 - understood the necessity for the increase in fees although noting the impact on their own budgets.
 - had some questions about the differential increases between fees and WCF which we will respond to directly.
 - were concerned that savings on travel resulting from changes in working patterns were not fully reflected in our fees. Whilst we have allowed for a reduction in travel in both our Estimate and fees, the expectation is that some travel will be necessary to effectively deliver our audit work once the pandemic is over.

13 Our proposed fee rates for 2022-23 are set out in **Exhibit 1**.

Exhibit 1: proposed fee rates 2022-23

Grade	Rate (£ per hour) 2022-23	Rate (£ per hour) 2021-22
Engagement Director	163	162
Audit Manager	122	119
Audit Lead	100	96
Senior Auditor	84	77
Auditor	60	59
Graduate trainee	51	48
Apprentice	39	37

14 We are required to prescribe fee scales for:

- work relating to the audit of local government bodies;
- work under the Local Government (Wales) Measure 2009² (fire and rescue authorities only);
- work under the Local Government and Elections (Wales) Act 2021; and
- data-matching work (NFI).

15 Fee scales for the audit of the 2021-22 financial accounts, together with performance audit work to be undertaken in 2022-23, are provided in **Appendix 3** in relation to unitary authorities, fire and rescue authorities, national park authorities, police and crime commissioners chief constables, town and community councils and local government pension funds. A separate fee scale is provided in relation to the NFI. Performance audit includes sustainable development examinations, improvement information audits, improvement assessments and special inspections. Not all these functions apply to all types of audited body.

16 Fee scales are a means of regulating the cost of public audit, through setting limits and by reviewing fees against those limits. Fee scales also provide a framework for auditors to assess the amount of annual audit work necessary and the fee to be charged for that work at a particular audited body.

2 The Local Government (Wales) Measure 2009 is in a process of phased repeal as various provisions of the Local Government and Elections (Wales) Act 2021 commence.

- 17 Audited bodies not covered by the statutory requirement for a fee scale have their estimated audit fees calculated in the same way as for those which are covered – that is, through applying the fee rates published in this Fee Scheme to the estimated team mix and hours of input required for the audit.
- 18 Auditors undertake grant certification work on behalf of the Auditor General. The amount of grant certification work undertaken in any year is dependent on the number of schemes subject to audit and the number of audited bodies participating in those schemes. Charges for this work are calculated using the fee rates and reflecting the size, complexity or any particular issues in respect of the grant in question.
- 19 The fee rates apply to all audit work except to the extent that the fee scales, where applicable, regulate the amount to be charged (or in the case of work done under agreements made prior to 1 April 2014, rates are in terms as agreed). If it subsequently appears that the work involved in a particular audit differs substantially from that originally envisaged, we may charge a fee which differs from that originally notified.
- 20 In the case of the provision of other administrative, professional or technical services provided, fees will be charged in accordance with the relevant agreement, subject to such amounts being capped at the full cost of providing the service.
- 21 To meet statutory responsibilities, it is sometimes necessary for auditors to carry out work which goes beyond their general duties. Additional work can include reports in the public interest, extraordinary audit, special inspections and further work in relation to electors' questions and objections, and the prevention of unlawful expenditure. Charges for this type of work will reflect the nature of the work required and are calculated by applying the fee rates published in this Fee Scheme to the team mix and hours of input required for the work.
- 22 Where specialist support or legal or other professional advice is required, this will be charged to audited bodies in addition to the cost of our audit staff.

Charging of fees

- 23 Each body's Engagement Director will explain the skills mix needed for the audit and the factors influencing the overall fee. Charging arrangements are agreed with audited bodies and may encompass one-off, periodic, regular or annual charging, as appropriate in the circumstances.
- 24 Audited bodies are expected to pay our invoices within their performance target for creditor payments, which is usually ten days. We may charge for the administrative costs incurred in pursuing late payments.
- 25 If required by audited bodies, a purchase order for the agreed audit fee should be raised in advance of invoices being sent.
- 26 On completion of audit assignments, we will assess the actual costs incurred in undertaking the assignment in comparison with the fee charged. We will refund any excess of fee over cost and, conversely, we may charge additional costs where the fee falls short. We will process refunds and additional charges in a manner which seeks to minimise administrative costs, such as through offsetting against future fees or fees for other aspects of audit activity.



Appendices

- 1 Public Audit (Wales) Act 2013 – full text of section 24**
- 2 List of enactments under which the Wales Audit Office may and must charge fees**
- 3 Fee scales from 1 April 2022**

Appendix 1 – Public Audit (Wales) Act 2013 – full text of section 24

- (1) The Wales Audit Office must prepare a scheme relating to the charging of fees by the Wales Audit Office.
- (2) The scheme must include the following:
 - (a) a list of the enactments under which the Wales Audit Office may charge a fee;
 - (b) where those enactments make provision for the Wales Audit Office to prescribe a scale or scales of fees, that scale or those scales;
 - (c) where those enactments make provision for the Wales Audit Office to prescribe an amount to be charged, that amount;
 - (d) where no provision is made for a scale or scales of fees or for an amount to be prescribed, the means by which the Wales Audit Office is to calculate the fee.
- (3) The scheme may, amongst other things:
 - (a) include different provision for different cases or classes of case, and
 - (b) provide for times at which, and the manner in which, payments are to be made.

-
- (4) The Wales Audit Office:
 - (a) must review the scheme at least once in every calendar year;
 - (b) may revise or remake the scheme at any time, and
 - (c) must lay the scheme (and any revision to it) before the National Assembly³.
 - (5) Where the Welsh Ministers prescribe a scale or scales of fees under:
 - (a) section 64F of the Public Audit (Wales) Act 2004 (fees for data matching); or
 - (b) section 27A of the Local Government (Wales) Measure 2009 (Welsh Ministers' power to prescribe a scale of fees) to have effect instead of a scale or scales prescribed by the Wales Audit Office, the Wales Audit Office must revise the scheme to include the scale or scales prescribed by the Welsh Ministers instead of those prescribed by the Wales Audit Office.
 - (6) If a revision made in accordance with subsection (5) is the only revision to a scheme, it does not require the approval of the National Assembly.
 - (7) The scheme takes effect when approved by the National Assembly or, in the case of a revision made in accordance with subsection (5), once it has been laid before the Assembly.
 - (8) The Wales Audit Office must publish the scheme (and any revision to it) as soon as reasonably practicable after it takes effect.

3 The extant legislation refers to the 'National Assembly' despite the change in name to 'Y Senedd/The Welsh Parliament'.

◀ Appendix 2 – List of enactments under which the Wales Audit Office may and must charge fees

Nature of work	Enactments
The Wales Audit Office may charge fees for the following activities	
Audit of accounts by the Auditor General (other than local government accounts).	Section 23(2) Public Audit (Wales) Act 2013
Value for money studies undertaken by agreement (except educational institutions and local government bodies—see below).	Section 23(3)(a), (b) and (c) Public Audit (Wales) Act 2013
An examination, certification or report under section 31 of the Tax Collection and Management (Wales) Act 2016 in respect of the Welsh Revenue Authority’s Tax Statement.	Section 23 (3) (ba) Public Audit Wales Act 2013
An examination under section 15 of the Well-being of Future Generations (Wales) Act 2015 (anaw 2) (examinations of public bodies for the purposes of assessing the extent to which a body has acted in accordance with the sustainable development principle).	Section 23(3)(ca) Public Audit (Wales) Act 2013

Nature of work	Enactments
Any functions of a relevant authority exercised by the Wales Audit Office or the Auditor General and undertaken by agreement, and any administrative, professional or technical services to be provided by the Wales Audit Office or the Auditor General by arrangement under section 19 of the Public Audit (Wales) Act 2013.	Section 23(3)(d) Public Audit (Wales) Act 2013
An extraordinary audit of the accounts of a local government body.	Section 37(8) of the Public Audit (Wales) Act 2004
Advice and assistance provided by the Auditor General for registered social landlords.	Section 145D(2) of the Government of Wales Act 1998 Terms of payment may only be made in accordance with a scheme for charging fees under s24 of the Public Audit Wales Act 2013
The Wales Audit Office must prescribe fee scales for the following activities	
Audit of accounts of local government bodies	Section 20(A1)(a) of the Public Audit (Wales) Act 2004
Assistance to HM Chief Inspector of Education & Training Wales	Section 41A(6) of the Education Act 1997
Studies relating to Registered Social Landlords (housing associations)	Section 145C(3) of the Government of Wales Act 1998
Studies at request of local government bodies	Section 20(A1)(b) of the Public Audit (Wales) Act 2004
Benefit administration studies for the Secretary of State	Section 45(7) of the Public Audit (Wales) Act 2004
Grant certification services.	Section 23(4)(a) Public Audit (Wales) Act 2013
Studies at request of educational bodies	Section 23(4)(b) Public Audit (Wales) Act 2013

Nature of work	Enactments
Improvement information audits, improvement assessments and special inspections of Welsh Improvement Authorities	Section 27 of the Local Government (Wales) Measure 2009
Special inspections of principal councils	Section 101 of the Local Government & Elections (Wales) Act 2021

Appendix 3 – Fee scales from April 2022

Fee scales for work undertaken under the National Fraud Initiative (NFI)

- 27 We are required to consult on and prescribe scales of fees for data matching for mandatory participants in the NFI. The Auditor General conducts the NFI using his statutory data-matching powers under Part 3A of the Public Audit (Wales) Act 2004.
- 28 The NFI matches data across organisations and systems to help public bodies identify potentially fraudulent or erroneous claims and transactions. The NFI has been a highly effective tool in detecting and preventing fraud and overpayments. Our last biennial [report](#) identified potential savings and over-payments of £8 million across Wales’s public services, increasing cumulative savings to £42.9 million since 1996.
- 29 Since April 2015, the Senedd has met the costs of running the NFI through payment from the Welsh Consolidated Fund. This is intended to encourage participation of organisations on a voluntary basis and simplifies arrangements for mandated participants. For 2022-23, the Senedd has made additional funding available to allow us to pilot data matching products developed by the UK NFI Team to enable public bodies to undertake bank verification and trading status checks on organisations which have applied for grant funding.
- 30 As required by legislation, the fees for mandatory participants are shown in **Exhibit 2**.

Exhibit 2: NFI fees

	Fee 2022-23
Unitary authority; police and crime commissioners and chief constables; fire and rescue authorities; NHS trusts; local health boards.	Nil
Voluntary participants	Nil
All participants may also be provided with access to the NFI Application Checker (App Check).	Nil

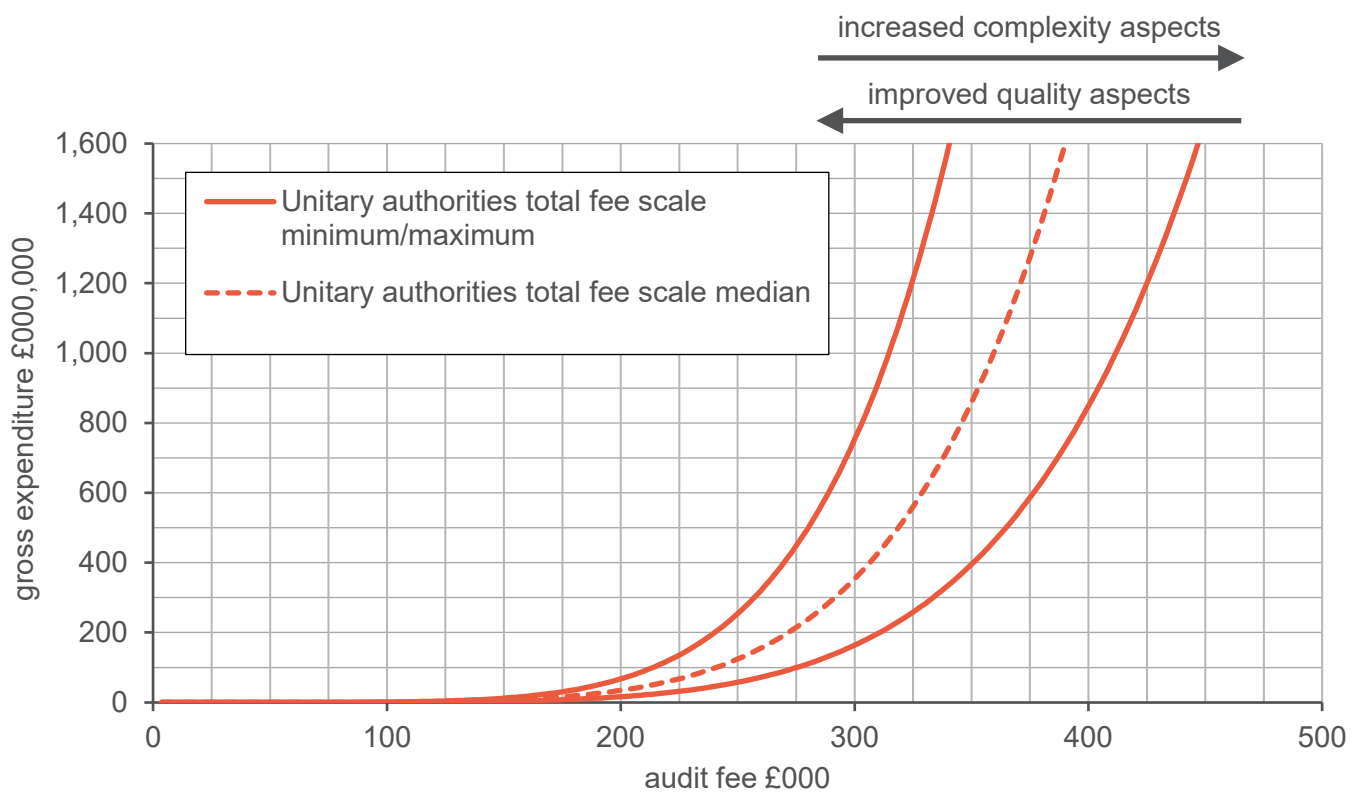
Fee scales for unitary authorities**Exhibit 3: fee scale for the audit of 2021-22 accounts**

Gross Expenditure £m	Fee range			Previous Year
	Minimum £'000	Median £'000	Maximum £'000	Median £'000
100	118	139	159	133
200	142	167	192	161
300	158	186	213	179
400	170	200	230	193
500	181	213	245	205
600	190	223	257	215
700	198	233	267	224
800	205	241	277	232
900	211	249	286	240
1,000	217	256	294	246
1,100	223	262	302	253
1,200	228	268	309	259

Exhibit 4: fee scale for 2021-22 performance audit work

All unitary authorities	Fee range			Previous Year
	Minimum £'000	Median £'000	Maximum £'000	Median £'000
	98	105	119	101

Exhibit 5: graph of total fee scale for unitary authorities



Fee scales for local government pension funds

Exhibit 6: fee scale for audit of 2021-22 accounts

All pension funds	Fee range			Previous Year
	Minimum £'000	Median £'000	Maximum £'000	Median £'000
	31	41	49	41

Fee scales for fire and rescue authorities

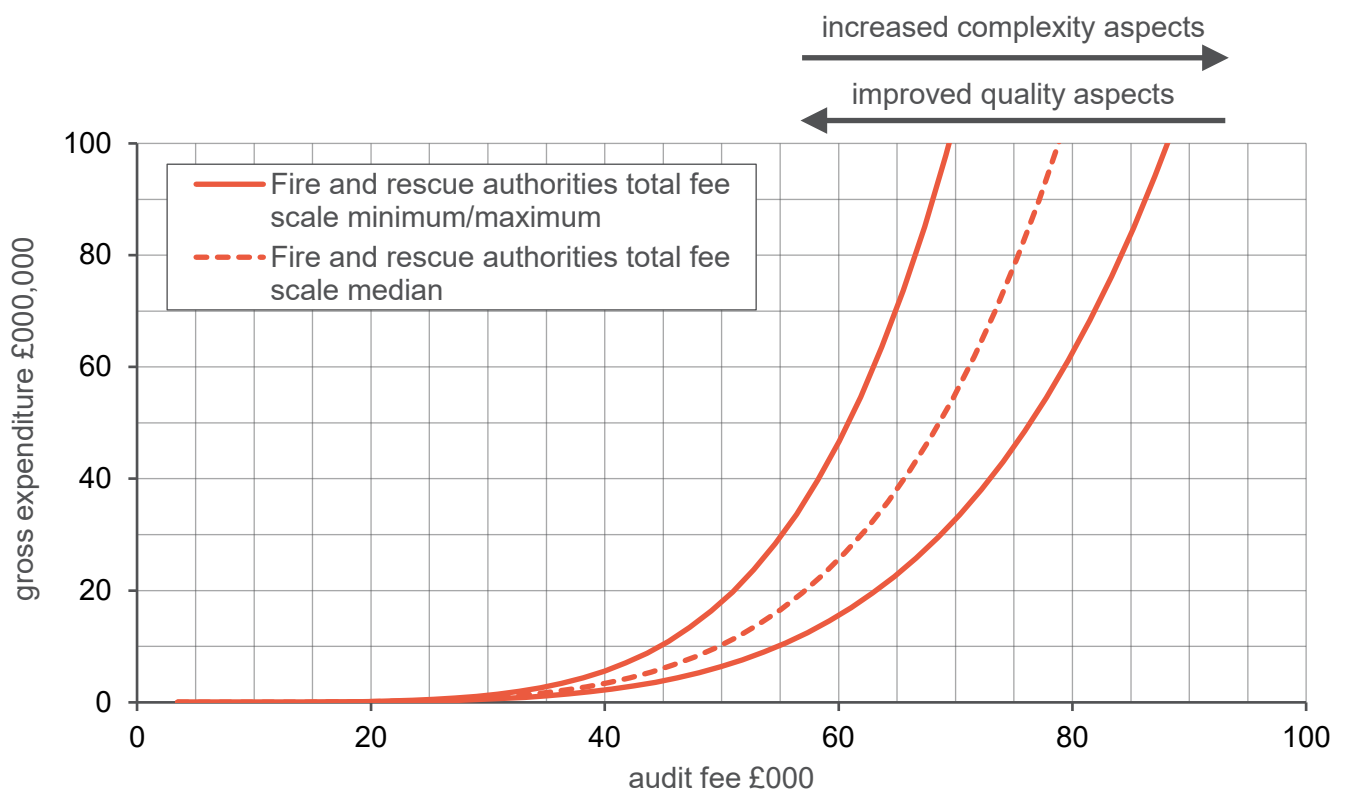
Exhibit 7: fee scale for audit of 2021-22 accounts

Gross Expenditure £m	Fee range			Previous Year
	Minimum £'000	Median £'000	Maximum £'000	Median £'000
20	35	41	47	39
40	42	49	56	47
60	46	54	63	52
80	50	59	68	57
100	53	62	72	60

Exhibit 8: fee scale for 2022-23 performance audit work

All fire and rescue authorities	Fee range			Previous Year
	Minimum £'000	Median £'000	Maximum £'000	Median £'000
	17	17	17	16

Exhibit 9: graph of total fee scale for fire and rescue authorities



Fee scales for national park authorities

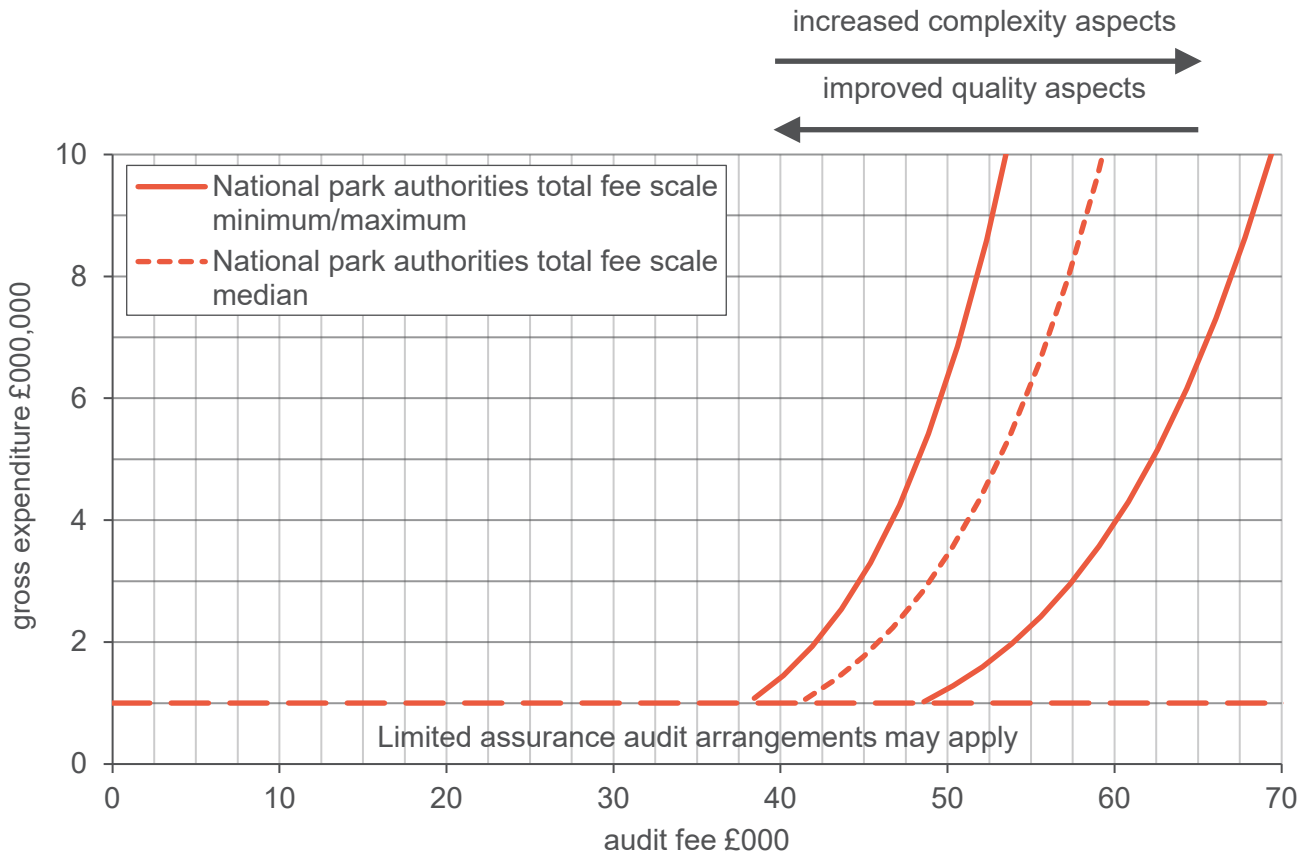
Exhibit 10: fee scale for audit of 2021-22 accounts

Gross Expenditure £m	Fee range			Previous Year
	Minimum £'000	Median £'000	Maximum £'000	Median £'000
2	21	25	29	24
4	26	30	35	29
6	29	34	39	32
8	31	36	42	35
10	33	39	44	37

Exhibit 11: fee scale for 2022-23 performance audit work

All national park authorities	Fee range			Previous Year
	Minimum £'000	Median £'000	Maximum £'000	Median £'000
	21	21	25	17

Exhibit 12: graphic of total fee scale for national park authorities



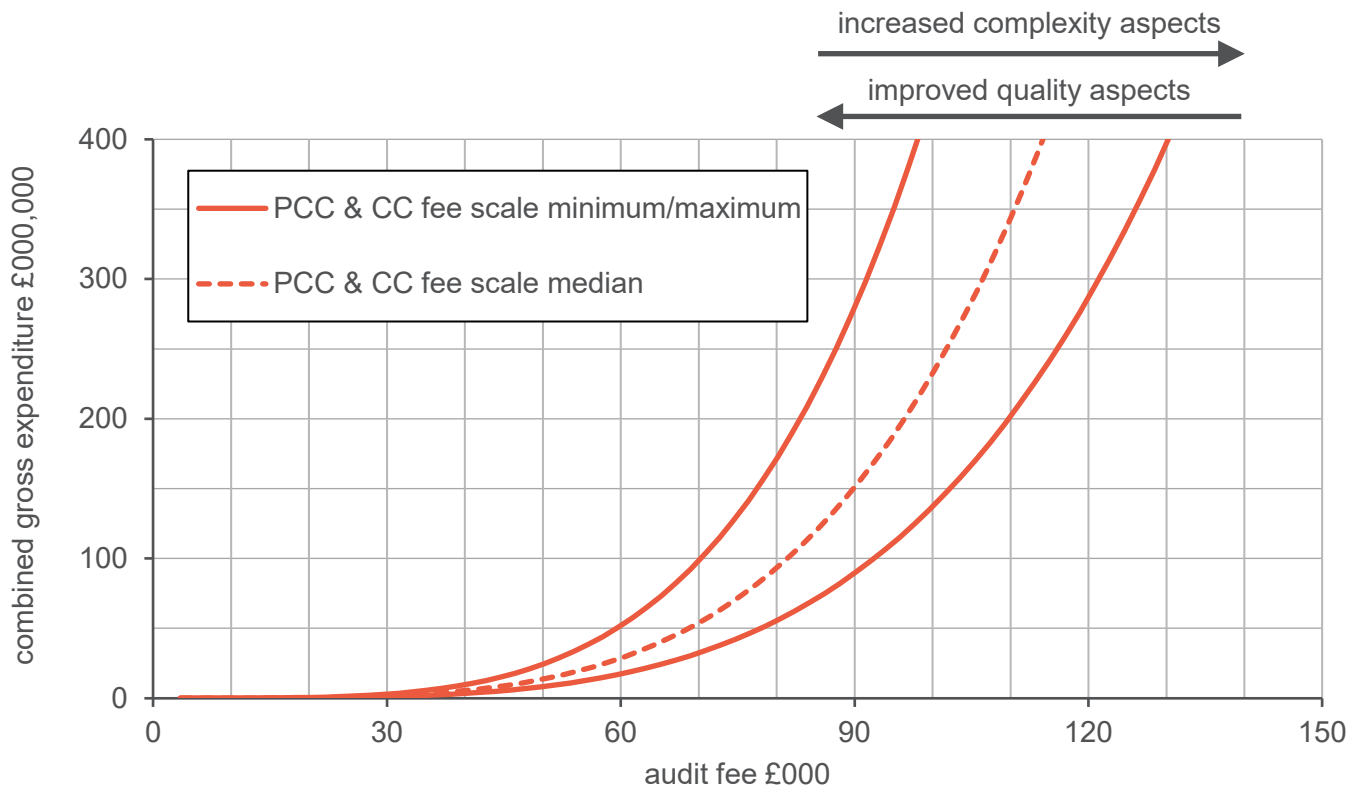
Fee scales for police and crime commissioners

Auditors undertake audits of two statutory bodies in a police area – the Police and Crime Commissioners (PCCs) and the Chief Constables (CCs). The split of the total fee between the two bodies in a particular police area will be a matter for auditors to determine, based on accounting requirements and the operational arrangements put in place by each of the bodies.

Exhibit 13: fee scale for audit of 2021-22 accounts (including performance audit work to be undertaken in 2022-23)

Combined Gross Expenditure of PCC and CC £m	Combined fee range for PCC and CC			Previous Year
	Minimum £'000	Median £'000	Maximum £'000	Median £'000
50	60	69	78	64
100	70	81	92	76
150	77	90	102	85
200	83	96	110	91
250	88	102	116	96
300	92	106	121	101
350	95	111	126	105

Exhibit 14: graph of total fee scale for police and crime commissioners and chief constables



Fee scales for town and community councils with annual income or expenditure under £2.5 million

Town and community councils in Wales are subject to a limited assurance audit regime.

In October 2020, the Auditor General published a [paper](#) setting out how these audits will be carried out on a three-year cycle as set out in **Exhibit 15**.

Exhibit 15 – Three-year audit cycle for town and community councils

	Group A	Group B	Group C
Year 1	Transaction testing	Limited procedures	Limited procedures
Year 2	Limited procedures	Transaction testing	Limited procedures
Year 3	Limited procedures	Limited procedures	Transaction testing

Charges for this work are based on the time taken to complete the audit at fee rate charges as set out in **Exhibit 1** on **page 6**.

In circumstances where the auditor requires further evidence to properly discharge their responsibilities, including following publication of a related public interest report, additional testing will be undertaken to address the auditor's concerns.

It is emphasised that the actual charge made to any particular body will be dependent on the time actually worked on that particular audit. The range of fees provided in **Exhibit 16** is for indicative purposes only.

Exhibit 16: estimated time charges for the audit of 2021-22 accounts of town and community councils

	Band 1 (<£10k)	Band 2 (<£25k)	Band 3 (<£50k)	Band 4 (<£100k)	Band 5 (<£500k)	Band 6 (>£500k)
Transaction audit	£145 – £175	£160 – £190	£220 – £270	£340 – £415	£605 – £725	£805 – £1,040
Limited procedures	£105 – £125	£130 – £155	£130 – £155	£200 – £240	£200 – £240	£200 – £240

Fee rates for other work in local government

Other than those types of bodies for which fee scales have been prescribed as shown above, there are a few other types of local government body where our prescription of the fee scale is a matter of converting the resource requirements into fees directly based on the costs of delivering the work or by applying the fee rates as set out in **Exhibit 1**. It remains the case that for audits of these bodies we apply a zero-based approach to audit planning.

For all types of local government body, to meet his statutory responsibilities, it is sometimes necessary for the Auditor General to carry out work which goes beyond general duties (those set out in section 17 of the Public Audit (Wales) Act 2004 and in section 15 of the Well-being of Future Generations (Wales) Act 2015). Additional work can include reports in the public interest, extraordinary audit, special inspections and further work in relation to elector challenge and the prevention of unlawful expenditure. Charges for this type of work will reflect the nature of the work required.

Auditors may also undertake grant certification work at local government bodies on behalf of the Auditor General. The amount of grant certification work undertaken in any year is dependent on the number of schemes subject to audit and the number of audited bodies participating in those schemes. Charges for this work are made on a per-hour basis and reflect the size, complexity or any issues in respect of the grant in question as set out in **Exhibit 17**.

Exhibit 17: estimates of the relative proportions of audit staff grades to be used for different types of grants work

Grade of staff	Complex grants staff mix %	All other grants staff mix %
Engagement director	1 to 2	0 to 1
Audit Manager	4 to 6	1 to 2
Audit Lead	18 to 21	12 to 16
Auditor/graduate trainee/apprentice	71 to 77	81 to 87

Complex grants include:

- BEN01 Housing and council tax benefits scheme
- LA01 National non-domestic rates return
- PEN05 Teachers' pensions return



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Via email

Reference: LF22001/AC293/caf

Date issued: 18 January 2022

Dear Peredur

Finance Committee Annual Scrutiny of the Wales Audit Office

Further to your report - the *Annual scrutiny of the Wales Audit Office and the Auditor General for Wales* - we are writing to set out our responses to the Committee's recommendations.

We accept all of your recommendations and set out how we intend to address each one below:

Annual Report and Accounts 2020-21

Recommendation 1. The Committee recommends that Audit Wales shares further detail on the innovations and new ways of working that will continue to apply post-pandemic.

The impact of the pandemic continues to influence our thinking on innovation and new ways of working, in particular our use of technology and digital solutions. Our priority is to ensure that quality and impact are maintained as well as taking into account the circumstances for our Audited Bodies and their future ways of working. Significant areas of development that we anticipate will continue to apply post-pandemic include:

- Remote access to audited bodies' systems and secure file sharing to enable high quality audit work.
- Improvements in collaborative online work environments using Sharepoint and Teams channels.
- Development of a digital skills framework for staff to ensure they have the capabilities to fully utilise our Office 365 suite of tools.
- Use of online tools to support the drawing conclusions phase of the audit process.

- Redesign of our Audit Platforms to support consistency of practice, to streamline processes and to develop templates.
- Use of online collaboration and learning to increase knowledge sharing across Wales and beyond via our GPX programme of events.

Recommendation 2. The Committee recommends that Audit Wales provides updates as its strategic plans develop and shares its five-year strategic plan once finalised.

We will be engaging with some key external stakeholders during quarter 4 of 2021/22 as well as our own employees. When we have concluded the internal and external engagement, we will share more detail with the Committee.

Recommendation 3. The Committee recommends that Audit Wales clarifies how and the date by which it aspires to achieve its employee experience key performance indicator “Percent positive annual staff survey thematic employee experience scores” and provides further information on the actions it intends to take in this area.

The People Survey is an important tool for AW to gain insight into our employees’ experience. The results from the 2020-21 survey identify that whilst AW continues to perform well, there are areas where employees feel we could improve. Against a backdrop of nearly two years of remote working and some difficult internal changes, we saw a reduction in the thematic scores that underpin the KPI, making its achievement even more challenging.

The results tell us we have work to do to improve the clarity of our future direction, to ensure people feel valued and to develop the workforce for the future. This will be the focus of our attention and on the back of the 2021 survey, we will be briefing Board on our immediate, medium- and longer-term plans in January 2022. We plan to check in with staff during the summer of 2022 so we can measure the impact of our actions.

Through engagement with staff on our five-year strategy and roadmap, we will widen understanding of our future direction and encourage a deeper sense of team and individual contribution which is at the heart of great employee engagement.

The Board will consider the impact of this work, and the implications for the realistic achievability of the KPI through the course of the year.

Recommendation 4. The Committee recommends that Audit Wales closely monitors and takes targeted action to address excessive workload pressures, given the backlog of work and the need to sustain remote working, and provides an update to the Committee on measures it intends to take.

The majority of our audit work is driven by statutory duties placed on the Auditor General and internationally agreed auditing standards. The scope for direct workload management is, therefore, limited to those areas where we have greater discretion i.e. primarily in our value for money work programme.

Like all organisations, we continue to be affected by the pandemic both directly, in terms of staff absence, and through changed operational arrangements. The current wave of the virus is being reflected in higher levels of staff absence which add to the workload pressures that already exist.

Workforce planning and resource management is therefore a high priority for Audit Wales to ensure we deliver high quality audit work whilst also supporting staff wellbeing. We are developing a new resource management system that will provide increased transparency of the overall work programme and more flexible and adaptive resourcing, ensuring we have the right people, doing the right things at the right time.

This will be complemented by continuing to support remote working as effectively as we can. Though less efficient overall, it reduces time spent travelling and has driven us to exploit new ways of working to allow quick and easy access to information from our audited bodies.

As the Committee is aware, the employment market for high quality public audit staff is tight with fierce competition for talent from the private sector. As well as recruiting externally, therefore, we continue to invest in our apprentice and graduate trainee schemes to try to 'grow our own' both for Audit Wales and the wider public sector finance profession.

Recommendation 5. The Committee recommends that Audit Wales provides an updated cost benefit analysis of the senior management restructure.

The Auditor General set out his plans for the senior management restructure in February 2020. The restructure reduced the membership of the Executive Leadership Team from 4 to 3 delivering on-going annual savings of £92,500.

In line with our Restructure, Redeployment, Redundancy and Early Exit policies, staff who were impacted by this change were given the option of voluntary exit rather than competing for one of the new roles. In the event, 2 members of the previous leadership team chose this option, leaving the organisation at the end of September 2020 at a total cost of £354,100. Savings to date¹, including those from delayed recruitment, total £312,300 meaning that the net cost to date is some £41,800. The cost of the voluntary exits will have been paid back in full by March 2022 with ongoing savings thereafter.

¹ To end December 2021

Recommendation 6. The Committee recommends that the Auditor General provides further detail on the staff panel established to assist the Executive Leadership Team, such as its remit, aims and objectives, and any outputs.

The staff panel consists of 6 staff from across the organisation, from different levels and disciplines. The panel receives all ELT papers and two members (typically) attend ELT meetings to participate in discussion. The primary aim is to ensure ELT remains close to the front line and receives constructive challenge and staff perspective when making decisions. The panel also works to improve communication channels between staff and ELT and to be agents for change in shaping our organisational culture.

The staff panel has already contributed to the development of the emerging 5 year Strategy and have actively engaged with the wider staff group to encourage participation in the associated consultation arrangements.

Recommendation 7. The Committee recommends that Audit Wales shares the report of the external Wales Audit Office Board performance and effectiveness review once finalised and would welcome an update on any subsequent action points.

A copy of the external effectiveness report is attached from which the Committee will note the overall assessment that Audit Wales has an effective Board with a number of key strengths. A number of areas for continued development were identified and activity is in hand to address these. We will provide an update on subsequent action points in due course.

Audit Findings Report

Recommendation 8. The Committee recommends that measures are put in place to ensure that the requirement for a majority of non-executive members is complied with at all Wales Audit Office Board meetings, and that these are outlined to the Committee.

The Board's terms of reference make provision for a quorum to be met in accordance with the legislation.

A pre-meeting check on expected member attendance is made to establish whether the meeting is expected to be quorate. If this is not the case, arrangements are made for an employee board member to step down from that meeting as a Board member and attend in an executive / observer capacity only. The check is carried out in the 2-week period ahead of the meeting with open communication with the Board Chair to monitor attendance matters, and a final check immediately before the meeting.

The Chair receives a version of the agenda highlighting any potential quorum issues which are then planned for prior to the start of the meeting.

Estimate 2022-23

Recommendation 9. The Committee recommends that Audit Wales clearly demonstrates how it adheres to the statement of principles when formulating future budgets beyond 2022-23, and that, in particular, it should not assume an increase in funding from one year to the next.

The Wales Audit Office Board takes account of the Statement of Principles and the impact of the fees we charge to audited bodies when considering its Estimate for the following year alongside the medium-term financial plan.

It makes no assumption about any increased funding from one year to the next, however, staff costs make up over 80% of our total budget which makes the inflationary impact of staff costs difficult to absorb through savings in much smaller, non-staff budgets. Despite this, the Board strives to identify cost savings where possible to limit the impact of inflationary cost pressures on the public purse – notably the very difficult decision to reduce costs through the T&S review.

The fees element of our budget is driven by changes to our fee rates but also by any changes in the amount of work that we have to do – if more bodies are created or more audit work is required in order to deliver statutory duties then our costs and fees will increase accordingly. It is difficult to apply the Statement of Principles in this situation.

Recommendation 10. In line with the statement of principles, the Committee recommends that Audit Wales funds in-year pressures by making in-year savings and efficiencies, rather than through supplementary budgets.

Audit Wales always aims to manage in-year pressures through savings and efficiencies rather than through supplementary budgets. Since the establishment of the Wales Audit Office Board in 2014, supplementary estimates have been used for technical adjustment of our budget ambit so as to manage end-of year variation in fee income, and unforeseen external events such as the 2019-20 pension cost increase, but never to manage in-year funding pressures. Though the pandemic raises the risk of funding shortfall (if staff are simply unable to work and so deliver fee income), we have so far been successful in mitigating this risk without recourse to a supplementary budget.

Recommendation 11. The Committee recommends that Audit Wales provides an update bi-annually on the efficiency savings made in-year.

An update on efficiency savings will be provided in our Interim Report and Annual Report and Accounts each year.

Recommendation 12. The Committee recommends that future estimates include a breakdown of all National Fraud Initiative costs to enable the identification of one-off and annual increases.

A full breakdown of costs for the National Fraud Initiative will be included in future Estimates.

Recommendation 13. The Committee requests that Audit Wales reflects on the information it provides in its Estimate and considers how it can ensure it provides a detailed view of its funding requests going forward.

We will reflect on the information provided in the Estimate as the Committee recommends.

Recommendation 14. The Committee recommends that Audit Wales clarifies how it has estimated travel costs in 2022-23 and how those costs interact with the use of short-term contract staff.

The budget of £246,000 for travel and subsistence included within our Estimate is predicated on our future travel being at 50% of pre-pandemic levels. This budget is our best estimate for actual mileage and subsistence costs but will only be firmed up as our operational arrangements develop through the year in light of the wider environment.

The additional budget for short term contract staff has been allocated to allow for anticipated additional resource demand to compensate for staff travel time being allowed for during the working day. This is also predicated on future travel being at 50% of pre-pandemic levels and will be reviewed once actual travel patterns become clearer.

Recommendation 15. The Committee recommends that Audit Wales provides regular updates on its estate strategy and associated savings targets as ways of working are reviewed, and before the Estimate for 2023-24 is formulated.

On 26 September 2019, the WAO Board approved our estate strategy and decided to retain the lease on one of our three premises which was at a break point, so that it could undertake an options review for the total estate. At the time, it set a savings target of 20% per annum from 2023-24 based on an assumption that we would require smaller and more energy efficient premises in future. It agreed that it would make a decision on the totality of Audit Wales estate in July 2020 to enable a holistic approach to be taken.

The strategy was subsequently revised, taking account of the impacts of Covid, and the Board approved the updated estate strategy on 18 March 2021. A decision was then taken in June 2021 to extend all 3 of our leases reflecting uncertainties around how our ways of working may evolve over time, how this may impact on how and where we deliver our work, and consideration of other factors including space needs.

The Board has agreed that the strategy should be kept under review and that we maintain an agile approach in light of the pandemic. It has also agreed to revisit

the savings target at a later date, as a number of earlier assumptions around the size and nature of the estate need to be revisited in the light of Covid, for example, if we no longer have access to client sites.

We also have ongoing aims for improving our environmental performance and carbon reduction, which are set out in our annual plan, and performance is reported through our interim and annual reports.

We will continue to keep the Committee updated on our plans, including the rolling 5-year capital programme which is included in our annual Estimate, and on progress via the targets and KPIs included in our annual plan, interim and annual reports.

Recommendation 16. The Committee recommends that Audit Wales provides further information on overall staff turnover (and specifically for staff completing the graduate and trainees' programmes), including historic trends and any comparison with similar organisations.

Details of staff turnover since 2018/19 are provided below.

	<i>Audit Wales Total</i>	<i>Audit Wales Excluding Trainees</i>
18/19	11%	10%
19/20	11%	9%
20/21	10%	9%

As a comparison, total turnover for Audit Scotland was 11% in 2018-19 but reduced to 6% in 2019-20 and 5% in 2020-21. Similarly, total turnover for the Northern Ireland Audit Office was 14% in 2018-19 and 11% in 2019-20 but reduced to 3.5% in 2020-21. The sharp drops reported by Audit Scotland and the Northern Ireland Audit Office reflect a change in recording in that they no longer include voluntary exits in their figures and have just used data relating to resignations. We have included both to give a more accurate picture of turnover. In 2021, we saw higher than normal early departure from our final year trainees, leaving their time-limited roles with Audit Wales for permanent positions elsewhere. The numbers are small and we cannot say if this was a one-off occurrence or the start of a more regular pattern. Nonetheless, we have taken steps to mitigate this risk by extending trainee contracts for those staff who are keen to split their final examinations, holding some vacancies at Senior Auditor level for trainees and invoking a financial claw-back for training costs if a trainee departs early. We are looking at establishing a new role for apprentices who obtain their AAT (Association of Accounting Technicians) qualification with us and who do not wish to study for a professional accountancy qualification and, working

collaboratively with other public bodies in Wales, have recently established the all Wales Public Finance Apprenticeship programme.

Recommendation 17. The Committee recommends that Audit Wales provides further information about the estimate of movements in working capital and be prepared to make the relevant adjustments should the change to Travel and Subsistence arrangements not go ahead in 2022-23.

A breakdown of the estimated movements in working capital along with a comparison to the equivalent estimate for 2021-22 is set out below. A Supplementary Estimate will be prepared for 2022-23 to reflect the outcome of the travel and subsistence review and this will include any necessary changes to the movements in working capital.

	2022-23 £'000	2021-22 £'000
Increase /(reduction) in receivables and work in progress	200	300
(Increase)/reduction in payables and deferred income	(200)	(100)
(Increase)/reduction in provisions	750	(750)
	750	500

Recommendation 18. The Committee recommends that Audit Wales provides further information on its decision to introduce a home working allowance and its justification for retaining the payment going forward.

Our Trade Union partners asked the Board to consider paying home working allowance (at the HMRC rate) to staff in Autumn 2020 in recognition of increased cost of utility bills as a result of working from home. Initially it was introduced on a temporary basis and has since been considered as part of the recent consultation on travel and subsistence. We believe it appropriate to continue to support our staff in this way when they are incurring costs working from home as we have asked them to do. Clearly, we will keep the situation under review to ensure it remains justifiable as our operational model evolves.

Recommendation 19. The Committee recommends that future estimates are accompanied by a draft fee scheme to ensure that the Committee is able to consider the complete funding position

We do not expect the specific circumstances that prevented this for 2021-22 and 2022-23 to be repeated. The intention is to carry out the necessary consultation in

the summer of 2022 to allow a draft fee scheme to be included with our Estimate for 2023-24.

Recommendation 20. In the absence of the draft fee scheme, the Committee recommends that Audit Wales provides further detail on the composition of its increase to fees in 2022-23 before a Final Fee Scheme is laid.

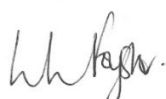
A [consultation](#) on proposed fee increases is now live which includes proposed changes to fee rates and fee scales for 2022-23. The proposed increase of 3.7% includes provision for a pay award in April 2022, the impact of the 1.25% National Insurance increase and necessary additional investment in audit quality as set out in our Estimate for 2022-23.

Recommendation 21. The Committee recommends that Audit Wales provides detailed feedback from its consultation on fees, particularly in relation to the proposed funding switch in 2023-24

Feedback from our consultation on fees will be included in the Fee Scheme which will be laid before Finance Committee in January 2022. Consultation on the proposed funding switch will be carried out in summer 2022 as part of our preparation for the 2023-24 Estimate and Fee Scheme.

Please do not hesitate to contact us if there is any further clarification we can helpfully provide.

Yours sincerely



LINDSAY FOYSTER
Chair, Wales Audit Office



ADRIAN CROMPTON
Auditor General for Wales

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