

Finance Committee

Meeting Venue:
Committee Room 2 – Senedd

Meeting date:
13 November 2013

Meeting time:
09:00

Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales



For further information please contact:

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Committee Clerk
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Agenda

1 Introductions, apologies and substitutions (09:00)

2 Auditor General for Wales' Annual Report and Accounts 2012–13: Evidence from the Wales Audit Office (09:00 – 09:30) (Pages 1 - 121)

FIN(4)-20-13 (paper 1)

FIN(4)-20-13 (paper 2)

Huw Vaughan Thomas, Auditor General for Wales
Kevin Thomas, Assistant Auditor General, Wales Audit Office
Ann-Marie Harkin, Group Director, Wales Audit Office
Terry Jones, Technical Manager, Wales Audit Office

3 Scrutiny of the Auditor General for Wales Estimate 2014–15 (09:30–10:00) (Pages 122 - 147)

FIN(4)-20-13 (paper 3)

Huw Vaughan Thomas, Auditor General for Wales
Kevin Thomas, Assistant Auditor General, Wales Audit Office
Ann-Marie Harkin, Group Director, Wales Audit Office
Terry Jones, Technical Manager, Wales Audit Office
David Corner, Wales Audit Office Board Member

4 Inquiry into Higher Education Funding: Evidence from Cardiff University and Glyndwr University (10:00–11:00) (Pages 148 - 161)

FIN(4)-20-13 (paper 4)

FIN(4)-20-13 (paper 5)

Professor Patricia Price, Pro Vice-Chancellor, Student Experience and Academic Standards, Cardiff University

Mike Davies, Director of Finance, Cardiff University

Professor Michael Scott, Vice-Chancellor and Chief Executive, Glyndŵr University

Paul Whiting – Director of Finance, Glyndŵr University

Andrew Parry – Head of Corporate Communications, Glyndŵr University

(Break 11:00–11:15)

5 Inquiry into Higher Education Funding: Evidence from the Open University (11:15–12:00) (Pages 162 - 165)

FIN(4)-20-13 (paper 6)

Rob Humphreys, Director, The Open University in Wales

Michelle Matheron, Policy and Public Affairs Manager, The Open University in Wales

6 Papers to note (12:00) (Pages 166 - 169)

7 Motion under Standing Order 17.42 to resolve to exclude the public from the meeting for the following business: (12:00)

Item 8

8 Inquiry into Higher Education Funding: Consideration of Evidence Received (12:00–12:30)

Auditor General's Annual Report and Accounts 2012-13



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

This annual report and accounts has been prepared in accordance with paragraph 13 of Schedule 8 of the Government of Wales Act 2006 in a form directed by the Treasury.

If you require this publication in an alternative format and/or language please contact us using the details below.

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July 2013

Highlights

Issued reports on
the accounts of over **800**
public bodies in Wales

**14 NATIONAL
REPORTS**

Looking at value for money in
key areas of public spending

Delivered annual improvement
assessments at all
**28 LOCAL
GOVERNMENT**
improvement authorities, and
structured assessments at all
10 NHS bodies

32 Local government grant
schemes certified worth
over £3 billion, involving
over **750** individual claims, and
resulting in adjustments of
£3 MILLION

Progressed to
LEVEL 4
of the **Green Dragon**
Environmental Standard

Reduced our production of
waste by **17%**
and increased the proportion
of waste reused or recycled

Reduced rates of
sickness absence to a
LEVEL LOWER
than the public sector benchmark

2012-13 at the Wales Audit Office

Issued reports on the accounts of most NHS bodies in Wales

Published a study of public engagement by councils



Set out the things we will do to eliminate discrimination, promote equality and foster good relations



Hosted a conference aimed at driving public service success



Published our conclusions on whether the actions taken across public services are enough to significantly improve educational outcomes for looked after children



Gave our views on legislation aimed at strengthening our governance and accountability

Presented the results of the National Fraud Initiative, including the identification of £6 million of fraud and overpayment



Progressed to level 4 of the Green Dragon Environmental Management Standard

Provided an assessment of the financial position across NHS bodies



Outlined in our annual report and accounts for 2011-12 the £1 million of cost reductions and efficiencies we had achieved

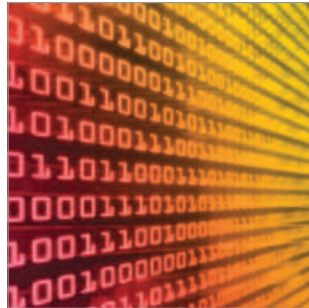
Issued reports on the accounts of most major local government bodies in Wales





Reported on the Welsh Government's relationship with the All Wales Ethnic Minority Association

Issued a report in the public interest on failures at Caldicott and Wentlooge Levels Drainage Board



Brought together the findings of our reviews on the use of technology by Councils

Published our conclusions on arrangements for emergency planning and resilience



Reported on whether the intended benefits of the new contract for NHS consultants are being achieved

Concluded that public bodies in Wales cannot yet demonstrate value for money in their use of consultancy services



Police Authority audits replaced by audits of Police and Crime Commissioners and Chief Constables



Consulted with our staff, Welsh public bodies and the people of Wales on our strategy and priorities for 2013-2016

Consulted on our proposed fee scales for 2013-14, which should result in a decrease in audit fees of between two and three per cent

Published a report on the operations of the Forestry Commission



Published our forward programme of studies

Public Audit (Wales) Bill approved by the National Assembly

Completed the second phase of our *Ignite* leadership and management development programme



Issued a public interest report on the process used by Caerphilly Council to set the pay of chief officers

Foreword by the Auditor General for Wales



This was a year in which the Wales Audit Office extended the beneficial impact of public audit – working even more closely with Welsh public bodies and particularly, the Public Accounts Committee. In 2012-13, we maintained a strong focus on helping public bodies deal with the financial pressures they are increasingly facing. We delivered an extensive range of audit and improvement work with that imperative ever in mind. In April, we published a Strategy for the period 2013-2016 focusing on public service governance, financial management and innovation to overlay on our core purpose of providing assurance and promoting improvement. I believe it will help us support public bodies to spend wisely and further the best interests of people in Wales.

Internally, our business planning and our management arrangements are developing to best support that Strategy and I am delighted with the way in which staff at all levels are engaging with the task. I am grateful for the support and hard work of non-executive directors, my own staff and those who have supplied contracted support to our work.

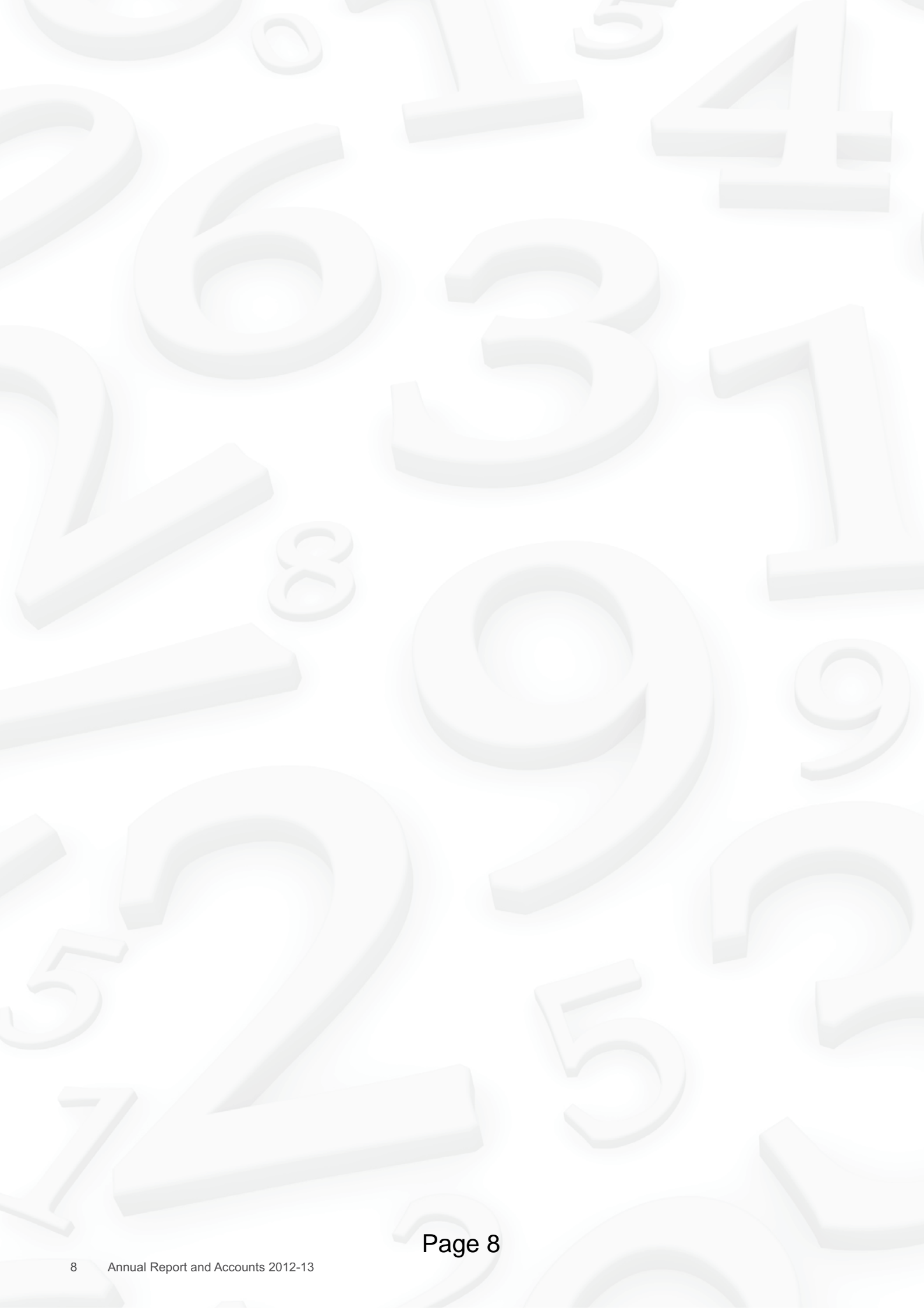
We are bringing together our performance and financial audit expertise to help improve governance and financial management in Wales – issues that rightly continue to cause public concern. We are also creating stronger links between the Wales Audit Office and the various public service sectors so that we can provide timely audit information at the point of policy and decision making. This is critically important in a fast-moving environment of collaboration, transformative change and potential public service reorganisation.

The organisation has been preparing for changes to our own governance, which the Public Audit (Wales) Act 2013 has confirmed and which we welcome. Our emphasis on effective financial management, innovation and strengthened governance has been as strong internally as it has in our audits. Internal systems are improving, producing clearer and earlier financial management information. With a strengthened focus on leadership and clearer accountabilities,

the Wales Audit Office is in good shape to welcome its new Board and make an increasingly positive impact on Welsh public services.

Huw Vaughan Thomas
Auditor General for Wales

A handwritten signature in black ink, appearing to read 'Huw Vaughan Thomas', written in a cursive style.



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18	Providing assurance	Case study illustrations of how, in the last financial year, we have provided timely assurance on the governance and stewardship of public money and assets in Wales
24	Offering insight	Examples of where we have offered useful insight in 2012-13 on the extent to which resources are used well in meeting the needs of the people of Wales
29	Promoting improvement	Instances over the period covered by this report where we have clearly identified and promoted ways by which the provision of public services in Wales may be improved
36	Running the business	What we have done this year to build on our work on being an accountable, well-run and efficient organisation that provides a stimulating and rewarding environment in which to work
44	Future focus for our work	An overview of our strategy for 2013-2016, our forward programme of value for money studies, our estimate of income and expenses for 2013-14, and of our ongoing work in relation to sustainable development
48	Statements of accounts	More detail on our finances and governance arrangements: our financial statements, Annual Governance Statement, Remuneration Report and the Independent Auditor's Report to the National Assembly

About us

The Auditor General and the auditors he appoints in local government are the statutory external auditors of most of the Welsh public sector¹. They are responsible for the annual audit of the majority of public money spent in Wales, including the £15 billion of funds that are voted on annually by the National Assembly. Elements of this funding are passed by the Welsh Government to the NHS in Wales (over £5 billion) and to local government (over £4 billion).

Currently, the Auditor General and his staff together form the Wales Audit Office, which was established in April 2005. The Auditor General is the Accounting Officer for the Wales Audit Office and is personally responsible for its overall organisation, management and staffing as well as its procedures in relation to financial and other matters.

¹ For further information please see the Government of Wales Act 2006, the Public Audit (Wales) Act 2004 and related legislation.

What we do

As external auditors, we independently examine whether public money is being managed wisely and is properly accounted for. We carry out this work on behalf of the public and in the public interest. Audit adds value to society by:

- providing assurance on the governance and stewardship of public money and assets;
- offering insight on the extent to which resources are used wisely in meeting people's needs; and
- identifying and promoting ways by which the provision of public services may be improved.

Each year we deliver an extensive but proportionate programme of external audit work. The overall programme includes audits of accounts, value for money examinations and studies, local government assessments, certification of grant claims, and facilitation of the National Fraud Initiative.

The staff of the Wales Audit Office deliver approximately two-thirds of the annual audit work. The Auditor General contracts out the remainder to private sector accountancy firms, and contracts in specialist skills and services to support delivery.

Good practice is identified from across the full breadth of audit work and is disseminated through our Good Practice Exchange (a web-based resource, freely available to anyone) and other media including shared learning seminars.

Who we work with

The people of Wales

The National Assembly, chiefly through its Public Accounts Committee

The Welsh Government

Public service providers in Wales and their representative bodies

Other relevant external review bodies



Business Services team in our Cardiff office:
Laurie Davies, Gill Greer, Anthea Ellis, Sally Li,
Kevin Dawson and Peter Woolcock.

Financial, environmental and social summaries

Financial summary

Results for the 2012-13 financial year

During 2012-13, we received income of £17.2 million and financing from the Welsh Consolidated Fund (WCF) of £4.7 million, which in total exceeded our expenditure by £2 million and thereby increased taxpayers' equity (excluding the £268,000 repayable to the WCF) by £2.4 million. The reason for the underspend relates almost entirely to the release of the £2.4 million provision included in the 2011-12 accounts, and follows confirmation from Her Majesty's Revenue and Customs in December 2012 that there is no historical liability arising from a change in the Auditor General's VAT status, which took effect from 1 April 2013.

Exhibit 1 provides a comparison between total comprehensive net expenditure and changes in taxpayers' equity for 2012-13 and 2011-12.

Income

Exhibit 2 provides an analysis of income received by the Wales Audit Office since 2009-10, as well as the financing received from the WCF. Income received in 2012-13 from fees charged to audited bodies totalled £15.9 million, and represented a nine per cent decrease from similar income received in 2011-12 (£17.6 million). This decrease was due to a reduction in the level of additional, unplanned work undertaken in 2012-13 and also a number of staff vacancies which have since been filled. In addition, in 2012-13 we received £1.3 million Wales Improvement Grant from the Welsh Government (£1.3 million in 2011-12) and financing of £4.7 million from the WCF (£4.8 million in 2011-12).

Expenditure

Excluding the impact of the inclusion of the VAT provision in the 2011-12 accounts and the release of that provision in 2012-13, operating expenditure increased by just under £300,000 which included over £200,000 one-off costs in respect of depreciation on dilapidations. Staff costs and the level of bought-in services increased by less than £0.1 million between the two years.

Going forward, we anticipate our cost base rising significantly as a result of the change in our VAT status, such that we are no longer able to charge VAT on audit fees charged to NHS and local government bodies.

Exhibit 3 provides an analysis of expenditure between 2009-10 and 2012-13.

Exhibit 1: Total comprehensive net expenditure and changes in taxpayers' equity

£'000	2012-13	2011-12
Income and resources		
Audit and inspection fees:		
Local government ²	12,366	13,213
NHS	3,239	4,029
Central government	1,588	1,669
Other income	23	27
Total income	17,216	18,938
Expenditure		
Staff costs	(14,981)	(14,855)
Bought-in services ³	(3,451)	(3,507)
Other operating costs	(829)	(5,354)
Corporation tax	0	23
Total expenditure	(19,261)	(23,693)
Total comprehensive net expenditure	(2,045)	(4,755)
WCF finance	4,740	5,303
Repayable to WCF	(268)	(1,945)
Change in taxpayers' equity	2,427	(1,397)
Taxpayers' equity at 1 April	(1,235)	162
Taxpayers' equity at 31 March	1,192	(1,235)

Exhibit 2: Income and financing

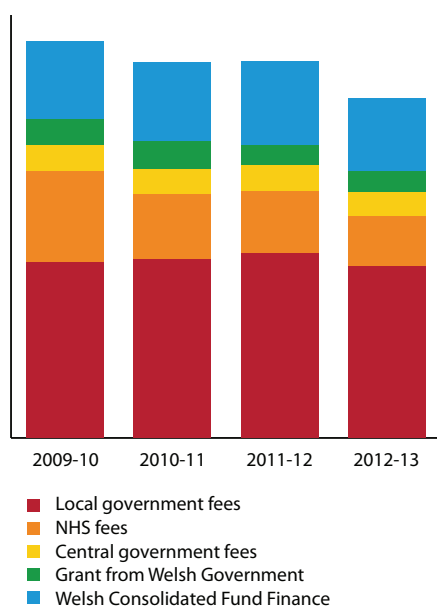
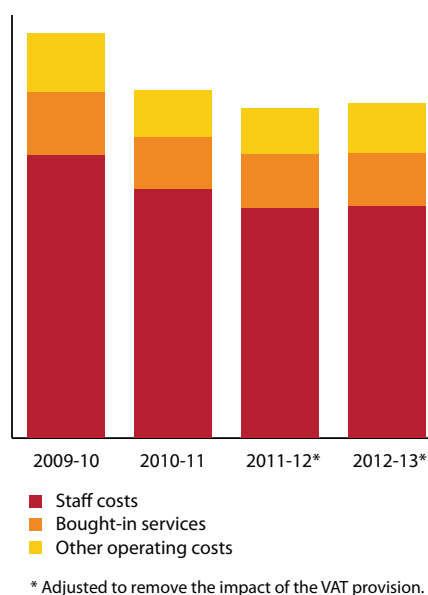


Exhibit 3: Expenditure



* Adjusted to remove the impact of the VAT provision.

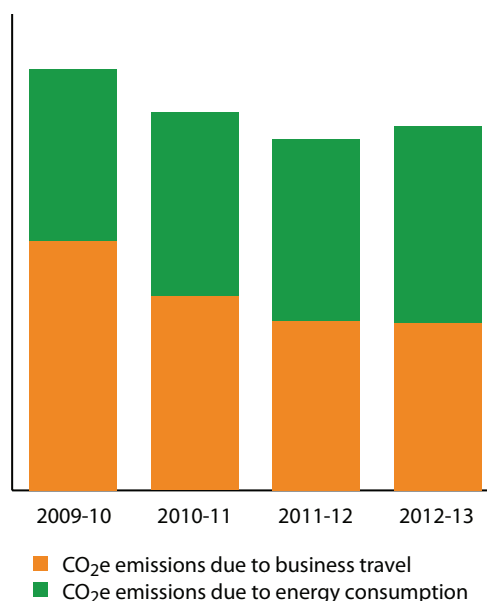
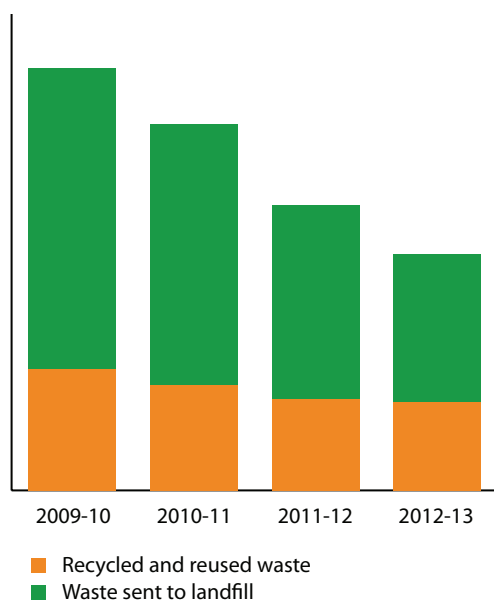
² Includes fees for audit of accounts, grants certification and improvement assessment work, alongside annual grant funding from the Welsh Government to support our improvement assessment work.

³ Mainly audit work contracted out to private sector accountancy firms.

Environmental summary

In 2012-13, we:

- > Achieved our aim of progression to Level 4 of the Groundwork Wales Green Dragon Environmental Standard at all our primary offices
- > Reduced our production of waste by 17 per cent from last year (44 per cent over three years), and increased the proportion of our waste recycled or reused
- > Increased our CO₂e emissions by 3.6 per cent from the previous year (due to increased energy consumption), but this still represents a reduction of 8.7 per cent over three years
- > Published our first *Refresh* internal electronic newsletter on sustainability
- > Improved the efficiency of our use of office space by seven per cent, following closure of two offices and relocation to smaller premises



£'000	2012-13	2011-12	2010-11
Environmental management			
Level of Green Dragon accreditation	4	3	3
Water consumption			
Water consumption m ³	1,911 ⁴	1,684	1,606
Water consumption m ³ per WTE ⁵	8.1	7.5	7.2
Water supply costs £	3,336	2,763	2,608
Paper consumption			
Paper consumption in reams	2,385	2,465	2,445
Paper supply costs £	6,112	5,989	5,627
Waste			
Total waste kg	89,967	108,387	139,207
Recycled paper and cardboard	7,703	13,455	15,820
Recycled cans, glass, plastics	25,859	21,170	22,792
Reusables eg, mobile phones	68	84	1,385
Landfill	56,340	73,678	99,210
Recycled and reused as % of total waste ⁶	37.4	32.0	28.7
Total disposal costs £	8,586	9,447	13,934
Greenhouse gas emissions⁷			
Total emissions kg CO ₂ e	554,482	535,304	576,484
Attributable to business travel	254,597	257,330	295,133
By car	241,726	242,742	281,085
By rail and air	12,871	14,588	14,048
Attributable to energy consumption	299,885	277,974	281,351
Electricity	293,505	271,908	273,685
Gas	6,380	6,066	7,666
Total expenditure on business travel £	197,284	213,394	223,606
Total energy expenditure £	69,874	56,828	52,011
Efficiency of estate			
Cost per WTE £ ⁸	3,186	3,365	-
Cost efficiency ⁹ £ per m ²	265	260	-
Space efficiency m ² per WTE	12.0	12.9	-

4 Estimate due to billing period.

5 Typical and best practice for water usage within an office is 9.3 m³ and 6.4 m³ respectively per Whole-Time-Equivalent (WTE) per annum (Environment Agency guidelines).

6 66 per cent for the Welsh Government in 2011-12 (*State of the Estate Report 2011-12*, Welsh Government).

7 Calculated using DEFRA/DECC 2012 guidelines for company reporting on greenhouse gas emissions.

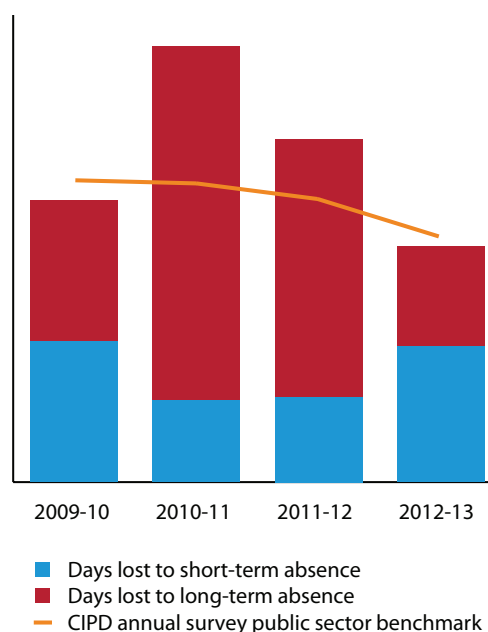
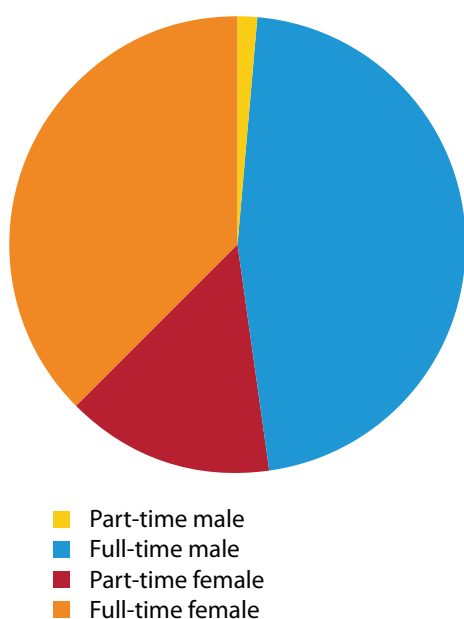
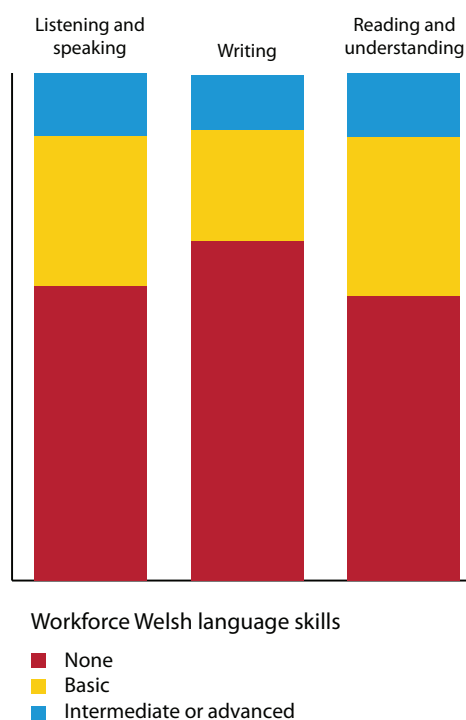
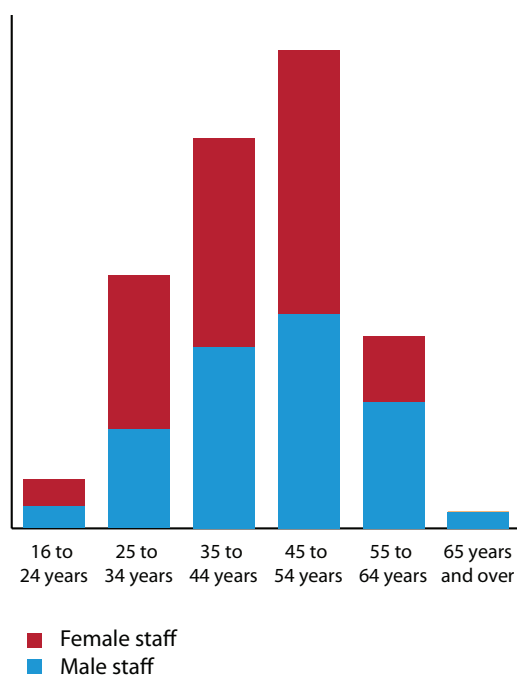
8 Compared to £3,418 for the Welsh Government as of 31 March 2012.

9 Including rent, rates and other costs, but excluding one month of other costs from previous premises.

Social summary

In this financial year:

- > Our workforce age and gender profile was similar to that of the Civil Service, but with a lower proportion of part-time employees
- > Around 12 per cent of staff assessed themselves as having intermediate or advanced Welsh language skills
- > We achieved a 30 per cent reduction in rates of sickness absence, including a substantial reduction in the number of days lost to long-term absence
- > Our annual labour turnover rate was comparable with the CIPD benchmark
- > Around one quarter of staff in senior leadership team pay bands and one third of staff in management pay bands were female



£'000	2012-13	2011-12	2010-11
Number of staff and remuneration			
Number of directly employed staff at year end	251	254	253
Number of whole-time equivalents at year end	234.5	225.6	222.4
Median staff annual gross salary and benefits in kind ¹⁰ £	46,347	45,964	45,270
Turnover			
Annual labour turnover rate ¹¹ %	10.8	8.3	12.4
Attendance management			
Average working days lost per member of staff ¹²	6.7	9.7	12.4
Due to short-term absence	3.9	2.4	2.3
Due to long-term absence (periods of ≥21 days)	2.8	7.3	10.1
Diversity			
Female %	52.2	50.0	47.4
Aged less than 30 years ¹³ %	10.0	5.9	7.1
Aged 30 to 59 years %	85.2	87.0	85.0
Aged 60 years and over %	4.8	7.1	7.9
Working patterns			
Part-time employees as % of total ¹⁴	16.3	18.6	19.4
For men	3.3	11.1	15.8
For women	28.2	26.0	23.3
Employment contract type			
% of staff on permanent employment contracts ¹⁵	87.7	86.6	96.4
Grade distribution			
Staff in senior leadership team bands (9 to 11) %	5.2	5.1	5.1
Staff in management bands (6 to 8) %	21.5	22.5	22.9
Staff in other pay bands %	73.3	72.3	71.9
% staff in senior leadership team that are female	23.2	23.2	23.2
% staff in management that are female	35.2	35.1	32.8

10 £45,331 for the National Audit Office and £41,050 for Audit Scotland (as per 2012-13 published annual accounts).

11 10.1 per cent median for public service organisations that responded to the 2012 CIPD *Resourcing and Talent Planning Survey*.

12 7.9 days per employee per year for those public service organisations that responded to the 2012 CIPD annual *Absence Management Survey*.

13 *Annual Civil Service Employment Survey* 2012 figures: 10.5 per cent aged less than 30 years, 82.1 per cent aged 30 to 59 years, and 7.4 per cent aged 60 years and over.

14 23.6 per cent for the Civil Service in 2012 (8.5 per cent for men only, 37.0 per cent for women only).

15 89 per cent for those public sector employees included in CIPD's *Employee Outlook* – a representative survey of 2,000 people in employment, *Labour Market Outlook Winter 2012-13*, CIPD, February 2013.



Providing assurance

In this section we have included some case study illustrations of how we provided timely assurance in 2012-13 on the governance and stewardship of public money and assets in Wales.

Audit of accounts

Public bodies must account for the money entrusted to them. The principal way they achieve this is through the production of timely and accurate annual accounts. The focus of our financial audit work is auditing these accounts and providing assurance to the public about the stewardship of public money.

Auditors often suggested significant amendments to bodies' draft accounts to ensure they were presented correctly, and made many recommendations for improvement to those responsible for the management and oversight of the accounts.

In 2012-13, we issued reports on the accounts of over 800 public bodies in Wales. These included the Welsh Government and its sponsored bodies, NHS trusts and health boards, unitary authorities, fire and rescue authorities, national park authorities, police and probation authorities and trusts, pension funds, and town and community councils.



Cardiff audit team: David Phillips, Roy Blake, Nadeem Ashraf, Simon Howells, Joanne McCarthy, Daxa Varsani, Rosemarie Khan, Janet McNicholas, Diane Auton and Mair Evans.

Examination of the Welsh Government's acquisition and action to dispose of the former River Lodge Hotel

The former River Lodge Hotel, Llangollen, was purchased by the Welsh Government for £1.6 million in March 2007. It was intended that a local not-for-profit organisation would develop a community enterprise by means of a lease or conditional purchase of the property. However, the organisation was unable to fulfil the terms of an agreement to lease the property, and since June 2010 the Welsh Government has been looking at alternative uses for the property.

In October 2011, in light of much public speculation about the purpose of the acquisition and whether government officials had followed proper process, the Auditor General announced his intention to conduct an examination of the Welsh Government's acquisition and action to dispose of the property.

At the time of our audit, the property remained vacant and its market value had halved to around £800,000. The further costs associated with its repair and refurbishment were estimated to exceed £1 million. Our team published its report on 14 June 2012. We concluded that the Welsh Government's decision to purchase the hotel for £1.6 million was flawed and represented poor value for money.

In light of our recommendations, the Welsh Government has since taken a number of actions to strengthen its governance arrangements, and to modernise its financial systems and procedures to reflect best practice.



Summary report of local authority accounts 2011-12

In December 2012, we published a second report which brought together the results of audit of accounts work across all local government bodies for the previous financial year.

Authorities had generally prepared timely accounts and supporting papers. However, we identified a number of common areas where authorities needed to improve to ensure accurate and well-supported accounts were made available for audit.

We also outlined that there remains scope to clarify accounting treatment in a number of areas, including accounting for schools, valuation methodologies for council houses (where different valuation techniques are applied from council to council) and restoration costs for old landfill sites.

The majority of authorities did not prepare their draft Whole of Government Accounts returns on time. We expect this position to improve in the coming year.

In 2013-14, we intend to extend this summary report of our audit of accounts work to cover all sectors.

Special inspection of Pembrokeshire County Council

We carried out a further inspection of corporate governance arrangements at Pembrokeshire County Council in the summer of 2012. Again, particular attention was paid to the implementation by the Council of safeguarding arrangements for children and young people.

While we found that, in response to the recommendations of external review bodies¹⁶, the Council had introduced policies and procedures that had heightened awareness of safeguarding, it had not addressed the underlying causes of failings. The Council was acting too slowly to address serious issues such as the use of timeout rooms and was not implementing new policies and procedures effectively. The Council had also made little progress since January 2012 in strengthening the challenge and assurance role of its elected members.

Since the completion of this further inspection, the Council has made a number of significant changes at senior management level in education and social services. Recent observations of scrutiny also indicate an increased appetite for challenge, and Members are beginning to hold officers more closely to account. These changes, if sustained, have the potential to support improvement.

Our work has also had a wider impact as other councils check their arrangements against our inspection findings and recommendations. We are currently considering carrying out an all-Wales study on safeguarding to test the effectiveness of arrangements at all councils.

¹⁶ Including Care and Social Services Inspectorate Wales, Her Majesty's Inspectorate for Education and Training in Wales (Estyn), Her Majesty's Inspectorate of Constabulary, and the Wales Audit Office.



Certification of grant claims and returns

Grants are a key source of funding in Wales. When making grant awards, funders set conditions requiring recipients to use the money only for the agreed purposes and under strict controls. If requested to do so, the Auditor General must make arrangements for certifying claims and returns in respect of grants paid or subsidies made.

In 2012-13, we certified 32 local government schemes, worth over £3 billion and involving over 750 individual claims. As a result of our work, one in five of those claims had to be adjusted (to correct an error) or qualified (to report a disagreement or an uncertainty over part of the expenditure claimed). The gross value of adjustments was £3 million and the potential value of qualifications was £25 million. We also certified European structural fund claims from the Welsh Government and its sponsored bodies with a total value of around £300 million for the year.

Scrutiny of requests to draw from the Welsh Consolidated Fund

The Welsh Consolidated Fund (WCF) is the main conduit for the receipt and distribution of money for the Welsh public sector. The majority of the money paid into the fund is provided by the UK Government, as authorised by the UK Parliament. The Auditor General's approval is needed for all payments out of the fund, following checks that proposed payments are in accordance with legislation and, where applicable, National Assembly budget motion authority.

The sums of money involved are large – around £1 billion a month during 2012-13. We completed the processing of most WCF requests on the same day that we received them, and dealt with any discrepancies in requests as a priority.

Responding to issues that have been brought to our attention

Correspondence from the public, elected representatives and others that raises concerns about public business can inform our work programme by identifying issues for further investigation. It is our policy to respond to public concern promptly and in a fair, objective and professional manner.

Under the Public Interest Disclosure Act, the Auditor General and the auditors he appoints in local government are recognised as 'prescribed persons' who can receive disclosures from individuals employed or formerly employed by audited bodies via 'whistle-blowing' arrangements. The Auditor General also reports to the Serious Organised Crime Agency any instance of dealings in the proceeds of crime (money laundering) that he or his staff encounter during the course of their work.

Caerphilly County Borough Council – public interest report

In March 2013, we issued a report in the public interest on the process used by Caerphilly County Borough Council to set the pay of chief officers. This was partly in response to issues raised by members of the public.

The report identified that the decision on chief officer pay, taken in September 2012, was unlawful on several grounds.

The report generated a great deal of media interest and was formally considered by the Council in April 2013. The Council unanimously accepted the report, the recommendations contained in the report and the action plan presented by the Acting Chief Executive.

There are lessons for all public bodies to ensure that proper decision-making processes are followed, particularly around sensitive issues such as senior pay.

Caldicott and Wentlooge Levels Drainage Board – public interest report

During 2011, a number of concerns relating to the operation of the Board were raised with us by former officers and a former member of the Board. We determined that several of the issues raised should be investigated.

In October 2012, the results of our investigation were published in a report in the public interest. We concluded that the Drainage Board had not operated to the standards that the public has the right to expect from a public body and had lost sight of the fact that it was a public body. We also concluded that the Board had not been governed and managed effectively for a number of years.

Our report highlights the need for all public bodies to have, and to operate within, a robust governance framework.



Offering insight

In this section we provide some examples of where, in 2012-13, we offered useful insight on the extent to which resources are used well in meeting the needs of the people of Wales.

Civil emergencies study

Civil emergencies can be devastating events that result in loss of life and cause serious disruption and cost to the economy. Over recent years Wales has faced a number of significant emergencies, including flooding and severe weather, disease and fuel shortages. It is inevitable that civil emergencies will occur in the future, and the nature and frequency of some types of civil emergencies is changing.

In December 2012, we published the results of a study on the effectiveness of arrangements in Wales for planning for, and responding to, civil emergencies. We found examples where the emergency services and other organisations have led a very professional and effective response. However, we also identified instances where the arrangements to plan and respond were inconsistent or unreliable, out of date and inefficient, and highlighted the need to secure more effective organisation across Wales.

We drew attention in our report to the need for greater clarity on the role and responsibility of the Welsh Government in relation to civil emergencies. Legal powers have yet to be devolved from the UK Government in this area. During the work leading to the publication of our report, productive discussions were held between the UK Cabinet Office and the Welsh Government, which have served to clarify the current role of the Welsh Government in civil emergencies and to provide further assurance that emergency arrangements will work when called upon.

The Welsh Government has subsequently submitted evidence to the Commission on Devolution in Wales and recommended, with reference to our report, that Welsh Ministers receive executive powers for civil emergencies.



Review of the educational attainment of looked after children and young people



Educational attainment review team:
Huw Lloyd Jones, Claire Flood-Page,
Carol Moseley and Alan Morris.

Many children and young people in the care of local authorities achieve very low educational attainment and this hinders their life chances. We undertook a review to consider whether the actions being taken across the Welsh public sector are enough to improve significantly the educational outcomes for this group of young people. We worked with a group of local authorities, alongside regulators and other organisations to consider present arrangements and to identify good practice.

We found that the Welsh Government and local authorities have contributed to some improvement but have not set out the outcomes they hope to achieve for looked after children. They lack a shared plan for improvement and whilst attainment is slowly improving, there is too much regional variation and monitoring is hampered by weaknesses in data.

The report on our findings was published in August 2012 and highlighted good practice in some areas of Wales as well as in Scotland. We made recommendations for the Welsh Government and local authorities to work together to develop clearer plans and build understanding of the effectiveness of their work.

We also set out ways in which the different parties involved could work together more effectively to improve the life chances of the children and young people for whom local authorities act as parents.

Our report received significant press coverage and was welcomed by the Children's Commissioner for Wales, who said it will bring 'focus' to the issue and 'it's an area that continues to be a cause for concern'. The Welsh Government is preparing a response to the report and our recommendations, and the Auditor General is considering undertaking some follow-up work.

Health finances

In July 2012, we published a report on *Health Finances*, which highlighted the unprecedented financial pressures faced by the NHS in Wales. The report focused on how NHS bodies had managed within their allocated budgets in the past, and on the financial challenges they are likely to face in the future.

Our work on health finances has helped to inform public debate about the challenges facing the NHS in Wales, at both a national and local level, and the options available to meet those challenges. Assembly Members frequently cite our work in national debates about putting the NHS on a more sustainable financial footing and reshaping NHS services. Some health boards in the South Wales area have put on their websites video footage of the Auditor General talking about our *Health Finances* report as a means of engaging staff and the public in the challenges the health boards are facing and the need for change.

As well as providing insight to support public debate, our report has acted as a catalyst for improving the financial regime for health bodies. Following publication of our report, there has been a growing recognition that the legal requirement for health boards to break even every year may have encouraged an unhelpful short-term focus. In line with our recommendations, the Welsh Government is in the process of amending the financial regime to enable greater flexibility for health boards, and is considering introducing new legislation to provide a long-term solution.

We will be producing another report on health finances in the summer of 2013, as financial management continues to be a very significant challenge and driver for the NHS. We will look in-depth at what happened with health spending during 2012-13, and at the consequences of the actions taken by NHS bodies in their efforts to break even financially on the delivery of services for patients.



Participation in waste recycling

In February 2012, we published the results of a national study on public participation in waste recycling. As part of our study we gave consideration to methods for the kerbside collection of recyclable wastes from residents, including co-mingled and segregated collection. In our report we recommended that local authorities continue to have freedom to collect recyclables using any method that is effective, sustainable and provides value for money in terms of service efficiency and in the use of waste resources.

When we published our national study, a group of pro-kerbside sort recycling organisations were seeking a judicial review, claiming that in drafting legislation both England and Wales had incorrectly transposed the EU Waste Framework Directive. If the judicial review had found this interpretation to be correct, it would have meant that the many local authorities currently using co-mingled collections to produce high recycling rates, would have had to change to kerbside-sorted collections by 2015. These changes were likely to have cost implications and could have reduced public participation.

The court passed judgement on 6 March 2013, where the case was dismissed. The court's judgement closely reflected the conclusions of our study and, subject to meeting guidelines due from the Welsh Government on the quality of recyclable wastes, clears the way for local authorities in Wales to press ahead to achieve increased levels of recycling.

Support for National Assembly committees

In addition to our ongoing support to the National Assembly's Public Accounts Committee, during 2012-13 our staff provided input to support the work of other National Assembly committees including in relation to:

- Finance Committee inquiries on the Welsh Government Invest to Save Fund and on asset management;
- the scoping of an Environment and Sustainability Committee inquiry on waste management; and
- the Communities, Equality and Local Government Committee's scrutiny of the Local Government (Democracy) (Wales) Bill and its inquiry on home adaptations.



Promoting improvement

In this section we highlight instances in 2012-13 where we have identified and promoted ways by which the provision of public services in Wales may be improved.

Grants management

Grants are very important in Wales. The public sector makes great use of grant schemes to try to bring benefits to people and communities in need. Our *Grants Management in Wales* report, published in November 2011, highlighted that many grant schemes are poorly managed, lessons are rarely learned and funders frequently fail to tackle recipients' poor performance.

Following on from the publication of our report, we ran two shared learning seminars in June 2012 for local government community development and regeneration officers and their voluntary sector counterparts from the county voluntary councils. The seminars used expert trainers to provide advice on good grants governance, effective monitoring and evaluation, and on reporting the impact of grant-funded activities.

Feedback quotes from delegates:

'Helped us develop a more streamlined approach to grants.'

'Made new connections to help us work together and improve grant applications.'

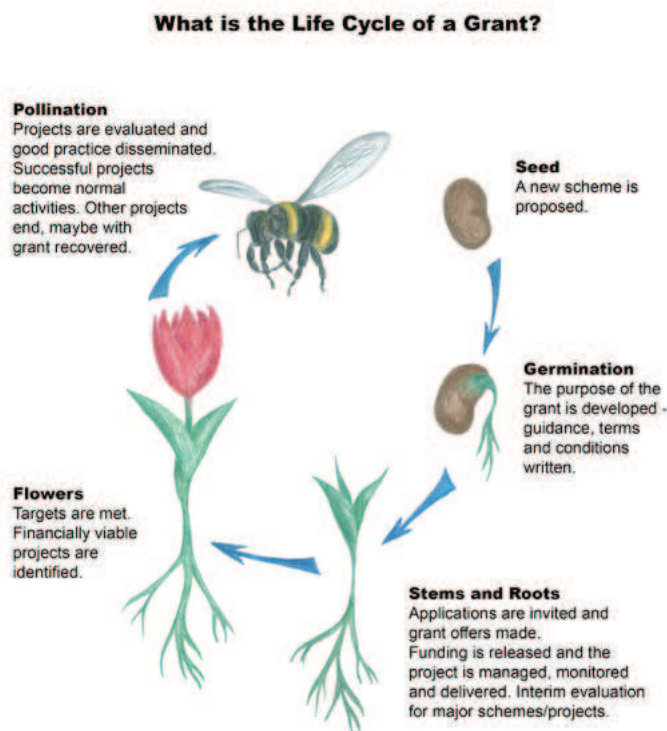
We also produced a range of outputs to accompany the seminars, which we have shared through our Good Practice Exchange. These included:

- the 'grants lifecycle' – an illustration of the key stages of managing a grant;
- case study good practice examples; and
- a wide range of links to guidance and toolkits.

Many delegates wanted advice on a range of grants management issues. We were able to match up enquirers with fellow practitioners having relevant knowledge, skills and experience.

We contacted everyone who attended the seminars a few months later to review the impact on their organisations and working practices. Most were currently using, or planning to use in the near future, the resources that we provided, and were keen to attend further shared learning events.

Following the seminars we held a special briefing for 40 senior managers at the Welsh Government to make them aware of the issues raised, and also presented our findings at their autumn 2012 Grants Summit. We continue to attend the Welsh Government's project board for grants management and to exchange information on good practice with its 'Centre of Excellence Team'.



The All Wales Ethnic Minority Association (AWEMA), a registered charity, received over £7 million of grants from the Welsh Government and other public bodies between 2000 and 2011. A further £3 million of funding had been earmarked for activity through to mid-2014.

In late 2011, concerns emerged relating to AWEMA's governance, financial management, staffing and human resources, and potential criminal activities. Following a joint investigation by the Welsh Government's Internal Audit Service and the Big Lottery Fund, which identified significant and fundamental weaknesses, we undertook a study to determine whether the Welsh Government had managed its relationship with AWEMA appropriately to protect and make good use of public funds.

We found that the Welsh Government's management and co-ordination of that funding had often been weak, and that its response to previous concerns had been too narrowly focused. However, we concluded that the Welsh Government responded robustly to the concerns that emerged about AWEMA in late 2011.

Police and Charity Commission inquiries relating to the situation at AWEMA are ongoing.



AWEMA study team: Emma Giles, Phil Pugh, Mark Jones, Mark Jeffs and Mike Usher.

Transparency and openness to challenge in local government

During 2012-13, we undertook a study to explore the extent to which challenge and scrutiny are operating effectively in local government, and reviewed approaches to the preparation of annual governance statements by local authorities.

Scrutiny and challenge have a key role to play in promoting improvement, efficiencies, and collaboration across public services. In our 2012-13 study, we worked with the local government sector to further improve scrutiny via a programme of audit activity.

The programme differed from a traditional audit approach in that it focused on real-time shared learning using a variety of mechanisms, including interactive workshops, self-evaluation and peer observations.

We also worked with the Welsh Local Government Association and partners to finalise an agreed set of key characteristics of effective overview and scrutiny that can be used consistently by all practitioners, stakeholders and external review bodies.

A national summary report of our findings will be published later in 2013. Shared learning events are also planned, alongside a national conference supported by the Welsh Government and the Centre for Public Scrutiny.

Since the 2010-11 financial year, local authorities have been required to prepare an annual governance statement based on a review of their governance framework. Our 2012-13 review looked at the effectiveness of authorities' reviews of governance.

We focused on identifying learning points for authorities to consider during their reviews of governance for the next financial year, particularly in relation to:

- determining the level of assurance required;
- ensuring that the required level of assurance is provided; and
- raising awareness amongst those charged with governance of their responsibilities.

In 2013, we will publish our findings in the form of a practice note. The note will summarise the key learning points and identify the steps that authorities will need to take to ensure governance reviews are as effective as they could be. A series of shared learning seminars is also planned.



The procurement and management of consultancy services

Consultancy services is an area of high expenditure by the Welsh public sector; in 2010-11, public bodies in Wales spent a total of £133 million on consultancy services. In February 2013, we reported on how well public sector bodies in Wales have procured and managed consultancy services.

Our audit criteria were based on established good practice from the Chartered Institute of Public Finance and Accountancy, the National Audit Office and the former Office of Government Commerce. We examined how well public bodies across different sectors exercise good practice in procuring and managing consultancy services across a typical project.

We concluded that although public bodies have reduced their expenditure on consultants, from £173 million in 2007-08 to £133 million in 2010-11, they are unable to demonstrate good value for money in the planning, procurement and management of consultancy services.

This is because the extent to which public bodies exercised generally accepted standards of good practice in the various stages of procuring and managing consultants varied considerably. We estimate that efficiency savings of more than £23 million are possible if all public bodies were to follow good practice, particularly with regard to assessing needs, specifying requirements and exploring alternatives to the use of consultants.

While our report was centred on the procurement and management of consultancy services, the good practice principles promoted in the report apply equally to managing the procurement of all goods and services.

Agile working shared learning seminars

Agile working is about bringing people, processes, connectivity and technology, time and place together to find the most appropriate and effective way of working. It is working within guidelines (of the task) but without boundaries (of how you achieve it).¹⁷

We ran two shared learning seminars on agile working in collaboration with the Welsh Local Government Association and Chwarae Teg in January 2013. The aims of the seminars were to increase awareness of the benefits of agile working and the importance of demonstrating trust in employees, and to share the notion that agile working extends beyond the traditional flexible working for individuals.

In total, 53 people attended the seminars, including representatives from local government, the NHS, central government and the third sector. The seminars provided a basis for building a strong network of Welsh public sector practitioners and outputs were put on the Good Practice Exchange website.

Joint working and international work

We are committed to working with, and building on, the existing co-operation between the UK national audit agencies to enhance the efficiency and effectiveness of public audit. We regularly work with colleagues at Audit Scotland, the Northern Ireland Audit Office, the Audit Commission and the National Audit Office on joint projects, and to share information and knowledge.

Over the last year, we continued to work closely with the three other main inspection, audit and regulation bodies in Wales – Estyn, the Care and Social Services Inspectorate Wales and Healthcare Inspectorate Wales – and also with Her Majesty's Inspectorate of Constabulary to provide assurance on the new police structures.

From time to time, we represent Wales on the international stage in relation to our work. Our international work provides the opportunity to further develop our knowledge of accountancy and audit techniques, and acquire skills that are necessary to deliver our work. But, we are mindful that all such activities should support our business strategy, should be self-financing and should not be undertaken to the detriment of our core audit work in Wales.

Two of our staff worked with the National Audit Office in 2012-13 on the audit of United Nations organisations. The two staff members worked on a number of assignments in various countries as part of a longer-term agreement to support this work.

¹⁷ Source: The Agile Organisation website



Financial Audit Technical Group: Mike Usher, Hefin Davies, Terry Jones, Jayne Elms, Iolo Llewelyn, Deryck Evans, Clare Stevens, Chris Pugh, Kate Harvard and Nick Davies.

The Wales Audit Office is also established as a public sector audit agency with skills that are transferable to other countries. In March 2013, delegations from a number of overseas public sector entities, including from Bulgaria, Egypt, Ghana, Liberia, Philippines, Russia and Swaziland, visited our offices to learn about governance arrangements in Wales and our approach to public audit.

In addition, we:

- provided training on financial reporting to the Government and Auditor General of the Cayman Islands;
- gave a presentation on our approach to quality assurance at the European Organisation of Regional External Public Finance Audit Institutions (EURORAI) annual conference; and

- gave a presentation to Irish local government on aspects of our audit approach.

Accounting and auditing standards are organised increasingly on a global basis. During 2012-13, we responded to two international consultations on those standards, helping to shape the future development of both accountancy and public audit on the wider stage.

Running the business

In this section we outline what we have done in 2012-13 to build on our work on being an accountable, well-run and efficient organisation that provides a stimulating and rewarding environment in which to work.

We are committed to embedding sustainable development as a central organising principle in the way we run our business (and in all our audit work). Sustainable development is about meeting the needs of the present without compromising the ability of future generations to meet their own needs.

Over the past year, we have worked hard to further embed sustainable development in the way we run our business in a wide range of ways.

Financial management and efficiencies

Our work is funded from a variety of sources, including fees charged to audited bodies, financing from the National Assembly via the Welsh Consolidated Fund, and contributions from contractor firms. We use these funds to pay staff and to provide the necessary support to enable them to undertake their work effectively.

Significant improvements in our financial management arrangements have been made over the last two years. During 2012-13, financial management training has been delivered across the organisation and improvements have been made in the management information provided to budget holders and senior management. We have also developed a medium-term financial strategy.

We have reported previously¹⁸ that discussions with Her Majesty's Revenue and Customs (HMRC) have been ongoing for a number of years regarding the Auditor General's VAT status. In 2011-12 we set aside a provision of £2.4 million, based on external financial advice, in respect of potential historical VAT liabilities. In December 2012, we received a ruling from HMRC which has confirmed the VAT regime that will operate from 1 April 2013 and that there will be no historical liability. On this basis, it has been possible to release the provision set aside in 2011-12 into the 2012-13 accounts. As a result of the ruling we will not charge VAT on fees for local government or NHS audit work from 1 April 2013 onwards, and there will be an increase in the irrecoverable VAT charged to us on goods and services of around £600,000 per annum.

We aim to pay 95 per cent of supplier invoices within 30 days of receipt, based on continuous monitoring of payments. In the 2012-13 financial year 97 per cent of payments were made within 30 days of receipt of the invoice (compared to 98 per cent in 2011-12).

Public sector bodies are required to demonstrate efficiency and value for money, and the Wales Audit Office is no exception. We are committed to leading by example and to ongoing review and challenge of our expenditure and working practices to ensure we deliver our work efficiently and cost-effectively.

¹⁸ In our published annual estimates of the income and expenses of the office of Auditor General.



Equality, diversity and dignity at work

Our *Strategic Equality Plan* outlines our continued commitment to equality. The Plan sets out how we seek to eliminate discrimination, advance equality of opportunity, and foster good relations in our work and our day-to-day activities¹⁹. We are committed to providing a work environment that values the diversity of all people (both our own staff and those with whom we come into contact during our work), and we fully support the rights of people to be treated with dignity and respect.

In 2012-13, we jointly developed an e-learning package with our inspectorate partners – Estyn, Healthcare Inspectorate Wales and Care and Social Service Inspectorate Wales – to promote knowledge and understanding of equality duties amongst our staff. The multimedia format of delivery was creative and engaging, and provided staff with flexibility as to when and how they completed the course.

'Lunch and learn' sessions were also held on a regular basis to increase awareness of equality and diversity matters, with guest speakers including representatives from Stonewall Cymru, Disability Wales and Age Cymru. The Wales Audit Office is represented on the all-Wales Equality Exchange Network Group – a forum for sharing knowledge and good practice.

A full report on our progress on diversity and equality for 2011-12 is available on our website; a similar report for 2012-13 will be published shortly.

¹⁹ For further information, please see our *Strategic Equality Plan* on our website.

Environmental stewardship

In 2012-13, we progressed to accreditation at Level 4 of the Green Dragon Environmental Standard, following further development of our environmental management processes and procedures and providing a programme of training and awareness sessions for staff.

In addition, we:

- now apply a travel hierarchy, which means we consider all possible ways of carrying out our business, with travel as the last resort;
- reduced the CO₂ emissions limit for new cars in our car scheme to 135 g/km, with the aim of reducing this limit by at least a further 5 g/km in the next year;
- invested in further videoconferencing units and increased its use by 25 per cent to support agile working and reduce travel; and
- increased recycling facilities at our primary office sites.

Promoting use of the Welsh language

The Wales Audit Office treats the English and Welsh languages on the basis of equality²⁰. Our public documents are available in both English and Welsh, we have a fully bilingual website, and we deal with audited bodies and the media in both languages.

In 2012-13, we conducted two surveys in relation to the Welsh language. One survey established the language preferences of our audited bodies. The majority of bodies said they would prefer us to communicate with them bilingually.

Another survey was carried out amongst our staff, where individuals were invited to assess their level of confidence in using the Welsh language in the workplace. We received an 85 per cent response rate to this survey, with over half the responders expressing an interest in further improving their Welsh language skills.

In 2013-14, we will use the information from these surveys to ensure we have enough staff with the necessary skills to meet the language preferences of audited bodies, and to support Welsh language skills development amongst our staff.

²⁰ For further information, please see our *Welsh Language Scheme* on our website.

Recruitment and work experience

This year has seen the development of a strategic workforce plan focused on ensuring we have a flexible workforce which is able to respond to changes within the public sector in Wales. In support of this plan, we undertook a number of internal and external recruitment campaigns in 2012-13, including for professionally qualified staff to support the delivery of our work.

As a professional audit body and accredited training provider with three professional accountancy bodies, the Wales Audit Office is also committed to a rolling programme of trainee and technician recruitment. Through our annual recruitment campaigns we aim to attract the highest possible calibre candidates.

We appointed two audit trainees and four audit technicians in 2012-13, who have

now commenced their studies. All trainees and technicians recruited in 2011-12 have successfully passed their first stage examinations and continue to progress through the training scheme.

In addition to their professional studies, we provide the trainees and technicians with bespoke training and relevant work experience. During their training, they spend time working with various audit teams, making a key contribution to our overall success.

We have also recently forged links with Careers Wales and local schools and universities to offer work experience opportunities and to promote careers in the Wales Audit Office. During 2012-13, two students undertook work placements with us.



Audit trainees and technicians appointed in 2012-13: Rhian Phipps, Olivia Hodgson, Thomas Stuttford, Adam Marshall and Katie Adams.

Employee well-being and attendance management

We are committed to encouraging a healthy lifestyle and a good work-life balance amongst our staff. We also closely monitor rates of sickness absence, and, over the last three years have established a range of mechanisms for supporting successful return to work. An average of 6.7 days per employee were lost to sickness absence during the reporting year ending 31 March 2013; a 30 per cent reduction from the previous year and a figure which compares favourably with the average of 7.9 days per employee per year for those public service organisations that responded to the 2012 CIPD annual *Absence Management Survey*.

A free over-the-phone employee assistance programme is also available, to provide staff with professional advice and emotional support on a range of matters.

Learning and development

We continue to invest heavily in staff learning and development to support our staff in the delivery of their work. In 2012-13, we increased the number of training courses delivered and an average of seven training days were provided per employee during the year. Some of the training was designed and delivered in-house, but where appropriate and cost-effective, external training support was also commissioned to deliver training to our bespoke requirements.

During 2012-13, we continued with the second phase of our *Ignite* leadership and management development programme. The programme focuses on achieving results through effectively managing and motivating teams, and combines seminars with case study fieldwork. We continue to receive very positive feedback from *Ignite* participants, and during 2013-14 we will be developing the third and final phase of the programme for roll-out in 2014.

The Wales Audit Office also continued to actively encourage and support applications from staff to participate in the Public Services Management Wales annual summer schools.

Following completion of a review of our previous performance appraisal system, a revised scheme has been rolled out in the early part of 2013-14, as part of a broader people management framework.

Community and charity work

The Wales Audit Office recognises the benefits that community and charity work by staff can bring to the wider community and applauds its staff for their individual efforts. Staff can apply the skills they have developed in the workplace and can develop new skills, whilst improving their morale, physical health and work-life balance.

Subject to operational requirements we support employees who wish to undertake community or charity activities such as community care work, environment work and conservation projects, fundraising for community projects and charities, and the administration of public events. Staff are also able to participate in a 'give as you earn' scheme. In 2012-13, our staff held a number of internal events to raise cash for charity. Two of our staff contributed to the highly successful London Olympic and Paralympic Games in the summer of 2012.



Group Director, Alan Morris, was an athletics official at the Olympic Games and the Paralympics. Alan wrote a daily blog for staff on his experiences.



Financial Auditor, Emma Moorhouse, was a member of the transport team at the Paralympics, ensuring athletes and officials got to their venues safely and on time.

Working with the third sector

Ignite, our leadership and management development programme, includes a live case study exercise, working with a charity or other third sector organisation. The case study typically includes intensive service review and developing solutions to real problems.

During the 2012-13 financial year, our staff worked on case studies with Groundwork Merthyr and Rhondda Cynon Taff, the WRVS and the Prince's Trust.

The following feedback was received from the Head of Operations – Wales, WRVS:

'Working with the Wales Audit Office as the case study for their Ignite management development programme was an absolute pleasure and a positive and extremely useful experience. The task set was challenging – how to modernise a service that has been in existence since the 1940s – but the delegates embraced it with enthusiasm and provided feedback and practical advice on how a transformed service could be delivered and the likely impact this would have on service users. Whilst we had already anticipated most of the outcomes from the feedback, it was reassuring to have an independent professional team to confirm that our services were valued and well-delivered. I would jump at the opportunity to be involved with the Ignite programme in the future.'

In addition, during 2012-13 we contacted a range of third sector bodies that represent people with protected characteristics²¹ and sought their views on our draft corporate strategy and programme of value for money studies.

Openness and transparency

We are committed to demonstrating openness and transparency in the way we operate as a business and how we communicate with the public. The Auditor General has adopted the *Model Publication Scheme* prepared and approved by the Information Commissioner. The Scheme commits us to making certain information routinely available to the public – for further information please see our website.

In the 2012-13 financial year, we received 38 requests for information. One of these requests was transferred to the appointed auditor to respond to because the requested information was not held by the Auditor General. Performance auditors deemed one request as appropriate for them to deal with as ordinary correspondence. Of the remaining 36 requests for information dealt with by the Auditor General's Private Office, 92 per cent were processed within the statutory deadline (100 per cent of them were responded to). We received one request for internal review. We were not subject to any reviews in 2012-13 by the Information Commissioner.

²¹ The nine protected characteristics listed in the Equality Act 2010 are: age; disability; gender reassignment; race; religion or belief; sex (gender); sexual orientation; marriage and civil partnership; and pregnancy and maternity.

Future focus for our work

Corporate strategy 2013-2016

In November 2012, we launched a wide-ranging consultation on a *Strategy for the Auditor General for Wales and the Wales Audit Office 2013-2016*. The draft strategy set out our intended response to the key factors in our operating environment over the next three years, alongside our approach to monitoring and reporting on our performance.

Overall, the feedback we received affirmed our overall aim and objectives (see [Exhibit 4](#)), concurred with our evaluation of the main environmental influences on public audit over the next few years, and agreed with our proposed response (see [Exhibit 5](#)).

The final strategy document was published in April 2013²², and includes summaries of our medium-term workforce and financial strategies. Delivery of the strategy will be underpinned by a three-year business plan covering the breadth of our work.

²² For further information, please see *Strategy for the Auditor General for Wales and the Wales Audit Office 2013-2016*, Wales Audit Office, April 2013.

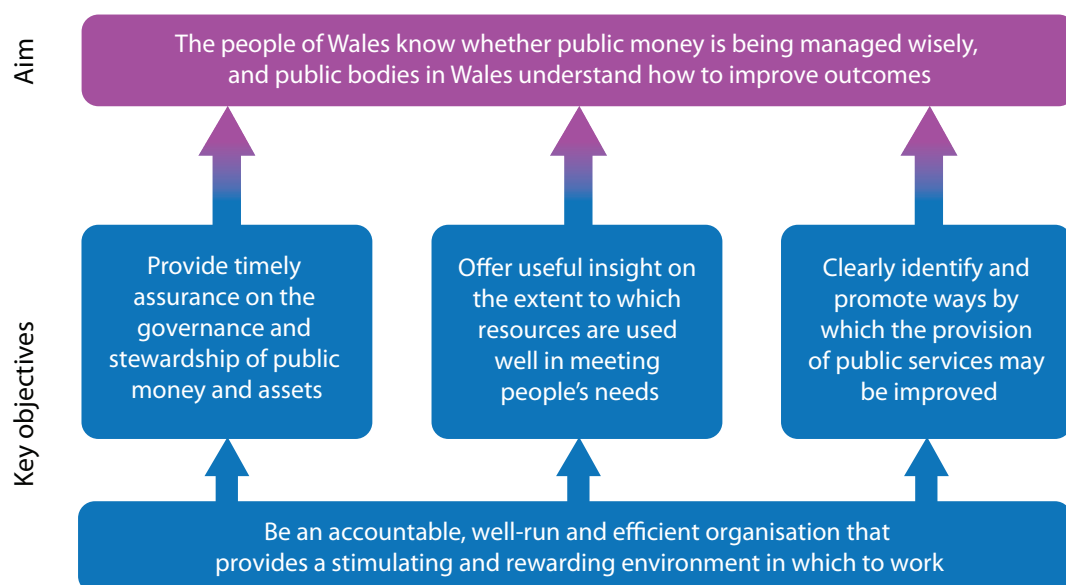


Exhibit 4: Aim and key objectives set out in our strategy

Key environmental factors	Actions we will take in response
We are in a period of financial constraint	Undertake our audit work with an austerity emphasis
Welsh policy continues to diverge through incremental devolution	Enhance our work on benchmarking and performance comparison, sharing of audit knowledge and exchange of good practice
Interest in the effectiveness of governance arrangements is growing and reporting requirements now have a wider scope	Provide further assurance on the effectiveness of governance arrangements and other issues of public interest
New public sector cross-cutting duties and standards have been and are continuing to be introduced in Wales	Report more comprehensively on sustainable development, on equality and on the use of the Welsh language
The external review landscape continues to evolve	Work more closely with other external review bodies and improve the way we run our business through a period of transition
We live in an increasingly networked society	Increase awareness of and engagement with our work, including through more effective use of information technology

Exhibit 5: Actions we will take in response to our operating environment

Programme of audit work

In March 2013, the Auditor General provided the National Assembly's Public Accounts Committee with:

- an update on the Wales Audit Office programme of value for money studies and other audit work in progress that could result in published outputs for consideration by the Committee; and
- an opportunity to comment on potential topic areas for future value for money studies.

The briefing paper to the Committee illustrated the range of value for money study work that we are currently engaged in and on which we expect to report publicly by July 2014. This body of work is in addition to the regular financial and performance audit work reported locally to individual audited bodies. The briefing paper also listed a variety of topics that we have been considering for potential future value for money studies.²³

Estimate of income and expenses

We submitted our *Estimate of income and expenses of the office of Auditor General for the year ending 31 March 2014* to the Public Accounts Committee in October 2012. The Committee subsequently endorsed the estimate in November 2012. In the estimate, we set out our proposals to:

- continue to seek further savings and efficiencies wherever possible that will help us further reduce our cost base;
- hold overall fee levels in 2013-14 at the same cash level as for 2012-13, following significant real terms reductions in earlier years;
- invest additional resource of £0.5 million, specifically on sharing good practice and promoting innovation and improvement, and ensuring we can respond promptly to the increasing number of requests for special investigations and ad hoc work without delaying the delivery of our pre-planned studies programme; and
- seek funding for the additional costs associated with the Public Audit (Wales) Bill²⁴ in a supplementary estimate for 2013-14.

²³ For further information, please see *The Wales Audit Office programme of value for money studies: Briefing Paper for the Public Accounts Committee*; Wales Audit Office, March 2013.

²⁴ Now the Public Audit (Wales) Act 2013; Royal Assent was granted on 29 April 2013

Sustainable development examinations

In a recent white paper, the Welsh Government has set out its intention to legislate to place a duty on the Welsh Government and most public bodies in Wales, to make sustainable development their central organising principle. It has also outlined proposals to confer on the Auditor General a statutory role in examining the public sector's response to this duty.

We are currently represented (with observer status) on the Welsh Government's Sustainable Development Bill External Reference Group, and have agreed to convene a subgroup, to look at scrutiny and reporting in the public sector, in the context of the proposed duty.

A two-year action plan is being developed to support the embedding of sustainable development principles across all our work.

Statement of accounts

Remuneration Report

Remuneration policy

Auditor General for Wales

The Auditor General's remuneration is determined by the National Assembly and, in accordance with the Government of Wales Act 2006, is met from the Welsh Consolidated Fund (WCF). However, for enhanced transparency the remuneration of the Auditor General is disclosed in this Remuneration Report.

Non-Executive committee members

The remuneration of the non-executive members of the Shadow Board, the Audit and Risk Management Committee (ARMC), the Remuneration Committee and the Resources Committee is determined by the Auditor General. This remuneration is non-pensionable.

Wales Audit Office staff

The Auditor General is permitted by legislation to appoint such staff as he considers necessary for assisting him in the discharge of his duties. The remuneration of members of the Executive Committee is determined by the Auditor General. The remuneration terms for other staff of the Wales Audit Office are set by the Wales Audit Office's Executive Committee. Remuneration of all members of staff is subject to consultation with trade unions under a collective agreement.

Wales Audit Office staff normally hold appointments which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Remuneration details

The following sections provide details of the remuneration and pension interests of the Auditor General and the most senior management (ie, Executive Committee members) of the Wales Audit Office, along with members of non-executive committees.

Auditor General for Wales

The Auditor General's salary costs are a direct charge on the WCF and are not therefore paid by the Wales Audit Office. The current Auditor General, Mr Huw Vaughan Thomas, was appointed by Her Majesty the Queen and took office on 1 October 2010 for a non-renewable period of eight years.

The gross salary cost of the Auditor General during 2012-13 was £150,000 (2011-12: £150,000) and employers' pension cost was £21,675 (2011-12: £20,700).

Mr Huw Vaughan Thomas has opted to contribute to a partnership pension account (a form of personal stakeholder pension to which an employer contributes). Total contributions to this account during 2012-13 were £24,973 (including employer contributions of £21,675 and member contributions of £3,298) (2011-12: £22,425 including employer contributions of £20,700 and member contributions of £1,725).

The following information in the Remuneration Report is subject to audit.

Senior management

The Executive Committee is chaired by the Auditor General and additionally during 2012-13 comprised:

	Date of appointment to Wales Audit Office or precursor organisation	Date of appointment to post	Date of termination	Contract
Gillian Body	02/09/1981	01/12/2009	N/A	Permanent
Anthony Barrett	24/01/2001	01/12/2009	N/A	Permanent
Kevin Thomas	26/10/1992	01/12/2009	N/A	Permanent

Each member of the Executive Committee is subject to a periodic performance review. The notice period for each member is 12 weeks. Early termination, other than through misconduct, would result in the individual receiving compensation on loss of office.

Senior managers' remuneration details

The following table sets out remuneration information in relation to members of the Executive Committee.

	Year to 31 March 2013					Year to 31 March 2012				
	Salary	Benefits in kind	Taxable expenses	Total	Pension contribution	Salary	Benefits in kind	Taxable expenses	Total	Pension contribution
	Bands of £5,000	To nearest £100	To nearest £100	Bands of £5,000	Bands of £2,500	Bands of £5,000	To nearest £100	To nearest £100	Bands of £5,000	Bands of £2,500
Gillian Body	115-120	0	0	115-120	27.5-30.0	115-120	0		115-120	27.5-30.0
Anthony Barrett	110-115 ¹	4,500	13,300	130-135	27.5-30.0	110-115	5,000	14,900	130-135	27.5-30.0
Kevin Thomas	105-110 ²	4,200	15,000	120-125	25.0-27.5	100-105	4,100	17,500	120-125	22.5-25.0
Band of highest-paid director's total remuneration (£'000)			130-135					130-135		
Median total remuneration based on full-time-equivalent staff (£) ³			45,964					46,347 ³		
Remuneration ratio			2.870					2.877 ⁴		

¹ Mr Barrett's salary has been reduced by £425 (£522 in 2011-12) in respect of a childcare vouchers salary sacrifice scheme. The value of these vouchers has been reported separately as benefits in kind.

² Mr Thomas' salary includes additional remuneration of £1,758 received in respect of holiday (£1,726 in 2011-12) sold under the Wales Audit Office holiday sale and purchase scheme.

³ Median remuneration for 2011-12 has been restated to include salary, allowances and benefits in kind.

⁴ Restated as per note 3 above.

There is no requirement to disclose the salary of the Auditor General as he is paid directly from the WCF and not by the Wales Audit Office. For enhanced transparency his total remuneration was £150,000 which represented 3.263 times the median total remuneration for the Wales Audit Office (2011-12: £150,000, ratio 3.236).

Salary

'Salary' includes gross salary and any other allowance to the extent that it is subject to UK taxation. This report is based on accrued payments made by the Wales Audit Office and thus recorded in these accounts.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the Wales Audit Office. Benefits in kind have been restated for 2011-12 to include the value of childcare vouchers purchased via a salary sacrifice scheme.

The Wales Audit Office provides a death in service benefit equivalent to a payment of one year's salary for any member of staff who dies whilst in the employment of the Wales Audit Office. The annual cost of this scheme in 2012-13 was £12,658 (2011-12: £13,734). This is a group insurance policy and as such cannot be directly attributed to any one member of staff and hence is excluded from the table above.

No bonuses were paid to any members of the Executive Committee.

Taxable expenses

As disclosed in Notes 15 and 19 and discussed in the Annual Governance Statement, the accounts include a provision and contingent liability for a potential PAYE settlement with HMRC in respect of the Wales Audit Office not operating PAYE over certain expense payments made to some groups of staff prior to 2012-13. The provision includes taxation and national insurance contributions in respect of expenses paid to Kevin Thomas and Anthony Barrett for travel to a main place of work, and for 2011-12 additionally included fuel scale benefit charge. The tax-inclusive value of these payments is disclosed in the above table and the appropriate payment made to HMRC.

Senior management pension details

	Accrued pension at pension age as at 31 March 2013 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31 March 2013	CETV at 31 March 2012	Real increase in CETV	Employer contribution to partnership pension account
	£'000	£'000	£'000	£'000	£'000	Nearest £100
Gillian Body	50-55 plus lump sum of 160-165	0-5 plus lump sum of 0-5	1,003	928	23	0
Anthony Barrett	30-35	0-5	454	383	31	0
Kevin Thomas	40-45	0-5	515	461	25	0

Civil service pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes: either a final salary scheme (classic, premium or classic plus) or a whole career scheme (nuvos). These statutory arrangements are unfunded with the cost of benefits met by funds voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with pensions increase legislation. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary-related and for 2012-13 ranged between 1.5 per cent and 3.9 per cent of pensionable earnings for classic and 3.5 per cent and 5.9 per cent for premium, classic plus and nuvos. Increases to employee contributions will apply from 1 April 2013. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos, a member builds up a pension based on his or her pensionable earnings during his or her period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3 per cent of their pensionable earnings in that scheme year and the accrued pension is uprated in line with pensions increase legislation. In all cases, members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between three per cent and 12.5 per cent (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of three per cent of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8 per cent of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos.

Further details about the Civil Service pension arrangements can be found at the website: www.civilservice.gov.uk/pensions.

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from lifetime allowance tax which may be due when pension benefits are taken.

Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Non-executive committee members' remuneration

	ARMC		Remuneration Committee		Resources Committee		Total	
	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12
	£	£	£	£	£	£	£	£
Chair to Shadow Board								
Deep Sagar ¹							3,685	
Committee members								
Rosamund Blomfield-Smith		1,250	7,000	5,083			7,000	6,333
Dr Michael P Brooker		1,250			7,000	5,083	7,000	6,333
Steven Burnett					5,000	3,750	5,000	3,750
Mary Champion					5,000	3,750	5,000	3,750
Professor David Hands		3,804						3,804
Christine Hayes ²	2,487						2,487	
Dr Elizabeth Haywood			5,000	3,750			5,000	3,750
Michael Heap			5,000	3,750			5,000	3,750
Peter Laing ³	3,664	7,250					3,664	7,250
Gilbert Lloyd ⁴	5,393						5,393	
Denver Lynn ⁵								
Dr Arun Midha					5,000	3,750	5,000	3,750
Canon David Stanton			5,000	3,750			5,000	3,750
Haydn Warman	5,000	5,000					5,000	5,000
Total	16,544	18,554	22,000	16,333	22,000	16,333	64,229	51,220

¹ Mr Sagar joined as Chair of the Shadow Board in September 2012 (full-year-equivalent remuneration: £7,250).

² Ms Hayes joined as a member of ARMC in November 2012 (full-year-equivalent remuneration: £5,000).

³ Mr Laing's term of office came to an end in October 2012.

⁴ Mr Lloyd joined as Chair of ARMC in July 2012 (full-year-equivalent remuneration: £7,250).

⁵ Mr Lynn is a Director of the Northern Ireland Audit Office. He received no remuneration from the Wales Audit Office for his membership of this Committee other than reimbursement of travel and expenses.

Contracts for committee members are initially for two or three years and can be extended for a further term subject to satisfactory performance and/or mutual consent. The chairs of each committee are also members of the Shadow Board. They do not receive additional remuneration for this. No committee member may serve for more than seven years. Committee members are able to claim for their travel and expenses. The personal tax liability in respect of these expenses is settled by the Wales Audit Office under a PAYE settlement agreement with HMRC. The tax-inclusive value of these expenses is disclosed in the following table.

Grossed up expenses	ARMC		Remuneration Committee		Resources Committee		Total	
	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12
	£	£	£	£	£	£	£	£
Chair to Shadow Board								
Deep Sagar							2,696	
Committee members								
Rosamund Blomfield-Smith			2,122	1,942			2,122	1,942
Dr Michael P Brooker					369		369	
Steven Burnett					1,328	565	1,328	565
Mary Champion					262	327	262	327
Professor David Hands		1,011						1,011
Christine Hayes								
Dr Elizabeth Haywood				195				195
Michael Heap								
Peter Laing	638						638	
Gilbert Lloyd								
Denver Lynn	2,358	1,134					2,358	1,134
Dr Arun Midha								
Canon David Stanton			1,393	583			1,393	583
Haydn Warman								
Total	2,996	2,145	3,515	2,720	1,959	892	11,166	5,757

Huw Vaughan Thomas

Auditor General for Wales and Accounting Officer

3 July 2013

Statement of Accounting Officer's Responsibilities

Under paragraph 13(1) of Schedule 8 to the Government of Wales Act 2006, HM Treasury has directed the Auditor General to prepare for each financial year a Statement of Accounts in the form and on the basis set out in the Accounts Direction. A new direction was obtained for the 2010-11 Statement of Accounts and remains in force. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Auditor General and of the income and expenditure, changes in taxpayers' equity and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual (FReM) and in particular to:

- observe the Accounts Direction issued by HM Treasury including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgments and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the FReM have been followed, and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on a going concern basis.

The Auditor General is designated as the Accounting Officer of the Wales Audit Office under paragraph 16(1) of Schedule 8 to the Government of Wales Act 2006. The Auditor General's responsibilities as Accounting Officer, including responsibility for the propriety and regularity of the public finances for which he is answerable; for the keeping of proper accounts; for prudent and economical administration; for the avoidance of waste and extravagance; and for the efficient and effective use of all the available resources are set out in the *Memorandum for the Accounting Officer of the Wales Audit Office* issued on 2 November 2010 by the Public Accounts Committee of the National Assembly under paragraph 16 of Schedule 8 to the Government of Wales Act 2006.

Annual Governance Statement 2012-13

Scope of responsibility

As the Accounting Officer I am personally responsible for the overall organisation, management and staffing of the Wales Audit Office. I must ensure that the Wales Audit Office has a high standard of financial management and that its financial systems and procedures promote the efficient and economical conduct of business and safeguard financial propriety and regularity.

In discharging these responsibilities I must maintain a sound system of internal control that supports the achievement of my policies, aims and objectives, facilitates the effective exercise of my functions and which incorporates effective arrangements for managing risk.

I must also establish appropriate arrangements to receive formal comments and advice on the quality and operation of the Wales Audit Office's governance arrangements, including via independent external contribution and particularly with regard to matters of risk and control and to my behaviour and that of my staff.

The full scope of my responsibilities is described in the *Memorandum for the Accounting Officer of the Wales Audit Office* issued on 2 November 2010 by the Public Accounts Committee of the National Assembly to which I am accountable. The Public Accounts Committee examines my annual estimate of income and expenses and appoints my external auditor.

As Auditor General I am the external auditor of, or appoint auditors to, most public bodies in Wales. I also examine how those bodies manage and spend public money, including whether they achieve value in delivering services. In fulfilling this role I am independent of both the National Assembly and of the Welsh Government.

The governance framework

The governance framework is designed to preserve my independence as Auditor General and to balance that independence with my accountability for the public money I spend.

The Wales Audit Office is currently defined by statute as the Auditor General and his staff. It is not a legal entity: all legal powers, rights and duties are vested in the Auditor General. However, I cannot realistically take every business decision and I have established mechanisms to exercise authority on my behalf.

The governance framework comprises the systems, processes, culture and values by which the Wales Audit Office is directed and through which it is accountable for its activities. The framework enables the Wales Audit Office to monitor the achievement of its strategic objectives and to evaluate whether those objectives have led to the delivery of economic, efficient and effective services.

The system of internal control is a significant part of the governance framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives. It therefore provides reasonable rather than absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Wales Audit Office's policies, aims and objectives, to evaluate the likelihood of those risks being realised, the impact should they be realised and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Wales Audit Office for the year ended 31 March 2013 and up to the date of approval of the annual report and accounts. It accords with Treasury guidance.

My aim is to manage the business of the Wales Audit Office in a manner that takes account of the risks we face using appropriate control systems. My governance framework is established in internal guidance which is subject to review as the organisation moves closer to commencement of the provisions of the Public Audit (Wales) Act 2013.

In March 2012, the Welsh Government published for consultation its draft Public Audit (Wales) Bill²⁵ designed to strengthen the governance and accountability arrangements of the Wales Audit Office. Amongst other provisions the then Bill covered the establishment of the Wales Audit Office as a corporate body led by a statutory board with an independent chair and a majority of non-executive directors.

The subsequent introduction of the then Bill to the National Assembly in July 2012 and its passage through the legislative process influenced the focus of my activities during the year as I endeavoured to contribute effectively to the National Assembly's scrutiny process and to ensure that the Wales Audit Office is well-placed to implement the requirements of the legislation.

The provisions represent a significant shift in the internal management and accountability arrangements of the Wales Audit Office and my governance arrangements have continued to evolve to test how those arrangements might work in practice.

²⁵ The Bill received Royal Assent on 29 April 2013

My arrangements are intended to move the Wales Audit Office towards compliance with the government's Code of Good Practice for Corporate Governance insofar as its requirements are relevant and practical given the current legislative framework.

For the period covered by this report, my vision and objectives were established in my corporate strategy 2009-2012. I decided to delay the development and implementation of a new strategic direction pending:

- my consideration of the implications of the then Public Audit (Wales) Bill for future operations;
- the completion of my contracting strategy which establishes the supporting principles and my approach to procuring audit services in the medium term; and
- further work on the Wales Audit Office's workforce strategy and medium-term financial strategy in the context of the consultation responses to my proposed strategic direction and the financially constrained environment in which all public bodies are having to operate.

I published my new strategy at the end of the year and expect the new board, once appointed, to review it and its implementation.

As in previous years, I delegated my authority for delivering my strategic aims and objectives to three assistant auditors general. Together we form the Executive Committee which I chair. The Committee is the vehicle through which I make strategic and policy decisions and is responsible for monitoring key strategic risks and for ensuring that they are managed effectively with appropriate mitigating controls in place. The Committee – together with the Senior Leadership Team comprising all directors – also sets the organisational values that govern the Wales Audit Office's activities and the behaviour of its staff. In 2012-13, the Executive Committee met on 21 occasions and received a range of information to support its activities.

The assistant auditors general are accountable to me for delivering their approved objectives as described in my annual operational plan and for ensuring that effective arrangements are in place to manage the risks in their areas of the business. They each lead a management team of directors or service managers to whom they delegate responsibility for delivering specific projects, tasks and services and for managing risks.

2012-13 was the first full year of operation of my governance arrangements. I established a Shadow Board which is designed to prepare the Wales Audit Office for the implementation of the statutory board. It advises me on the Wales Audit Office's strategic aims and objectives and on the deployment of financial and other resources to achieve them. During the year, an independent chair was appointed through a process overseen by a representative of the Public Accounts Committee. The Shadow Board also comprises the chairs of the three governance committees and the assistant auditors general who sit on my Executive Committee.

In combination, the Audit and Risk Management, Remuneration and Resources Committees provide objective and impartial counsel that helps me to discharge my responsibilities for the proper management of risk, control and governance and the provision of associated assurance within the Wales Audit Office, including in respect of the remuneration of staff and the management of resources.

The three governance committees act as subcommittees of the Shadow Board. In 2012-13, the cycle of business worked more efficiently to support governance and accountability but further improvements will be needed to ensure more timely and effective decision making.

For the Shadow Board and its committees I maintain a register of members' interests that captures information from their declarations of independence collected annually and any additional information during the year from declarations at Shadow Board and committee meetings. This ensures that potential conflicts of interest are identified in advance of meetings where practicable and action taken to mitigate them.

The chairs of the Shadow Board and its governance committees and the Head of Internal Audit each have a right of access, and may report matters of concern, directly to the Chair of the Public Accounts Committee. The Head of Internal Audit and the external auditor each have free and confidential access to the Audit and Risk Management Committee, including via a private session at each committee meeting.

Towards the end of 2012-13, the Shadow Board agreed to review the balance of work between the Remuneration and Resources Committees to reduce the risk of duplication between them and ensure the effective scrutiny of all aspects of Wales Audit Office operations within their responsibilities. That review resulted in responsibility for scrutinising HR functions transferring to the Remuneration Committee. The committees' terms of reference were adjusted accordingly.

Exhibit 6 summarises attendance at Shadow Board and committee meetings in 2012-13.

Exhibit 6: Attendance at Shadow Board and committee meetings 2012-13

	Executive Committee	Shadow Board	ARMC	Remuneration Committee	Resources Committee
Number of meetings held	21	5	4	5	4
Non-executive directors					
Dr Arun Midha					3
Canon David Stanton				5	
Christine Hayes ¹			1		
Deep Sagar ²		4			
Denver Lynn			4		
Dr Elizabeth Haywood				5	
Gilbert Lloyd ³		3	3		
Haydn Warman			4		
Mary Champion					4
Michael Heap				5	
Dr Michael Brooker		5			4
Peter Laing ⁴		2	3		
Rosamund Blomfield-Smith		5		5	
Steve Burnett					4
Wales Audit Office⁵					
Anthony Barrett	19	5	2		
Gillian Body	20	5			1
Huw Vaughan Thomas	20	5	4	3	2
Kevin Thomas	17	4	4	5	4

¹ Christine Hayes was appointed to the Audit and Risk Management Committee following its meeting in October 2012 and the appointment of Gilbert Lloyd as the Chair of the Committee. She also attended one meeting as an observer before her formal appointment.

² Deep Sagar was appointed as the independent Chair of the Shadow Board during the summer of 2012 and assumed that role in September. In his capacity as Chair, Mr Sagar also observed the operation of each governance committee.

³ Gilbert Lloyd was appointed as a member of the Audit and Risk Management Committee in June 2012 and assumed the role of Chair following the Committee's meeting in October.

⁴ Peter Laing stood down as the Chair of the Audit and Risk Management Committee following the meeting in October having served two consecutive terms.

⁵ The Auditor General, as the Accounting Officer, and his assistant auditors general are members of the Shadow Board. They are not members of the governance committees but attend as necessary to brief the committees or to take their advice.

The risk and control framework

The Executive Committee is responsible for managing risk in the Wales Audit Office. The Audit and Risk Management Committee scrutinises the Wales Audit Office's risk management arrangements.

My aim is to manage the business of the Wales Audit Office in a manner that takes into account the risks we face using appropriate control systems. This objective is embedded in our working methods including defined governance procedures, quality control policies, financial management and the identification and management of risks.

Given the nature of our business, we approach areas of professional audit judgement, regularity and propriety and financial management from a low risk tolerance perspective.

I employ a large number of qualified accountants and other professionally qualified persons who are bound by the ethical requirements of their professional bodies. The Wales Audit Office conforms to International Standards on Auditing. In particular, the International Standard on Quality Control 1 is applied to all our financial audit engagements.

Control over the quality of audits is facilitated through our audit process and the hierarchical supervision provided within individual projects. We also have a system of internal and external reviews. The results of these reviews are reported to the Executive Committee. These controls apply both to work undertaken by staff of the Wales Audit Office and to private sector firms contracted to undertake work for me.

The Executive Committee maintains a corporate risk register which identifies strategic and operational risks that could affect the achievement of the Wales Audit Office's aim and objectives. The Committee is alert to the need to keep these risks under review and to deal appropriately with changing circumstances as they arise. The summary risk register is a standing agenda item at the second committee meeting in each month; the Committee reviews the detailed risk register every quarter, in advance of its consideration by the Audit and Risk Management Committee and the Shadow Board.

The Wales Audit Office's risk profile remained relatively stable throughout 2012-13 though there were some fluctuations largely consequent upon the introduction of the Public Audit (Wales) Bill and the ongoing uncertainties caused by delays in Her Majesty's Revenue and Customs' (HMRC) decisions on my VAT status and potential underpayment of PAYE tax and national insurance contributions.

Developments to improve the control framework

It is important that the Wales Audit Office is recognised as a well-governed and effective organisation delivering value for money in its use of resources. In 2012-13, I put in place a number of projects and initiatives to further improve accountability within the organisation, building on the moves towards more direct and transparent reporting lines implemented in the previous financial year.

A number of those projects are ongoing and include:

- establishing a culture development programme in response to a number of issues identified in the 2012 staff survey;
- further development of the corporate performance management framework that provides me, my Executive Committee and now the Shadow Board with appropriate and timely management information to allow us to identify and respond to emerging risks;
- clarifying the arrangements for delegated financial management supported by a new handbook and a staff training programme;
- developing a new staff performance appraisal system that builds on experience to date and draws in good practice from elsewhere;
- assessing, and identifying the scope for further improvements in, the Wales Audit Office's document management arrangements;
- further improving the disaster recovery and business continuity arrangements;
- publishing a new counter-fraud strategy describing the framework governing my arrangements; and
- enhancing the IT security policy to improve the arrangements for routine monitoring of the use of ICT by Wales Audit Office staff.

In combination these ongoing improvements are designed to ensure that the Wales Audit Office is well-placed to implement the requirements of the Public Audit (Wales) Act.

Review of performance and effectiveness

As Accounting Officer I am responsible for reviewing the effectiveness of the system of internal control. My review is informed by the work of Internal Audit, by Wales Audit Office managers who are responsible for developing and maintaining the internal control framework and by the external auditors through comments in their management letter. In completing my review, I also take into account the advice of the Shadow Board and its committees as described in their annual reports.

The Internal Audit Service operated during the year to standards defined in the *Government Internal Audit Standards* (now superseded by the *Public Sector Internal Audit Standards*, with which Internal Audit will also comply). It undertakes a programme of work based on an analysis of the major risks facing the Wales Audit Office. The Head of Internal Audit reports to the Executive Committee and to the Audit and Risk Management Committee on progress in implementing the planned work programme. He also attends the Remuneration and Resources Committees as necessary. The Head of Internal Audit is required by *Public Sector Internal Auditing Standards* to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control.

In 2012-13, the Audit and Risk Management Committee's concern about internal audit resources and consequent delays in the delivery of the work programme led me to review my arrangements. I am now piloting a co-sourcing arrangement in which I subcontract elements of internal audit planned work to external suppliers. This new approach allowed the completion of the balance of the work programme in time to inform the audit opinion. The pilot will continue in 2013-14 and an evaluation will allow the new Wales Audit Office board to make an informed decision on its future arrangements for internal audit.

Each of my governance committees is required to report annually on its activities during the year and on the Wales Audit Office functions it has examined.

The Resources Committee noted that the organisation's resources arrangements continued to improve with some evidence of good practice though the pace of change was slow. Significant investment was ongoing in developing the organisational culture to prepare the Wales Audit Office for the challenges ahead and this is crucial to the further improvement which is sought. Similarly, the Remuneration Committee noted that the organisation's pay and performance management arrangements continued to develop against a background of public sector constraint, and in preparation for the requirements of the Public Audit (Wales) Act. The Audit and Risk Management Committee's main concern in 2012-13 was the impact of the delay in delivering the internal audit programme on the robustness and timeliness of its advice to the Auditor General. The completion of the programme in time for the Committee's review of the annual report and accounts allowed it to endorse the Head of Internal Audit's opinion on the Wales Audit Office's control framework.

During 2012-13, the Shadow Board agreed to implement a system of performance appraisals for non-executive members and a framework for assessing its effectiveness and that of its committees. Both exercises were due for completion in July 2013 and will inform the development of the new governance arrangements following the appointment of the statutory Board.

The work of my executive and governance committees is supported by my private office which delivers a range of activities to provide assurance that the work of the Wales Audit Office is undertaken to appropriate quality standards and that its systems of risk, control and governance are operating effectively.

Information governance

Together with the staff of the Wales Audit Office, I have privileged and wide-ranging access to data and information to support the discharge of the audit function and to ensure that my reports are factual, accurate and complete. The Wales Audit Office has a duty to respect this privileged access and to ensure that the personal information entrusted to it is safeguarded properly.

In discharging this duty, the Wales Audit Office has an *Information Security Policy* which:

- sets out the obligations of all employees in relation to the use of Wales Audit Office ICT facilities;
- outlines the legal requirements for processing data;
- highlights key security responsibilities for staff;
- sets out the arrangements for routine monitoring to check staff compliance with the law and Wales Audit Office policy;
- sets out the Wales Audit Office's arrangements to monitor policy compliance; and
- explains how staff can obtain further support and guidance and how security incidents should be reported.

My Private Secretary is accountable to the Executive Committee for information governance. He also acts as the Single Point of Contact who must authorise all planned bulk transfers of higher-sensitivity information between the Wales Audit Office, audited bodies and other originators.

The Information Security Officer advises senior managers and staff on technical and practical security matters, and leads any required investigative work.

The Information Officer works to ensure sound overall information governance, including compliance with Data Protection Act 1998 and Freedom of Information Act 2000 requirements. The Information Officer is the principal point of contact for the Information Commissioner's Office.

The Wales Audit Office has decided to adopt ISO 27001, the international standard for information security management, scaling its arrangements in line with the needs of the organisation. The Executive Committee expects to consider completed Information Security Management System documentation in June 2013.

There were no personal data related incidents reportable to the Information Commissioner's Office in 2012-13.

Significant internal control issues

In 2011-12, I reported on some specific internal control issues that informed the internal audit opinion and the Wales Audit Office has made significant progress in dealing with them:

- The new management accounts arrangements introduced in 2011-12 have been further improved such that accurate and timely information is available to the Shadow Board and to the Executive Committee. The capacity of the Finance team was strengthened with the appointment of a new Finance Manager and a training programme is underway to reinforce the delegation of budgetary control and reporting arrangements throughout the organisation.
- The nature of the Wales Audit Office's business means that, for reasons of operational efficiency, its staff work at a wide range of locations across Wales. In 2011-12 it became clear that, over time some staff may, for tax assessment purposes, have established permanent places of work at locations other than their normal place of business and that payments for expenses incurred in travelling to those locations should have been subject to tax. This issue has affected other public bodies in Wales and is, therefore, not unique to the Wales Audit Office. My staff are continuing to liaise with HMRC to establish the nature and scope of any breach of the regulations and to ensure that the Wales Audit Office is compliant with tax regulations in future.
- The evolving nature of my enhanced governance arrangements and the prospect of the new corporate structure envisaged in the then Public Audit (Wales) Bill meant that the policies, procedures and guidance that support the Wales Audit Office's business operations are subject to ongoing review and revision.
- The Wales Audit Office has in place policies and procedures governing contracts and procurement and responsibilities for checking that the controls established are operating as approved. In 2012-13, my staff reviewed all non-pay expenditure and a sample of procurement transactions and confirmed compliance with the procurement procedures. However, my staff identified a number of risks attached to specific projects which they are managing. They will continue to conduct periodic reviews of expenditure and procurement transactions to ensure ongoing compliance.

During 2012-13, I introduced improved arrangements for tracking progress in implementing internal and external audit recommendations through a tracker that is reviewed every quarter by the Audit and Risk Management Committee.

There were no 2012-13 internal audit recommendations requiring urgent or significant action because they highlighted a major issue or significant control weakness. Nor did the Head of Internal Audit identify any instances of fraud in the reviews he conducted. Whilst no significant issues arose, four important issues requiring a response from management were identified as follows:

- the need for additional training and improved guidance to increase awareness and understanding of the income recognition policy, in the absence of which management should investigate changing the mechanism for income recognition from an input-based model (time) to one based on outputs (milestones);
- to emphasise the importance of accurate time recording and to improve arrangements for handling variations to work programmes;

- the introduction of quarterly reviews of work in progress by Finance with management of the Performance Group and Financial Audit Practice; and
- further improvement of HR systems including updating and delivering the HR strategy and a number of HR-related policies.

The 2012-13 internal audit opinion was informed by a range of factors, including those listed above. The Head of Internal Audit has concluded that the Wales Audit Office's systems are capable of delivering an effective framework of governance, risk management and control; progress has been made and remaining deficiencies in the operation of internal controls are being addressed.

Next steps

I have accepted the opinion of the Head of Internal Audit and acknowledge the conclusions reached by my governance committees. Subject to these I am satisfied that risks are generally well managed and that the Wales Audit Office's internal controls have improved significantly; where there are weaknesses, action is in place to tackle them.

Managers are implementing the Head of Internal Audit's recommendations and my Executive Committee will continue to monitor the improvements made.

Huw Vaughan Thomas

Auditor General for Wales and Accounting Officer

3 July 2013

Independent Auditor's Report to the National Assembly for Wales

We certify that we have audited the financial statements of the Auditor General for Wales for the year ended 31 March 2013 under the Government of Wales Act 2006. These financial statements comprise the Summary of Resource Outturn, the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Cash Flow Statement, the Statement of Changes in Taxpayers' Equity, and related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2012/13 Government Financial Reporting Manual (FReM).

This report is made solely to the parties to whom it is addressed in accordance with the Government of Wales Act 2006 and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the National Assembly for Wales for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Auditor General for Wales and the Auditor

As explained more fully in the Statement of the Accounting Officer's responsibilities set out on [page 56](#), the Auditor General for Wales is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and is also responsible for ensuring the regularity of expenditure and receipts. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We are also responsible for giving an opinion on the regularity of expenditure and receipts.

Scope of the audit on the financial statements

An audit involves obtaining evidence about the amounts, disclosures, and regularity of expenditure and receipts in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Auditor General for Wales' circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Auditor General as Accounting Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view, in accordance with the Government of Wales Act 2006 and the directions made thereunder by the Treasury, of the state of affairs of the Auditor General for Wales at 31 March 2013 and of the net resource outturn, the net cash requirement and the comprehensive net expenditure, changes in reserves and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2012/13 FReM; and
- have been properly prepared in accordance with the Government of Wales Act 2006 and directions made thereunder by the Treasury.

Opinion on regularity

In our opinion in all material respects, the expenditure and income shown in the financial statements have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform with the authorities that govern them.

Opinion on other matters

In our opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Government of Wales Act 2006 and directions made thereunder by the Treasury; and
- the information included in the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We have nothing to report in respect of the following matters where we are required to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- the Governance Statement does not comply with relevant Treasury guidance.

Report

We have no observations to make on these financial statements.

RSM Tenon Audit Limited
5 July 2013

Registered Auditors
Vantage
Victoria Street
Basingstoke
Hampshire
RG21 3BT

Summary of Resource Out-turn for the year ended 31 March 2013

	2012-13						Net total out-turn compared to estimate	2011-12 Out-turn
	Estimate		Net Total	Out-turn		Net Total		
	Gross	Income		Gross	Income			
	expenditure			expenditure				
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Revenue	11,995	(7,271)	4,724	10,842	(7,271)	3,571	1,153	4,743
Capital	16		16	16		16	0	3
Supplementary						0	0	97
Total resources	12,011	(7,271)	4,740	10,858	(7,271)	3,587	1,153	4,843
Net cash requirement (see reconciliation below)			4,740			4,472	268	3,358

Reconciliation of Total Resources to Net Cash Requirement

		2012-13		2011-12
	Estimate	Out-turn	Variance	Out-turn
	£'000	£'000	£'000	£'000
Total resources (as above)	4,740	3,587	1,153	4,843
Adjustments				
Non-cash items (depreciation)	(10)	(210)	200	(121)
Movements in working capital other than cash	10	1,194	(1,184)	(1,054)
Income in excess of estimate		(99)	99	(310)
Total net cash requirement (as above)	4,740	4,472	268	3,358

The above Summary of Resource Out-turn summarises the Wales Audit Office's achieved position against those elements of the budget of the Wales Audit Office that are subject to approval by budget motion of the National Assembly. Namely, the amount of resources and cash that can be drawn down from the Welsh Consolidated Fund (WCF) and the amount of income generated from NHS, central government, local government grants work and sundry sources that can be retained.

Reconciliation of resource out-turn to net expenditure

	2012-13	2011-12
	Out-turn	Out-turn
	£'000	£'000
Total revenue resources	3,571	4,843
Income in excess of estimate	(99)	(310)
Non-supply income	(9,846)	(10,604)
Non-supply expenditure	8,419	10,826
Net expenditure	2,045	4,755

The following table summarises where the 2012-13 figures in the tables above have been derived from the corresponding figures within the Statement of Accounts, and provides a breakdown of how those figures have been apportioned to the Summary of Resource Out-turn.

	Note	Total	Included in Summary of Resource Out-turn	Not included in Summary of Resource Out-turn
		£'000	£'000	£'000
Income (fees)	2	15,871	7,347	8,524
Income (grant)	2	1,322		1,322
Other operating income	3	11	11	0
Bank interest	-	12	12	0
Less income in excess of estimate		(99)	(99)	0
Total income		17,117	7,271	9,846
Total expenditure		19,261	10,842	8,419
Depreciation	7	495	210	285
Movements in working capital	Cash Flow Statement	(2,810)	(1,194)	(1,616)
Capital additions	8 and 9	589	16	573

The movement in working capital in the above table is the net of the movements in receivables (£206,000), payables (£687,000) and provisions (£2,329,000) shown in the Cash Flow Statement.

Explanation of variances

The net out-turn reported above results from a release of the provision made in 2011-12 in respect of the anticipated liability in respect of VAT. A ruling has now been received from Her Majesty's Revenue and Customs on the Auditor General's VAT status. This ruling has confirmed that there will be no historical liability in respect of previous years and we have therefore decided that it is appropriate to release £2.392 million of the £2.6 million set aside in 2011-12.

Summary of cash payable to the Welsh Consolidated Fund

As set out above, in the year we received £99,000 income in excess of the £7,271,000 we were permitted to retain. Arising from the operations of the Wales Audit Office for the 2012-13 financial year, the sum of £268,000 is payable to the WCF.

The notes that follow on [pages 78 to 99](#) form part of these financial statements.

Statement of Comprehensive Net Expenditure for the year ended 31 March 2013

		2012-13	2011-12
	Note	£'000	£'000
Expenditure			
Staff and associated costs	4	14,981	14,855
Bought-in services	6	3,451	3,507
Other operating costs	7	829	5,354
	2	19,261	23,716
Income			
Audit fee income	2	15,871	17,616
Inspection grant	2	1,322	1,295
Other operating income	3	11	16
		17,204	18,927
Net (expenditure)		(2,057)	(4,789)
Interest (payable)/receivable		12	11
Corporation tax (payable)/recoverable		0	23
Net expenditure after tax and interest		(2,045)	(4,755)
Other comprehensive expenditure		0	0
Total comprehensive net expenditure for the year		(2,045)	(4,755)

The notes that follow on [pages 78 to 99](#) form part of these financial statements.

There were no discontinued operations, acquisitions or disposals during the period nor any unrecognised gains or losses.

Statement of Financial Position at 31 March 2013

		31 March 2013	31 March 2012
	Note	£'000	£'000
Non-current assets			
Property, plant and equipment	8	816	631
Intangible assets	9	120	218
		<u>936</u>	<u>849</u>
Current assets			
Trade receivables and work in progress	10	1,061	1,223
Other receivables	11	461	522
Cash and cash equivalents	12	4,519	6,667
		<u>6,041</u>	<u>8,412</u>
Total assets		6,977	9,261
Current liabilities			
Trade payables and other current liabilities	13	1,743	2,433
Deferred income	14	2,264	2,279
Provisions for liabilities and charges	15	557	3,134
WCF (see Summary of Resource Out-turn)		268	1,945
		<u>4,832</u>	<u>9,791</u>
Total assets less current liabilities		2,145	(530)
Non-current liabilities			
Provisions for liabilities and charges	15	953	705
		<u>953</u>	<u>705</u>
Total assets less liabilities		1,192	(1,235)
Taxpayers' equity			
General reserve		1,192	(1,235)
		<u>1,192</u>	<u>(1,235)</u>

The notes that follow on [pages 78 to 99](#) form part of these financial statements.

Huw Vaughan Thomas

Auditor General for Wales and Accounting Officer

3 July 2013

Statement of Cash Flows for the year ended 31 March 2013

		2012-13	2011-12
	Note	£'000	£'000
Cash flows from operating activities			
Comprehensive net expenditure		(2,045)	(4,755)
Non cash: depreciation	7	495	276
(Increase)/decrease in trade and other receivables	10, 11	223	426
Increase/(decrease) in trade and other payables	13, 14	(704)	(288)
Increase/(decrease) in provisions	15	(2,757)	2,258
Net cash outflow from operating activities		(4,788)	(2,083)
Cash flows from investing activities			
Purchases of property, plant and equipment	8	(155)	(7)
Purchases of intangible assets	9	(6)	0
Reclassification to revenue	8	6	67
Net cash outflow from investing activities		(155)	60
Cash flows from financing activities			
WCF		4,740	4,753
WCF repaid		(1,945)	(79)
Net financing		2,795	4,674
Movements in cash and cash equivalents	12	(2,148)	2,651

The notes that follow on [pages 78 to 99](#) form part of these financial statements.

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2013

	£'000
Balance at 31 March 2011	162
Changes in taxpayers' equity in 2011-12	
Total comprehensive expenditure	(4,755)
WCF finance	5,303
	<hr/> 710
Payable to WCF	(1,945)
Balance at 31 March 2012	(1,235)
Changes in taxpayers' equity in 2012-13	
Total comprehensive expenditure	(2,045)
WCF finance	4,740
	<hr/> 1,460
Payable to WCF ¹	(268)
Balance at 31 March 2013	1,192

¹ As reported in the Summary of Resource Out-turn for the year ended 31 March 2013.

The notes that follow on [pages 78 to 99](#) form part of these financial statements.

Note 1: Accounting conventions and policies

Statement of Accounting Policies

These financial statements have been prepared in accordance with the 2012-13 Financial Reporting Manual (FReM), issued by the relevant authorities. The financial statements have been prepared on a going concern basis as set out in Note 21: events after the reporting period.

The accounting policies contained in the FReM apply EU-adopted International Financial Reporting Standards as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Auditor General for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Auditor General are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

There are no new accounting standards issued, but not yet effective, that would have had a material effect on these financial statements had they been applied in this reporting period:

- i The accounts are prepared under the historical cost convention, modified to account for the revaluation of property, plant and equipment and intangible assets where material to their value to the business by reference to their current costs, in a form directed by HM Treasury, under paragraph 13(1) of Schedule 8 of the Government of Wales Act 2006. They are presented in British pounds which is the functional currency of the Wales Audit Office and are rounded to the nearest £1,000.
- ii Gross fee income and other operating income are recognised on the value of chargeable work exclusive of VAT.
- iii Operating income, whether derived from direct government grant or fees generated from audited bodies, is credited to the year of account in which the work is done. Income received in advance of the work being done is classed as deferred income (see xi). Work done in advance of income received is classed as work in progress (see ix). Funding drawn from the Welsh Consolidated Fund (WCF) is not direct government grant and is credited directly to taxpayers' equity.
- iv Costs incurred on audit work (ie, staff and contractor firm costs) have been directly attributed to the relevant income streams. Other expenditure is charged firstly against unallocated funding from the WCF and then, to the extent that funds are available, attributed to income streams in direct proportion to income levels.
- v The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme to which both employee and employer contribute. The Auditor General recognises the expected cost of providing pensions on a systematic and rational basis over the period during which the Wales Audit Office benefits from employees' services by payment to the PCSPS of the amounts calculated on an accruing basis.
- vi Operating lease rentals are charged on a straight-line basis over the lease term. Lease incentives received are recognised in the Statement of Comprehensive Net Expenditure as an integral part of the total lease expense. Where the Wales Audit Office enjoys the benefit of rent-free periods in leases, that benefit is credited evenly over the period from the inception of the lease until the first rent review.
- vii Intangible assets, which are software licences, are stated at amortised historic cost. The assets are amortised on a straight-line basis over the shorter of the term of licence or useful economic life. Amortisation is calculated from the date the intangible asset commences its useful life.

viii Depreciation is provided on all property, plant and equipment assets calculated to write off the cost, less estimated residual value, of each asset in equal annual instalments over its expected useful life as follows:

Furniture and fittings	10 years
Computer equipment	3 years
Office equipment	5 years

Under the Auditor General's capitalisation policy, individual and grouped computer equipment and software in excess of £5,000, other equipment in excess of £1,000 and office refurbishments are capitalised. Depreciation is calculated from the date the asset commences its useful life.

- ix Receivables and work in progress are valued at estimated realisable value. Work in progress relates to amounts due on completed work where the fee is yet to be issued or where work done falls into different account periods. This is stated at full cost less provision for foreseeable losses and amounts billed on account. A provision for impairment of trade receivables is established when there is evidence that the Wales Audit Office will not be able to recover all amounts due in accordance with contracts.
- x A provision for future leasehold property dilapidations is established in the Statement of Financial Position. This is built up through an annual dilapidations charge, calculated by applying an annual dilapidation rate to the floor area of the leased assets. Dilapidation liabilities relating to the cost of restoring alterations made to leased buildings are accounted for by means of a provision set aside in the year the cost was identified, based on estimates provided by independent surveyors. Such provisions are capitalised and depreciated over the shorter of the asset life or the length of the lease.
- xi Deferred income comprises fee income that has been invoiced but not yet recognised. This is calculated by assessing the percentage completion of projects, recognising that proportion of invoiced fee income as revenue in the period with unrecognised, invoiced income being treated as deferred income.
- xii The preparation of the financial statements requires various estimates and assumptions to be made that affect the application of accounting policies and reported amounts. All such estimates and judgments are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected.

The most significant areas of estimation and critical judgments are:

- Provisions for redundancies and severances are based on projections of expected future pension payments. In line with accounting standards, the provision is recognised in full in the year that the obligating event occurred, assuming that it is probable that a transfer of economic benefits is required and that this can be reliably estimated.
 - Work in progress is valued at the percentage of completion of unbilled work. Deferred income is calculated based on an assessment of project completion, as explained above.
 - Tax provisions are based on professional advice received.
 - Dilapidations provisions are based on professional advice received.
- xiii Events after the Statement of Financial Position date that may require disclosure or adjustment in accordance with the requirements of IAS 10 are considered up to the date on which the accounts are authorised for issue. This is interpreted as the date on which the Independent Auditor's Report is signed.

Note 2: Analysis of net expenditure by segment

The income, financing and costs of the Wales Audit Office's activities for 2012-13 are summarised in the following table:

	Local government audit	Local government grant certification ¹	NHS audit ¹	Central government audit ¹	Local government performance	NHS performance ¹	Central government performance ¹	Value for money work funded by the WCF	Activities funded by the WCF	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Income and financing										
Audit fees	5,131	2,520	1,987	1,588	3,393	1,252	0			15,871
Grant					1,322					1,322
WCF finance								2,546	2,178	4,724
Total	5,131	2,520	1,987	1,588	4,715	1,252	0	2,546	2,178	21,917
Expenditure	4,734	2,319	1,423	1,390	3,685	986		2,546	2,178	19,261
	397	201	564	198	1,030	266	0	0	0	2,656

¹ Income and expenditure of these segments are included in the Summary of Resource Out-turn.

Reported expenditure in 2012-13 has been reduced by £2.392 million as a result of the release of the provision set aside for historical VAT in 2011-12. Were it not for the release of this provision, income and expenditure funded by the Welsh Consolidated Fund (WCF) would have been broadly in balance in 2012-13.

Reconciliation to Statement of Comprehensive Net Expenditure

	£'000
Per above analysis	2,656
WCF resource	(4,724)
Corporation tax	0
Interest receivable	12
Other income	11
Per Statement of Comprehensive Net Expenditure	(2,045)

Comparative figures for 2011-12 were as follows:

	Local government audit £'000	Local government grant certification £'000	NHS audit £'000	Central government audit £'000	Local government performance £'000	NHS performance £'000	Central government performance £'000	Value for money work funded by the WCF £'000	Activities funded by the WCF £'000	Total £'000
Income and financing										
Audit fees	5,453	2,609	2,343	1,667	3,856	1,686	2			17,616
Grant					1,295					1,295
WCF finance								1,951	3,452	5,403
Total	5,453	2,609	2,343	1,667	5,151	1,686	2	1,951	3,452	24,314
Expenditure	6,088	2,609	2,343	1,667	4,738	1,321	0	1,951	2,999	23,716
	(635)	0	0	0	413	365	2	0	453	598

Reconciliation to Statement of Comprehensive Net Expenditure

	£'000
Per above analysis	598
WCF resource	(5,403)
Corporation tax	23
Interest receivable	11
Other income	16
Per Statement of Comprehensive Net Expenditure	(4,755)

Note 3: Other operating income

	2012-13	2011-12
	£'000	£'000
Sundry income	11	16
	11	16

Note 4: Staff and associated costs

(i) Staff costs	2012-13	2011-12
	£'000	£'000
Staff salaries	10,317	10,029
Non-executive committee member fees ¹	64	51
Social security costs ²	1,065	1,243
Pension costs	2,069	2,051
	13,515	13,374
Car scheme	745	681
Subscriptions and other benefits	38	33
	14,298	14,088
Audit and inspection contractors	472	728
	14,770	14,816
Redundancy, early retirement and severance costs	263	105
Less monies received in respect of outward secondments	(52)	(66)
Net staff costs	14,981	14,855

¹ As stated in the Remuneration Report.

² Social security costs were higher in 2011-12 as a result of a provision for historical PAYE costs.

More detailed information in respect of the remuneration and pension entitlements of the senior management is shown in the Remuneration Report on [pages 48 to 55](#).

Wales Audit Office staff are eligible to join the Principal Civil Service Pension Scheme. This is an unfunded multi-employer defined benefit scheme but the Wales Audit Office is unable to identify its share of the underlying assets and liabilities. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

Employer contribution rates are based on salary levels and contribution rates vary between 16.7 per cent to 24.3 per cent (2011-12: 16.7 per cent to 24.3 per cent). Total employer contributions amounted to £2,060,736 (2011-12: £2,047,458). The scheme's actuary reviews employer contributions every four years following a full scheme revaluation. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. During 2012-13, two employees took advantage of this option (2011-12: one). Employer contributions to partnership pensions amounted to £7,687 (2011-12: £4,210).

(ii) Staff numbers

	2012-13	2011-12
	£'000	£'000
Average number of full-time-equivalent, UK-based, permanent staff employed during the year	226	223
Audit and inspection contractors (average number of full-time equivalents in year)	11	17

The Wales Audit Office uses a number of temporary audit and inspection contractors at certain times in the year to meet demand for resources at peak times.

Note 5: Redundancies, early retirements and severances

The Wales Audit Office operates voluntary severance schemes in accordance with Civil Service Compensation Scheme rules and as approved by the Cabinet Office. These schemes are in accordance with workforce planning requirements and have resulted in reductions to the staffing cost base of the Wales Audit Office. The cost of the scheme in 2012-13 was £192,207 (2011-12: £346,673).

A number of employees entered into approved exit packages during 2012-13 and 2011-12 as summarised below:

Exit package cost band	2012-13			2011-12		
	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
Less than £10,000						
£10,000 – £25,000					1	1
£25,000 – £50,000					2	2
£50,000 – £100,000		1	1		2	2
£100,000 – £150,000		1	1		1	1
£200,000 and over						
Total	0	2	2	0	6	6

The two people who were approved for voluntary exit in 2012-13, had leaving dates in 2013-14. The costs of both packages are included within Note 4: staff costs and Note 15: provisions for liabilities and charges.

Early retirement and departure costs have been paid in accordance with Wales Audit Office policy, which has been agreed with recognised trade unions. The additional costs that are not met by the Principal Civil Service Pension Scheme are met instead by the Wales Audit Office and are recognised in these financial statements.

Note 6: Bought-in services

	2012-13	2011-12
	£'000	£'000
Payments to private accountancy firms	3,320	3,393
Research and other consultancy costs	131	114
	<u>3,451</u>	<u>3,507</u>

These costs relate to services bought in by the Auditor General that directly relate to audit, inspection or research functions.

Note 7: Other operating costs

	2012-13	2011-12
	£'000	£'000
Accommodation		
Rent lease costs	245	376
Other costs	390	393
Supplies and services ¹	1,374	1,234
Increase/(decrease) in provision for VAT ¹	(2,392)	2,392
Recruitment and transfers	57	31
Depreciation	495	276
Audit fee payable to Audit Scotland	-	3
Audit fee payable to RSM Tenon	29	23
Professional fees ²	64	105
Travel and subsistence	397	408
Training	170	140
Increase/(decrease) in provision for bad debts	-	(27)
	<u>829</u>	<u>5,354</u>

¹ Supplies and services in 2011-12 totalled £3,626,000. This figure has been split for presentation purposes to highlight the effect of the increase and decrease of the provision for taxation.

² Professional fees represent legal and other professional fees.

Note 8: Property, plant and equipment

	Furniture and fittings	Information technology	Office equipment	Total
2012-13	£'000	£'000	£'000	£'000
Cost				
At 31 March 2012	823	207	112	1,142
Additions	560	-	23	583
Disposals	-	-	(20)	(20)
Reclassified to revenue	(6)	-	-	(6)
At 31 March 2013	1,377	207	115	1,699
Depreciation				
At 31 March 2012	344	104	63	511
Provided in period	355	17	20	392
Disposals	-	-	(18)	(18)
Reclassified to revenue	(2)	-	-	(2)
At 31 March 2013	697	121	65	883
Net book value				
At 31 March 2013	680	86	50	816
At 31 March 2012	479	103	49	631
Asset financing				
Owned	680	86	50	816

	Furniture and fittings	Information technology	Office equipment	Total
2011-12	£'000	£'000	£'000	£'000
Cost				
At 31 March 2011	920	260	32	1,212
Additions	7	-	-	7
Disposals	(37)	(53)	-	(90)
Reclassified to revenue	(67)	-	-	(67)
Reclassified from intangible assets	-	-	80	80
At 31 March 2012	823	207	112	1,142
Depreciation				
At 31 March 2011	302	140	24	466
Provided in period	104	17	19	140
Disposals	(35)	(53)	-	(88)
Reclassified to revenue	(27)	-	-	(27)
Reclassified from intangible assets	-	-	20	20
At 31 March 2012	344	104	63	511
Net book value				
At 31 March 2012	479	103	49	631
At 31 March 2011	618	120	8	746
Asset financing				
Owned	479	103	49	631

In the opinion of the Auditor General, there is no material difference between the net book value of assets at current values and at their historical cost.

Note 9: Intangible assets

Intangible assets are software licences.

	Total £'000
2012-13	
Cost	
At 31 March 2012	715
Additions	6
Disposals	(9)
At 31 March 2013	712
Amortisation	
At 31 March 2012	497
Provided in period	104
Disposals	(9)
At 31 March 2013	592
Net book value	
At 31 March 2013	120
At 31 March 2012	218
Asset financing	
Owned	120

2011-12	Total £'000
Cost	
At 31 March 2011	804
Additions	-
Disposals	(9)
Reclassified to office equipment	(80)
At 31 March 2012	715
Amortisation	
At 31 March 2011	362
Provided in period	164
Disposals	(9)
Reclassified to office equipment	(20)
At 31 March 2012	497
Net book value	
At 31 March 2012	218
At 31 March 2011	442
Asset financing	
Owned	218

In the opinion of the Auditor General, there is no material difference between the net book value of assets at current values and at their historical cost.

Note 10: Trade receivables and work in progress

	31 March 2013 £'000	31 March 2012 £'000
Trade receivables		
Central government	98	96
Local government	337	141
NHS	99	248
External to government	6	6
Work in progress		
Central government	391	408
Local government	130	199
NHS	-	125
	<hr/> 1,061	<hr/> 1,223

A provision for bad and doubtful debts has not been required in 2012-13.

Note 11: Other receivables

	31 March 2013 £'000	31 March 2012 £'000
Other receivables	-	46
Prepayments and accrued income	459	474
Loans to employees	2	2
	<hr/> 461	<hr/> 522

There are no amounts falling due after one year included in the above figures.

The receivables balances in Notes 10 and 11 can be analysed into the following categories:

	31 March 2013 £'000	31 March 2012 £'000
Central government bodies	506	583
Local government bodies	631	487
NHS bodies	99	308
Bodies external to government	286	367
	<hr/> 1,522	<hr/> 1,745

Note 12: Cash and cash equivalents

	31 March 2013	31 March 2012
	£'000	£'000
Balance at 1 April	6,667	4,016
Net change in cash and cash equivalents	(2,148)	2,651
Balance at 31 March	4,519	6,667

	31 March 2013	31 March 2012
	£'000	£'000
Current account	2,817	5,672
Euro account	1	3
Global Sterling Fund	1,701	992
	4,519	6,667

The Current account includes an overnight interest bearing facility. The Euro account is maintained to simplify occasional overseas transactions.

The Global Sterling Fund is provided by the RBS Group. This fund aims to protect capital balances even in times of financial instability within the financial markets, whilst offering a wholesale money market return. The fund is structured to ensure that the highest credit ratings are maintained, namely AAA rated or equivalent with Standard & Poor, Fitch and Moody rating agencies.

Note 13: Trade payables and other current liabilities

	31 March 2013	31 March 2012
	£'000	£'000
Trade payables ¹	161	224
VAT	549	451
Taxation and social security costs	2	360
Accrual for holiday entitlement not yet taken	486	619
Other accruals ²	545	779
	<hr/> 1,743	<hr/> 2,433

¹ All trade payables are falling due within one year.

² The bulk of the other accruals relate to accrual of trade payable invoices received post year end. Also within the other accruals figure is £4,076 for lease adjustments pertaining to a rent-free period amortised over the five-year life of the lease. A figure of £210,669 for the March pension contributions is included within other accruals for the year end 31 March 2012.

Note 14: Deferred income

	31 March 2013	31 March 2012
	£'000	£'000
Deferred income	2,264	2,279
	<hr/> 2,264	<hr/> 2,279

In accordance with accounting standards, we are required to assess the percentage completion of projects and recognise that proportion of expected fee income as revenue in the period. Deferred income represents income that has been billed but not yet recognised.

The payable balances in Notes 13 and 14 can be analysed into the following categories:

	31 March 2013	31 March 2012
	£'000	£'000
Central government bodies	776	1,051
Local government bodies	1,351	1,482
NHS bodies	885	815
Bodies external to government	995	1,364
	<u>4,007</u>	<u>4,712</u>

Note 15: Provisions for liabilities and charges

	Dilapidations	Early retirement and severance	HMRC	Totals
	£'000	£'000	£'000	£'000
At 31 March 2012	146	1,088	2,605	3,839
Provided in year	428	239	30	697
Provisions utilised/released in year	(32)	(512)	(2,482)	(3,026)
At 31 March 2013	<u>542</u>	<u>815</u>	<u>153</u>	<u>1,510</u>

The Wales Audit Office uses HM Treasury's discount rate net of CPI at November 2012 of 2.35 per cent in real terms to calculate this balance (2011-12: 2.8 per cent).

Analysis of expected timing:

	Dilapidations	Early retirement and severance	HMRC	Totals
	£'000	£'000	£'000	£'000
Not later than one year	-	404	153	557
Later than one year and not later than five years	65	369	-	434
Later than five years	477	42	-	519
	542	815	153	1,510

The dilapidations provision represents an estimate of the costs the Wales Audit Office may incur in making good its leased properties at the end of the leases. The provision consists of an estimate of the likely cost of restoring alterations made to leased properties, along with an amount for 'wear and tear' calculated by applying an annual dilapidation rate to the floor area of the leased asset. The cost of restoring works done to the Cathedral Road offices has been estimated by independent surveyors. The cost of making good alterations at the Penllergaer and Ewloe offices has been estimated by reference to the costs of carrying out the alterations. The provision has increased during 2012-13 due to a change in accounting treatment to meet the requirements of International Financial Reporting Standards.

The early retirement and severance provisions represent the future liability of the Wales Audit Office in respect of members of staff who have left under redundancy, early retirement and severance schemes.

The HMRC provision relates to:

- underpayment of PAYE tax and national insurance contributions to contractors who have provided services to the Wales Audit Office during the period 1 April 2005 to 31 March 2013;
- underpayment of PAYE tax and national insurance contributions in respect of expenses paid to some Wales Audit Office staff; and
- underpayment of PAYE tax and national insurance contributions in respect of the Employee Assistance Programme.

An element of the provision set aside at the end of 2011-12 in respect of a longstanding query regarding the Auditor General's VAT status has been released in 2012-13 as a ruling has now been received from HMRC that there will be no assessment for historical liabilities and hence the provision is no longer required.

Note 16: Operating leases

There were revenue commitments at 31 March 2013 in respect of non-cancellable car leases which expire:

	31 March 2013	31 March 2012
	£'000	£'000
Within one year	51	17
Within one to five years	346	373
	<hr/> 397	<hr/> 390

There were revenue commitments at 31 March 2013 in respect of office accommodation leases which expire:

	31 March 2013	31 March 2013	31 March 2012	31 March 2012
	£'000	Number of properties	£'000	Number of properties
Within one year	-	-	-	-
Within one to five years	178	2	109	1
Over five years	3,560	1	4,048	2
	<hr/> 3,738	<hr/> 3	<hr/> 4,157	<hr/> 3

Office accommodation leases are subject to periodic rent reviews.

Note 17: Losses and special payments

Special payments

There were no special payments in 2012-13 (2011-12: none).

Losses

There were no disclosable losses in 2012-13 (2011-12: none).

Note 18: Derivatives and financial instruments

IAS 32 *Financial Instruments: Disclosure and Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement* require disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Owing to the nature of the Auditor General's activities and the way in which the operations are financed, the office is not exposed to a significant level of financial risk. Although the Auditor General can borrow funds, the office has not been required to do so in this financial year. The Auditor General can also invest surplus funds, which is done through an overnight interest bearing account and in the Global Sterling Fund (see Note 12). These activities do not give rise to any significant financial risk.

Liquidity risk

Given the nature of our business, our tolerance of risk in areas of financial management is low.

In light of this attitude, and the backing of the Welsh Consolidated Fund, the Auditor General is not exposed to significant liquidity risks.

Interest rate risk

The Auditor General's financial assets and liabilities, with the exception of investment income, are not exposed to interest rate risk.

Foreign currency risk

The Auditor General's exposure to foreign currency risk is negligible as only very small forward purchases of foreign currency are made in connection with foreign travel and other associated costs such as hotels. Also, any fees generated from foreign work or secondments are translated when received. Any exchange differences are recorded in the Statement of Comprehensive Net Expenditure for the year in arriving at the operating surplus.

Credit risk

The Wales Audit Office's clients are mainly the Welsh Government, its sponsored and related public bodies, NHS Wales and local government bodies in Wales. The Wales Audit Office is therefore not exposed to any material credit risks.

Fair values

There is no difference between the book values and fair values of the Auditor General's financial assets and liabilities as at 31 March 2013 (31 March 2012: nil).

Note 19: Contingent liability

The Auditor General has written to HM Revenue and Customs requesting confirmation that Wales Audit Office operational staff continue to meet the definition of being 'geographically based' for tax purposes. We are currently awaiting a response. It is not possible to ascertain whether any liability will crystallise, nor what the likely quantum of such a liability might be. Were a significant liability to crystallise, the Auditor General may need to obtain funding from the Welsh Consolidated Fund or from additional audit fees to meet that liability.

Note 20: Related party transactions

The Auditor General is a corporation sole established under statute and has had a number of material transactions with the Welsh Consolidated Fund and with his audited bodies and the bodies audited by his appointed auditors as disclosed in the Remuneration Report.

During the year, no members of the non-executive committees, nor key members of staff nor their related parties had undertaken any material transactions with either the Auditor General or the Wales Audit Office. Information about key management personnel is included in the Remuneration Report.

Note 21: Events after the reporting period

On 29 April 2013, Her Majesty the Queen granted Royal Assent to the Public Audit (Wales) Act 2013. This Act creates a new corporate body – the Wales Audit Office. Subject to the necessary commencement orders, those staff employed by the Auditor General, and all assets and liabilities vested in the Auditor General, at 31 March 2014 will transfer to the Wales Audit Office with effect from 1 April 2014.

The financial statements have been prepared on a going concern basis as it is anticipated that the current financial operations of the Auditor General will be undertaken in full by the Wales Audit Office with effect from 1 April 2014.



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Report to those charged with Governance
for the year ended 31 March 2013

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3	Adjusted and unadjusted errors	8
4	Accounting and financial control systems	9
5	Follow up of prior year adjustments	12

Appendices

- Accounting and audit update
- Letter of representation

This report is part of a continuing dialogue between the Wales Audit Office (WAO) and ourselves and is therefore not intended to cover every matter discussed during the course of the audit. For this reason, the report is intended for the sole use of the organisation. We do not accept responsibility to any person acting in an individual capacity, and do not accept responsibility for any reliance that third parties may place on the report.

It should be noted that the primary objective of our audit is to express an opinion on the truth and fairness of the resource accounts as a whole. An audit does not examine every operating activity and accounting procedure in the WAO, nor does it provide a substitute for management's responsibility to maintain adequate controls over the WAO's activities. Our work is not designed therefore to provide a comprehensive statement of all weaknesses or inefficiencies that may exist in the WAO's systems and working practices, or of all improvements that could be made.

1 EXECUTIVE SUMMARY

1.1 PURPOSE

The purpose of this report is to record the overall results of our work and in accordance with ISA 260 to assist those charged with governance and internal management by commenting on those matters that came to our attention during the course of the audit. These matters cover:

- Independence
- Materiality and Audit approach
- Comments on the accounting policies and practices, which have been used to prepare the resource accounts
- Summary of adjusted and unadjusted errors in the financial statements
- Suggestions for improvement to the Wales Audit Office's (WAO) accounting and financial control systems
- Follow up of prior year recommendations

We would like to thank the finance team for all their assistance throughout the audit process.

1.2 INDEPENDENCE

In accordance with auditing standards we can confirm that any relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff were assessed and communicated at the planning stage of our audit.

1.3 AUDIT APPROACH AND MATERIALITY

Our materiality, which we discussed with the Audit Committee, was calculated at £450,000.

For the purposes of this report we have taken clearly trifling as being adjustments less than £13,500. A summary of our audit adjustments is included in Section 3.1 to this report. The potential adjustments identified which remained unadjusted are included in Section 3.2.

1.4 ACCOUNTING POLICIES AND PRACTICES

In preparing the resource accounts, the WAO opts to comply with the Financial Reporting Manual (FReM). The FReM is based on International Financial Reporting Standards and these have been adapted, interpreted or extended to meet the needs of public sector organisations.

The accounting policies are assessed on an annual basis to ensure they remain appropriate to the circumstances of the WAO and are being properly applied.

We have reviewed the accounting policies and practices within the WAO and, subject to the comments in Section 2 of this report, are satisfied that they have been suitably applied to the WAO's circumstances.

1.4 ACCOUNTING AND FINANCIAL CONTROL SYSTEMS

We have reviewed the reports produced by internal audit during the year and have placed reliance on the work of internal audit where appropriate.

In line with Auditing standards we have documented the key systems and controls and performed walkthrough testing to confirm operation of the controls. Section 4 of this report includes some detailed recommendations arising from our review, together with management's responses to our recommendations for improvement.

1.5 MANAGEMENT REPRESENTATIONS

As part of the completion of our audit work we seek written assurances from the Accounting Officer on aspects of the accounts and in particular judgements and estimates made. The draft letter in accordance with the ISA is appended to this report. We have not included any additional non standard representations in the letter.

1.6 AUDIT RISKS IDENTIFIED AT PLANNING

The following notes the outcome of our work on the audit risks communicated to you at planning.

<i>Issue</i>	<i>Audit risks</i>	<i>Outcome</i>
Correct cost allocation between local authority activity and central government / NHS activity	The cost allocation is key to determining the budget and presenting the outturn position	<p>The cost allocation method the WAO have used is consistent between their estimate and the final accounts. As the method is used in calculating the estimate and therefore forms the basis for fee setting for the year we consider it is appropriate to use the same method in the final accounts.</p> <p>The WAO method of cost allocation is to always bring the WCF and VFM work to a break-even position. The rest of the costs are then allocated across central government, local government and NHS work. As noted in prior years this method of allocation could be improved as assuming a breakeven cost position for VFM and WCF work may not be the most appropriate method.</p> <p>We have considered a number of alternate scenarios and no material difference arose in the amounts due back to the fund. As this is a judgemental area and the WAO has been consistent in its application of cost allocation we have not proposed an adjustment.</p> <p>We recommend that management review the basis of the cost allocation to ensure they are satisfied that the most appropriate method is being used.</p>
Consistent and appropriate accounting policies in respect of income and WIP	There is a risk that WIP and the associated income / surplus position is not correctly stated	Our review of work in progress and income recognition highlighted no material issues in the current year.
Unrecorded accruals	There is a risk that certain liabilities may be understated or incorrectly calculated	<p>The holiday pay accrual correctly excludes the impact of pension contributions in the current year, in line with CSPS rules.</p> <p>The employees under the voluntary severance programme were notified of their severance before the year end. On this basis it is appropriate to accrue for the costs.</p>
Calculation of the enhanced pension provision	There is a risk that the pension provision may be misstated	The enhanced pension provision is accurate in all material respects. No significant issues were highlighted in the current year.
VAT and PAYE provisions	The VAT and PAYE provisions may be	The VAT provision relating to historical liabilities has been released in full in the current

	misstated	<p>year, in line with the latest correspondence with HMRC who have indicated that they will not pursue historical liabilities arising from the VAT status issue.</p> <p>A new provision of approximately £30k has been recognised in the year relating to potential issues regarding the tax treatment of the Employee Assistance Program (EAP).</p> <p>The PAYE provision remains consistent with the prior year save for a c£90k payment on account that was made following the advice of Grant Thornton, the WAO's tax advisors. From review of the latest correspondence with HMRC we are satisfied that the provision continues to be valid and accurately recognised.</p>
Dilapidations provision	The dilapidations provision may be misstated	<p>The dilapidations provision has been increased significantly in the year following a valuation report provided by Jones Lang-Lasalle, which estimated the dilapidations cost at cessation of the lease.</p> <p>We have reviewed the report along with correspondence with Jones Lang-Lasalle and confirm the provision to be accurate in all material respects.</p> <p>We have raised a recommendation in respect of the WAO's legal obligations for dilapidations at the end of the lease as there may be opportunities to mitigate the cost.</p>

2 ACCOUNTING POLICIES AND PRACTICES

2.1 INTRODUCTION

The following matters were discussed with management during the course of the audit.

2.2 DILAPIDATIONS

Under IAS 16 the cost of a fixed asset can include an estimate of the costs of dismantling and removing the asset, and restoring the site on which it is located.

In light of this a report was produced in the year by Jones Lang-Lasalle providing an estimate of the expected costs of restoring the Cathedral Road premises to its original condition, as specified in the lease agreement. This has resulted in the capitalising of circa £465k of dilapidations expense in the year.

Currently the asset is being depreciated over a useful life of 10 years, in line with the fixtures and fittings asset class. The asset life is 4 years shorter than the lease term and we recommend that management review the appropriateness of the useful life of these assets in line with their intentions. If the intention is to replace all partitioning after 10 years with 4 years left to run on the lease then the life is appropriate. If replacement at this stage is unlikely then consideration should be given to extending the life of the assets to the end of the current lease term.

If the asset lives were extended to match the term of the lease then the depreciation charge would reduce by approximately £68,000 which is not material to our audit opinion.

In addition under the terms of the Landlord and Tenant Act 1927, Jones Lang-Lasalle have advised that in certain circumstances the Landlord of the premises may be unable to pursue a claim for dilapidations. As the works completed at Cathedral Road have improved the premises there may be an argument that these works do not have to be put back to their original state. We recommend that the WAO take further advice to confirm the extent of their liability and any mitigating actions that could be taken.

2.3 AGW REMUNERATION

As in previous years the AGW salary has been disclosed in the remuneration report but has not been grossed up and included in the accounts. This is inconsistent with the approach recommended by the National Audit Office but as full disclosure has been made of remuneration we are satisfied that the approach adopted gives a true and fair view.

2.4 COST ALLOCATION

We consider that there are improvements which could be made to the current method of cost allocation. The cost allocation determines amounts to be repaid to the WCF.

As noted in our key risks consideration should be given to the appropriateness of the overhead allocation. In addition to this direct salary costs are currently allocated on the basis of chargeable client time. This has resulted in approximately 50% of salary costs being directly allocated to project work, with the residual being allocated on the gross income basis.

Whilst we agree that all client chargeable time should be directly allocated, we would further recommend that all productive, non-client time should also be allocated directly to projects on the same basis, with only non-chargeable administration time being allocated on the gross income basis. We feel that this approach would more accurately reflect the amount of time spent by audit staff working on specific assignments, even when this time is not recorded as client chargeable.

2.5 VAT PROVISION

In the prior year a provision was made in the accounts to reflect an on-going disagreement with HMRC over the VAT status of the Wales Audit Office. As the WAO had potentially over-recovered input VAT since 2003/04 a provision of c£2.4m was made to reflect the likelihood that this may be sought to be recovered by HMRC, together with associated interest and penalty charges.

The most recent correspondence with HMRC indicates that they will not pursue historical liabilities on this issue, and instead will recommend that a measure of business / non-business apportionment be introduced with effect from April 2013.

In light of this the full VAT provision has been released in the current year.

2.6 PAYE PROVISION

The WAO continues to be in discussions with HMRC over the treatment of PAYE in respect of employment status and travel and subsistence payments.

On the advice of Grant Thornton, WAO's tax advisors, a payment on account of approximately £90k has been made in the year in order to reduce the amount of interest accruing on the balance. The remaining provision remains appropriate to hold until further clarification on the matter is forthcoming from HMRC.

Furthermore a new provision of circa £30k has been recognised regarding tax treatment of the Employee Assistance Programme (EAP).

3 ADJUSTED AND UNADJUSTED ERRORS

3.1 ACTUAL AUDIT ADJUSTMENTS

	2013 £'000
Net VAT debtor (balance sheet only: c£17k)	-
Net impact	-

3.2 POTENTIAL AUDIT ADJUSTMENTS

There were no potential adjustments which were greater than clearly trifling. We have defined 'clearly trifling' as below £13,500.

4 ACCOUNTING AND FINANCIAL CONTROL SYSTEMS

4.1 INTRODUCTION

The action plan below summarises our recommendations for improving the effectiveness of the WAO’s accounting and financial control systems:

	Subject	Grade
1	Dilapidations provision	2
2	Depreciation of capitalised dilapidations costs	2

We have used the following grading system to indicate the significance of the matters we have raised and the priority that we believe should be given to our recommendations:

- Grade 1:** We believe these observations are particularly significant and that management should take action within the agreed timescales.
- Grade 2:** These observations are significant but of a lower priority than Grade 1 observations. We believe that action needs to be taken over the course of the next 12 months.
- Grade 3:** Observations that merit attention but are less significant than Grade 1 and 2 observations.

4.2 ISSUES NOTED

1	Dilapidations provision	Grade: 2												
<p>Issue</p> <p>The management team have capitalised a dilapidations cost estimate in the year for the Cathedral Road premises, based on a report provided by Jones Lang-Lasalle, a firm of qualified chartered surveyors. Under the Landlord and Tenant Act 1927 the landlord may not be able to pursue a claim for dilapidations costs if the amendments made to the property by WAO render the premises to be of a similar value as at inception of the lease.</p> <p>Therefore, there may be no requirement for a dilapidations provision to be recognised.</p>														
<table> <tr> <th>Recommendation</th><th>Management response</th><th>Action by whom</th></tr> <tr> <td>We recommend that management review the lease agreements in detail to ascertain whether or not an obligation has arisen to make good the amendments made to the properties.</td><td>Agreed. A further review of the lease arrangements will be commissioned in 2013-14</td><td>Finance Manager</td></tr> <tr> <td></td><td></td><td>Deadline</td></tr> <tr> <td></td><td></td><td>September 2013</td></tr> </table>			Recommendation	Management response	Action by whom	We recommend that management review the lease agreements in detail to ascertain whether or not an obligation has arisen to make good the amendments made to the properties.	Agreed. A further review of the lease arrangements will be commissioned in 2013-14	Finance Manager			Deadline			September 2013
Recommendation	Management response	Action by whom												
We recommend that management review the lease agreements in detail to ascertain whether or not an obligation has arisen to make good the amendments made to the properties.	Agreed. A further review of the lease arrangements will be commissioned in 2013-14	Finance Manager												
		Deadline												
		September 2013												

2	Depreciation of capitalised dilapidations costs	Grade: 2									
<p>Issue</p> <p>The refurbishment costs associated with Cathedral Road are currently being depreciated over a shorter period than the lease term. If there is no intention to replace these assets before the end of the lease then the depreciation charge may be too high.</p>											
<table> <tr> <th>Recommendation</th><th>Management response</th><th>Action by whom</th></tr> <tr> <td>Management should re-consider the asset lives in respect of refurbishment work and consider whether these should be extended to match the lease term.</td><td>Management consider that the stated accounting policy of depreciating over the shorter of the asset life and remaining term of the lease is the appropriate policy. However, management consider that it is necessary to review whether the current projected asset life of 10 years is appropriate for all categories of fixtures and fittings.</td><td>Finance Manager</td></tr> <tr> <td></td><td></td><td> <p>Deadline</p> <p>September 2013</p> </td></tr> </table>			Recommendation	Management response	Action by whom	Management should re-consider the asset lives in respect of refurbishment work and consider whether these should be extended to match the lease term.	Management consider that the stated accounting policy of depreciating over the shorter of the asset life and remaining term of the lease is the appropriate policy. However, management consider that it is necessary to review whether the current projected asset life of 10 years is appropriate for all categories of fixtures and fittings.	Finance Manager			<p>Deadline</p> <p>September 2013</p>
Recommendation	Management response	Action by whom									
Management should re-consider the asset lives in respect of refurbishment work and consider whether these should be extended to match the lease term.	Management consider that the stated accounting policy of depreciating over the shorter of the asset life and remaining term of the lease is the appropriate policy. However, management consider that it is necessary to review whether the current projected asset life of 10 years is appropriate for all categories of fixtures and fittings.	Finance Manager									
		<p>Deadline</p> <p>September 2013</p>									

5 FOLLOW UP OF PRIOR YEAR RECOMMENDATIONS

Issue	Recommendation	Management response	Status
Authorisation of expense claims			
WAO operates a self-certification policy regarding staff expense claims. The WAO expenses claims in the year total in excess of £400k and best practice is for all claims to be authorised by a line manager. During the course of our work we did not identify any material over-claims however there is a risk of errors not being identified and also a reputational risk to the WAO.	We recommend that the WAO implements a policy of hierarchical expenses authorisation whereby staff expenses are secondarily authorised by a more senior employee (such as an audit manager) prior to being processed..	Agreed. The recent review of travel and subsistence expenses has highlighted a need to introduce an improved expenses system which includes a facility for line manager authorisation. This system is unlikely to be in place before the end of this financial year. In the meantime, we will consider ways in which we can build checks into the current system.	Implemented. Through our work on systems and walkthroughs, we have evidenced that all employees now require expenses to be authorised by their relevant line manager. This has been in place since September 2012.
Amendments to standing data			
During our consideration of the WAO's systems of internal control, we identified that the payroll clerk is able to amend standing data (e.g. bank account details) which would not then be picked up on the payroll exception reports that are run. Without proper authorisation controls there is a risk that changes to standing data could be made and salary diverted. We did not identify any impropriety during our audit work.	We recommend that the exception reports are updated such that changes in standing data (e.g. bank account details, addresses, employee names etc.) are flagged each month for investigation.	Agreed. An evaluation of our current HR/Payroll system by an independent consultant has also highlighted a risk relating to the ability of the payroll officer and other system administrators being able to change standing data. We will ensure that this risk is addressed as part of the procurement and implementation of any new system. In the meantime we will ensure that exception reports are produced monthly and checks are undertaken to ensure the appropriateness of any changes to standing data.	On-going. Since the last audit, a decision has been made to outsource the payroll function. Pending the procurement of a new service, exception reports in respect of standing data are being produced monthly and manual checks of all changes are checked for appropriateness by the Finance Manager prior to payroll submission.

Issue	Recommendation	Management response	Status
Authorisation of credit notes			
During our consideration of the WAO's systems of internal control, we identified that there is no formal process by which credit notes are authorised. Either of the sales ledger employees could raise a credit note, potentially incorrectly, without this being picked up. Credit note authorisation is considered a key sales ledger control to prevent fraud or error.	We recommend that a process is put in place whereby the finance manager performs a review of all credit notes posted at the end of each month. This would allow for potentially abnormal credit notes to be investigated in a timely manner.	Agreed. Checks will be performed monthly	Implemented. The finance department now run a report of all credit notes raised in the month and review it to ensure they are reasonable. This has become a part of the month end procedures and we have witnessed an added action on the monthly management accounts checklist to remind the team to complete.
Re-invoicing of trade debtors			
During our consideration of trade debtors we identified an instance whereby an overdue debt had been credited and then re-invoiced in 3 separate instalments. This had the effect of re-aging the debtor which was subsequently not provided for in the bad and doubtful debts provision.	We recommend that any instalment plans should be expressly agreed with both the project and finance managers and then tracked separately to ensure that the reporting of the aging profile of trade debtors is not compromised.	Agreed. We will ensure that debts are only re-profiled following agreement by the relevant project manager and tracked separately by Finance.	Implemented. This was considered a one-off event by the finance team. The finance team have now all been briefed to ensure they are aware not to re-profile if requested by audit managers. The introduction of reviewing credit notes as part of month end procedures will also pick up any invoices credited in order to be re-profiled.

Issue	Recommendation	Management response	Status
Dilapidations provision			
The management team are building up a dilapidations provision on a uniform basis across the period of each lease respectively. This provision however covers contractually obligated discounted cost estimates for both structural works (the cost of which should be recognised in full, up front) and more general remedial works (which can legitimately be spread over the period of the lease).	We recommend that management estimate the proportion of the costs attributable between structural and remedial works to ensure the provision is as accurate as possible going forward.	Agreed.	Implemented. A report was commissioned and produced by Jones Lang-Lasalle in the year to estimate the total expected dilapidations cost of the Cathedral Road premises.
Confirmation of goods / services received			
From our consideration of the purchasing control system we identified that, where a purchase invoice is received which agrees exactly to a purchase order, no authorisation is sought from the purchaser that the goods have been received. We note that this has not given rise to any cut off errors highlighted by our work. We also note that this has previously been raised by internal audit as part of their work and that management are satisfied that the current process is appropriate to the nature of their business and the type of goods and services received. However we have raised the point again as a matter of best practice.	We recommend that all purchase invoices are authorised by the purchaser / budget manager as confirmation that the goods / services have been received. This could be subject to a de-minimus limit say £20,000 to reduce any additional administrative burden.	Agreed. Procurement procedures set out in the delegated budget handbook will be amended to reflect this requirement and training provided to all relevant staff.	Implemented. A new budget handbook/training manual has been finalised which documents procurement procedures. This manual will be available on the WAO hub.

Issue	Recommendation	Management response	Status
Work in progress			
<p>During our consideration of work in progress we identified one job where the costs were expected to exceed the fee quoted by £10k. No provision had been made for this foreseen loss. We also identified one instance where the job had been shown as started and income recognised to reflect expected efficiency gains. The work did not start until after the year end.</p> <p>Whilst these appeared to be isolated incidents there is a risk that WIP and revenue could be mis-stated if WIP is not correctly accounted for.</p>	<p>We recommend that guidance is issued to audit managers at the year end highlighting the common potential issues with year end WIP and confirmation sought from audit managers that these issues have been fully considered in their assessment.</p>	<p>Agreed. We will ensure that guidance is issued to audit managers in advance of next year's accounts closedown process.</p>	<p>Implemented.</p> <p>Guidance was released to audit managers prior to the year end. We have identified no similar instances of this issue in the current year and consider the recommendation to be implemented.</p>

APPENDICES

APPENDIX 1 – ACCOUNTING & AUDIT UPDATE.

UK CORPORATE GOVERNANCE CODE

The updated code was issued in September 2012 and is applicable to reporting periods commencing 1 October 2012 onwards. Whilst the code only applies to listed companies, exemplar organisations like the Wales Audit Office may wish to consider the requirements of the new code and whether any additional reporting should be included in their Governance statement in future years.

The main changes to the code are as follows;

- Enhanced disclosures on board diversity
- Additional disclosures in respect of the audit committee's roles and responsibilities including:
 - the significant issues that the audit committee it considered in relation to the financial statements, and how these issues were addressed;
 - an explanation of how the committee has assessed the effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, and information on the length of tenure of the current audit firm and when a tender was last conducted;
 - if the external auditor provides non-audit services, an explanation of how auditor objectivity and independence is safeguarded.
- FTSE 350 companies should put the audit out to tender at least every 10 years

UPDATED AUDITING STANDARDS

As a result of the new Corporate Governance code there have been changes to the following auditing standards to bring these in line with the requirements of the code.

ISA 260 – Communication with those charged with Governance

ISA 265 – Communicating deficiencies in Internal Control

ISA 700 – The auditors report on financial statements

ISA 720A – The auditors responsibilities relating to other information in documents containing audited financial statements.

There are now additional requirements covering the matters that auditors should report to audit committees. Most of the requirements are already covered by our current reporting. One area of change will be more clarity on significant accounting judgements and also where there is a choice of accounting treatment, which treatment has been applied. It is management's primary responsibility to report this to the committee but we will also comment in our reporting for clarity.

NEW ACCOUNTING STANDARDS

There have been no new International Financial Reporting Standards issued which would impact on the WAO accounts.

On 16 May 2013 the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) published for public comment a revised Exposure Draft outlining proposed changes to the accounting for leases.

The Boards have developed an approach to lease accounting that would require a lessee to recognise assets and liabilities for the rights and obligations created by leases. A lessee would recognize assets and liabilities for leases of more than 12 months.

There are a wide variety of lease transactions with different economics. To better reflect those differing economics, the revised Exposure Draft proposes a dual

approach to the recognition, measurement and presentation of expenses and cash flows arising from a lease.

For most property leases, a lessee would report a straight-line lease expense in its income statement. For most other leases, such as equipment or vehicles, a lessee would report amortisation of the asset separately from interest on the lease liability. The Boards are also proposing disclosures that should enable investors and other users of financial statements to understand the amount, timing, and uncertainty of cash flows arising from leases.

The Boards are also proposing changes to how equipment and vehicle lessors would account for leases that are off-balance-sheet. Those changes would provide greater transparency about such lessors' exposure to credit risk and asset risk.

Comments on the revised exposure draft are required by September 2013.

Appendix 2 – Letter of Representation

Dear Sirs

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

I confirm to the best of my knowledge and belief, and having made appropriate enquiries of other senior executives of the Wales Audit Office, that the following representations given to you in connection with your audit of the financial statements for the period ended 31 March 2013 are correct.

The following representations reflect circumstances up to the date of this letter, on which the financial statements were approved, and management's knowledge and intentions regarding the future of the Wales Audit Office.

Responsibility for financial statements

I acknowledge as Auditor General my responsibilities under the Government of Wales Act 2006 and Treasury Directions made in accordance with that Act for preparing financial statements that give a true and fair view and for making accurate representations to you.

Availability of information

All the accounting records have been made available to you for the purpose of your audit and all transactions undertaken by the Wales Audit Office have been properly reflected and recorded in the accounting records. All other records and related information have been made available to you, including the minutes of all committee meetings, which are a complete and authentic record of the proceedings at those meetings.

Related party transactions

There were no transactions with the WCF and with the audited bodies other than those in the ordinary course of business (fees) requiring disclosure in the financial statements.

Use of funds

- I acknowledge my responsibility, as specified by the Public Accounts Committee of the National Assembly under the Government of Wales Act 2006, for ensuring that expenditure disbursed and income received is applied for the purposes intended by Parliament and the National Assembly for Wales and that the financial transactions conform to the authorities which govern them.
- To the best of my knowledge and belief I confirm that, in all material respects, the expenditure disbursed and income received during the year ended 31 March 2013 have been applied to purposes intended by Parliament and the National Assembly for Wales and the financial transactions conform to the authorities which govern them.
- Specifically I confirm that it is appropriate for the Office to take efficiency gains on fee paying work.

Assets

1. General

All assets included in the Statement of Financial Position belong to the Auditor General and except as disclosed in the accounts were free from any charge. All non-current assets belonging to the Auditor General are included.

2. Impairment of non-current assets

Each non-current asset is worth to the Auditor General at least the amount at which it is included in the Statement of Financial Position, either through continued use by the Wales Audit Office (in its current meaning: the Auditor General and his staff) or through the opportunity for sale on the open market.

Liabilities

1. General

All known liabilities of the Auditor General at 31 March 2013 have been included in the balance sheet. All secured liabilities are disclosed.

2. Contingent liabilities

The Auditor General had a contingent liability at 31 March 2013 in respect of PAYE on travel and subsistence for geographically based audit staff. This has been fully disclosed in the financial statements. There were no other contingent liabilities at the balance sheet date.

Accounting estimates

We confirm that all significant assumptions used by us in making accounting estimates, including where applicable those measured at fair value, are reasonable in the circumstances, and appropriately reflect our intentions and our ability to carry out the specific courses of action necessary to justify the accounting estimates and disclosures. The disclosures in the financial statements relating to accounting estimates are complete and appropriate.

Commitments

All commitments of the Auditor General of a material amount, whether of a capital or revenue nature, have either been provided for or noted in the financial statements as appropriate. An adequate provision has been made for any losses, which may be expected to result there from, or from events which had occurred before 31 March 2013.

Remuneration report

All amounts paid to members of the Wales Audit Office Executive committee have been appropriately included in the Remuneration Report.

All items of personal expenditure paid by the Wales Audit Office on the Executive committee's behalf have either been reimbursed by the individuals concerned or have been treated as benefits in kind.

The benefits in kind in respect of the PAYE settlement will be met by the Wales Audit Office. This has been fully disclosed in the remuneration report.

No member of the Executive committee or their connected persons had any indebtedness (or agreement concerning indebtedness) to the Wales Audit Office at 31 March 2013 or at any time during the year.

Governance Statement

I confirm the Governance Statement within the Annual Report fairly reflects the Wales Audit Office's current position in relation to our compliance with internal control requirements set out in HM Treasury's guidance.

Fraud and regulation

I acknowledge that the responsibility for the detection of fraud, error and non-compliance with laws and regulations rests with me. I confirm that I am not aware of any known or suspected frauds, error and non-compliance, involving management, employees or third parties which may have a material effect on the financial statements. I confirm that, insofar as I am able to determine, in my opinion the financial statements are not materially misstated as a result of fraud.

In particular I confirm that the Wales Audit Office has made full disclosure of actual or suspected fraud brought to our attention by employees, former employees and other external parties.

I confirm that there has been no possible or actual instance of non-compliance with those laws and regulations which are central to the Wales Audit Office's ability to conduct its business, except as explained to you and as disclosed in the financial statements.

Events subsequent to the date of the Statement on Financial Position

On 29 April 2013, Her Majesty the Queen granted Royal Assent to the Public Audit (Wales) Act 2013. This Act creates a new Corporate Body- The Wales Audit Office. Subject the necessary Commencement Orders, those staff employed by the Auditor General, and all assets and liabilities vested in the Auditor General, at 31 March 2014 will transfer to the Wales Audit Office with effect from 1 April 2014.

There were no events, transactions or discoveries since the Statement of Financial Position date which:

- would have a material effect on the financial statements, or
- are of such importance to users of the financial statements that they should be disclosed in the financial statements.

Going Concern

The financial statements have been prepared on a going concern basis as it is clear in the 2013 Act that the current financial operations of the Auditor General will be undertaken in full by the new Wales Audit Office with effect from 1 April 2014.

Potential Audit adjustments

There are no potential audit adjustments as a result of your audit.

Journal entries

There are no journal entries required as a result of your audit.

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Yours faithfully,

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Auditor General for Wales



Estimate of the Income and Expenses of the Wales Audit Office for the Year Ended 31 March 2015

Estimate of the Income and Expenses of the Wales Audit Office for the Year Ended 31 March 2015

Jointly prepared and laid before the National Assembly for Wales by the
Auditor General for Wales and the Wales Audit Office under section 20(1)
of the of the Public Audit (Wales) Act 2013

Huw Vaughan Thomas
Auditor General for Wales

Isobel Garner (Chair), Steven Burnett, David Corner, Christine Hayes,
Peter Price and Huw Vaughan Thomas¹
Wales Audit Office

¹ The Auditor General for Wales is a member of the Wales Audit Office under paragraph 1(2)(b) of Schedule 1 to the Public Audit (Wales) Act 2013 by virtue of his office. The Auditor General for Wales is also, however, a separate legal entity.

For each financial year, section 20 of the Public Audit (Wales) Act 2013 requires the Auditor General and the Wales Audit Office to jointly prepare an estimate of the income and expenses of the Wales Audit Office and to lay that estimate before the National Assembly at least five months before the beginning of the financial year to which it relates.

In accordance with section 20 of the Act, each estimate must cover (amongst other things) the resources required by the Auditor General for the exercise of his statutory functions.

The responsible committee of the National Assembly may make any modifications to the estimate which it considers appropriate, but no modification can be made unless:

- the Auditor General and the Wales Audit Office have been consulted; and
- any representations that either may make have been taken into account.

As the Welsh Ministers must each year move a motion in the National Assembly under section 125 of the Government of Wales Act 2006 that includes authorisation of the resources to be used (including accruing resources) and payments to be made by the Wales Audit Office, this estimate sets out the amounts to be included in respect of the Wales Audit Office.

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Summary report

- 1 This estimate is made up of two sections:
 - a Section 1: Our work
 - b Section 2: Estimate of income and expenditure 2014-15
- 2 In [Section 1](#), we provide:
 - a a summary of the strategic priorities for our work over the period 2013-2016 ([paragraph 1.2](#));
 - b an explanation of the impact we are making through our work on the exchange of good practice ([paragraphs 1.5 to 1.7](#)); and
 - c an overview of the work we are undertaking in 2013-14 to respond swiftly to issues as they arise using the additional funding of £250,000 approved by the Public Accounts Committee ([paragraphs 1.8 to 1.13](#)).
- 3 In [Section 2](#), we provide a summary of our estimated budget for 2014-15, with a commentary on the main components of that budget.
- 4 The main features of our budget proposal are set out in [paragraphs 2.1 to 2.4](#).

Welsh Consolidated Fund

- 5 We are seeking total funding of £5,974,000 through this estimate, an increase of £543,000 compared to total funding of £5,431,000 requested in 2013-14:

	2013-14 £'000	2014-15 £'000
Revenue	5,224	5,876
Supplementary estimate 2013-14	187	0
Capital	20	98

- 6 However, £652,000 of the £5,974,000 relates specifically to the following legislative changes which are outside of our control:
 - a the Welsh Government's Future Generations Bill ([paragraph 2.9](#)) which is expected to place new duties on the Auditor General, for which we need to seek additional development funding of £122,000; and
 - b changes brought about by the Public Audit (Wales) Act 2013 which mean that local government studies costing £530,000 need to be funded from the Welsh Consolidated Fund (the Consolidated Fund) and not, as currently, by local government fees (£353,000) and Wales Programme for Improvement (WPI) grant funding (£177,000) (there is no overall impact on the Welsh block from this change ([paragraphs 2.22 to 2.24](#))).

- 7 Without these additional costs, our revenue request for 2014-15 remains unchanged from the £5,224,000 requested in our 2013-14 estimate. This has been made possible by cost reductions and greater efficiency in our working practices. For example, during 2013-14, we have increased our staff utilisation rates, securing staff cost reductions of £200,000 and reducing contractor costs by £50,000. Despite significant increases in the cost of fuel and other supplies, we are also reducing our accommodation costs budget in 2014-15 and setting cash efficiency targets of at least 1.5 per cent (2.9 per cent in real terms) for all of our budget holders.
- 8 Our request for capital funding has increased by £78,000 in respect of one-off expenditure to improve our internet access, increase server and storage capacity, and strengthen our videoconferencing facilities (paragraph 2.41).
- 9 We highlight in paragraphs 2.33 to 2.39 some of the main uncertainties we are currently facing, the more significant of which could give rise to a request for supplementary funding. We may also need to seek approval to retain additional audit fee income in 2014-15 to cover additional costs where this arises from unplanned work, for example special investigations.

Audit fees

- 10 As set out in the Auditor General's request for supplementary funding in 2013-14, the Auditor General received a ruling from HMRC in December 2012 requiring that from 1 April 2013, he no longer charge VAT on audit fees to local government and NHS bodies. This ruling, which will also apply to the Wales Audit Office from 1 April 2014 (paragraphs 2.16 to 2.17) has resulted in an unavoidable increase in our cost base of £600,000 per annum.
- 11 While we are able to absorb general cost increases through ongoing savings and efficiencies we are not able to make savings of this level in the short term from our cost base, as this is largely fixed owing to the need to deliver a statutorily defined programme of work. We have no option, therefore, but to increase income generated from audit fees by 3.8 per cent overall if we are to avoid an additional call of £600,000 on the Consolidated Fund.
- 12 We are currently reviewing how this overall increase may affect audited bodies, while at the same time analysing the potential impact of changes to our fee regime brought about by the Public Audit (Wales) Act 2013. However, as we set out in paragraph 2.25, there are compensatory factors which would significantly offset the impact of any fee increase for the majority of our audited bodies, namely:
 - a **local government:** we plan to refund to local government bodies the reserves that we expect to hold at 31 March 2014, which could offset the impact of any fee increase for two financial years; and

- b NHS:** as NHS bodies were unable to recover the VAT previously charged on audit fees, from 1 April 2013 all NHS bodies have benefited from a 16.7 per cent audit fee reduction; this would more than offset any necessary increase in their audit fees.

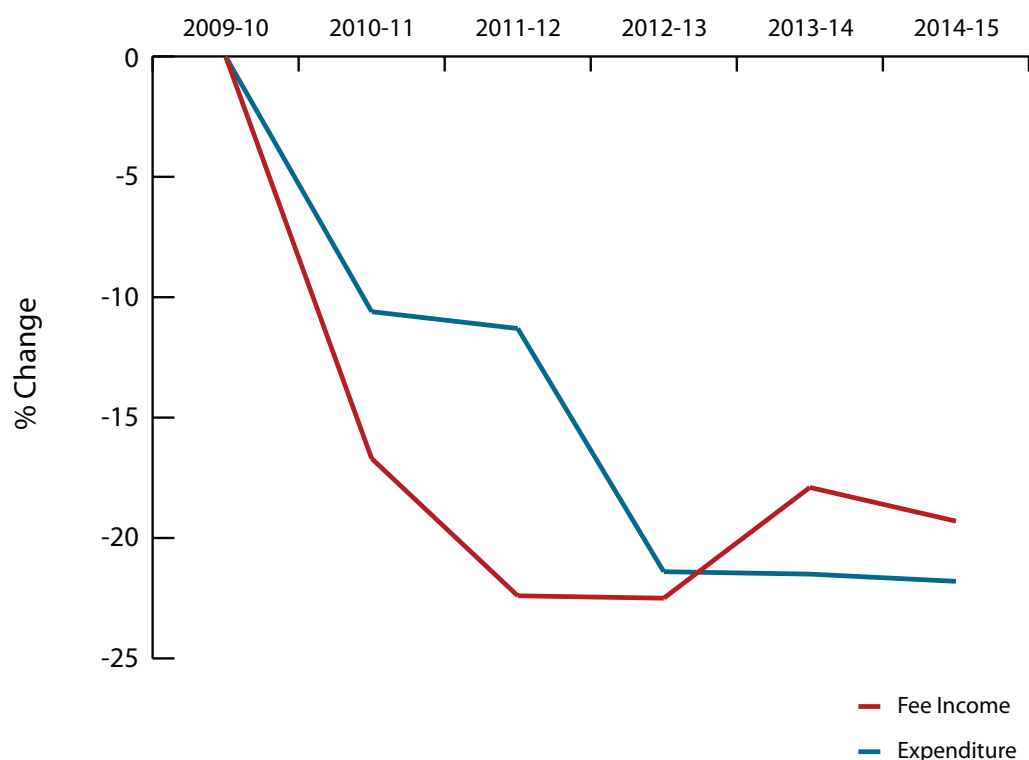
six-year period (a reduction of 10 per cent in cash terms from £26.1 million in 2009-10 to a forecast £23.5 million in 2014-15). Similarly, this exhibit shows that, notwithstanding the enforced need to increase our audit fees in 2014-15, we have succeeded in reducing our annual fee income by 21.6 per cent in real terms over this six-year period. In cash terms this equates to a reduction in fee income from £18.9 million in 2009-10 to a planned £16.5 million in 2014-15.

Long-term review

- 13** Exhibit 1 illustrates the overall trend in our expenditure from 2009-10 to our planned position for 2014-15, along with the overall trend in our audit fee income over the same period. As shown in this exhibit, notwithstanding the unavoidable cost increases we have highlighted in this estimate, we have successfully reduced our expenditure by over 19 per cent in real terms² during this

- 14** As explained in paragraph 2.3, we have embarked on a project to review our longer-term operating model to realise our objective of being a modern, sustainable audit office, and look forward to reporting our progress in future estimates.

Exhibit 1 - Real terms reduction in expenditure and fee income 2009-10 to 2014-15



² Real terms reduction calculated using the UK Government GDP Deflators as updated 26 September 2013.

Section 1 - Our work

- 1.1** During the course of the past year, we have continued to undertake work in support of our overall aim of informing the people of Wales about whether public money is being managed wisely, while also helping public bodies in Wales understand how to improve outcomes.
- 1.2** In furtherance of this overall aim, in April 2013, the Auditor General launched our *Strategy for the Auditor General for Wales and the Wales Audit Office 2013-16*. This strategy sets out six main strategic priorities for the strategy period as summarised in [Exhibit 2](#).
- 1.3** The Auditor General was provided with additional funding of £500,000 for 2013-14 to support delivery of initial elements of this strategy: £250,000 to support the exchange of good practice; and £250,000 to allow the Auditor General to undertake unplanned reviews of issues of public concern, without which there would be an impact on the organisation's ability to deliver pre-planned national studies.
- 1.4** We summarise below how that additional funding is being used to date during 2013-14.

Exhibit 2 - Strategic priorities 2013-2016

Strategic priorities
Undertake audit work with an austerity emphasis.
Enhance work on benchmarking and performance comparison, sharing of audit knowledge and exchange of good practice.
Provide further assurance on the effectiveness of governance arrangements and other issues of public interest.
Report more comprehensively on sustainable development, on equality and on the use of the Welsh language.
Work more closely with other external review bodies and improve the way we run our business through a period of transition.
Increase awareness of and engagement with our work, including through more effective use of information technology.

Exchange of good practice

1.5 On 2 October 2013, the Auditor General wrote to the Chair to the Public Accounts Committee providing an update on the work of our Good Practice Exchange (GPX) Team following the additional funding agreed by the Public Accounts Committee for this work.

1.6 That letter ([Appendix 3](#)) highlights a number of encouraging signs from the development of this work, including:

- a Website traffic:** There have been over 33,000 views of the GPX web pages since the beginning of the year which is equivalent to over 150 views per working day.
- b Shared learning seminars:** These continue to be the most effective method of achieving high-quality, high-impact knowledge transfer. Since the beginning of the year, we have hosted eight shared learning seminars, which have been attended by 322 people. The distinctive approach developed by the GPX Team consistently achieves very positive feedback. Between 80 and 96 per cent of shared learning seminar delegates have rated them as being 'highly useful' to them in their roles.
- c Using digital technology to reach further and engage:** The team have been using Twitter to reach out well beyond those attending our seminars. In some cases, the information sent out from Twitter during a seminar has reached over 35,000 people – well beyond the 40 in the room.
- d Bringing outside experience to Wales:** The GPX Team has secured expertise from outside Wales on a number of occasions. This has included private

sector organisations, such as Diageo and Emirates Aluminium, overseas public audit bodies such as Audit New Zealand, and third sector organisations including the Scottish Improvement Service.

1.7 One of the areas that the GPX Team is currently working on is how to measure the impact of its work in a complicated and fast-developing area. A number of activity and impact measures are being developed and we will be reporting against these in future annual and interim reports.

Unplanned work

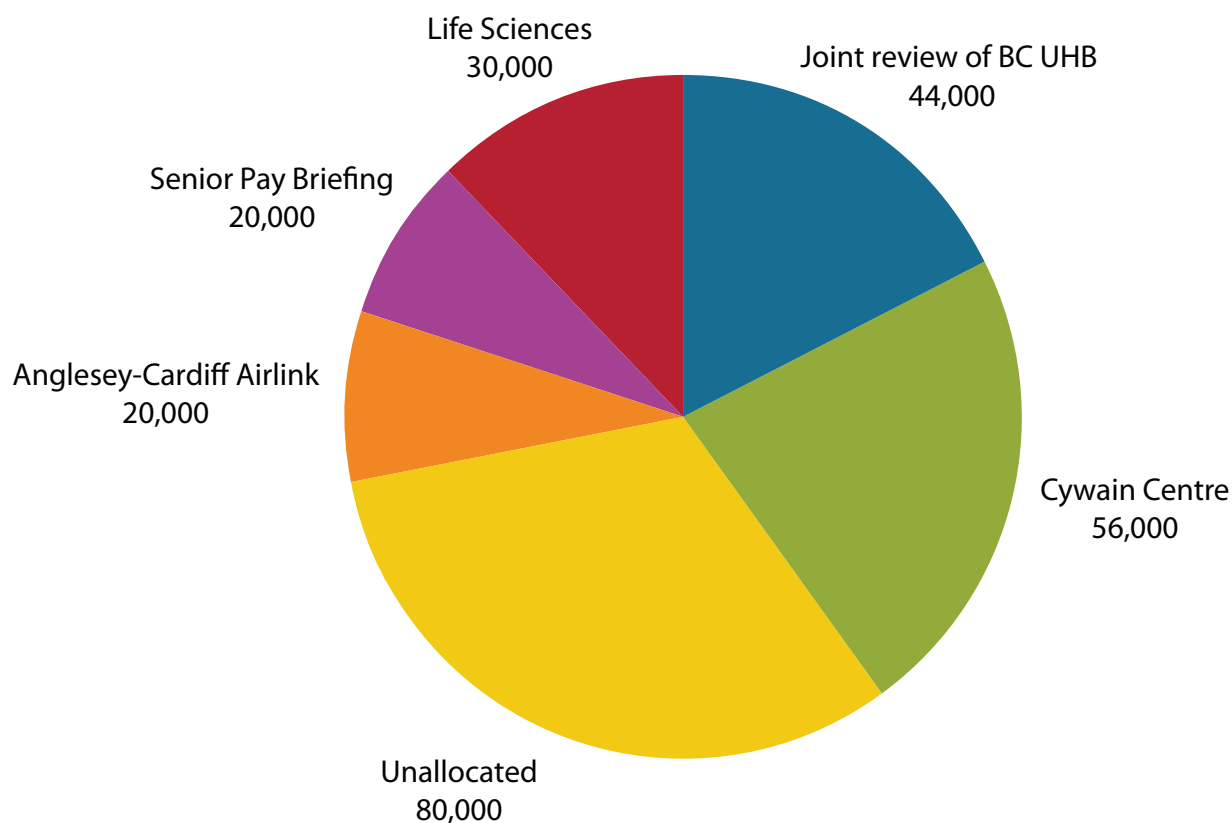
1.8 The Auditor General was provided with additional resource of £250,000 to ensure delivery of his pre-planned value-for-money programme which is designed to provide comprehensive coverage of the Welsh public sector while also providing for a swift response to urgent projects without the need to defer planned work. The Auditor General also continues to provide support to the Public Accounts Committee through delivery of his studies programme and provision of briefings and responses to correspondence.

1.9 [Exhibit 3](#) illustrates how this funding has already been committed to date in 2013-14 for unplanned work.

1.10 [Exhibit 4](#) provides a brief summary about each of the pieces of work identified in [Exhibit 3](#).

1.11 As illustrated in [Exhibit 3](#), at the mid-point of 2013-14 all but £80,000 of the funding allocated to unplanned work has been committed to urgent reviews. Should further such work arise during the year, it may be necessary for us to seek additional funding through a supplementary estimate in order for us to undertake that work.

Exhibit 3 - Additional funding already committed for unplanned work



1.12 Appendix 1 contains a summary of the main operational activities of the Auditor General and the Wales Audit Office across local government, central government and the NHS.

1.13 During 2014-15, we will publish interim and annual reports which will provide further information about the work undertaken by the Auditor General and the Wales Audit Office. These reports will include an update on the work we are carrying out to identify the impact of our work as recommended in the Public Accounts Committee's report on the Auditor General's 2013-14 estimate.

Exhibit 4 - Summary of unplanned activities

Unplanned activity	Brief description
Joint review of Betsi Cadwaladr University Health Board's governance arrangements	<ul style="list-style-type: none"> Joint review with Healthcare Inspectorate Wales of the corporate, clinical and financial governance challenges facing the health board. The joint report, published in June 2013, concluded that the health board's governance arrangements and organisational structure are compromising its ability to adequately identify problems that may arise with the quality and safety of patient care.
Public funding of the Canolfan Cywain Centre in Bala	<ul style="list-style-type: none"> In response to concerns expressed by the Chair of the Public Accounts Committee about the collapse of the Canolfan Cywain Centre in Bala, which had received over £2 million in public funding, we undertook preliminary enquiries into the public funding and subsequent closure of the centre. We are now undertaking a detailed investigation. This is focusing on the decision making around the public funding of the venture, including the actions taken to mitigate the risks (and losses) and the lessons to be learnt from this case.
The Anglesey to Cardiff Air-Link	<ul style="list-style-type: none"> As agreed with the Public Accounts Committee, a briefing paper is being drawn up for the committee following correspondence raising concerns about the value for money of the North-South Wales Air-Link. This briefing paper will set out the Welsh Government's arrangements for managing its £1.2 million annual subsidy of the air-link, including procurement and contract management and evidence in relation to value for money.
Senior management pay in the public sector	<ul style="list-style-type: none"> As agreed with the Public Accounts Committee in July, a briefing paper is being drafted for the committee to support its plans for a short inquiry into senior management pay. This paper will set out the frameworks that currently govern senior management pay and benefits across Welsh public services and will draw on our financial audit work to bring together an analysis of senior management pay rates.
Welsh Life Sciences Investment Fund	<ul style="list-style-type: none"> In response to concerns raised in September 2013 by the Chair of the Public Accounts Committee, a joint review of the Welsh Life Sciences Investment Fund is being undertaken by the Wales Audit Office and the Internal Audit Service of the Welsh Government. The Auditor General will determine the most appropriate form of reporting the results of this work once these are known.

Section 2 - Estimate of income and expenditure 2014-15

Revenue budget 2014-15

2.1 Our estimate of our revenue income and expenditure for 2014-15 is summarised in [Exhibit 5](#).

2.2 The main issues of note are summarised below:

- a** With the exception of certain specific new costs and responsibilities we are not seeking additional funding, as we have been able to absorb a range of inflationary and cost pressures though increased efficiencies, including measures such as:
 - **improved staff utilisation rates** (ie, staff spending more time on productive audit work and less time on ancillary support and non-productive activities), which has led to recurring reductions in the use of short-term contractors amounting to £50,000;
 - **changing staff skill mixes**, which has reduced ongoing costs by £200,000; and
 - **making more efficient use of supplies and services**, reducing accommodation and energy costs despite rising prices, and setting real terms savings targets for individual budget holders.
- b** As part of our commitment to improving the standards of financial management across the Welsh public sector and in order to ensure that our staff are well placed to support audited bodies in

achieving efficiencies and identifying areas for improvement, we are investing heavily in the learning and development of our audit staff and increasing the number of graduate trainees we recruit each year.

- c** We need to increase audit fee income by an average of 3.8 per cent to fund a significant increase in our irrecoverable VAT of £600,000 arising from a VAT ruling by HMRC. As we outline in paragraph 2.25, however, there are compensatory factors that will mitigate any impact of this increase for the majority of our audited bodies.
- d** We are seeking to increase our revenue funding from the Consolidated Fund by £652,000 to £5,876,000 in order to:
 - Fund additional costs of £122,000, which are a direct result of the new duty expected to be placed on the Auditor General in the planned Future Generations Bill.
 - Respond to changes arising from the Public Audit (Wales) Act 2013 relating to the funding of local government studies: these statutory changes require us to fund this work through the estimate (increased by £530,000) rather than from fees (reduced by £353,000) and WPI grant (reduced by £177,000). Importantly, there will be no overall change in our call on the Welsh block as a result of this change.

Exhibit 5 - Estimate of revenue income and expenditure 2014-15

		Year to 31 March 2014 £'000	Year to 31 March 2015 £'000
Expenses	Staff-related costs	16,118	16,230
	Accommodation costs	983	941
	Learning and development costs	292	407
	IT costs	588	601
	Supplies and services ³	5,497	5,336
	EXPENSES TOTAL	23,478	23,515
Income	Audit and inspection fees	13,421	13,668
	WPI grant from the Welsh Government	1,439	1,170
	Local government grant certification fees	2,441	2,501
	Other income	353	300
	Contribution from reserves	413	0
	FEES AND OTHER INCOME TOTAL	18,067	17,639
Total revenue budget to be funded by Consolidated Fund		5,411	5,876
Funded by:			
• Revenue resource requirement – main estimate		5,224	5,876
• Revenue resource requirement – supplementary estimate		187	0
Total resource requirements		5,411	5,876

³ Supplies and services includes payments to contractor firms for audit services (£3,048,000) and irrecoverable VAT (£900,000).

- 2.3** We are currently undertaking work, which is looking at the totality of the way in which we operate as an organisation, in order to ensure that we are a modern, sustainable organisation that is making the best use of the resources available to us. We look forward to providing a further update on this work in our estimate for 2015-16.
- 2.4** The Wales Audit Office will use resources to employ staff and pay associated costs, make payments to contractor firms which carry out work on behalf of the Auditor General and to provide the infrastructure and support needed to carry out our work. We comment in the following paragraphs on the main features of our revenue budget for 2014-15.

Expenditure

Staff costs

- 2.5** Approximately 69 per cent of our revenue resources will be used in employing an estimated 240 full-time-equivalent members of staff during 2014-15.
- 2.6** Our staff cost budget for 2014-15 has been prepared on the assumption that our total pay bill will increase by no more than an average of one per cent, in line with HM Treasury guidelines for government departments, in addition to other contractual changes, and offset by reductions arising from implementation of a previous job evaluation scheme. Our reward structure is designed to allow us to remain competitive with firms and other organisations for similar roles and to help us retain staff in whose personal and professional development the Auditor General has invested significantly over a number of years.
- 2.7** Where funding is available, we operate an ongoing voluntary exit programme designed to support our longer-term workforce planning objectives and to support ongoing cost reductions. We are now realising the savings from previous voluntary exit departures through ongoing savings in staff costs.
- 2.8** We have succeeded in achieving reductions in staff costs through improved staff utilisation, which has led to a reduction of £50,000 in contractor costs, and changes in staff skill mixes, which has reduced ongoing costs by £200,000 as compared to 2013-14.
- 2.9** Our Impact Assessment for the Welsh Government of the consequences of the proposed Future Generations Bill identified that we would likely incur additional staff costs on developmental work of approximately £122,000 per annum in 2014-15 and 2015-16 in order to prepare for the introduction of the new provisions proposed for the Bill. As the Bill is as yet unpublished, this estimate is based on the White Paper consultation and discussions with officers. We are seeking additional funding for these development costs in 2014-15 through this estimate.
- 2.10** As highlighted in [paragraph 2.34](#), a review is currently being undertaken of the structure of our Senior Leadership Team, which may lead to further changes in staff costs in due course.

Accommodation costs

- 2.11** We predict that our overall accommodation expenditure will fall by 4.2 per cent as a result of generated efficiencies despite increased underlying energy, rent and rates costs.

Learning and development costs

2.12 The Auditor General and the Wales Audit Office Board (the Board) place significant importance on the development of the knowledge and skills of all our staff. It is an imperative for us that our staff have the highest credibility across the Welsh public sector and beyond. Both the Auditor General and the Board are therefore committed to investing in staff development, and in particular to developing graduate trainees. This commitment supports our longer-term workforce planning, while at the same time offering opportunities to Wales-based graduates who might otherwise need to leave Wales in search of employment and professional training. The projected increase in our training costs for 2014-15 derives from an increased investment in graduate trainees.

2.13 We are currently exploring opportunities to further increase the number of graduate trainees we recruit and are also examining other ways we can support young people into employment, through for example offering placement opportunities for school leavers.

IT costs

2.14 We have deferred a small element of IT expenditure from 2013-14 to 2014-15, which leads to the slight increase in the comparison in [Exhibit 5](#). Without this deferral, IT costs would fall by £28,000 (4.8 per cent) between the two years.

Supplies and services

2.15 Supplies and services is composed of a wide range of activities. We comment below on the two most significant elements – irrecoverable VAT (£900,000) and payments to contractor firms (£3,048,000).

Irrecoverable VAT

2.16 The increase in this cost line arises from a significant decrease in the amount of VAT we are able to recover on our expenditure following a ruling on the Auditor General's VAT status that took effect from 1 April 2013. This ruling will also apply to the Wales Audit Office from 1 April 2014. As highlighted in previous estimates, prior to 1 April 2013 the Auditor General charged VAT on audit fees for NHS and local government bodies with the knowledge and agreement of HMRC. In December 2012 however, HMRC determined that from 1 April 2013 the Auditor General should not charge VAT on this work. This ruling meant that we are unable to charge VAT on the vast majority of our work, and consequently unable to recover the VAT charged to us on goods and services. This change in the Auditor General's VAT status has led to an increase in our annual cost base of £600,000 representing an increase in irrecoverable VAT. The report of the Public Accounts Committee on the Auditor General's 2013-14 estimate noted the funding difficulties that would arise from a change in the Auditor General's VAT status and the possibility of the Wales Audit Office having to raise audit fees or seek additional funding from the Consolidated Fund in 2013-14 and future years in order to meet the costs.

2.17 While we are able to absorb general cost increases through ongoing savings and efficiencies we are not able to make savings of this level in the short term from a cost base that is largely fixed owing to the need to deliver a statutorily defined programme of work. Unfortunately, owing to this ruling we have no option but to seek additional funding. As we set out in [paragraph 2.25](#), we are seeking to do this through changes in fee levels rather than through an additional call on the Consolidated Fund.

Exhibit 6 - Impact of using contractor firms on 2014-15 budget

Budget element	£'000	£'000
Income from work carried out by firms		4,022
Payments to firms	3,048	
Irrecoverable VAT on above payments	610	
Total cost	3,658	(3,658)
Net contribution to the Wales Audit Office		364

Payments to contractor firms

- 2.18** In common with other UK audit agencies, we operate a mixed market of suppliers for the delivery of audit work in order to compare audit quality and to benchmark value for money. Following an OJEU procurement process, in addition to Wales Audit Office staff, we currently use three firms which will deliver 22 per cent of our audit work at principal bodies during 2014-15.
- 2.19** The impact of this work on our budget is reflected in [Exhibit 6](#). The costs of £3,048,000 reflected in [Exhibit 6](#) are the largest, single element of our supplies and services budget.
- 2.20** Additionally, we also use a further three firms to undertake reviews of over 730 community and town councils and other small bodies (income value: £248,000).
- 2.21** The current contracting arrangements will cover audits of the 2013-14 financial year. The Board will shortly be considering our contracting strategy from 2014-15. One of the issues the Board will need to consider is the impact of the VAT ruling on our contracting strategy, as approximately two-thirds of the irrecoverable VAT of £900,000 relates to payments to contracting firms.

Income and funding

Local government studies

- 2.22** As a consequence of the Public Audit (Wales) Act 2013, local government studies undertaken under sections 41 and 42 of Public Audit (Wales) Act 2004 are no longer permitted to be funded from audit fees. Furthermore, Welsh Government grant funding provided under the Local Government Act 1999 (WPI grant) may not be used for anything other than work under the Local Government (Wales) Measure 1999.
- 2.23** Until now, local government improvement studies (section 41) have been partly funded through fees and partly from the WPI grant. It will therefore be necessary for all local government studies to be funded from the Consolidated Fund from 1 April 2014.
- 2.24** Importantly, this increased funding through the estimate of £530,000 will be entirely offset by reductions in local government audit fees (£353,000) and the WPI grant (£177,000), and so our overall call on Welsh block funding is unchanged.

Audit fees

2.25 As we set out in [paragraph 2.2](#), we have determined that audit fee income will need to increase by £600,000 per annum (equivalent to a 3.8 per cent average increase) to cover the additional VAT costs. In making this decision however, we are mindful that there are compensatory factors that will mitigate any impact for most of our audited bodies, as follows:

- a NHS:** NHS bodies are not able to reclaim VAT charged to them. Prior to the ruling therefore, the 20 per cent VAT charged by the Auditor General was a real cost borne by NHS bodies. Since 1 April 2013, NHS bodies have therefore benefited by an effective reduction of 16.7 per cent which would more than offset any increase in audit fees.
- b Local government:** As at 31 March 2013, the Auditor General's accounts included reserves in respect of local government activity of £1.2 million. The Auditor General's supplementary estimate for 2013-14 plans to use £413,000 of these reserves to reduce his call on the Consolidated Fund, which will leave a projected balance of reserves of £800,000 at 31 March 2014. Following commencement of the relevant provisions of the Public Audit (Wales) Act on 1 April 2014, we will not be able to retain these reserves and therefore propose to make refunds to local government bodies to the limit of the reserves we hold (as did the Audit Commission on its demise). On current projections, such a refund would effectively offset the equivalent of two years of the planned fee increase.

2.26 The overall change in audit fees also reflects a reduction of £353,000 that arises from the rebalancing in the funding mechanism for local government studies as summarised in [paragraphs 2.22 to 2.24](#).

2.27 The Public Audit (Wales) Act 2013 introduces a revised fee-setting basis for all our audit work. We are currently reviewing the impact of these changes, which may result in fee increases for some audited bodies with overall corresponding fee reductions for other audited bodies. The Wales Audit Office will set out in the fee scheme it is required to produce how audit fees are affected by these changes.

2.28 We will also be writing to our audited bodies, as well as the NHS Confederation and the Welsh Local Government Association, to explain these changes in further detail.

Wales Programme for Improvement grant

2.29 The reduction of £269,000 in [Exhibit 5](#) reflects the rebalancing in the funding mechanism for local government studies as summarised in [paragraphs 2.22 to 2.24](#) and timing differences in the delivery of work between financial years.

Local government grant certification

2.30 The level of this work in any year is dependent on the number of schemes subject to audit and the number of audited bodies participating in those schemes. The level of income we receive from this source is therefore demanded, and £2,501,000 is our best estimate of amount of income we expect to derive from this work in 2014-15. Such fees will be set to recover but not exceed the full cost of carrying out the work.

Other income

2.31 The reduction in other income of £53,000 illustrated in [Exhibit 5](#) largely relates to a reduction in income for staff secondments that will occur in 2014-15.

Funding from the Consolidated Fund

2.32 We are not seeking any increase in our historical funding of £5,224,000 from the Consolidated Fund in respect of general cost increases. We do, however, need to seek an increase of £652,000 from the 2013-14 base to £5,876,000 to fund the developments outlined above as summarised in [Exhibit 7](#).

Exhibit 7 - Summary of increased funding required

Budget element	£'000
Local government studies (paragraphs 2.22 to 2.24)	530
Future Generations Bill development (paragraph 2.9)	122
Total increase	652

Areas of uncertainty

Employee travel and subsistence expenses

2.33 The Auditor General reported in his 2013-14 estimate that the way in which Wales Audit Office staff need to work may have led to some having established permanent places of work at the offices of our audited bodies. A permanent place of work may be established for tax purposes by spending a significant amount of time at an audited body – typically more than 40 per cent of the working week for more than a two-year period. It is possible that payments for expenses incurred in travelling to audit offices in such circumstances should be subject to tax and national insurance. We are aware that other Welsh public sector bodies and another UK audit agency have experienced similar problems. We are currently in discussion with HMRC to resolve this matter. Should HMRC rule that we should have deducted PAYE when paying these expenses, we may need to seek extra revenue and cash resources through a supplementary estimate.

Restructure of Senior Leadership Team

2.34 In response to changes in our governance arrangements, which arise from the introduction of the Public Audit (Wales) Act 2013, we are implementing a review of our senior leadership structure, which may result during 2014-15 in some redundancies or voluntary exits. To the extent that we are not able to fund the costs of these departures from existing funds, we may need to seek additional funding through a supplementary estimate.

Future Generations Bill

2.35 In addition to the development costs identified in [paragraph 2.9](#), we have further estimated that there will be ongoing costs from early 2015 of approximately £130,000 for review work at audited bodies to assess how they are responding to the expected requirements of the Future Generations Bill, once enacted. As the Bill is yet to be published, it is very difficult to properly assess the level of required activity and associated cost, but we expect at present that those costs will be recovered from audit fees.

Uncertainties regarding future workload

2.36 As summarised below, we are aware of several developments which present a considerable degree of uncertainty regarding our future workload, income and costs.

European grants

2.37 Approximately three-quarters of claims for the current round of European structural funds in Wales are made by public sector bodies. The Welsh European Funding Office (WEFO) currently requires that these claims be audited by the Auditor General or an auditor authorised by him, and we therefore certify as many as 140 claims every year, generating audit fees in the region of £500,000.

2.38 This workload is likely to change with the roll-out of the new round of funding programmes for 2014-2020. We understand that WEFO is developing new certification arrangements which will introduce a 'select list' of auditors which it will approve. Accordingly, we expect to have to tender for work of this type in future and the entry of further suppliers raises a possibility that our workload may reduce. We may also need to adjust the 'skill mix' which we apply to this work, depending on the eventual audit specification and price considerations.

European Agricultural Guarantee Fund (EAGF)

2.39 The European Commission is planning to introduce changes regarding how this work is undertaken. We are currently in discussions with the National Audit Office, for whom we undertake this work, regarding the implications of these proposed changes.

Capital budget 2014-15

2.40 Our estimate of the capital expenditure for which we are seeking funding is set out in [Exhibit 8](#).

Exhibit 8 - Capital budget

	£'000
Internet link	15
Videoconferencing equipment	25
Disk-based storage	40
Replacement servers	18
Total capital expenditure	98

2.41 Planned investment in our IT infrastructure is designed to address the following:

- a** Our existing connection to the internet is becoming heavily congested at peak periods throughout the working day, owing to ever-higher demands for data transfer such as that arising from increasing demand for teleconferencing in order to save on more extensive travel costs. In order to cope with these increased demands in the longer term, it will be necessary to upgrade the internet link we currently use and strengthen our videoconferencing facilities.

- b** Existing servers are ageing and are no longer adequate, particularly in terms of supported memory to cater for forecast demand for centralised systems. We therefore plan to replace them in 2014-15.
- c** There is growing demand for disk-based storage, particularly for centralised email storage, and this must also be mirrored securely with our off-site disaster recovery centre.

2.42 We currently use a variety of IT systems to plan, manage, record and store our audit work. We have initiated a project to identify whether there is a single product that can undertake these various functions and help us to improve the way in which we carry out our work. Should we identify a suitable product, we may need to seek additional capital funding through a supplementary estimate for 2014-15.

Net cash requirement 2014-15

2.43 Our combined net cash requirement for revenue and capital purposes is summarised in [Exhibit 9](#).

Exhibit 9 - Net cash requirement

	£'000
Revenue	5,876
Capital	98
Total net cash requirement 2014-15	5,974

Appendix 1 - Main operational activities of the Auditor General and the auditors he appoints

Main operational activities of the Auditor General and the auditors he appoints in local government:

Audit of accounts prepared by central government and health bodies	Eight accounts prepared by the Welsh Government; 31 other accounts, including the Assembly Commission; seven health boards; and three NHS trusts.
Audit of accounts prepared by local government bodies	22 unitary authorities; four police and crime commissioners and four chief constables; three fire and rescue authorities; one probation trust; three national park authorities; one internal drainage board; eight pension funds; over 730 town and community councils and other small bodies; and 19 joint committees.
Local government improvement assessments	Includes audits of whether authorities have discharged their improvement planning and performance reporting duties, assessments of the likelihood of compliance with improvement duties and special inspections. Undertaken at 22 unitary authorities, three fire and rescue authorities and three national park authorities.
Local performance audit work at health bodies	Includes assessments of arrangements to secure value-for-money in use of resources. Undertaken at seven health boards and three NHS trusts.
Certification of grant claims and returns	32 local government schemes (around 750 claims with a total value of some £3.0 billion), alongside European structural fund claims with a total annual claim value of around £300 million.
Value-for-money examinations and studies	Typically 12 examinations, studies and other outputs are undertaken in the course of a calendar year, looking at value for money in key areas of public spending. Often this work is undertaken from a 'whole-system' or 'cross-cutting' perspective, where public spending is examined irrespective of who delivers the services.
Other significant activities	Includes: <ul style="list-style-type: none"> • checking requests for grant of approval to draw from the Consolidated Fund; • working with others to share learning, including provision of the GPX; • anti-fraud and other data-matching exercises, including the National Fraud Initiative; • responding to issues that have been brought to our attention through correspondence from the public, elected representatives and others; • providing support to the Public Accounts Committee and other National Assembly committees; and • administration of the Wales Audit Office.

Appendix 2 - Estimated budget requirements of the Wales Audit Office for the year ending 31 March 2015

Under Section 125 of the Government of Wales Act 2006 (the 2006 Act), Ministers must move a Budget Motion in the National Assembly to authorise the use of resources, retention of income and drawings of cash from the Consolidated Fund for certain relevant persons, including the Wales Audit Office.

In respect of the services and purposes of the Wales Audit Office, the Auditor General and local government appointed auditors in the year ending 31 March 2015, the Budget Motion will authorise:

- a** the amount of resources which may be used in the financial year by the Wales Audit Office (in line with the budget for the year);
- b** the amount of resources accruing to the Wales Audit Office in the financial year, which may be retained rather than being paid into the Consolidated Fund; and
- c** the amount which may be paid out of the Consolidated Fund to the Wales Audit Office.

These requirements, which due to the variability of income streams can only be estimates, are summarised in [Table 1](#).

Table 1 - Summary of the estimated 2014-15 budget requirements

Resources other than accruing resources for use by the Wales Audit Office on the discharge of the statutory functions of the Wales Audit Office, the Auditor General and local government appointed auditors, and on the administration of the Wales Audit Office:	
• Revenue	5,876
• Capital	98
Accruing resources from fees and charges for audit, inspection, grant certification and related services; grants received to fund audit and inspection services; other recoveries of costs associated with the functions of the Auditor General; miscellaneous income from publications, conferences, provision of administrative, professional and technical services; recoveries of costs of seconded staff; repayments of staff loans; recoveries of car leasing payments; recoveries of any costs incurred for a third party; and interest received on working balances – for use by the Wales Audit Office on related services and the administration of the Wales Audit Office.	17,639
Net cash requirement from the Consolidated Fund to meet the net amounts falling due for payment in the year by the Auditor General.	5,974

Table 2 provides a reconciliation of the Wales Audit Office's total resource request with its net cash requirement for the year ended 31 March 2015.

Table 2 - Reconciliation of resource requirement to cash drawing requirement from the Consolidated Fund

	£'000
Net request for resources – revenue and capital	5,974
Adjustments	0
Net cash requirement	5,974

Appendix 3 - Letter to the Chair of the Public Accounts Committee on the work of the GPX team

Mr Darren Millar AM
Chair of the Public Accounts Committee
National Assembly for Wales
Cardiff Bay
Cardiff
CF99 1NA

Date: 2nd October 2013
Our ref: HVT/1954/fgb
Page: 1 of 3

Dear Darren

UPDATE ON THE WORK OF THE WALES AUDIT OFFICE GOOD PRACTICE EXCHANGE TEAM

I thought it would be a good opportunity to update you on the activities and impact of the Good Practice Exchange (GPX) Team over the past six months. You will recall that the Public Accounts Committee endorsed the allocation of an additional £250,000 to support the exchange of good practice as part of my 2013 14 Estimate. The GPX Team has been working hard with colleagues in the Wales Audit Office and partner organisations to ensure we use this additional funding to best effect.

The basic aim of our good practice work is to promote improvement across public services in Wales, through better knowledge exchange and shared learning. If the users of public services, the service deliverers and policy makers are better informed about what works well elsewhere, they are in an improved position to challenge the status quo and make changes to improve public services in Wales.

The GPX team has focussed its work on areas that are relevant across the whole of public services, identifying opportunities to secure better value for money and improve service delivery. For example, areas such as improving attendance, managing sickness absence and flexible working arrangements as part of employee engagement were covered during the early part of the year. The current focus is around assets, buildings and fleet management and the use of Information Technology. Plans for 2014 include considering the potential benefits of moving some public services online and activities to move public expenditure into areas where early support and intervention can prevent significant costs to public services occurring later on.

The methods used by the GPX Team are a combination of the 'tried and tested', alongside novel and innovative approaches. The use of the internet and social media is becoming more frequently used as a method for us to engage with service users and the public services that deliver them, and we have recruited two new members of staff to increase our capacity here. As a result we now have available an increasingly

large online bank of good practice material and other resource for people to access and use. This material is also acting as a focus for a growing network of people interested in delivering improvement and better value for money across Welsh public services.

Whilst the expanded GPX Team has only been fully operational since April 2013, there are a number of areas which give encouraging signs of the growing potential of its work in the future:

Website Traffic. There have been over 33,000 views of the GPX web pages since the beginning of the year which is the equivalent to over 150 views per working day. Our analysis indicates that these are people searching for examples for good practice, case studies and other material which they use in their own organisations. For example, guidance we produced on how to review vehicle fleet management arrangements continues to be downloaded by public service Fleet Managers and used as a practical working tool.

Shared Learning Seminars. These continue to be the most effective method of achieving high quality, high impact knowledge transfer. The distinctive approach developed by the GPX Team consistently achieves very positive feedback. Between 80 and 96 per cent of delegates have rated shared learning seminars as being 'highly useful' to them in their roles. Most importantly the seminars also result in changes and improvements which are being recorded to demonstrate impact. For example, the recent energy management seminars resulted in significant activity to reduce energy and water costs in Local Government, Police and Criminal Justice buildings. This is a direct consequence of bringing the right people together, in the right circumstances.

Other examples of the impact of seminars include the sharing of business cases, policies and guidance notes between organisations. This means that valuable resources are not wasted developing material from scratch when others have already created them.

Since the beginning of the year we have hosted eight shared learning seminars, which have been attended by 322 people (40 on average). During 2014 15 we intend to significantly increase this level of activity, covering topics such as early intervention and moving services online.

A further consequence of the success of the shared learning seminars is that the GPX Team is being approached by other public service organisations to work collaboratively to deliver similar events. For example a seminar focussed on Governance will take place during National Trustees Week in conjunction with the Charities Commission, and which we hope will reinforce the messages that have come out of our recent grant work. Further seminars and events planned for the remainder of 2013-14 include:

- Fleet Management and Buildings Management Shared Learning Seminars, as part of our series of Asset Management – October 2013 in South Wales and January 2014 in North Wales.
- All-Wales Scrutiny Conference, in collaboration with the Welsh Government, Centre for Public Scrutiny, Cardiff Business School and the WLGA – November 2013 in Cardiff.
- Involvement in enhancing the digital footprint of the Welsh Government's Employee Engagement Conference – November 2013 in Cardiff.

- Sustainable Development seminars, in collaboration with the Commissioner for Sustainable Futures – February 2013, North and South Wales.
- Moving Service Online Conference, in collaboration with the Scottish Improvement Agency and other Scottish organisations – March 2014.

Using Digital Technology to reach further and engage. The Team has been using Twitter to reach out well beyond those attending our seminars. In some cases, the information sent out from Twitter during a seminar has reached over 35,000 people – well beyond the 40 in the room. We have also had influential individuals joining the conversation, from outside Wales and across private, public and voluntary sectors, providing great insight and knowledge, which has enhanced the seminars.

We have recently added a Blog, which shows signs of growing in popularity and generating conversations that are helping to build relationships and encourage improvement.

Bringing outside experience to Wales. The GPX Team has secured expertise from outside Wales on a number of occasions. This has included private and third sector organisations such as Diageo and Emirates Aluminium and the Scottish Improvement Service. Other audit bodies in the UK and Ireland have recognised the value of what has been achieved so far and are starting to send representatives to Wales to attend GPX shared learning events on an increasingly frequent basis.

Measuring Impact. One of the areas the Team is working on is how to measure impact of its work in a complicated and fast developing area. A number of activity and impact measures are being developed and I will be sharing these with you once they have matured and been tested.

I hope this gives you a flavour for what has been achieved in relatively short space of time, and the potential for what can be achieved in the future. As mentioned, PAC Members are most welcome to attend any of the planned GPX events or indeed to engage with the Team on Twitter or via the GPX Blog.

Yours sincerely

HUW VAUGHAN THOMAS
AUDITOR GENERAL FOR WALES

Agenda Item 4

Finance Committee

FIN(4)-20-13 (paper 4)

13 November 2013

[Inquiry into Higher Education Funding](#)

Evidence from Cardiff University

Research

- **How successful are Welsh Higher Education Institutions in securing research income from all sources?**

A report by Professor Robin Williams for the Learned Society of Wales (*Recognising the Quality of Research at Universities in Wales*) found that Higher Education Institutions in Wales earn grants for research from a variety of sources such as the UK Research Councils, the Technology Strategy Board, European Framework programmes, charities and industry. They also earn grants from the NHS in Wales and from European Structural funds. In terms of total grants Wales's share of the UK total in 2010-11 was 3.8%.

Wales is relatively good at attracting research council funding from the Arts and Humanities Research Council, Economic and Social Science Research Council and Biotechnology & Biological Sciences Research Council. Indeed, HESA data indicates that in 2010/11 the Welsh HE sector's share of research grant income from all three of these Research Councils - AHRC, BBSRC and ESRC - exceeded the Welsh Government's target of 5% of the UK total.

The Report noted that close to one third of UK Research Council grants are awarded to the Golden Triangle research universities and when this is taken into account Wales's share increases to 5.0% of the reduced UK total. It was suggested that it is sometimes useful to consider statistics with and without the inclusion of the Golden Triangle universities.

The Report acknowledges though that the Welsh fraction is low as a total and the Report felt that there were a number of reasons for this:

- The success rate of applications to the Research Councils from Wales is not dissimilar from the other nations suggesting that the quality of proposals is not lacking, but that the shortfall follows from the volume of submissions and the amount of funding requested per application. Universities in Wales have initiated action to improve the quality and quantity of research grant applications and to build capacity for larger funding bids.
- The funding from the Welsh Government, allocated by HEFCW to universities as a recurrent grant for research (the QR funding), is critical in that it supports the 'well found' base of researchers and infrastructure which is essential in order to bid realistically and successfully for such highly competitive project funds. Scotland's fraction of QR within the UK is 12.3%, even though their population share is only 8.4%. Coupled with their strengths in high earning areas, such as the many Medical Research Council Research Centres, it is no surprise that they perform so well in terms of Research Council grant income. The Welsh QR fraction of the UK is 4% compared with 4.9% population share.

- The relatively low level of competitive Research Council grants earned by universities in Wales reflects the historical subject mix and relatively low numbers of academic staff in Wales in medicine, engineering and the physical sciences, all of which draw funding from the higher spending Research Councils.

Despite the comparative low levels of RCUK income, Wales's internationally recognised research has risen over the last decade and now makes a significant contribution to the UK's world-leading research base. This is evidenced in recent internationally recognised bibliometric assessments of Wales' comparative standing (DBIS Report 2011). According to Thomson Reuters over the past decade research in Wales is now recognised in the top 20 research countries in the world – it was below the World, OECD and EU averages only a decade ago.

- **Which factors lead to some Welsh HEIs receiving more research funding than others?**

The Welsh Higher Education sector, like other members of the UK, comprises a diverse range of universities with different missions and discipline mix which determine the extent of research intensity. Some institutions are more research intensive than others and as a result will receive more research funding. Research intensive institutions will have the infrastructure and the staffing complement to enable them to undertake cutting edge research, to bid successfully for research funding, to collaborate with other high profile research intensive institutions, and to be successful in national Research Excellence assessments. All of this, in turn, engenders further success in obtaining research funding. In awarding competitive research contracts, the Research Councils and other such external funders are looking for evidence of a successful track record, critical mass of excellent talent and a thriving, well-found research environment to derive best value from their investment and to ensure sustainability of the research area. This both creates and requires concentration and explains why not all universities can be research-intensive.

- **How can Welsh HEIs improve their performance to meet the Welsh Government's ambition that they receive at least 5% of UK Research Council funding?**

The report by Professor Robin Williams for the Learned Society of Wales (*Recognising the Quality of Research at Universities in Wales*) concluded that the relatively low level of competitive Research Council grants earned by universities in Wales reflects the historical subject mix and relatively low numbers of academic staff in Wales in medicine, engineering and the physical sciences, all of which draw funding from the higher spending Research Councils. The Report noted, however, that in terms of contributions to the economy and the community the annual HEBCIS data shows that universities in Wales continue to outperform the UK in many areas, including the formation of spinout companies and business start-ups.

It needs to be acknowledged that only a few of the HEIs in Wales have the capacity and ability to improve significantly their performance in winning UK Research Council funding. At £26.5M in 2011/12 Cardiff University accounted for more than 50% of the Research Council funding received by Welsh institutions (Swansea received £9.5M, Aberystwyth £9M and Bangor £5M). Increased selectivity in terms of the HEFCW research funding that is available would help those institutions with the ability to focus on excellence, enabling these universities to invest in the well-found base from which to secure competitive research project funding.

Those Welsh HEIs with the ability and capacity to improve their performance could do so by:

- Building capacity through the recruitment, development and retention of high quality staff and students;
- Developing high quality collaborations with other HEIs with a track record in securing research funding (both within Wales and outside of Wales) and with business and industry;
- Engaging more effectively with the Research Councils;
- Improving the quality and increasing the scale of bids for funding to the Research Councils.

The Welsh Government's Sêr Cymru initiative is a welcome investment in raising the Welsh HE sector's ability to compete on a world stage. If universities in Wales are to consistently secure 5% of RCUK funding and deliver a world class research system there will need to be a continued and greater investment in research capacity. One way of increasing the research capacity is to support the growth of a sustainable and vibrant postgraduate system in the sector. Funding a sustainable system for attracting and funding postgraduates should be seen as part of a holistic research strategy for universities and the sector if Wales is to maintain and grow its research impact.

- **In which areas do Welsh HEIs successfully collaborate to bid for research funding, and how could improvements be made in other areas where greater collaboration is required to increase research income?**

Welsh HEIs already successfully collaborate across a range of areas to bid for research funding. Examples of successful collaborative research projects that have been funded from HEFCW's Reconfiguration and Collaboration fund include: Wales Institute of Social and Economic Research, Data and Methods (WISERD), Low Carbon Research Institute (LCRI) and Wales Institute of Mathematical and Computational Sciences (WIMCS).

Cardiff University led on the major awards for DECIPHer and now DECIPHer II (Centre for the Development and Evaluation of Complex Interventions for Public Health Improvements) with partners in Swansea and Bristol, bidding to funding consortia led by the ERSC.

Another successful collaboration is the SPECIFIC project (<http://www.specific.eu.com/>). This is an academic and industrial consortium led by Swansea University with Tata Steel as the main industrial partner. This is funded to the level of M£9.5 by EPSRC, Technology Strategy Board and the Welsh Government, with Cardiff University's School of Architecture as a key academic partner. This major external funding builds on work carried out under the collaborative, HEFCW and WEFO funded and Cardiff-led Low Carbon Research Institute (LCRI). LCRI's research funding portfolio now exceeds £80 million from RCUK, ERDF/ESF and government and EU competitive research funds.

Sêr Cymru is also building significant collaborations across the Welsh HE institutions in areas supported by the Welsh Government.

The recent GW4 (Great Western Four) collaboration, which brings Cardiff together with the Universities of Bath, Bristol and Exeter will help build research mass,

advance the student experience and internationally will help put Cardiff University and Wales firmly on the world map.

International collaborations (Europe and further afield) are also vital for research-intensive universities. Such collaborations will also help the Welsh Government's ambitions of having a Welsh University placed in the Top 100 world universities as evidence shows that research output is more likely to gain higher visibility if it is co-authored with an academic from an overseas institution. It needs to be recognised that greater encouragement of research collaborations on the basis of excellence irrespective of region will ultimately bring most benefit to Wales.

Tuition Fee Income and Support

- **What has been the financial effect of the new tuition fee policy, introduced in the 2012/13 academic year, which allows HEIs to charge students up to £9,000 per annum for HE courses? What future financial effect is this policy likely to have?**

As the direct recurrent HEFCW funding to Institutions has decreased to cover the costs of the Tuition Fee Grant, institutions have seen an immediate dip in funding in 2012/13 whilst students funded under the old regime progress through the system. For students funded under the old fee regime, institutions have received reduced (for expensive and priority subjects) or no HEFCW funding, with the lower old fee of £3,465 which is substantially less than they would have received in previous years. For example, between 2011/12 and 2012/13, HEFCW plus fee income associated with old fee regime students fell by between 14-51% for STEM subjects, and between 13-52% for non-STEM disciplines; only the very high costs subjects saw no fall in income associated with these continuing students.

HEFCW's modelling of funding to all Welsh institutions assumed a sector increase in funding of 1.6% once new tuition fee income was taken into account, estimated on the basis of achieving maximum numbers in the student number cap. However, the majority of Welsh institutions saw a decline in numbers accepting a place for 2012-13. The UCAS End of Cycle report for 2012 showed that the number of acceptances to Welsh institutions fell by 8.1 per cent due primarily to a 17% decline in acceptances from English students. Also a greater proportion of 18 year olds in Wales applied to institutions outside Wales than to institutions within Wales for the first time since 2004. If this trend continued it would be very worrying for the Welsh HE sector with major implications for the Welsh tuition fee grant budget.

This financial situation leads to obvious tensions - new entry students are paying substantially more in fees and rightly expect more for their money while institutions are, at least in the short term, having to manage with less.

It is estimated that in 2013/14 funding will begin to increase to previous levels as the students paying the new fee levels progress through the system and by 2015/16, when the majority of students will be paying the higher fees, funding received by institutions will rise as long as student recruitment can be maintained or increased to reverse any shortfalls from 2012 entry.

It is also important to note that the projected increase in income to HE Institutions presented in Chart 1 of the recent Welsh Government Policy Statement on Higher Education is based on a number of assumptions which are by no means certain:

- That the Welsh Government allocation to HEFCW for 2014/15 will be ca.£180million;
 - That the Welsh Government allocation to HEFCW will be flatlined from 2015-16 at ca. £160million;
 - That tuition fees will increase with inflation (not currently permitted by Government);
 - That current levels of cross-border flows and student recruitment continues at current levels.
- **Does the new tuition fee policy create a greater or lesser level of financial uncertainty for HEIs?**

As seen above, there is less certainty as institutions become more subject to market forces. A number of factors are contributing to this uncertainty - the new fee regime has created changing patterns of student behaviour; the introduction of new student number controls in England, designed to promote competition between institutions; this leads to increased competition from English universities and from private providers entering the market, particularly given the significant under-recruitment of many English universities in 2012. At the same time in demographic terms, there are decreasing numbers of 18 year olds over the next few years which will have an impact on university entrants coupled with falling numbers of mature students applying to universities. In addition, there are rising student expectations when paying higher fees. There could also be a potential negative effect of rising graduate debt on postgraduate recruitment in longer term, which could lead to loss of income to Institutions and as well as loss of higher-level skills to the workforce.

- **What has been, and is likely to be in the future, the financial implications of the Welsh Government's tuition fee grant?**

It is questionable whether the Welsh Government's tuition fee grant policy is sustainable in the medium to long term – especially since students are subsidised to study anywhere in the UK. As detailed below, the policy is effectively funding English universities. Also, the Welsh Government has no jurisdiction over the number of Welsh students recruited by English institutions so there is no effective way for the Welsh Government to control the budget for the tuition fee grant.

Longer-term, Wales may feel the impact of its policy of making the tuition fee grant available to Welsh students studying elsewhere in the UK by not reaping the economic and societal benefits of these graduates entering the Welsh workforce. There is evidence to show that graduates tend to seek employment near to their place of university study.

- **Does the current funding regime provide effective financial support to students from the lowest income households and is this the most cost effective way of financially supporting this cohort of students?**

The two main elements of student finance are funding for tuition fees (part grant and part loan) and funding for living costs (part grant and part loan depending on household income). This funding goes alongside academic choices and can mean the difference between a student applying for a place or not. Students see the fees and living costs as part of a package of funding which adds up to enable them to enrol on a degree course. The Student Support Service at Cardiff University has seen how the Tuition Fee Loan and Maintenance Loan are effective in helping those

from lower income backgrounds but only in conjunction with the Tuition Fee Grant (TFG) and Assembly Learning Grant (ALG).

The ALG is effective in encouraging those from traditionally debt averse/lower income backgrounds (including care leavers and disabled students) to consider university. The ALG encourages these students, some may also be parents, who want to qualify for a better future for themselves and their family. There are additional elements available (e.g. childcare grants, dependents' grants and parents' learning allowance) which also add up to make higher education a practical and more affordable option for low income students. These targeted grants, however, alongside the Assembly Learning Grant do encourage students to apply to university. As childcare grants are only offered to those on very low incomes and can only provide 85% (up to an allowable maximum), the Financial Contingency Fund is invaluable in helping with any shortfall. Experience has shown that there is much less parental anxiety about finances from Welsh families in the lower income bracket than their English counterparts and more worried parents ring for advice compared to Welsh parents. The ALG also means that students from lower income backgrounds are able to manage financially and applications to hardship fund applications are decreasing from these students.

In terms of the TFG, the Student Support Service know from their experience of dealing with thousands of students and their parents/guardians that it is a strong incentive to those from lower income families. When higher fees were introduced there were elevated levels of anxiety among pre-entry students and their parents. Reassurances could be given that none had to be paid upfront but those who are Welsh domiciled had a message which removed many doubts. Thus the effect of the TFG policy on Welsh students and families has been very positive. The TFG helps low income families but is also beneficial for students from middle class backgrounds who are suffering from hardship as parents are unable to give them the expected contribution and who are income assessed out of grants. However, as referred to above, it may not be sustainable to keep it at the same level of availability.

- **What are the financial implications for Wales of subsidising Welsh students who study in HEIs outside of Wales?**

Whilst it was understandable that the Welsh Government wished to protect Welsh domiciled students from increasing tuition fees, an unfortunate by-product of the policy is that the Welsh Government is effectively funding English universities. An increasing fee subsidy budget will ultimately mean less funding for other aspects of higher education in Wales such as research, postgraduate studies and innovation. We fear that in the long term the competitiveness of higher education in Wales may be at risk.

We have estimated that, by 2015/16, up to £94.5M of Welsh Government money will be flowing into English institutions per annum as a result of the current tuition fee policy. We would urge the Welsh Government, in partnership with the sector, to review the policy on student finance at the earliest possible opportunity and would recommend consideration of the introduction of a policy such as that adopted in Scotland whereby Welsh domiciled students would be supported only if they study in Wales. A change in policy along these lines would ensure that both Welsh students and Welsh institutions are protected as the funding currently flowing into English institutions could be used instead to ensure the sustainability of higher education in Wales, and encourage retention of Welsh talent within Wales.

- **What are the financial implications of more expensive subjects (e.g. medicine and engineering) being funded under the new tuition fee regime given that some courses may cost in excess of the maximum £9,000 per annum for HEIs to deliver?**

The importance of Science, Technology, Engineering and Maths (STEM) graduates in society has long been recognised in terms of the benefits that these disciplines bring to the economy, standard of living and well-being. The current HEFCW funding model means that those institutions that offer courses predominantly in the lower-cost subject areas will benefit more from the increased fee income than those who offer more higher-cost STEM subjects. Institutions with more expensive subjects will be dependent on continued government funding for teaching to sustain excellent provision in the higher-cost and priority subject areas. Without adequate funding for these expensive areas, HEIs will not be able to afford to run these courses and Wales cannot afford to lose its STEM students and graduates. A strategy for the sustainable provision of these subjects is therefore vital as any damage from cuts in funding will not be easily reversed.

The cost of teaching Medicine and Dentistry far exceeds the maximum new higher fee of £9,000 per annum (it is estimated that the true cost of teaching Medicine and Dentistry amounts to around £18,000 -£19,000 per full time student per annum) and without sustained and adequate public funding both the Medical and the Dental School will quickly cease to be viable. Wales certainly cannot afford to lose its only Schools of Medicine and Dentistry and associated healthcare students and graduates – the adverse impact on healthcare in Wales would be significant. It is vital therefore that there is an explicit commitment to sustaining funding for these very high cost subjects in future years to ensure continued provision in these areas.

- **How important is the income stream to Welsh HEIs from tuition fees received from students domiciled outside Wales including the rest of the UK, European students and overseas students?**

Whilst the income stream from tuition fees received from students domiciled outside of Wales is important to Welsh HEIs, it is also extremely important to Wales. The Oxford Economics Report (2011) found that, in total, Wales' international and EU students contributed £237 million to Wales' GDP. This is equivalent to 0.5% of the Welsh economy – a larger share than agriculture, and on a par with Cardiff's hotel and restaurant sector – and supported 9,230 jobs in Wales.

In the 2009/10 academic year, 19,050 students from outside the UK studied at universities in Wales. While studying, these students contributed to both the Welsh and UK economies through the fees they paid for tuition, their spending on day-to-day items, and the spending of their friends and family visiting Wales whilst they were studying. The report estimated that:

- The 19,050 international and EU students studying in Wales in 2009/10 paid £110 million in university tuition fees in 2009/10. This generated a value-added contribution of almost £140 million to Wales's economy, and a further £20 million contribution to the rest of the UK economy.
- International and EU students spent almost £130 million on living costs in 2009/10. This spending led to a value-added contribution of £79 million to Wales's GDP, and a further £32 million to the rest of the UK economy.

- Visiting friends and family spent £23 million while in Wales, generating £20 million of value-added for the Welsh economy. The rest of the UK benefited from these visitors to the tune of a £5.4 million contribution to GDP.

It was also found that the contribution of international and EU students did not end when they completed their studies. International and EU alumni can and do continue to make important contributions to the Welsh economy through a variety of channels.

Other Income and Financial Issues

- **What opportunities do Welsh HEIs have to increase income from recruiting additional students?**

There are some limited opportunities to increase income from recruiting additional students as long as the fee cap is not exceeded. Welsh institutions can recruit additional rest of UK, international (not EU) and postgraduate students without impacting on the student support budget. However, there are limits in terms of capacity, quality and competition as well as issues with a likely downward trend in demand in respect of Postgraduate Taught provision as a result of increased undergraduate fees (referred to above).

- **What progress is being made in relation to the Welsh Government's Programme for Government indicator that 'at least 75% of Welsh HEIs will have an annual income in excess of the UK median', and how can this be improved in the future?**

HEFCW will be able to comment on progress against this target.

INQUIRY INTO HIGHER EDUCATION FUNDING IN WALES

Written Evidence presented by Glyndŵr University

INTRODUCTION

1. Glyndŵr University is pleased to submit evidence to the Inquiry of the Finance Committee of National Assembly into Higher Education Funding in Wales.
2. It feels it has a distinctive voice in this area given its decision in 2011 to set tuition fees at what it regarded as a socially and politically responsible level of an average of £6,643, rising to £6,999 for 2013/14 and £7,423 in 2014/15, rather than the £9,000 charged by almost every other university in Wales. The result of this decision was that the level of fees charged by Glyndŵr University was among the lowest in the UK. This was a conscious decision by the University in response to the social and economic needs of its current and potential students. It was taken after full and extensive consultation with the Students' Guild and following prolonged consultations with HEFCW.
3. Although the University was criticised by some for setting such a low fee level the decision was in keeping with the publicly expressed expectations of the Welsh and UK Governments.
4. The University has a strong commitment to widening participation and is widely regarded as one of the UK's leading widening participation universities, regularly appearing at or towards the top of widening participation league tables.
5. The University also has a strong research base in targeted areas. This is industrially driven and closely linked to the economic needs of the region.

RESEARCH

6. Glyndŵr University is unique in Wales, in that it receives no money from HEFCW to support its research activities. Previously it had received a small amount but that was withdrawn by the Funding Council in 2011/12.
7. It also receives very little from the Research Councils. £1.8 million in the period 2008-12. As a result the University has had to turn to private investors to fund its research activities. A large proportion of this income is from overseas. This includes both the private sector (for example the Japanese food company San Ei Gen) and the public sector (for example the European Southern Observatory)
8. The funding sources for Glyndŵr University research reflects the strong applied nature of the research work undertaken at the University. It is

developed to meet the specific needs of businesses and as such increases the competitiveness of local businesses thereby making an important contribution to the economic development of the region.

9. Collaboration plays an important part in the University's research strategy. It has research links with a number of universities, including Oxford University and UCL. The University also has strong links with overseas universities and for example it works closely with Bauman State Technical University on a number of research projects, including work on composite materials undertaken with Airbus.
10. The quality of research at Glyndŵr University is exceptionally high with some of the work being undertaken at its St Asaph having been described as the most advanced scientific research in optics in the world.
11. The research base has been built up by the University using its own and private sponsors' money. One exception to that was the research centre developed and operated jointly with Airbus which received a grant from the Welsh Government.
12. The University's success in attracting private investment in its research facilities is the result of the quality of its staff. The University has attracted high profile names in its niche research areas – for example Professor Richard Day who joined the University in 2010 is widely recognised as one of the leading experts in composite materials.
13. In addition to attracting high profile names to the University, it has also had considerable success nurturing new generations of researchers, focused on meeting the needs of industrial partners. One example of this is in the area of hydrocolloids and water soluble polymers. This expertise was established in the University over 30 years ago and throughout that time it has brought through its own staff to provide leadership in this area. This is supported by contracts with a considerable number of multinational organisations including Coca-Cola, Pepsi Cola, the makers of Kerry Gold and a host of other food manufacturers.
14. The relationship between Welsh universities and the Research Councils has received considerable attention over the past few years. It is argued that Welsh universities are not receiving the appropriate proportion of Research Council funding. The counter argument is that the Research Councils have their own priorities and criteria for funding and that these do not necessarily align with the strengths of the Welsh sector and the needs of Wales. In particular it is suggested that Welsh universities lack the specific science base the Research Councils are looking for.
15. In that respect parallels can be drawn between the relationship between Welsh Universities and the Research Councils and that of Glyndŵr University and HEFCW. In both cases the funders have established particular criteria which they use to determine funding decisions. Glyndŵr University has developed its own strengths to meet the needs of the communities of North East Wales, which may differ from those of other

parts of Wales. This places the University in the difficult position of serving North East Wales in accordance with Government policy or responding to funders' criteria.

TUITION FEES

16. For the sector as a whole there are four areas where the impact of the introduction of tuition fees can be seen: impact on the students, the universities and society and the constitutional impact of the changes. Each of these is looked at in turn below.

Impact on students

17. In the period immediately after its creation Glyndŵr University was one of the fastest growing universities in the UK, growing by 66% in the period 2008 – 2011. This growth was then stopped and reversed by the Funding Council as it cut the number of students it was permitted to recruit back to 2008 levels. This enforced reduction was followed by the imposition of the new funding regime, with a subsequent drop in the number of people applying to university.
18. The decision to use a formulaic rather than strategic approach, based on the 2008 student numbers imposed an arbitrary distinction between universities. Those that saw their growth before that year were able to retain their size while those which saw their growth later were penalised.
19. It is too early to state with certainty what will be the impact of the introduction of tuition fees on the number of students attending university, especially from socially disadvantaged groups. UCAS reports that overall student applications have already recovered from the dip in 2011/12. However, staff speaking to potential applicants in some deprived areas of Wrexham suggest that many people from these target groups are still being deterred from applying to university. The University awaits the publication of the 2012/3 HESA data with interest.
20. If students do intend to apply for a place there are still a number of changes to their behaviour that could be influenced by the introduction of tuition fees. In particular students may be less prepared to study away from home in order to keep the costs to a minimum. Students may feel the need to work while they are studying. They may even decide to study in another way such as by following a part-time course. This will have major implications on the way programmes are delivered and the most appropriate support students will receive.
21. Current funding arrangements for widening participation students are aimed at providing an incentive to universities to recruit from target populations, specifically geographically based areas. Not only does this neglect other target areas but it also fails to make any allowance for the considerable additional costs associated with a widening participation student population. The new funding arrangements will not make any difference to the income received.

22. The introduction of the Expensive Subject Premium was intended to provide universities with assistance in subjects where the cost of provision is significantly higher than most other subjects. It takes no account, however, of the fact that many of the universities which will be benefitting from the Expensive Subject Premium will also be benefitting from charging the standard £9,000 fee for lower cost subjects. There is currently no provision to support universities in high cost student recruitment (from widening participation areas) or high cost student support.
23. Whatever their immediate behavioural changes they are almost certain to finish university with a considerable debt. That may in itself lead to changes in their expectations both of the programme of study they are following and of the University itself.
24. The new financial arrangements have also been accompanied by a rise in the expectations of students. From their point of view the Universities are now receiving three times the income they previously received and not unreasonably they expect to see the effects of that increased income. The harsh reality is that there is no additional funding save for funding the students who come from England as this is no longer capped. At the same time students are becoming more aware of the consequences of failure. This in turn has led to an increase in the number of cases where students disagree with the academic judgement of their teaching staff. In many cases the students pursue a formal appeals procedure. As a consequence, universities are having to divert more resources to respond to these changes.

Impact on the universities

25. Many universities which charge the maximum permissible fees have found the changes financially neutral or even beneficial. The money they lost from the funding council has been just covered by the maximum fees. Glyndŵr University of course chose a reduced fee rate and as a consequence has seen its income related to student fees fall as a percentage of its overall income.
26. Other factors to be considered in determining the effect of the new financial arrangements are their impact on non-continuation rates and on non-payment of student debt. It is likely that it will take five years for the full extent of the impact of the new funding arrangement on the non-continuation of students to become apparent.
27. The cumulative effect of these changes is to introduce a much greater degree of uncertainty than was previously the case. The greatest uncertainty surrounds the long-term sustainability of the Welsh Government's current tuition fees policy. This has been the subject of considerable scrutiny over the past few years and the Government has committed itself to continuing with the policy only up to the next election. This introduces considerable uncertainty into the planning process for universities (and the Funding Council) especially as the date of next election approaches.

28. The finances of Glyndŵr University are further complicated by the fact the high proportion of part-time students, whose funding of course falls outside the new arrangements. 45% of its students are studying on a part-time basis, yet only about 15% of its income is associated with part-time provision. Part-time education plays a central role in economic development and is vital in allowing the university to fulfil its role within the community.
29. The Funding Council assumed that all universities would generate enough from their new higher full-time fees to subsidise their part-time programmes. It was recognised that such an arrangement disadvantaged the Open University which had very few full-time students. It was therefore give transitional funding to support its part-time work. Glyndŵr University is a major provider of part-time education yet it was not given any transitional funding. The University questions whether this is justified.

Impact on society

30. Most attention has been put on the principle of funding Welsh students who have chosen to study at English universities. Yet another consequence of the current policy is that Welsh students are being actively encouraged to study in England rather than in Wales.
31. The number of Welsh domiciled students each university in Wales is allowed to recruit is restricted. The Funding Council has forecast the numbers based on traditional recruitment patterns and the level of student fees. Once a university has reached that figure it is not allowed to recruit any more from Wales. There is no restriction however on the number of Welsh domiciled students allowed to progress to university. The result is that Glyndŵr University for example would only be allowed to recruit so many Welsh domiciled students yet Chester University could recruit as many as they wanted, all paid for by the Welsh Government.
32. Although the overall number of students English universities are allowed to recruit is capped there is no restriction on the proportion that can come from Wales. Controls on student numbers in English universities are domicile blind unlike the controls in Wales. This domicile blindness extends to support scheme such as the National Scholarship Programme, which is available to students from widening participation areas regardless of their domicile. Welsh domiciled students, therefore, have a large part of their fees paid by the Welsh government regardless of where they study but are then also entitle to the NSP if they study at an English university. This is particularly attractive to students in border areas who can continue to live at home while studying at an English university near the border.
33. At the same time the use of a cap on the number of Welsh domiciled students Welsh universities are able to recruit mean that Welsh universities who have traditionally recruited strongly from England will benefit from the new funding regime while universities which traditionally catered for Welsh domiciled students will lose out.

34. The consequence is that Welsh universities are being encouraged to recruit students from England while English universities are finding it easier to recruit students from Wales.
35. One consequence of this is the increased importance of EU and international student recruitment. Currently 40% of Glyndŵr University students are Welsh domiciled with about 43% coming from the EU and overseas. The remaining 17% are from the rest of the UK. 14% of the University's students are non-UK EU residents.
36. International students have always been important for Glyndŵr University. In 2012-13 the University had the fourth highest proportion of EU and international students in the UK after Imperial, St Andrew's and the London School of Economics. Changes in immigration rules and the way they are being interpreted and implemented means that there has been a significant drop in international students coming to the UK and Glyndŵr University has suffered as a result.

Constitutional Impact

37. One consequence of this at Glyndŵr University and elsewhere has been an increase dependency on international students. However, the number of international students allowed into the UK is strictly controlled by the UK government and their allocation between the universities is in the hands of a department of the Home Office. As this has coincided with the reduction in money and control over Welsh universities by HEFCW, the ultimate result has been the transfer of power over Welsh higher education away from the Welsh Government towards the UK Government, thereby in effect reversing the process of devolution.

CONCLUSION

38. Glyndŵr University was created in a period of unprecedented economic upheaval, followed shortly after by a radical transformation in the system for funding higher education and major changes to the domestic and international student markets. The University's role was clearly set out to be an instrument of economic and social development and over the past five years it has made significant progress towards these aims.
39. It has established itself as a major social and economic figure in North East Wales and in 2013 it had a record number of new students, up nearly 40% on the figure for 2012.
40. However, it feels it the system of funding higher education in Wales has acted to its disadvantage while protecting some of the traditional providers. It believes the current system is inconsistent with the policies and aspirations of both the Welsh Government and the National Assembly and believes changes to the system are needed if universities such as Glyndŵr are to achieve their considerable potential for the benefit of the communities they serve.

Agenda Item 5

Finance Committee
FIN(4)-20-13 (paper 6)
13 November 2013

[Inquiry into Higher Education Funding](#)

Evidence from the Open University in Wales

Open University in Wales - Response to the Finance Committee's inquiry into Higher Education Funding in Wales.

About The Open University in Wales

1. The Open University (OU) was established in 1969, with its first students enrolling in 1971. It is a world-leader in providing innovative and flexible distance learning opportunities at higher education (HE) level. It is open to people, places, methods and ideas. It promotes educational opportunity and social justice by providing high-quality university education to all who wish to realise their ambitions and fulfil their potential.
2. Over 8,000 students across Wales are currently studying with The Open University, enrolled on over 11,000 modules. There are OU students in every National Assembly for Wales constituency and we are the nation's leading provider of part-time higher education. More than three out of four Open University students are in employment while they study and with an open admissions policy, no qualifications are necessary to study at degree level. Over a third of our undergraduate students in Wales join us without standard university entry level qualifications.
3. In 2013, for the ninth successive year, The Open University was top in Wales for 'overall student satisfaction' in the National Student Survey. As a world leader in education technology, our vast 'open content' portfolio includes free study units on OpenLearn (including many Wales-related materials) and substantial content on YouTube and on iTunesU where we have recorded over 60 million downloads.

Remit of the inquiry

4. The Terms of Reference of the Committee's inquiry state that as the new part-time higher education funding policy does not come into effect until 2014 the focus of the inquiry will be full-time higher education. While there are changes being implemented in the part-time funding system in 2014 (namely the introduction of loans for part-time students who meet certain criteria) we do not believe that these represent a final or settled arrangement for the future funding of part-time HE in Wales. There are further developments that are in the process of being implemented, such as the removal of HEFCW institutional strategy funding, which will impact upon the ability of institutions to deliver part-time HE in priority areas such as widening access and working with employers (where part-time provision plays a major role). We believe that it is neither possible nor desirable to have a discussion about the future funding of Higher Education if part-time provision is excluded. This would represent a missed opportunity to consider the future of HE in the broadest possible context and will not allow for consideration of how any future changes might affect part-time providers and students. There is a fundamental point here that derives from the realities of finite public funding: **Like all areas of public investment higher education will have a finite budget and any changes made to the future funding of full-time HE in Wales - if made separately - will determine the residue of funding that can support part-time HE. We would urge the committee to take the opportunity to consider both part-time and full-time within this inquiry in order to produce recommendations that can have a balanced impact across modes of study rather than allowing part-time to be considered as separate or an after-thought.** If this is not possible, we would ask that the Committee be mindful of the potential impacts and unintended

consequences for part-time provision and students following any recommendations to changes and investment in full-time provision.

5. We have responded below to the inquiry questions that are relevant to our institution and to the future of part-time higher education. We hope that these responses will make a valuable contribution to the inquiry and will be taken into consideration by the Committee.
6. The Open University in Wales would be very keen to expand upon the points raised in this submission in an oral evidence session with the committee where we hope the link between full-time and part-time HE, and the future funding of both, could be further explored.

Response to inquiry questions

Tuition fee income and support

What has been the financial effect of the new tuition fee policy, introduced in the 2012/13 academic year, which allows Higher Education Institutions to charge students up to £9,000 per annum for HE courses? What future financial effect is the policy likely to have?

7. The tuition fee policy of allowing institutions to charge up to £9,000 per annum has resulted in a net transfer of resource from part-time to full-time study, facilitated in part by the removal of HEFCW strategy funding. This funding underpinned targeted work in widening access and in skills development via links with employers. In respect of institutions that provide full-time provision the increased fee income from the higher fee levels and fee grants compensates for the removal of their strategy funding. However, this funding has also been removed for part-time provision where no equivalent to higher fees or fee grants exist to provide the income. These policy decisions will almost certainly lead to a decrease in the number of part-time students as has already been evidenced in England¹.

Does the new tuition fee policy create a greater or lesser level of financial uncertainty for Higher Education Institutions?

8. The tuition fee policy creates a greater level of uncertainty as it is market driven, although the fee grant system for full-time students mitigates market mechanisms to some extent in respect of Welsh-domiciled students. In respect of part-time, institutions are expected to make up for the fall in direct HEFCW funding through their tuition fee policy yet any implementation of high fees in the absence of the mitigating fee grant will lead to loss of demand. Institutions are therefore 'between a rock and hard place', and part-time provision has overnight become less lucrative to institutions. For an institution like the Open University this is particularly acute, as it does not have the alternative of full-time provision. We welcome the special measures that have been put in place for us so far to allow us to continue providing part-time opportunities for students in Wales. However, this arrangement is not confirmed for the long term and therefore makes our ability to provide the focused work on widening access and with employers and trades unions more uncertain. This is why we believe that these issues also need to be considered alongside the future for full-time HE funding.

What has been, and is likely to be in the future, the financial implications of the Welsh Government's tuition fee grant?

9. As part-time students are not eligible for the tuition fee grant one impact is that there is now public support going into full-time higher education that is not proportionately going into part-time higher education. There are significant issues here to do with equity for students as no case has been made for treating part-time students in this less favourable manner. Any decision by the Welsh Government to provide grant support for full-time students reduces the pot of money available for the support of part-time provision. For this reason the two modes of study need to be considered together when making policy decisions.

¹ HEFCE, "Higher Education in England: Impact of the 2012 reforms" (2012), available at <http://www.hefce.ac.uk/about/intro/abouthighereducationinengland/impact/>

Does the current funding regime provide effective financial support to students from lowest income households and is this the most cost effective way of financially supporting this cohort of students?

10. We do not believe that the current regime is the most effective way of supporting students from the lowest income households into HE, particularly in respect of part-time. Many students studying with the Open University are from low income households, and do not receive equivalent amounts of public support to those received by a student studying full-time. It should also be noted that the full-time fee grant is universal and is made available to those from affluent households. Yet a low income student studying part-time, who is likely to have already paid taxes (and may continue to do so whilst studying) that contribute to the full-time fee grant, is not supported in the same way. The loss of strategy and widening access funding will impact on students from lowest income households and decisions about future support for part-time students should take account of how to support those on the lowest incomes to access flexible HE provision. Requirements for minimum study intensity in order to qualify for support may also act as a disincentive for some potential students.

What are the financial implications for Wales of subsidising Welsh students who study in Higher Education Institutions outside of Wales?

11. In the area of learning and teaching the higher education system in Wales should be predicated upon supporting students and institutions to thrive regardless of a student's choice of mode of study. This should be the starting point rather than geography. Within this context the Open University would wish to see most support going to those most in need.

Conclusion

12. The OU in Wales has welcomed the Welsh Government's policy direction in respect of part-time to date, including the decision to introduce loans for some part-time students² whilst also directing intuitions to keep fees at current levels³. However, this still appears to be a temporary arrangement with no assurances given about the longer-term future for part-time. It is therefore all the more important that part-time HE is factored into policy discussions - where the future of HE is being considered it must be done in the round. It is essential to learn lessons from England where policy decisions were made for full-time HE and then simply applied to part-time; this has led to a worrying drop in the number of students studying part time⁴.
13. Many students who choose to study part-time do so because their circumstances mean that it is the best, or only, option available to them. It is almost invariably a positive choice. These may be people with caring responsibilities or those already in work who wish to up-skill or retrain. Access to part-time higher education for these individuals will enable us to meet the needs of the Welsh economy, aid social mobility and social justice and contribute to the creation of a more prosperous Wales. In order to do this, decisions about how to support part-time students must be central to any discussions about the future funding of HE and not considered as an after-thought.
14. We would welcome the opportunity to discuss these issues in more detail with the committee.

September 2013

Contact: Michelle Matheron Tel: 029 2026 2708 Email: Michelle.Matheron@open.ac.uk

² Welsh Government, Student Finance Wales Information Notice (03/2013), "Part-time Student Support: Fees (Wales) for Academic Year 2014/15

³ Minister for Education and Skills, Higher Education Funding Council for Wales Remit Letter 2013/14

⁴ HEFCE, "Higher Education in England: Impact of the 2012 reforms" (2012), available at <http://www.hefce.ac.uk/about/intro/abouthighereducationinengland/impact/>

Finance Committee

Meeting Venue: Committee Room 2 – Senedd

Meeting date: Thursday, 7 November 2013

Meeting time: 09:00 – 10:38

Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales



This meeting can be viewed on Senedd TV at:

http://www.senedd.tv/archiveplayer.jsf?v=en_300000_07_11_2013&t=0&l=en

Concise Minutes:

Assembly Members:

Jocelyn Davies (Chair)
Peter Black
Christine Chapman
Paul Davies
Mike Hedges
Ann Jones
Julie Morgan
Simon Thomas

Witnesses:

Mark Drakeford, Minister for Health and Social Services
Sally Hughes, Welsh Government
Marc Osland, Welsh Government

Committee Staff:

Fay Buckle (Clerk)
Gareth Price (Clerk)
Claire Griffiths (Deputy Clerk)

1 Introductions, apologies and substitutions

1.1 The Chair welcomed Members and members of the public to the meeting.

2 National Health Service Finance (Wales) Bill: Stage 2 – Consideration of Amendments

2.1 In accordance with Standing Order 26.21, the Committee considered and disposed of the amendments to the Bill in the following order:

Sections 1 – 3

Section 1:

No amendments were tabled to this section, therefore it was deemed agreed to.

Section 2:

Amendment 8 (Mark Drakeford) was withdrawn

Amendment 3 (Paul Davies)

For	Against	Abstain
Simon Thomas	Christine Chapman	
Peter Black	Julie Morgan	
Paul Davies	Mike Hedges	
Jocelyn Davies	Ann Jones	
4	4	0
As the vote was tied, the Chair used her casting vote in the negative (in accordance with SO 6.20 (ii)), Amendment 3 was not agreed to.		

Amendment 1 (Simon Thomas) was withdrawn

Amendment 2 (Simon Thomas)

For	Against	Abstain
Simon Thomas	Christine Chapman	
Peter Black	Julie Morgan	
Paul Davies	Mike Hedges	
Jocelyn	Ann	

Davies	Jones	
4	4	0
As the vote was tied, the Chair used her casting vote in the negative (in accordance with SO 6.20 (ii)), Amendment 2 was not agreed to.		

Amendment 10 (Simon Thomas) was withdrawn

Amendment 9 (Mark Drakeford) was agreed to, in accordance with Standing Order 17.34 (i).

Section 3:

No amendments were tabled to this section, therefore it was deemed agreed to.

New Sections:

Amendment 4 (Paul Davies)

For	Against	Abstain
Simon Thomas	Christine Chapman	
Peter Black	Julie Morgan	
Paul Davies	Mike Hedges	
Jocelyn Davies	Ann Jones	
4	4	0
As the vote was tied, the Chair used her casting vote in the negative (in accordance with SO 6.20 (ii)), Amendment 4 was not agreed to.		

Amendment 5 (Paul Davies) was withdrawn

Amendment 6 (Paul Davies) was withdrawn

Amendment 7 (Paul Davies) fell

2.2 The Chair advised that all sections of the Bill had been agreed by the Committee and as all amendments had been disposed of, Stage 3 will commence from 8 November 2013.

3 Papers to note

3.1 The papers were noted.

3.1 National Health Service Finance (Wales) Bill: Letter from the Minister for Health and Social Services (29 October 2013)

3.2 Education (Wales) Bill: Letter from the Minister for Education and Skills (22 October 2013)

4 Motion under Standing Order 17.42 to resolve to exclude the public from the meeting for the following business:

4.1 The motion was agreed.

5 Finance Wales Inquiry: Consideration of Draft Terms of Reference

5.1 Committee considered and agreed the paper. They also suggested the possibility of having an expert advisor to assist with this inquiry.

6 Consideration of draft report on the Welsh Government draft budget proposals 2014–15

6.1 Committee made some slight amendments and agreed the final draft version and noted it would be published on 12 November 2013.