

## Agenda – Finance Committee

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Meeting Venue:

**Committee Room 2 – Senedd**

Meeting date: Thursday, 5 November  
2015

Meeting time: 09.00

For further information contact:

**Bethan Davies**

Committee Clerk

0300 200 6565

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### **1 Introductions, apologies and substitutions**

(09.00)

### **2 Papers to note**

(09.00)

(Pages 1 – 6)

**Letter to Finance Committee from Mike Usher, Wales Audit Office**

(Pages 7 – 15)

**Letter to Chair of Finance Committee from Doug Stoneham, HMRC**

(Pages 16 – 18)

**Letter to Chair of Finance Committee from the Minister for Public Services**

(Page 19)

### **3 Wales Audit Office: Evidence session 1**

(09.00 – 10.00)

Isobel Garner, Chair of the Wales Audit Office

Huw Vaughan Thomas, Auditor General for Wales

Kevin Thomas, Director of Corporate Services

Steven O'Donoghue, Director of Finance

**Auditor General for Wales and Wales Audit Office Annual Report and Accounts  
2014–15**

(Pages 20 – 135)

**Paper 1 – Auditor General for Wales and Wales Audit Office Annual Report and  
Accounts 2014–15**



## **Wales Audit Office estimate of income and expenses 2016–17**

(Pages 136 – 186)

Paper 2 – Wales Audit Office estimate of income and expenses 2016–17

## **Wales Audit Office Interim Report 2015–16**

(Pages 187 – 224)

Paper 3 – Wales Audit Office Interim Report 2015–16

Paper 4 – Letter to Chair of Finance Committee from Auditor General for Wales  
Research briefing

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

(10.00)

Items 5, 6, 7, 8 and 9

## **5 Wales Audit Office: Consideration of evidence**

(10.00 – 10.15)

## **6 Draft Wales Bill**

(10.15 – 10.35)

(Pages 225 – 231)

### [Draft Wales Bill](#)

Paper 5 – Letter from Chair of Finance Committee to Minister for Finance and Government Business

Paper 6 – Letter to Chair of Finance Committee from the First Minister

Paper 7 – Further letter to Chair of Finance Committee from the First Minister

Paper 8 – Letter from Chair of Public Accounts Committee to Auditor General for Wales

Paper 9 – Letter from Auditor General for Wales to Chair of Public Accounts Committee

Legal briefing

## **7 Fourth Assembly Business Committee Legacy: Consultation**

(10.35 – 10.45)

(Pages 232 – 233)

Paper 10 – Draft letter

**8 Public Services Ombudsman: Estimate of income and expenses  
2016–17: Consideration of draft report**

(10.45 – 11.15)

(Pages 234 – 251)

Paper 11 – Draft report

**9 Tax Collection and Management (Wales) Bill: Key issues**

(11.15 – 12.00)

(Pages 252 – 271)

Paper 12 – Key issues

## Concise Minutes – Finance Committee

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Meeting Venue:

**Committee Room 2 – Senedd**

Meeting date: Thursday, 15 October  
2015

Meeting time: 09.03 – 12.13

This meeting can be viewed

on [Senedd TV](#) at:

<http://senedd.tv/en/3265>

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### Attendance

Category	Names
Assembly Members:	Jocelyn Davies AM (Chair) William Powell AM (In place of Peter Black AM) Christine Chapman AM Mike Hedges AM Alun Ffred Jones AM Julie Morgan AM Nick Ramsay AM
Witnesses:	Mari Thomas, WLGA Gary Watkins, Cardiff Council Tara King, Cardiff Council Nick Jones, Rhondda Cynon Taff County Borough Council Huw Vaughan Thomas, Auditor General for Wales, Wales Audit Office Martin Peters, Wales Audit Office Mike Usher, Wales Audit Office



Committee Staff:	Bethan Davies (Clerk)
	Leanne Hatcher (Second Clerk)
	Tanwen Summers (Deputy Clerk)
	Martin Jennings (Researcher)
	Richard Bettley (Researcher)
	Joanest Varney-Jackson (Legal Adviser)
	Gareth Howells (Legal Adviser)
	Lakshmi Narain – Technical Adviser

## Transcript

View the [meeting transcript](#).

### **1 Introductions, apologies and substitutions**

1.1 The Chair welcomed Members to the meeting.

1.2 Apologies were received from Ann Jones AM and Peter Black AM.

1.3 William Powell AM attended as a substitute for Peter Black AM.

### **2 Papers to note**

2.1 The papers were noted.

### **3 Tax Collection and Management (Wales) Bill: Evidence session 8**

3.1 The Committee took evidence from Mari Thomas, Policy Officer (Finance), Welsh Local Government Association, Gary Watkins, Revenue Services Manager, Cardiff Council, Tara King, Chief Officer for Waste and Highways, Cardiff Council and Nick Jones, Service Director for Operational Finance, Rhondda Cynon Taf County Borough Council.

## **4 Tax Collection and Management (Wales) Bill: Evidence session 9**

4.1 The Committee took evidence from Huw Vaughan Thomas, Auditor General for Wales, Mike Usher and Martin Peters, Wales Audit Office.

4.2 Mike Usher agreed to provide the Committee with additional information.

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

5.1 The Motion was agreed.

## **6 Tax Collection and Management (Wales) Bill: Consideration of evidence**

6.1 The Committee considered the evidenced received.

## **7 Consideration of powers: Public Services Ombudsman for Wales: Consultation on a draft Bill**

7.1 The Committee agreed the draft Bill and the approach to consultation.

## **8 Welsh Government Draft Budget 2016–17: Approach to scrutiny**

8.1 The Committee agreed the approach to scrutiny.

## **9 Fourth Assembly Business Committee Legacy: Consultation**

9.1 The Committee agreed to reconsider the issue at the meeting scheduled for 5 November 2015.

# Concise Minutes – Finance Committee

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Meeting Venue:

**Committee Room 2 – Senedd**

Meeting date: Wednesday, 21 October  
2015

Meeting time: 09.00 – 10.59

This meeting can be viewed

on [Senedd TV](#) at:

<http://senedd.tv/en/3271>

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## Attendance

Category	Names
Assembly Members:	Jocelyn Davies AM (Chair) Peter Black AM Christine Chapman AM Mike Hedges AM Alun Ffred Jones AM Mick Antoniw AM (In place of Ann Jones AM) Julie Morgan AM Nick Ramsay AM
Witnesses:	Jane Hutt AM, The Minister for Finance and Government Business Emma Cordingley, Welsh Government Richard Clarke, Welsh Government Jeff Andrews, Welsh Government
Committee Staff:	Leanne Hatcher (Second Clerk) Tanwen Summers (Deputy Clerk)



	Martin Jennings (Researcher) Richard Bettley (Researcher) Joanest Varney-Jackson (Legal Adviser) Lakshmi Narain – Technical Adviser
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## Transcript

View the [meeting transcript](#).

### **1 Introductions, apologies and substitutions**

1.1 The Chair welcomed Members to the meeting.

1.2 Apologies were received from Ann Jones AM.

1.3 Mick Antoniw AM attended as a substitute.

### **2 Papers to note**

2.1 The papers were noted.

### **3 Tax Collection and Management (Wales) Bill: Evidence session 10**

3.1 The Committee took evidence from Jane Hutt AM, Minister for Finance and Government Business, Emma Cordingley, Lawyer, Richard Clarke, Tax Administration project manager, Welsh Government and Jeff Andrews, Specialist policy adviser responsible for Finance & European matters.

3.2 The Minister for Finance and Government Business agreed to provide additional information to the Committee.

### **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 Tax Collection and Management (Wales) Bill: Consideration of evidence**

5.1 The Committee considered the evidence received.

## **6 Legacy inquiry: Approach to scrutiny**

6.1 The Committee agreed the approach to scrutiny.



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

Wales Audit Office / Swyddfa Archwilio Cymru

Ms Tanwen Summers  
Deputy Clerk to the Finance Committee  
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Reference	1026.mju.summers
Date	26 October 2015
Pages	1 of 1

Dear Tanwen,

## **Tax Collection and Management (Wales) Bill – scrutiny by the Finance Committee**

When I appeared alongside the Auditor General before the Finance Committee earlier this month to give oral evidence to support its scrutiny of the Tax Collection and Management (Wales) Bill, members asked me about the audit arrangements in Scotland [paras 284-287 of the 15 October meeting transcript refer].

I have since checked the position in respect of the Memorandum of Understanding (MoU) between the Comptroller & Auditor General and the Auditor General of Scotland regarding the audit of the Scottish rate of income tax, and I am pleased to enclose a copy of that document for the Committee.

Please note that whilst the MoU still carries a 'draft' watermark, as it has not yet been physically signed, both the National Audit Office and Audit Scotland have confirmed to me that their respective staffs are already operating under the MoU arrangements.

I hope that this material is of assistance to the Committee's ongoing scrutiny of the Bill.

With best wishes,

A handwritten signature in black ink, appearing to read 'Mike Usher'.

**MIKE USHER**  
Sector Lead – Health and Central Government

Enclosure: 'Memorandum of Understanding for co-operation between the C&AG and the AGW, on the audit of the Scottish rate of income tax'

## **MEMORANDUM OF UNDERSTANDING**

**For cooperation between the Comptroller and Auditor  
General and the Auditor General for Scotland, on the audit  
of the Scottish rate of income tax**

**DRAFT**

## Introduction

1. The Scotland Act 1998 (“the 1998 Act”), as amended by the Scotland Act 2012 (“the 2012 Act”), gives the Scottish Parliament the power to set a Scottish rate of income tax (SRIT) for Scottish taxpayers (as defined in a new section 80D of the 1998 Act). SRIT will commence from a date to be set by the UK Government, expected to be April 2016. It will be administered by HM Revenue and Customs (HMRC) as part of the UK-wide income tax system and applied to non-savings income. The Scottish Parliament will be able to set a rate of SRIT from zero to any number of pence or half-pence in the pound. This rate will be added to each of the main UK rate bands after ten pence in the pound has been deducted from each rate.
2. An amount equal to ten pence of each rate will be deducted from the Scottish Block grant whether the Scottish Parliament sets a rate or not and replaced by the amount received through SRIT will be included in the overall Scottish Block grant for each year based on estimated figures, with a reconciliation to actual amounts raised taking place twelve months after the end of the year
3. The Command Paper which accompanied the draft 2012 Act, entitled *Strengthening Scotland’s Future*<sup>1</sup>, outlined the arrangements that the UK Government proposed to put in place to ensure accountability in relation to HMRC implementing and operating the SRIT:
  - The UK Government will invite the Comptroller and Auditor General (C&AG), as head of the National Audit Office (NAO), to prepare a report to the Scottish Parliament on HMRC’s administration of the SRIT.
  - The Scottish Parliament will receive a report from HMRC on the administration of the Scottish income tax receipts;
    - Scottish Parliamentary Committees will be able to request HMRC’s Accounting Officers to give evidence.
    - An HMRC Additional Accounting Officer will be made specifically accountable for the collection of the SRIT.
    - The UK Government will also inform Scottish Ministers in writing of HMRC Commissioner appointments.
4. The UK Finance Act 2014 places a duty on the C&AG, as the statutory external auditor of HMRC, to prepare a report on the administration of the SRIT for each financial year, to be laid before the Scottish Parliament not later than 31 January of the financial year following that to which the report relates.
5. HMRC is governed by the Commissioners for Revenue and Customs Act 2005 which prohibits disclosure of HMRC’s information except under specific circumstances. Audit Scotland is not HMRC’s auditor, nor does it have any statutory right of access to HMRC information.

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<sup>1</sup> Command Paper CM 7973 November 2010

<https://www.gov.uk/government/publications/strengthening-scotland-s-future-hm-command-paper>

6. The C&AG and the Auditor General for Scotland have confirmed to the Public Audit Committee of the Scottish Parliament that they are happy to work together to ensure that the Parliament receives appropriate reports on the operation of the SRIT.
7. This Memorandum of Understanding describes our respective powers and responsibilities and sets out a framework for collaborative working. This framework is designed to optimise the skills and experience involved in audits, reviews or investigations, avoid duplication of effort and ensure that the Scottish Parliament receives the assurance it requires about the implementation and operation of the SRIT.

### **Statutory role of the Comptroller and Auditor General and the NAO**

8. The National Audit Office (NAO) scrutinises public spending on behalf of the UK Parliament and its audit of central government has two main aims. By reporting the results of audits to the UK Parliament, it holds government departments and bodies to account for the way they use public money, thereby safeguarding the interests of taxpayers. In addition, its work aims to help public service managers improve performance and service delivery.
9. The audit and inspection rights are vested in the head of the National Audit Office, the Comptroller and Auditor General (C&AG). The NAO undertakes these tasks on his behalf.
10. The C&AG is an Officer of the House of Commons. Both he and the NAO are totally independent of government and are not subject to the control or direction of the UK Government or Parliament.
11. There are a number of Acts of Parliament that give the C&AG the right to audit, or examine the receipt of revenue of, HMRC:
  - The Exchequer and Audit Departments Act 1921 provides that the C&AG audits the revenues collected by HMRC, as accounted for in HMRC's Trust Statement (as directed by HM Treasury) and to examine these "*to ascertain that adequate regulations and procedure have been framed to secure an effective check on the assessment, collection, and proper allocation of revenue*" and to satisfy himself that any such regulations and proceedings are being duly carried out, and as to the correctness of sums brought to account in respect of revenue. This examination takes the form of a separate report (the Standard Report) by the C&AG on HMRC's Annual Accounts;
  - The Government Resource and Accounts Act 2000 provides that the C&AG audits the departmental accounts produced by UK central government departments, including those produced by HMRC; and
  - The National Audit Act 1983 allows the C&AG to undertake examinations into the economy, efficiency and effectiveness of how certain bodies, including HMRC, have used their resources in discharging their functions.

12. Subject to certain constraints, the C&AG has complete discretion in the carrying out of the functions of that office including what is reported to Parliament.
13. The Scotland Act 2012 makes no changes to the way the C&AG and the NAO undertakes their existing roles in respect of HMRC.
14. From 2014-15, under section 80HA of the Scotland Act 1998 (inserted by section 297 of the Finance Act 2014), the C&AG is required to report to the Scottish Parliament on:
  - the adequacy of any of HMRC's regulations and procedures relating to the Scottish rate provisions;
  - whether these rules and procedures are being complied with;
  - the correctness of the sums brought to account by HMRC which relate to SRIT; and
  - the accuracy and fairness of the administrative expenses reimbursed to HMRC.
15. The C&AG may also include in the report an assessment of the economy, efficiency and effectiveness with which HMRC has used its resources in carrying out relevant functions.
16. It is currently envisaged that HMRC will report the revenue collected under the SRIT in notes to the Trust Statement. Costs associated with its collection will be shown in HMRC's Resource Account. HMRC will use these notes to compile a specific report to the Scottish Parliament.
17. The C&AG is required to report to the Scottish Parliament on these activities, and assurances over these figures, from 2014-15. The report must be laid before the Scottish Parliament by 31 January of the financial year following the one to which the report relates. The C&AG might also exercise his rights under the National Audit Act 1983 to report to the UK Parliament on these activities.

### **Statutory roles of the Auditor General for Scotland and Audit Scotland**

18. Under the Scotland Act 1998, the Auditor General for Scotland (AGS) and those who exercise functions on her behalf are not subject to the control or direction of any member of the Scottish Government or the Scottish Parliament. She is responsible for ensuring propriety and value for money in the spending of public funds. She investigates whether public bodies are achieving the best possible value for money and adhering to the highest standards of financial management.
19. Scottish Ministers, the Lord Advocate and every other person to whom sums are paid out of the Consolidated Fund in a financial year must prepare accounts of their expenditure and receipts for that year to be audited by the AGS. The AGS is responsible for securing the audit of the Scottish Government and most other public bodies in Scotland except local authorities. Annual financial audit reports are produced for all of the public bodies that the AGS is responsible for auditing.

20. Section 23 of the Public Finance and Accountability (Scotland) Act 2000 (the 2000 Act) gives the AGS specific powers to examine the economy, efficiency and effectiveness with which resources are being used by specified public bodies.
21. The AGS is required to lay reports in Parliament which are then scrutinised by the Public Audit Committee (and which may also be considered by other relevant Committees).
22. Audit Scotland is a statutory body set up in April 2000 under the 2000 Act. It provides services to the AGS and the Accounts Commission. Audit Scotland provides independent assurance to the people of Scotland that public money is spent properly and provides value for money. It supports improvement in public services by holding to account those responsible for spending public funds.
23. The 2012 Act makes no changes to the role of the AGS or Audit Scotland.
24. The estimated receipts from the SRIT and any subsequent adjustments to reflect actual receipts will flow into the Scottish Consolidated Fund as an adjustment to the overall Scottish Block Grant. This is the first point at which the SRIT flows become subject to audit by the AGS.
25. As part of its audit of the Scottish Government, Audit Scotland will consider and, where appropriate, report on
  - The Scottish Government's governance arrangements for the development of SRIT;
  - Scottish Government arrangements to prepare information about the proposed Scottish rate;
  - Expenditure paid to HMRC for administrative costs incurred under Section 80H, through the audit of the Scottish Government; and
  - The assurance obtained from NAO on overall arrangements.
26. The Public Audit Committee of the Scottish Parliament has recommended that Audit Scotland should provide additional assurance on the NAO's audit of HMRC and to work with the NAO on the future priorities and focus of its work. This MOU sets out how these recommendations will be fulfilled.

#### **A framework for collaborative working**

27. The C&AG and the AGS are committed to ensuring that we deliver our audits, reviews and investigations efficiently and effectively. We have agreed the following arrangements for collaborative working. Specifically we are committed to:
  - Maintaining effective communication and liaison;
  - Sharing relevant information and respecting confidentiality of shared information; and
  - Sharing knowledge, skills, expertise and experience.

28. We will evolve approaches to sharing knowledge and expertise to build mutual confidence in the quality of our audit work. The NAO and Audit Scotland will meet regularly to ensure effective communication and information sharing between the two organisations.
29. As part of the framework to deliver assurance on the implementation and operation of SRIT, each year the NAO will discuss with Audit Scotland:
- their audit planning to ensure that attention is focused on the key risk areas of the audit, that potential problems are identified and resolved timeously and that the audit timetable will meet stakeholder requirements. This will include any plans for value for money work.
  - the NAO's approach to risk assessment undertaken at the start of the audit process. The process will enable the NAO to identify the key risk areas and control systems and develop an audit approach designed to address these risks in the most efficient manner.
  - their application of the concept of materiality to the audit of SRIT. Materiality is concerned with the extent to which auditors can tolerate error and is relevant for determining which account areas are significant from an audit perspective and the nature, timing and extent of audit procedures required. Materiality has both quantitative and qualitative factors; however, the final assessment of what is material is a matter of professional judgement.
  - the NAO's testing strategy to deliver appropriate assurance that the control systems are operating as intended.
  - the NAO's testing strategy for the financial and other information included in the HMRC report.
  - the findings arising from the audit.
  - the draft report on the audit.
30. The first NAO audit report to be prepared under the 2012 Act will cover the financial year ending 31 March 2015 and will have to be published by January 2016 at the latest. The AGS will report on the same period and that report will:
- summarise the extent and nature of work performed by Audit Scotland in relation to NAO's audit on the SRIT.
  - provide views and comments on the reasonableness of NAO's audit approach, findings and conclusions.
  - highlight any specific aspects of NAO's findings or conclusions that are considered pertinent from a Scottish perspective.



**Resolving disagreements**

- 31. The C&AG and AGS are committed to working together in an environment of professional respect and promoting a culture of openness. This approach should minimise the risk of disagreements. Any disagreements will normally be resolved at a working level between the individuals involved. If this is not possible, it will be referred upwards through normal management reporting channels until resolution is achieved. Ultimately a disagreement may be referred to the C&AG and the AGS who will be responsible for ensuring a mutually satisfactory resolution.

**Reviewing the Memorandum of Understanding**

- 32. We will formally review this Memorandum at least every three years, or when there are relevant changes to legislation, to ensure both organisations are working within our agreed framework, and consider whether the arrangements needs to be revised to meet changing circumstances.

**DRAFT**  
Signed .....  
Date.....

***Comptroller and Auditor General***

Signed .....

Date.....

***Auditor General for Scotland***

## Appendix 1: EXTRACT FROM THE UK FINANCE ACT 2014

290 Report on administration of the Scottish rate of income tax

(1) In Chapter 2 of Part 4A of the Scotland Act 1998, after section 80H insert—

“80HA Report by the Comptroller and Auditor General

(1) The Comptroller and Auditor General must for each financial year prepare a report on the matters set out in subsection (2).

(2) Those matters are—

(a) the adequacy of any of HMRC’s rules and procedures put in place, in consequence of the Scottish rate provisions, for the purpose of ensuring the proper assessment and collection of

income tax charged at rates determined under those provisions,

(b) whether the rules and procedures described in paragraph (a) are being complied with,

(c) the correctness of the sums brought to account by HMRC which relate to income tax which is attributable to a Scottish rate resolution, and

(d) the accuracy and fairness of the amounts which are reimbursed to HMRC under section 80H (having been identified by it as administrative expenses incurred as a result of the charging of income tax as mentioned in paragraph (a)).

(3) The “Scottish rate provisions” are—

(a) any provision made by or under this Chapter, and

(b) any provision made by or under the Income Tax Acts relating to the Scottish basic rate, the Scottish higher rate or the Scottish additional rate.

(4) A report under this section may also include an assessment of the economy, efficiency and effectiveness with which HMRC has used its resources in carrying out relevant functions.

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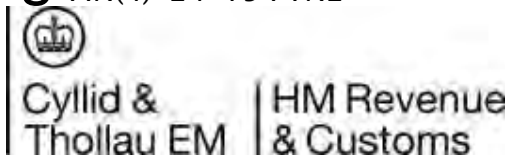
(5) “Relevant functions” are functions of HMRC in the performance of which HMRC incurs administrative expenses which are reimbursed to HMRC under section 80H (having been identified by it as administrative expenses incurred as a result of the charging of income tax as mentioned in subsection (2)(a)).

(6) HMRC must give the Comptroller and Auditor General such information as the Comptroller and Auditor General may reasonably require for the purposes of preparing a report under this section.

(7) A report prepared under this section must be laid before the Scottish Parliament not later than 31 January of the financial year following that to which the report relates.

(8) In this section “HMRC” means Her Majesty’s Revenue and Customs.”

(2) The amendment made by this section has effect in relation to the financial year ending on 31 March 2015 and subsequent financial years.



**Doug Stoneham**  
100 Parliament Street  
London  
SW1A 2BQ

Jocelyn Davies AM  
Chair, Finance Committee  
National Assembly for Wales

**Ffôn / Tel:** 03000 586231  
**Dyddiad / Date:** 23 October 2015

**E-bost / Email:** Douglas.Stoneham@hmrc.gsi.gov.uk

Dear Chair,

Thank you for your letter of 7 October and for inviting HMRC to give evidence to the Finance Committee earlier this month.

Before responding to the points you raised, I would like to correct a point I made when giving evidence to the Committee. During the hearing, I stated that HMRC did not have a legal requirement to have a charter – in fact, there is a legal requirement. This is found in section 16A of the Commissioners for Revenue and Customs Act 2005, as inserted by section 92 of the Finance Act 2009. This requires HMRC to have a charter which includes “standards of behaviour and values to which Her Majesty's Revenue and Customs will aspire when dealing with people in the exercise of their functions”. It also requires HMRC to review the charter regularly (publishing any updates) and to produce an annual report on its performance against the charter. I apologise for any confusion caused by my oversight.

At the hearing, we also agreed to provide further information on two specific points:

- the percentage of taxpayers that have access to a time-to-pay arrangement; and
- information relating to the provision of Welsh services available for online payments.

On the first point, all taxpayers who fall into debt potentially have access to time to pay arrangements. However, HMRC will only allow a customer to enter into a time to pay arrangement if they have the means to make the agreed payments and to pay other tax liabilities that become due during the time to pay period. Additionally, the time to pay period must be as short as possible (it would be exceptional for such an arrangement to last more than a year). In practice, at any point in time, HMRC would expect to have around 15% of its debt balance included in time to pay arrangements.

On the second point, a Welsh language facility for making online payments was introduced on 16 September 2015.

#### **Accountability of the Welsh Revenue Authority**

*- Do you envisage any difficulty in the use of Welsh language forms and the provision of phone support and supplementary information in Welsh?*

HMRC currently has a wide range of forms available in Welsh and has a Welsh language call centre for customers who prefer to contact us in Welsh – during 2014-15, HMRC dealt with approximately 700 email enquiries in Welsh, responded to around 18,500 calls to our Welsh helplines and dealt with approximately 37,500 letters and forms in Welsh. HMRC will work with the Welsh Government and Welsh Revenue Authority (WRA) to establish the requirements and costs for a Welsh language service in relation to the Land Transaction Tax (LTT) and this will clearly depend on the standards that are ultimately set for the WRA by the Welsh Language Commissioner.

#### **Finances of the WRA and costs of the Bill**

*- What types of additional costs will HMRC incur when collecting Land Transactions Tax in Wales?*

Changes will be required to HMRC's systems to implement the new tax, such as introducing different tax tables and reliefs and sharing data with the WRA. Other costs that could

arise include staff time in processing returns, issuing penalties and pursuing debtors and work involved in carrying out compliance activity for the new tax. Any cost savings that HMRC incurs from no longer administering Stamp Duty Land Tax (SDLT) and Landfill Tax in Wales will be passed onto the Welsh Government.

*- Do you intend to charge a fixed fee for collecting Welsh taxes, or a variable fee based on the volume of transactions?*

As set out in the written evidence to the Committee, HMRC's initial intention is to adapt its existing SDLT system to operate the LTT and use the experienced staff working on SDLT in its Birmingham Stamps Office to carry out administration activities (for example, processing returns, following-up errors etc). HMRC additionally proposes to set up a specialist team to carry out compliance activities, which could be based in Wales, that would also liaise with the WRA and assist in building up their knowledge and expertise on devolved taxes.

In line with the Treasury Statement of Funding Policy, HMRC intend only to pass on the additional costs that arise as a result of this work, rather than charging a fixed fee. The precise arrangements for this will be governed by a Memorandum of Understanding to be agreed between the Welsh Government and HMRC (to 2018), and a partnership agreement with the Welsh Revenue Authority from then.

Where HMRC charges for its services, it does so (following HM Treasury policy) at the full cost of providing the service, seeking to make clear the breakdown of the calculation. Full cost is based on the average salary cost for the relevant grade plus per capita overheads such as superannuation, HR, accommodation and finance costs. Where costs are incurred under contract by third parties, including HMRC's IT supplier, these will be charged at cost.

#### ***Anti-avoidance, complex transactions and interaction with WRA***

*- Do you envisage that the HMRC Anti-Avoidance group will supply the WRA with information regarding tax planning structures notified to it that may involve land interests in Wales and which could have an implication on the amount of LTT?*

The extent to which this will be necessary and practical will depend on the degree of similarity between the LTT and SDLT. If, for example, the taxes have comparable reliefs then an avoidance scheme for one tax is more likely to apply to the other. In this scenario, HMRC would anticipate alerting WRA to the issue. Similar arrangements have already been put in place for working with Revenue Scotland in their administration of the Land and Buildings Transaction Tax in Scotland. Clearly though if the LTT is radically different from SDLT there will be less of a role that HMRC can practically play here.

*- On a similar note, if general tax planning that involves land interests in Wales is the subject of an enquiry, will details be supplied to the WRA as a matter of routine?*

The Wales Act 2014 allows HMRC to share information with Welsh Ministers if this is for the purposes of the collection and management of a devolved tax. Given that SDLT and LTT are both transactional taxes, there is limited scope for general tax planning activities to have an impact, but the legislative gateway exists to allow this to happen.

*- In relation to properties straddling the border, we appreciate that it is envisaged that a just and reasonable apportionment is to be made, however, what information would you expect to be supplied and enquiries undertaken as a matter of routine?*

At the point when the return is made, HMRC would not anticipate requiring additional information to be supplied, although we think it is likely that the SDLT (and LTT) returns will need to include a box to indicate that the transaction is linked to one in another part of the UK.

In most cases, apportionment should be reasonably straightforward, although in some cases customers may need to obtain a specialist valuation. Just and reasonable apportionment is a well-established concept among professional advisers involved in land transactions. It is already required for SDLT, for example where the purchase price includes a non-chargeable amount for fixtures and fittings. Records showing the basis under which the apportionment was made would need to be retained.

*- If complex technical issues are to be dealt with by the WRA, does HMRC envisage that it would need to disseminate guidance material and provide training for its own staff to deal with taxpayer enquiries to HMRC?*

HMRC will work with the WRA to establish how the two organisations will work together on the provision of guidance and training material. HMRC anticipate that staff working on the LTT will need training on the new tax to ensure they are able to administer it effectively, irrespective of whether the material used is produced by WRA or HMRC.

Do let me know if you have any further questions in relation to these matters. HMRC looks forward to continuing to work with the Assembly, the Welsh Government and the WRA in implementing the LTT.

Yours sincerely,

**Doug Stoneham**  
Senior Policy Adviser, Devolution



Ein cyf/Our ref: MA-P-LA-0087-15

Jocelyn Davies AM  
Chair, Finance Committee  
National Assembly for Wales  
Cardiff Bay  
CF99 1NA

30 October 2015

Dear Jocelyn,

On 19 November, the Welsh Government and the Welsh Local Government Association are jointly hosting an event titled 'The challenges and opportunities for local service delivery in Wales: a joint seminar on Welsh Local Government Finance'. The event will focus on how Local Government in Wales can respond to funding pressures by rethinking service delivery and learning from elsewhere.

The programme for the morning will focus on the challenges ahead for Local Government and the anticipated economic and financial outlook for public services. The afternoon programme has been designed to encourage positive discussion and debate about different approaches to service delivery and what has worked elsewhere. Speakers will include those from professional organisations, community initiatives, and Local Government, including the Leader of an English Council who will share recent experience of taking forward radical changes in service delivery.

Given the subject matter, I am pleased to invite members of the Finance Committee to attend the seminar. It will be held at Cardiff City Hall, starting promptly at 10:30am and finishing at 3:15pm, and is also being offered to Local Government Leaders and Chief Executives, Finance Officers, relevant Heads of Service and Chairs of Scrutiny.

Best wishes,

**Leighton Andrews AC / AM**  
Y Gweinidog Gwasanaethau Cyhoeddus  
Minister for Public Services

Bae Caerdydd • Cardiff Bay  
Caerdydd • Cardiff  
CF99 1NA

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[Correspondence.Leighton.Andrews@wales.gsi.gov.uk](mailto:Correspondence.Leighton.Andrews@wales.gsi.gov.uk)

Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

# Annual Report and Accounts 2014-15



The Annual Report for the year ended 31 March 2015 has been jointly prepared, and is laid before the National Assembly for Wales, by the Auditor General for Wales and the Chair of the Wales Audit Office, in accordance with Schedule 2 of the Public Audit (Wales) Act 2013 and containing matters as directed by the Treasury.

The Annual Report demonstrates that, during 2014-15:

- the exercise of the functions of both the Auditor General and the Wales Audit Office has been consistent with the Annual Plan prepared for the year under section 25 of the Public Audit (Wales) Act 2013, with no significant changes made to planned work; and
- the priorities set out in the Plan have been substantively achieved.

The Accounts for the year ended 31 March 2015 have been prepared by the Auditor General for Wales as the Accounting Officer for the Wales Audit Office in accordance with Schedule 1 of the Public Audit (Wales) Act 2013 and 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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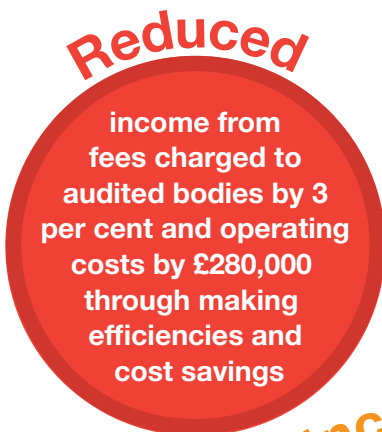


# Highlights

Providing assurance, offering insight and promoting improvement



Running the business



# Foreword from the Auditor General for Wales and the Chair of the Wales Audit Office



In 2014-15, public bodies throughout Wales continued to face a number of difficult challenges, including real-terms reductions in annual budgets, rising public expectations and demands, the need to address some acknowledged service deficiencies, and preparation for further policy and structural reform.

As the national Audit Office for Wales we have played our part in helping the Welsh public sector overcome these challenges and succeed. We provided the public with access to a wealth of information and insight on issues such as regularity, propriety, value for money and on what constitutes good practice. And we have reported in a timely, impartial, accurate and clear manner.

In particular, as described in this Report, we:

- provided the first detailed analysis of the impact of welfare reform changes on social housing tenants in Wales;
- shared our understanding of the challenges facing district nursing services in Wales with Local Health Boards;
- supported the Public Accounts Committee in their scrutiny of how central government bodies are grappling with financial challenges;
- emphasised the importance of good governance in early departure schemes, and the need to align them with wider workforce planning;
- shared examples of innovative approaches to asset management, to help ensure that public sector land or assets are used to their maximum potential; and
- helped Welsh public bodies in detecting and preventing fraud and error totalling more than £4 million.

We were also delighted with the results of our stakeholder survey which highlighted the quality and positive impact of our work. We cannot, however, be complacent.

Through subjecting Welsh public bodies to sufficient, but not excessive, levels of scrutiny, and using our unique remit to ‘follow the public pound’ and examine public spending irrespective of who delivers the services, we must continue to strive to add maximum value and make greatest impact.

Over the next three years, as outlined in our Annual Plan for 2015-16, we will take further steps to prioritise and strengthen our programmes of work, as part of a longer term view of how the effectiveness of public sector audit in Wales can be enhanced.

**Huw Vaughan Thomas**  
Auditor General for Wales



As outlined in this Annual Report and Accounts, 2014-15 has been both a challenging and rewarding year for the Wales Audit Office. It was our first full accounting year, following the transfer of staff, property, rights and liabilities from the Auditor General under the Public Audit (Wales) Act 2013.

Following a staff ballot at the beginning of the year, we are now in the unique position of having not only non-executive and executive members of the Wales Audit Office Board, but also employee elected members to provide an extra dimension of insight and experience. Our new governance arrangements provide us with a real opportunity to further develop and progress as a business.

During the year, we saw the benefits of our new senior management structure through increased engagement with audited bodies, closer understanding of the challenges facing the public sector in Wales through the role of the Sector Leads and stronger corporate working.

We also initiated reviews of our:

- risk management arrangements, to determine the extent to which they are embedded and in accordance with best practice;
- workforce planning arrangements, to ensure we are able to meet the resourcing requirements of a rapidly changing audit environment;
- transport arrangements, to ensure they remain fit for purpose and aligned with our corporate responsibilities; and
- Board effectiveness, aimed at determining strengths and areas for development, and at recommending actions and activity to enhance performance.

In March 2015 we published our Annual Plan for 2015-16. Alongside including additional information on our three-year priorities, the Plan describes how we will more effectively measure and report on our performance through a new framework of key measures and targets.

When devising the Plan, we paid particular attention to considering what sort of audit office Wales needs now and in the future, how best we can work together with other external review bodies and our key stakeholders, how we can further embed the principles of sustainable development in the way we run our business and how we can continue to assess and report on whether we are getting it right.

**Isobel Garner**

Chair, on behalf of the Wales Audit Office

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# Strategic Report

A review of the work of the Auditor General and Wales Audit Office in 2014-15, including an analysis of our development and performance, and our position at the end of the year

# About us

## Who we are

The Auditor General for Wales is the statutory external auditor of most of the Welsh public sector. The Public Audit (Wales) Acts 2004 and 2013, the Government of Wales Acts 1998 and 2006, alongside a range of other legislation, provide the statutory basis for the Auditor General's work.

The Auditor General is responsible for the audit of the majority of public money spent in Wales, including the funds that are voted annually by the National Assembly. Significant elements of this funding are passed by the Welsh Government to the NHS and local government in Wales.

The Wales Audit Office is a Board that employs professionally qualified staff and utilises other resources, including additional expertise from private sector accountancy firms, to enable the Auditor General to carry out his functions. The Wales Audit Office was established as a corporate body in July 2013 and employed 245 staff as of 31 March 2015.

The Wales Audit Office has a Management Committee which is responsible for directing the organisation on a day-to-day basis. Further details on the Board and Management Committee are included in the Directors' Report, Remuneration Report and Governance Statement.

The Auditor General uses the resources provided by the Wales Audit Office to independently examine whether public money in Wales is being managed wisely and is properly accounted for.

## What we do

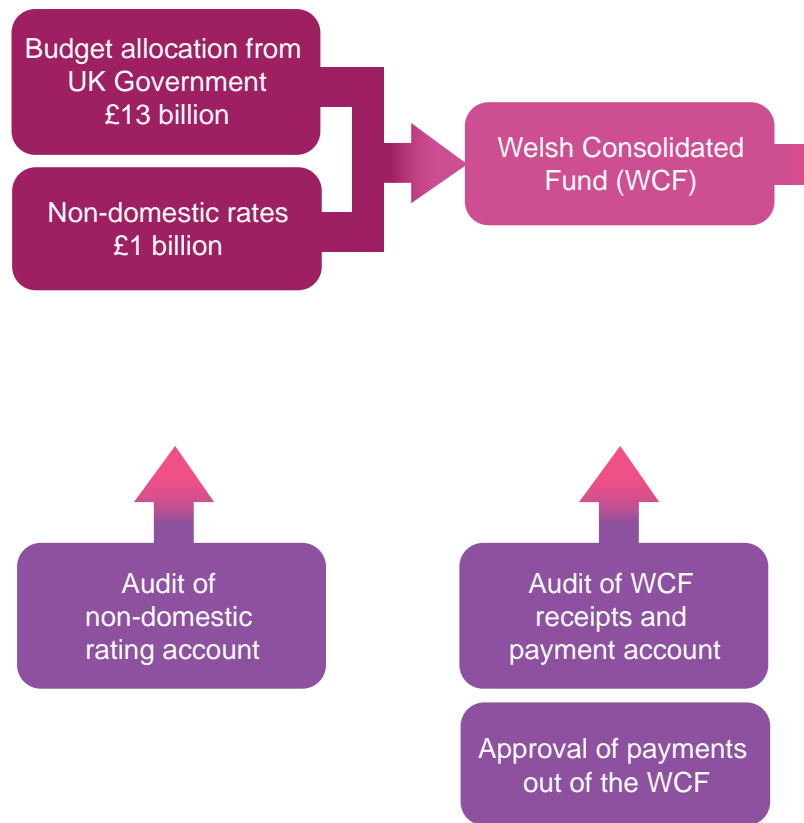
Public sector audit involves providing an opinion on the accounts and also covers issues such as regularity (whether public money is being used for approved purposes), propriety (whether public business is being conducted appropriately) and value for money.

Each year the Auditor General, using resources provided by the Wales Audit Office, delivers an extensive but proportionate programme of external audit work, alongside certain other functions. The Auditor General also retains a degree of flexibility in his programme in order that he can respond swiftly and effectively to any issues we encounter through our audit work or that are brought to his attention.

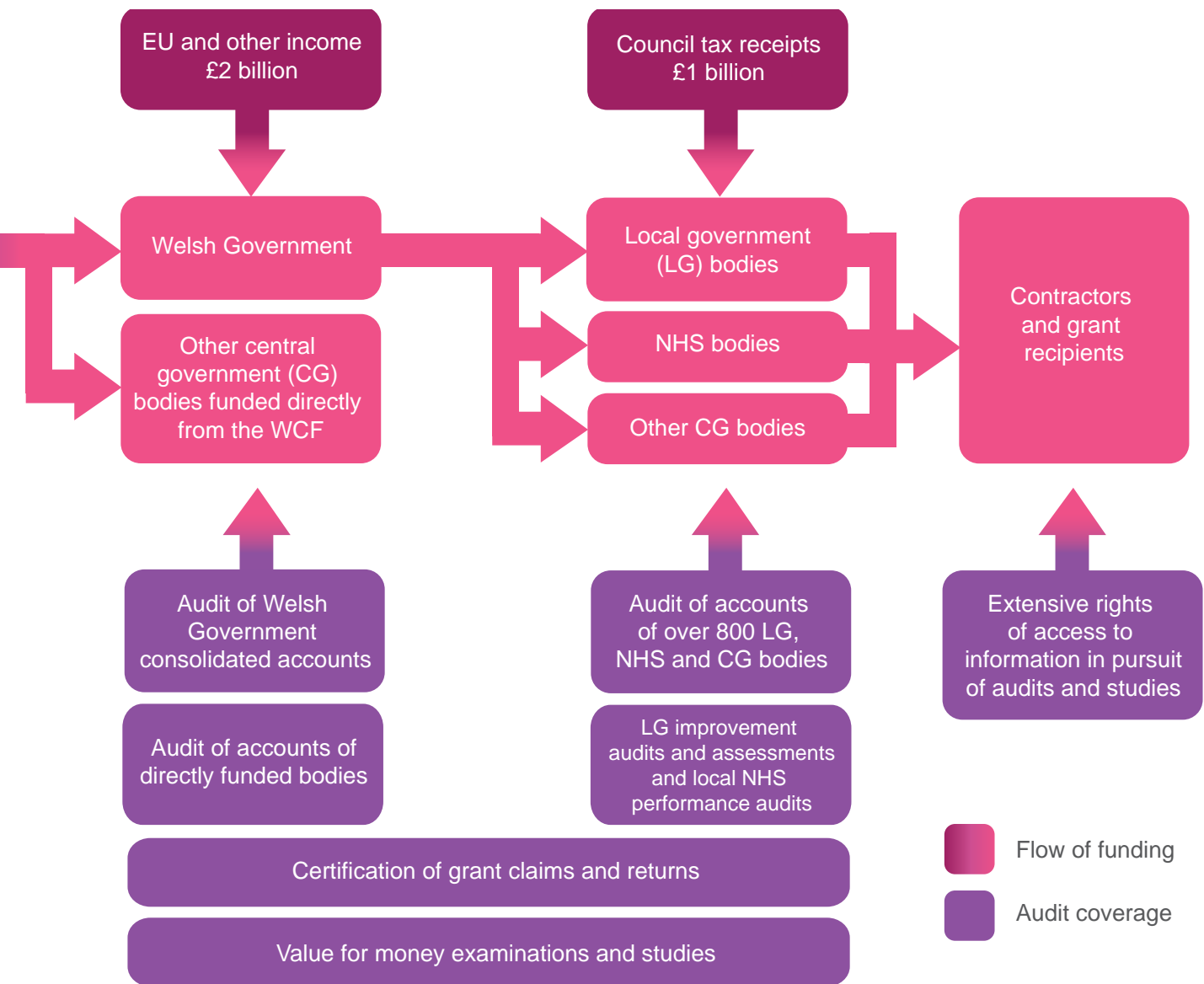
The Auditor General's functions apply across different types of bodies, to examine public spending irrespective of who delivers the services.

We identify good practice from across the full breadth of the Auditor General's audit work and disseminate this through our Good Practice Exchange (a free web-based resource) and other media, including shared learning seminars and webinars.

## How we follow the public pound in Wales



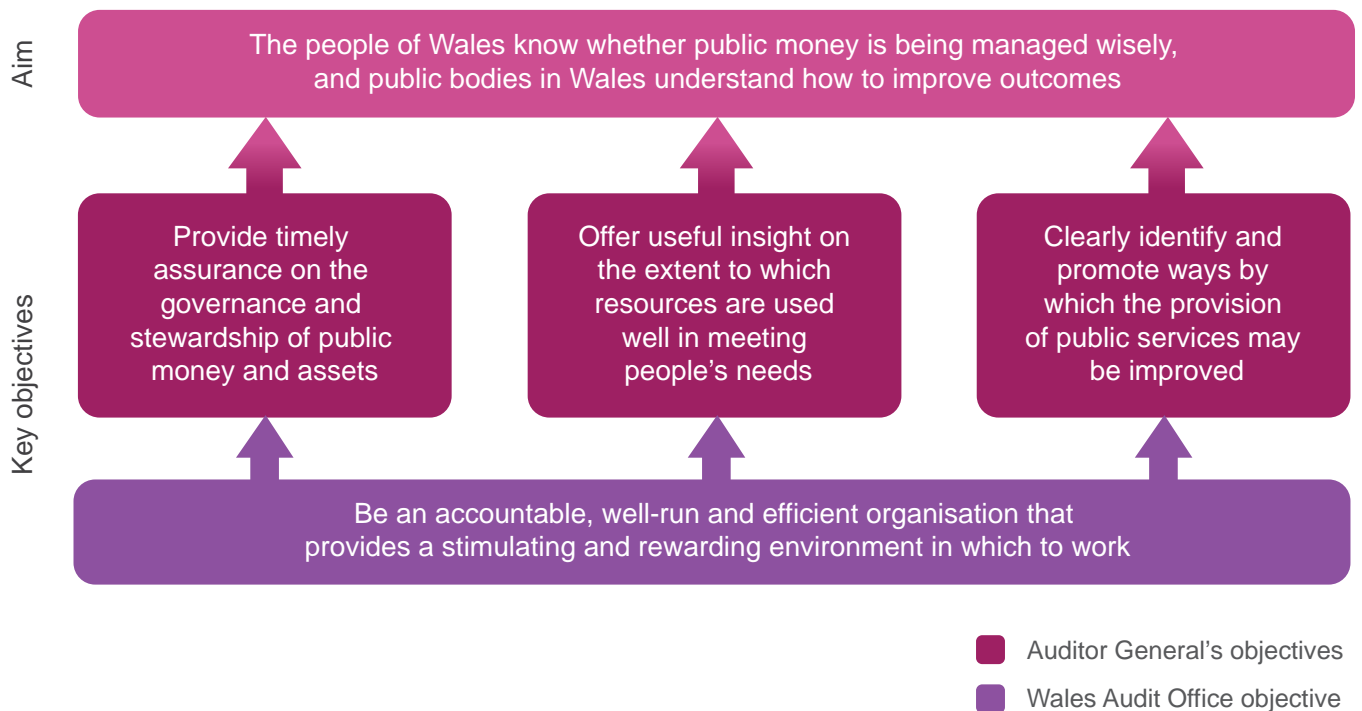




## Our aim and objectives

Our aim is to inform the people of Wales and help public bodies in Wales succeed.

Our fourth key objective underpins the first three; in order for the Auditor General to deliver a high quality audit service, the Wales Audit Office must be a well-run organisation which delivers value for money.

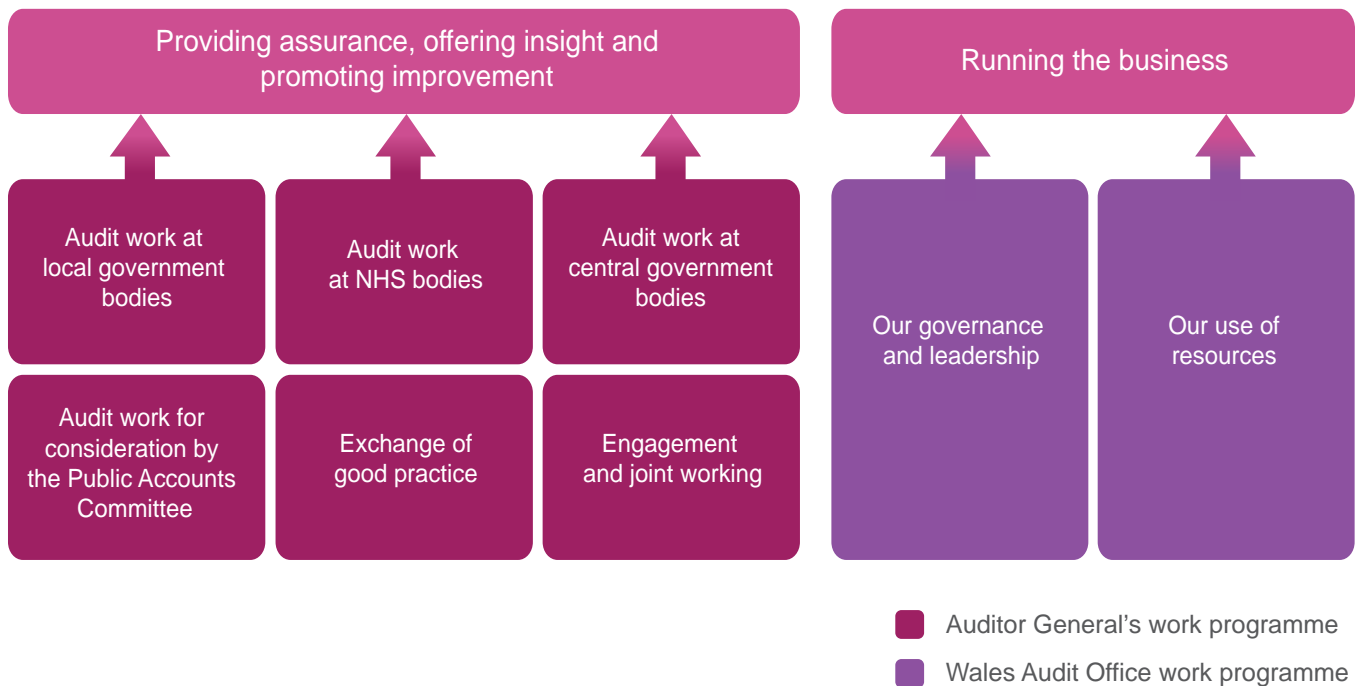


## Our plan for delivery

The Auditor General and the Wales Audit Office jointly prepared and laid before the Assembly an Annual Plan for the year ended 31 March 2015. The Plan is available on our [website](#).

The Plan sets out, for 2014-15, the work programmes of the Auditor General and Wales Audit Office, the resources available to the Wales Audit Office, and how those resources were to be used in order to undertake the work programmes.

In this Report, commentary on progress made against our Plan is divided into eight sections which are aligned with our objectives. The first six sections relate to the Auditor General's work programme. The remaining two sections relate to the Wales Audit Office's work programme.

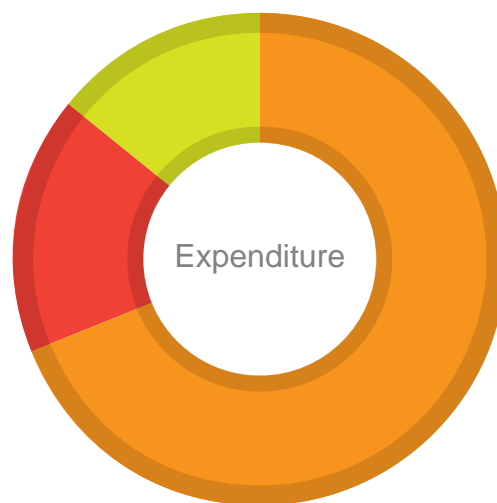
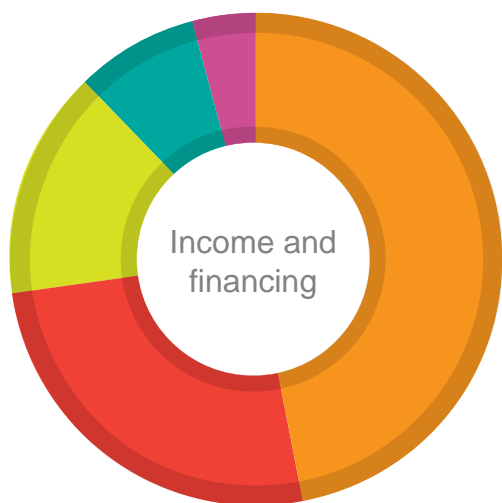


# Financial, environmental and social summaries

## Financial summary

In 2014-15:

- We generated income of £17.1 million and received funding from the Welsh Consolidated Fund of £6.0 million
- Income from fees charged to audited bodies totalled £16.1 million – a three per cent reduction on the previous year – and received grant income of £0.9million
- After taking account of the redistribution of our reserves to local government bodies in 2013-14, our expenditure reduced by £280,000 as compared to the previous year
- Staff costs increased by £110,000 on the previous year, largely to compensate for a reduction in the amount of audit work contracted out to private sector accountancy firms; the cost of bought in services reduced by £150,000
- Our other operating costs reduced by £240,000, reflecting efficiency savings, a reduction in expenditure on legal and professional fees associated with changes to our governance arrangements and a one-off investment in our new website in 2013-14



- Local government audit fees
- Welsh Consolidated Fund finance
- NHS audit fees
- Central government audit fees
- Grant from Welsh Government and other income

- Staff costs
- Other operating costs
- Bought in services

## Financial Outcome 2014-15

	2014-15	2013-14	2012-13
	£'000	£'000	£'000
<b>Income and resources</b>			
Audit and inspection fees	16,108	16,606	15,871
Local government <sup>1</sup>	10,781	11,385	11,044
NHS	3,380	3,302	3,239
Central government	1,947	1,919	1,588
Grant from Welsh Government	947	1,409	1,322
Other income <sup>2</sup>	64	27	23
Total income	17,119	18,042	17,216
<b>Expenditure</b>			
Staff costs	(15,406)	(15,291)	(14,981)
Bought-in services <sup>3</sup>	(3,156)	(3,308)	(3,451)
Repayable to local government bodies <sup>4</sup>	0	(1,633)	0
(Increase)/decrease in provision for taxation	0	0	2,392
Other operating costs	(3,850)	(4,093)	(3,221)
Corporation tax	0	(3)	0
Total expenditure	(22,412)	(24,328)	(19,261)
Total comprehensive net expenditure	(5,293)	(6,286)	(2,045)
Financing from the Welsh Consolidated Fund	5,974	5,431	4,740
Repayable to the Welsh Consolidated Fund	(698)	(337)	(268)
Change in taxpayers' equity	(17)	(1,192)	2,427
Taxpayers' equity at 1 April	0	1,192	(1,235)
Taxpayers' equity at 31 March	(17)	0	1,192

1 Includes fees for audits of accounts, grants certification and improvement audit and assessment work

2 Other income is as per the Statement of Comprehensive Net Expenditure plus bank interest

3 Mainly audit work contracted out to private sector accountancy firms

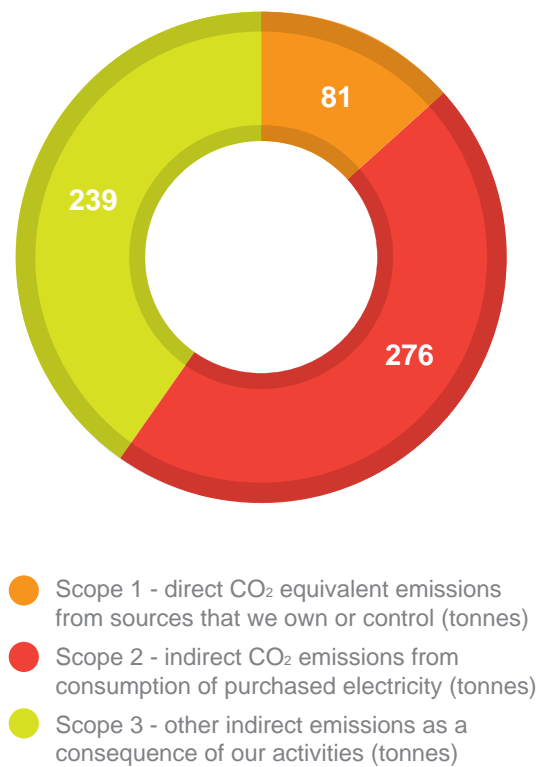
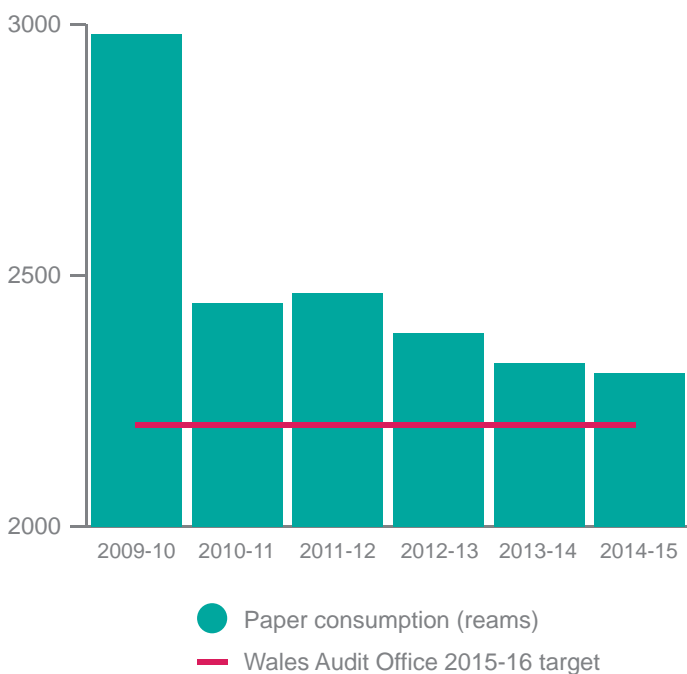
4 The taxpayers' equity that had been built up prior to 2013-14 along with that earned during 2013-14 was in relation to audit work undertaken at local government bodies. As outlined in the **Estimate of the Income and Expenses of the Wales Audit Office for the Year Ended 31 March 2015**, this amount has been redistributed to those bodies



## Environmental summary

In 2014-15, we:

- Slightly increased our production of waste, but still achieved a 23 per cent reduction since 2012-13
- Continued to increase the proportion of our waste reused, recycled or composted, and continued to reduce paper consumption
- Reduced our consumption of water by over six per cent and by 0.5 m<sup>3</sup> per whole-time equivalent
- Increased our CO<sub>2</sub> equivalent emissions by around five per cent, particularly due to an increase in emissions attributable to air travel
- Improved the overall efficiency of our use of office space





	2014-15	2013-14	2012-13
<b>Environmental management</b>			
Level of Green Dragon accreditation	4	4	4
<b>Water consumption</b>			
Water consumption m <sup>3</sup>	2,206	2,351	2,322
Water consumption m <sup>3</sup> per WTE <sup>1</sup>	9.6	10.1	9.9
Water supply costs £	4,088	4,348	3,336
<b>Paper consumption</b>			
Paper consumption in reams	2,305	2,325	2,385
Paper supply costs £	6,349	6,426	6,112
<b>Waste<sup>2</sup></b>			
Total waste kg	66,508	65,779	86,002
Reused, recycled, composted	27,368	26,193	26,844
Landfill	39,140	39,229	59,158
Hazardous	0	357	0
Reused, recycled, composted as % of total waste <sup>3</sup>	41.1	40.0	31.2
Total disposal costs £	7,337	4,439	8,586
<b>Greenhouse gas emissions<sup>4</sup></b>			
Total emissions kg CO <sub>2</sub> equivalent	596,251	569,993	541,065
Attributable to business travel	282,573	257,035	255,915
By car	242,881	234,501	238,616
By rail and air	39,692	22,534	17,299
Attributable to energy consumption	281,150	279,683	285,150
Electricity	275,624	275,367	278,778
Gas	5,526	4,316	6,372
Attributable to other <sup>5</sup>	32,528	33,275	
Total expenditure on business travel £	242,403	222,333	197,284
Total energy expenditure £	63,119	56,556	69,874
<b>Efficiency of estate</b>			
Cost per WTE £ <sup>6</sup>	3,397	3,431	3,186
Cost efficiency <sup>7</sup> £ per m <sup>2</sup>	278	285	265
Space efficiency <sup>8</sup> m <sup>2</sup> per WTE	12.2	12.0	12.0

1 Typical and best practice for water usage within an office is 9.3 m<sup>3</sup> and 6.4 m<sup>3</sup> respectively per Whole-Time-Equivalent (WTE) per annum (Environment Agency guidelines)

2 Calculated using appropriate WRAP conversion factors and restated for previous years

3 69 per cent for the Welsh Government in 2013-14 (**State of the Estate Report 2013-14**)

4 Calculated using DEFRA/DECC 2014 guidelines for company reporting and restated for previous years in alignment with changes to company reporting guidelines

5 Attributable to energy transmission and distribution, waste disposal and water usage and treatment – first calculated in 2013-14

6 Compared to £3,285 for the Welsh Government as of 31 March 2014

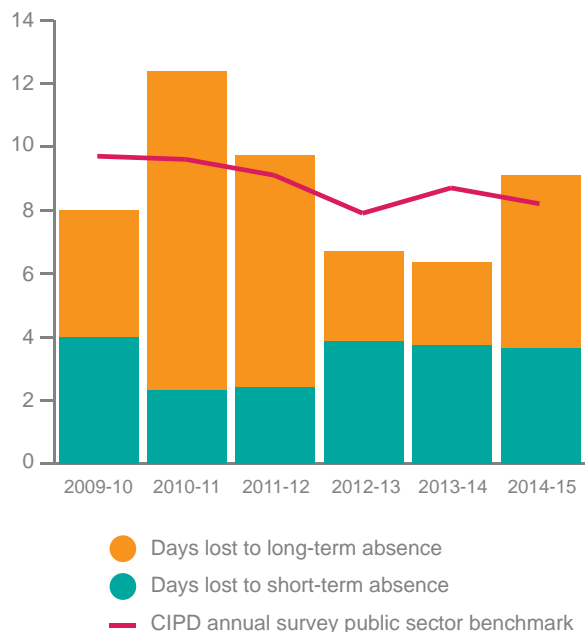
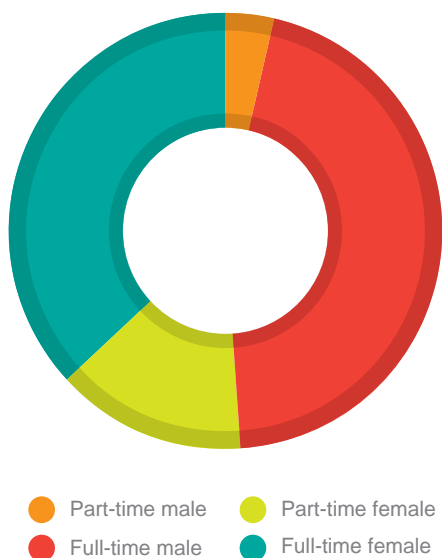
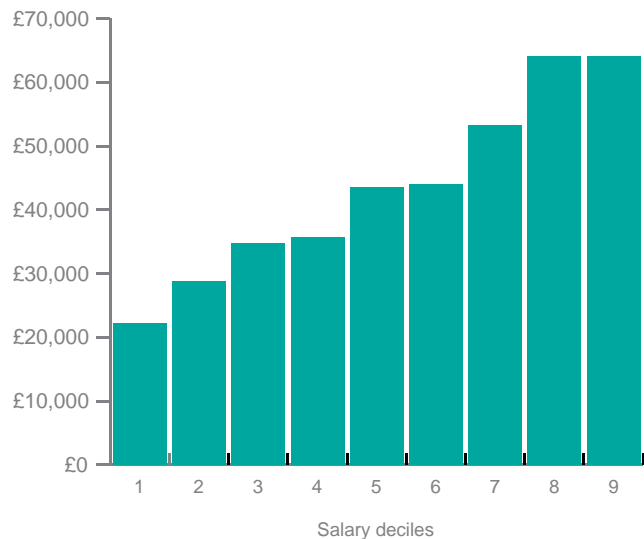
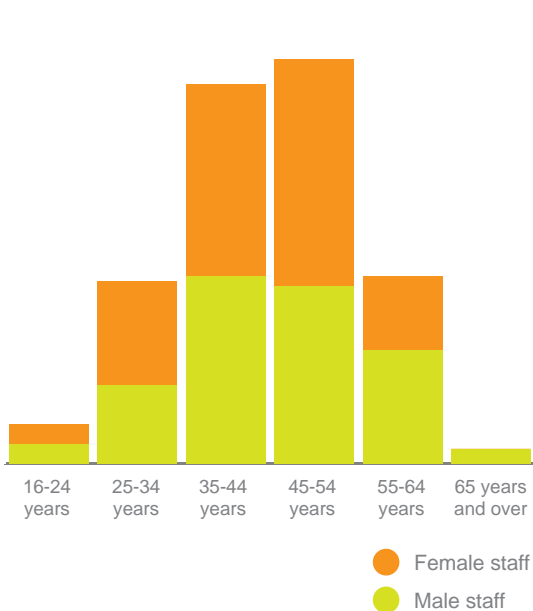
7 Including rent, rates and other costs

8 Compared to 15.5 m<sup>2</sup> per WTE for the Welsh Government as of 31 March 2014

## Social summary

In the 2014-15 financial year:

- Our workforce age and gender profile was similar to that of the Civil Service in 2014
- The proportion of part-time employees continued to increase, particularly due to an increase in the proportion of male part-time employees
- There was a significant increase in days lost to long-term sickness absence; the overall absence figure was a day more than the Chartered Institute of Personnel and Development (CIPD) benchmark
- Our annual staff turnover rate increased to a level slightly above the CIPD benchmark, and the median (fifth decile) staff gross salary was £44,000
- The proportion of female staff in management pay bands increased, as did the proportion of staff on permanent employment contracts





At year end:	2014-15	2013-14	2012-13
<b>Number of staff and remuneration</b>			
Number of directly employed staff	245	247	251
Number of whole-time equivalents	230.6	233.8	234.5
Median staff annual gross salary and benefits in kind <sup>1</sup> £	44,704	43,499	45,964
<b>Turnover</b>			
Annual staff turnover rate <sup>2</sup> %	9.8	9.3	10.8
<b>Attendance management</b>			
Average working days lost per member of staff <sup>3</sup>	9.1	6.4	6.7
Due to short-term absence	3.7	3.7	3.9
Due to long-term absence (periods of ≥21 days)	5.4	2.6	2.9
<b>Diversity</b>			
Female %	51.0	49.8	52.2
Aged less than 30 years <sup>4</sup> %	9.8	9.0	10.0
Aged 30 to 59 years %	84.5	88.6	85.2
Aged 60 years and over %	5.7	2.4	4.8
<b>Working patterns</b>			
Part-time employees as % of total <sup>5</sup>	18.0	17.4	16.3
For men	7.5	5.6	3.3
For women	28.0	29.3	28.2
<b>Employment contract type</b>			
% of staff on permanent employment contracts <sup>6</sup>	95.1	90.3	87.7
<b>Grade distribution</b>			
Staff in senior leadership team bands (A to C) %	5.7	5.2	5.2
Staff in management bands (6 and 7) %	22.9	21.9	21.5
Staff in other pay bands %	71.4	72.9	73.3
% staff in senior leadership team that are female	21.4	23.1	23.2
% staff in management that are female	37.5	35.2	35.2

<sup>1</sup> In the range £45,000 to £50,000 for the National Audit Office and £41,664 for Audit Scotland (as per their 2013-14 published annual accounts)

<sup>2</sup> 9.4 per cent median for public service organisations that responded to the 2013 CIPD **Resourcing and Talent Planning Survey**

<sup>3</sup> Mean of 8.2 days per employee per year for those public service organisations that responded to the 2014 CIPD annual **Absence Management Survey**

<sup>4</sup> **Annual Civil Service Employment Survey** 2014 figures: approximately 9.1 per cent aged less than 30 years, 82.6 per cent aged 30 to 59 years, and 8.2 per cent aged 60 years and over

<sup>5</sup> 24.4 per cent for the Civil Service as a whole in 2014 (8.9 per cent for men, 38.0 per cent for women), and 17 per cent for the Welsh Government

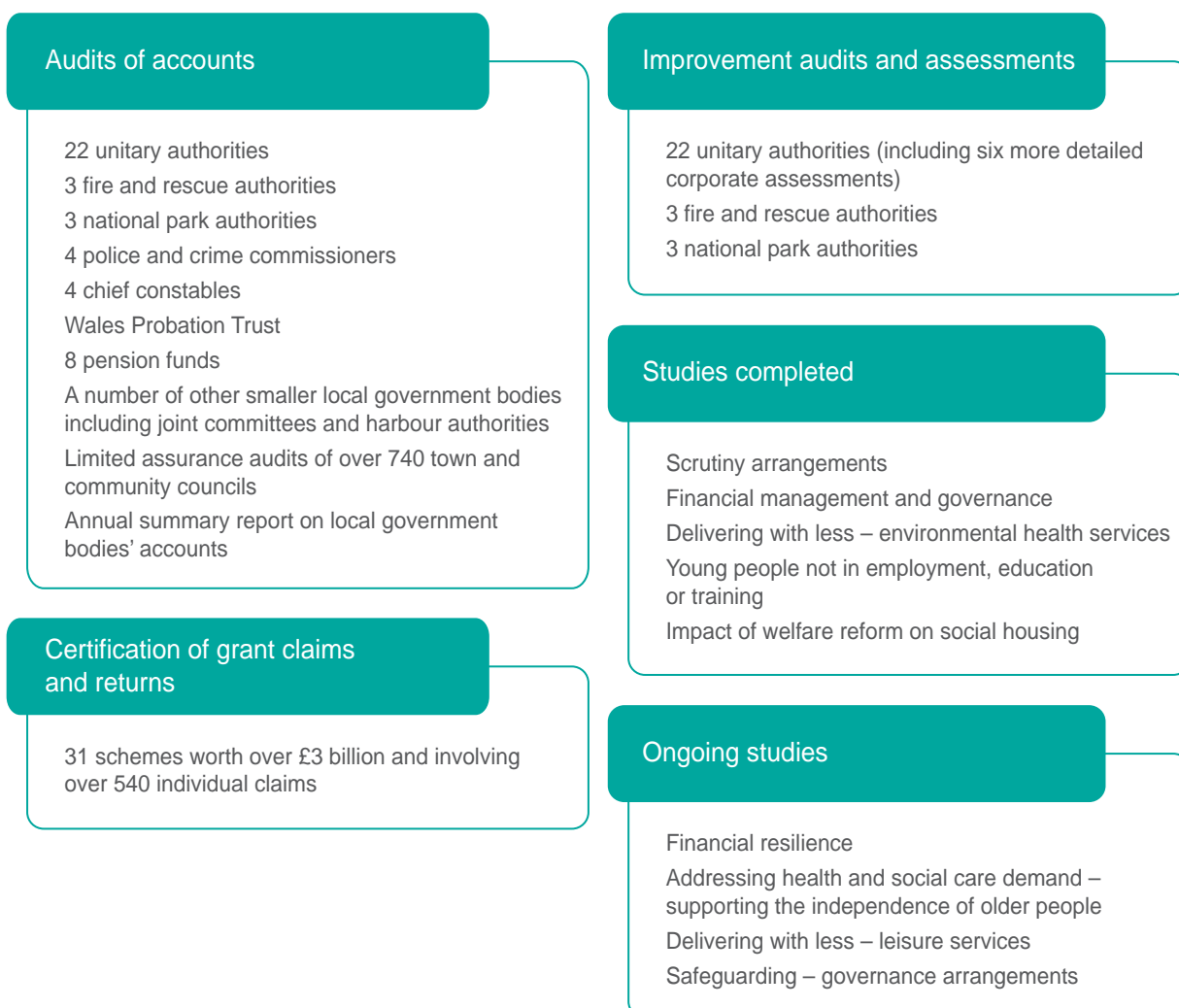
<sup>6</sup> 99 per cent for the Civil Service in 2014

# Providing assurance, offering insight and promoting improvement

## Audit work at local government bodies

The Auditor General's programme of work in local government covers a broad range of bodies, including unitary authorities, fire and rescue authorities, national park authorities, police and crime commissioners and chief constables, local government pension funds and town and community councils. The programme includes audits of accounts, certification of grant claims and returns, improvement audits and assessments, and local government studies.

## The Auditor General's programme of audit work delivered at local government bodies in 2014-15, in alignment with our Plan



As part of a cyclical programme of local government studies, work was carried out in accordance with our Plan on nine studies in 2014-15.

## Case study: Study on the impact of welfare reform changes on social housing tenants

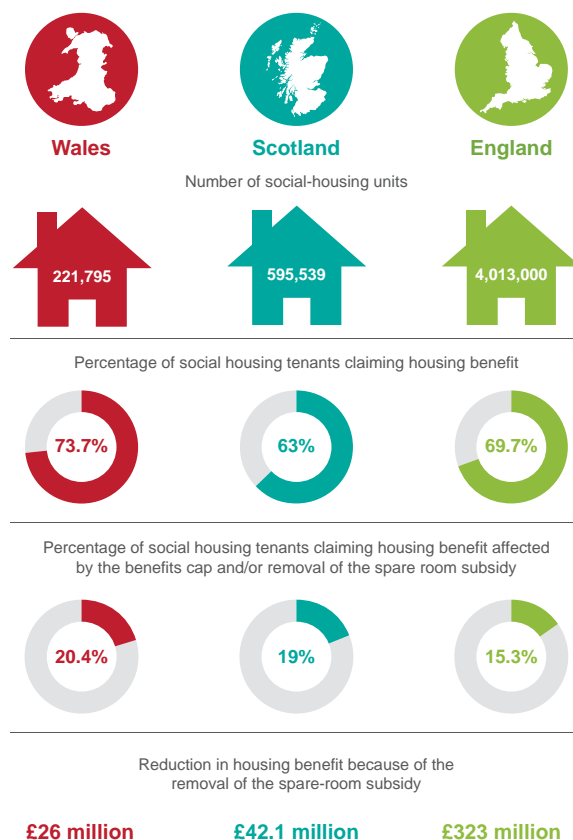
The UK Government has been clear that it wants to encourage people on benefits back into work, simplify the benefits system and reduce the amount the country spends on welfare.

To this end two key policies were introduced - a cap on the total amount of benefit a family can claim, and the spare room subsidy for social housing tenants (commonly called the bedroom tax) - aimed at generating savings of £1 billion in 2013-14 and 2014-15.

By undertaking a study in 2014-15 on the impact of these changes on social housing tenants, councils, housing associations and the Welsh Government, we found that:

- the changes affect a greater proportion of tenants in social housing in Wales than in either Scotland or England;
- the changes coincide with an increase in poverty for many tenants;
- whilst savings have been achieved on the welfare budget, the Welsh Government has had to make additional resources available to mitigate some of the impact of the changes in Wales;
- councils and housing associations are struggling to deal with the impact of changes to housing benefit; and
- the roll out of Universal Credit and direct payments will serve to exacerbate the situation.

Our work has provided the first detailed analysis of the impact of welfare reform changes on social housing tenants in Wales, and our findings are now being taken forward by the Public Accounts Committee through its inquiry into welfare reform and social housing.



## Case study: Certification of local government 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<sup>1</sup>.

In 2014-15, we certified 31 local government schemes, worth over £3 billion and involving over 540 individual claims. As a result of our work, nearly 30 per cent 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 over £2 million and the potential value of qualifications was at least £11 million.

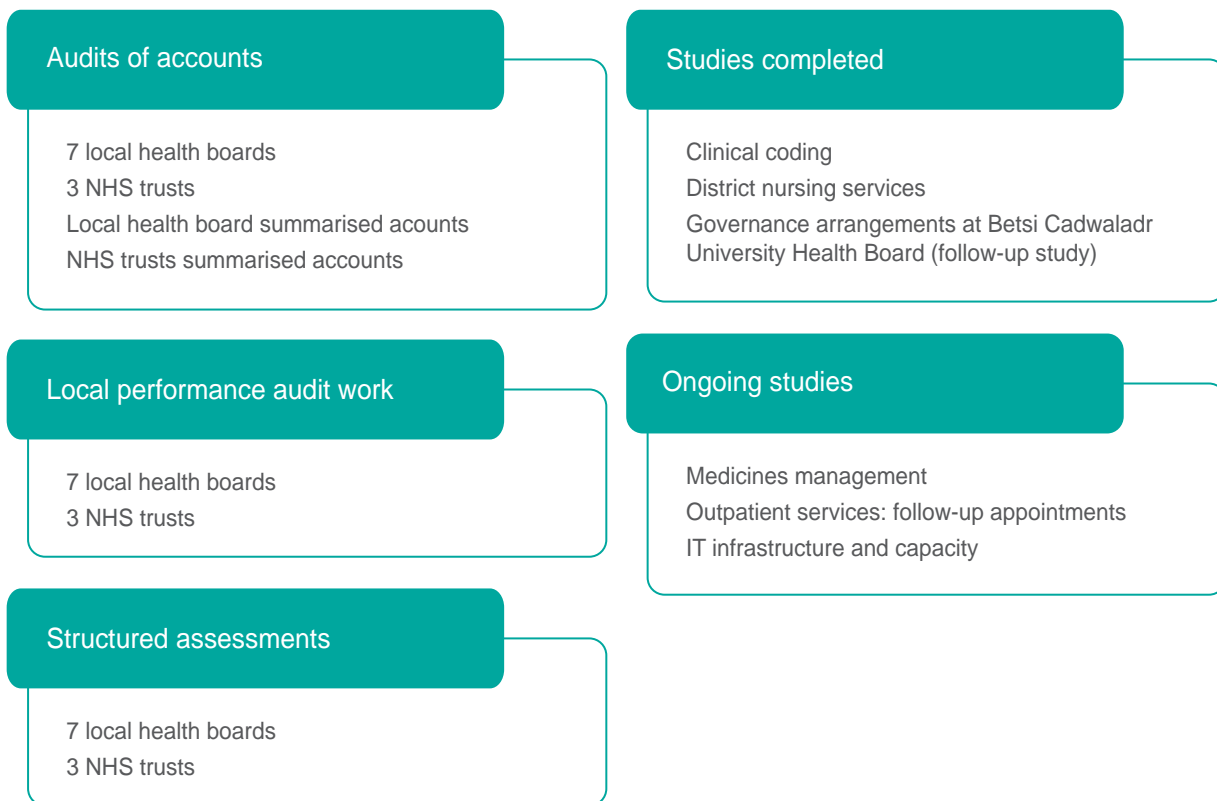
<sup>1</sup> We are working with the Department for Work and Pensions (DWP) regarding the run-out of the housing benefit system and the complete introduction of Universal Credit. The DWP is expecting full introduction of Universal Credit to be achieved by 2017 and, as it should be fully administered by the DWP, local authorities would no longer have a role in supporting claimants with their housing costs. This would lead to the cessation of our benefits certification work at local authorities and the loss of this workload and associated income will be recognised in our medium-term financial and workforce plans.

In addition, the Welsh European Funding Office (WEFO) has amended its arrangements for the audit of the forthcoming 2014-2020 EU Structural Funds programme and there will no longer be a requirement for us to certify claims in this framework. All checks and controls for the 2014-2020 programme will instead be undertaken by WEFO itself. We are continuing to audit residual claims from the 2007-2013 programme but, as the current projects come to an end, our work in this area will eventually cease.

## Audit work at NHS bodies

The Auditor General's work across NHS Wales covers all seven local health boards and the three NHS Trusts, as well as the work of the Welsh Government's Health and Social Services Department. The Auditor General audits the annual accounts of each NHS body, and reports publicly on the arrangements in place to secure economy, efficiency and effectiveness in their use of resources.

### The Auditor General's programme of audit work delivered at NHS bodies in 2014-15, in alignment with our Plan



As part of a cyclical programme of health studies, work was carried out in accordance with our Plan on six studies in 2014-15.

## Case study: Structured assessments



Structured assessment continues to be a key part of our annual programme of local performance audit work at health boards and NHS trusts. The work provides a rich, evidence based commentary on NHS bodies' corporate governance and financial management arrangements.

Findings from our structured assessment work are summarised in our annual audit reports to NHS bodies. Overall in 2014-15 we found that, whilst most NHS bodies have appropriate governance arrangements and processes in place, certain aspects need to evolve further to ensure Boards are properly equipped to lead their organisations through the challenges they currently face.

In particular, our work tracks year-on-year progress against the aspects of governance that we consider are in need of strengthening, and is aimed at supporting and informing board development work. Structured assessments also support learning across the NHS community. Our key findings were included in a memorandum for the Public Accounts Committee on Governance in the NHS in Wales, and in the Auditor General's report **NHS Wales: Overview of Financial and Service Performance 2013-14** published in October 2014.

In addition, the knowledge we glean from our structured assessment work enables us to bring a unique perspective to roundtable discussions with the Welsh Government and Healthcare Inspectorate Wales as part of the NHS escalation and intervention framework.

## Case study: Examination of district nursing services

Over the last decade, a key focal point for Welsh Government health and social policy has been the need to reduce reliance on hospitals and provide a greater level of community-based care. District nurses are a major provider of out-of-hospital care. However, when undertaking previous audit work we identified gaps in the information held by NHS Wales in relation to the demand for and the performance of district nursing services.

During 2014, our programme of local audit work at every health board included a detailed examination of how district nursing resources are being used. We evaluated health boards' strategic planning, management and monitoring arrangements and undertook in-depth data analyses of staffing numbers and skills, service demand, and staff utilisation, drawing heavily on benchmarking comparison.

We shared the findings of our work with health boards through structured workshops that brought together service managers and district nursing team leaders. The aim of the workshops was to ensure a shared understanding of the challenges facing the service in Wales, and to provide an opportunity for managers and leaders to discuss different approaches for ensuring better use of district nursing resources, within the context of wider developments in the delivery of community-based services.

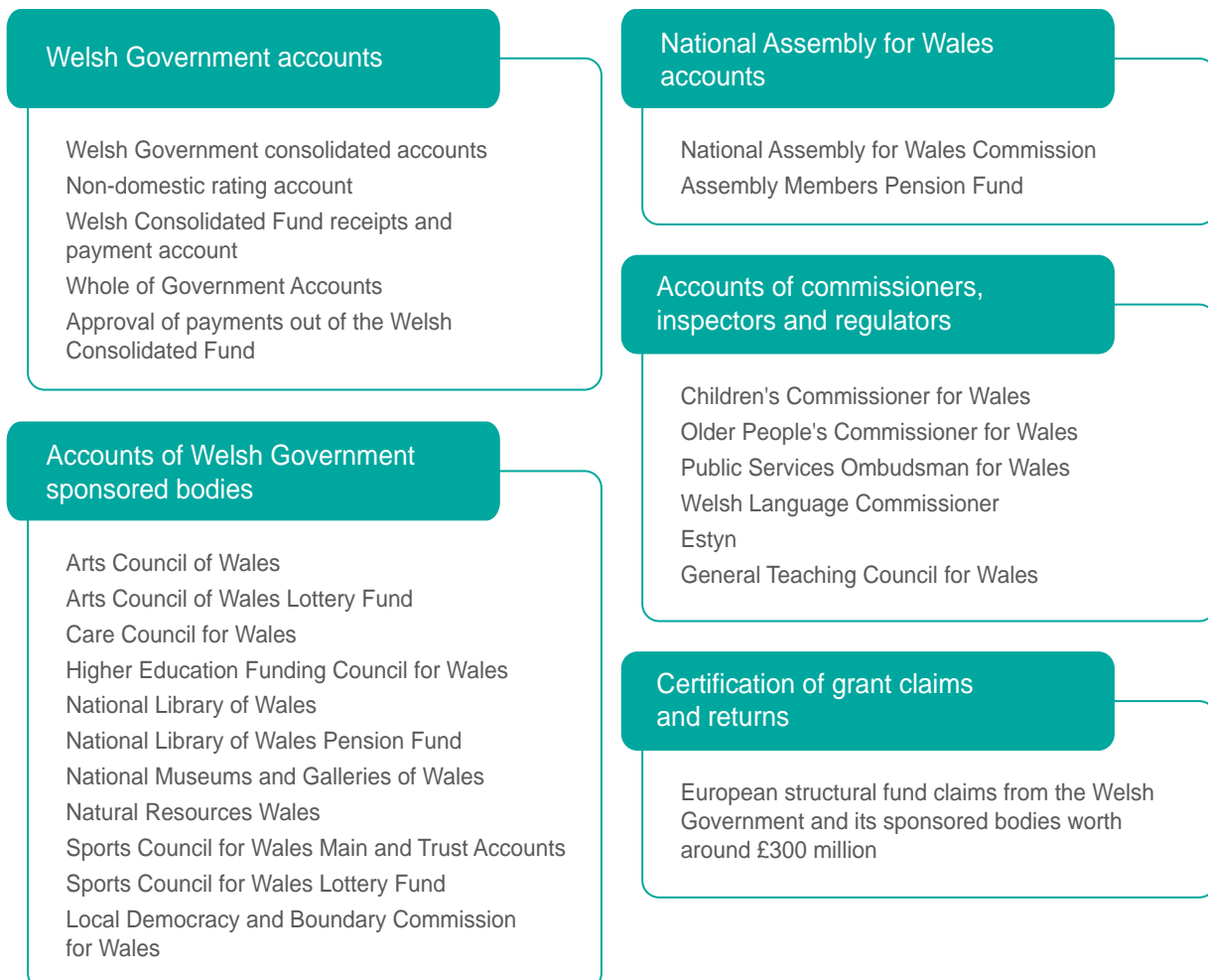
Our local reports have been well received, with all recommendations for improvement being accepted. The Auditor General is now considering the available options for presenting the all-Wales messages from our work to inform wider learning and improvement.

## Audit work at central government bodies

The central government sector in Wales covers a diverse range of public bodies, including the Welsh Government and its sponsored bodies, the offices of various statutory commissioners, inspectors and regulators, and the National Assembly for Wales Commission.

Unlike for local government and health bodies, the Auditor General is not required to conduct a programme of performance audit work at each central government body, but instead only provides an annual opinion on their accounts. Performance audit work conducted within this sector currently sits within his programme of value for money studies.

### The Auditor General's programme of audit work delivered at central government bodies in 2014-15, in alignment with our Plan





## Case study: Scrutiny of central government accounts

Every year, our financial auditors examine the annual accounts of all of the devolved central government bodies in Wales, including the Welsh Government itself with its £15 billion annual budget, sponsored bodies such as Natural Resources Wales and the National Library, and some small public bodies such as the office of the Older People's Commissioner.

In autumn 2014, for the first time, the Public Accounts Committee decided to review some of these annual accounts in detail, and to question the senior managers about them. Supported by our audit staff, the Committee sought explanations from Welsh Government officials and various Chief Executives and Commissioners about how they and their management teams were grappling with financial challenges. In its resultant report, published in March 2015, the Committee made nine recommendations, many of which had wider applicability to other public bodies in Wales.

The Committee concluded that this new type of focused collective scrutiny of annual accounts has many merits, and such reviews are now likely to be a standard feature of the Committee's annual work programme. This will help raise both the profile and impact of our financial audit work.

## Case study: Facilitation of the exit of local authorities from the Housing Revenue Account Subsidy

A significant one-off item of business during 2014-15 was our facilitation of the exit of Welsh local authorities from the Housing Revenue Account Subsidy (HRAS) system.

The HRAS was a pooling system intended to help ensure that local authorities could meet expenditure on their housing stock while allowing rents across England and Wales to be of similar levels. In recent years, however, all eleven stock-retaining authorities in Wales have been payers of negative subsidy.

Following a buy-out agreement between the Welsh Government and HM Treasury, £73 million of annual negative subsidy payments across Wales have now been replaced by interest payments of some £40 million—a net saving to Welsh authorities of £33 million a year.

Our role was to ensure that the buy-out money (£919 million altogether) could be lawfully paid over on time. This involved checking and advising the Welsh Government on whether the relevant legislation was in place, and ensuring that we were able to monitor flows of funds and provide approval to draw the payment out of the Welsh Consolidated Fund on 2 April 2015.

This was an important project which helped to maintain the equilibrium of UK finances through ensuring that everything was in place to allow a quick and smooth transaction.

## Audit work for consideration by the Public Accounts Committee

This programme of audit work includes value for money examinations, the preparation of summary reports of the findings from audit work across multiple NHS, central government and/or local government bodies, and examinations undertaken in response to issues of public concern identified through our audit work or raised with the Auditor General. The outputs from this programme support the work of the National Assembly's Public Accounts Committee and potentially other Assembly committees.

In determining his programme of value for money studies, the Auditor General takes into account the views of the Public Accounts Committee and consults more widely with other stakeholders. His key aims for the programme are to provide comprehensive and timely coverage of spending and risks to value for money, to address a broad range of issues that are of material interest or concern, and to give consideration to the long-term well-being of the people of Wales.

The programme of work retains a degree of flexibility to respond to changing circumstances, priorities and risks and the plans for certain studies are currently under review. While the scale of activity and the nature of the outputs involved in each case have varied, work was carried out in 2014-15 on all the topics listed in the exhibit overleaf.

In addition to the work listed, several of our local government and NHS reports published in 2014-15 have supported the work of the Public Accounts Committee. The Auditor General is committed to producing between 10 and 12 products each year to support the work of the Committee. Overall the Auditor General presented reports on 14 different topics to the Committee during 2014-15.

The Auditor General also regularly receives correspondence on issues of concern from members of the Public Accounts Committee and other Assembly Members. When such concerns are raised, the Auditor General considers how best to respond and how to report the findings of any work undertaken.

For example, during 2014-15, the Auditor General responded to correspondence on matters relating to the Welsh Government's investment in Roath Basin (Cardiff Bay), the Substance Misuse Peer Mentoring Scheme and the M4 Relief Road. Each of these responses was underpinned by substantive audit work undertaken by Wales Audit Office staff.

## The Auditor General's programme of audit work undertaken during 2014-15 for consideration by the Public Accounts Committee, in alignment with our Plan

### Value for money studies completed

European Union structural funds 2007-2013  
 Young people not in education, employment or training  
 Glastir  
 NHS Wales: overview of financial and service performance 2013-14  
 NHS waiting times for elective care  
 Continuing NHS healthcare - follow-up report  
 Managing early departures across Welsh public bodies

### Summary reports completed or in progress

National fraud initiative 2012-13  
 Governance in the NHS in Wales (memorandum)  
 Primary care prescribing (memorandum)  
 Orthopaedic services

### Reactive examinations completed or ongoing

Public funding of the Cywain Centre - Bala  
 Review of the regulatory impact assessment of the Well-being of Future Generations (Wales) Bill  
 Regeneration investment fund for Wales  
 Wales Life Sciences Investment Fund  
 NHS waiting lists and private practice

### Ongoing value for money studies

Welsh Government investment in next generation broadband infrastructure  
 Regional education consortia  
 Welsh Government acquisition of Cardiff Airport  
 Rail services  
 Flood and erosion risk management  
 Development of Natural Resources Wales  
 Picture of public services  
 Welsh Government response to audit recommendations  
 Public procurement and the National Procurement Service  
 Early intervention and public behaviour change  
 Welsh Government interventions in local government

## Case study: Review of NHS waiting times

In January 2015 we published a report on NHS waiting times for elective care in Wales. We concluded that NHS Wales' overall approach does not deliver sustainably low waiting times. However, emerging plans, particularly in relation to prudent healthcare, have the potential to improve the position if they are implemented effectively.

When undertaking our work on this study, we:

- looked at current performance in light of increasing financial pressure on the NHS in Wales;
- examined the underlying causes of waiting times performance; and
- reviewed plans to better manage waiting times.

We compared performance in Wales against UK and international comparisons. We also surveyed patients to gain an understanding of their experiences of waiting for treatment.

In our report, we recognised the significant challenges facing the NHS but suggested that efficiency could be improved by doing some things differently. In particular, we identified potential capacity gains in five key areas and found significant scope to make better use of existing resources by reducing waste and variation.

To promote and support further improvement, we published a number of additional documents alongside our audit report. The first, a **Compendium of Good and Promising Practice**, includes case studies both from within Wales and from further afield that highlight innovative approaches to improving the efficiency and effectiveness of each stage of the elective care pathway. We also published a good practice checklist, framed around the key questions that Health Boards need to ask themselves when testing their performance and approach to elective care.

In May 2015 we held a workshop for independent members of Health Boards where we discussed how the compendium and checklist can be used to support them in their scrutiny and challenge roles.



## Case study: Managing early departures across Welsh public bodies

Our February 2015 report entitled **Managing early departures across Welsh public bodies** drew on information collected from 58 of the public bodies that we audit.

Unsurprisingly, given continued financial pressures, we found that Welsh public bodies have made extensive use of early departures in recent years to help reduce their wage bills. Around 10,700 staff left employment through various different early departure arrangements between April 2010 and December 2013, at an upfront cost of £254 million.

Over time, Welsh public bodies stand to save up to £305 million per year as a result of these early departures. However, these savings might not be realised in full for a variety of reasons. While the exact contribution of early departures is unclear, staff salary costs across the public bodies surveyed reduced by around £447 million in real terms between 2009-10 and 2013-14.

It is likely that, for the foreseeable future, Welsh public bodies will continue to use early departures to control workforce costs, not least in the context of planned local government reform. We estimate that there were around another 2,300 early departures in the final quarter of 2013-14 at an additional upfront cost of around £53 million.

In our report, we emphasised the importance of good governance and scrutiny of early departure schemes and the need to align them with wider workforce planning.

The Public Accounts Committee is using our report to inform evidence sessions with a number of public bodies, and we would expect all public bodies to consider their own arrangements in light of our recommendations. Our Good Practice team is planning a related shared learning webinar for later in 2015.

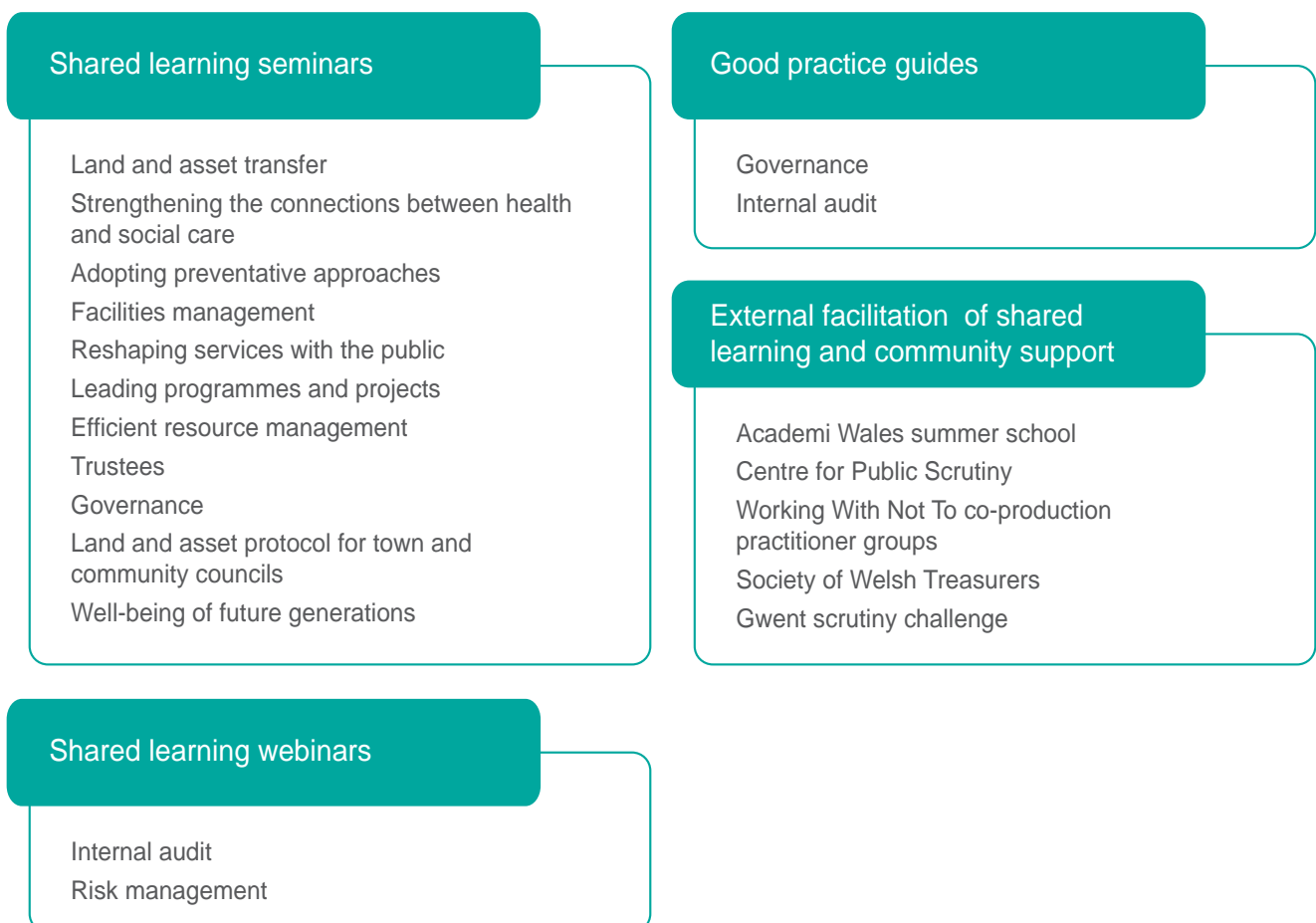


## Exchange of good practice

Our approach to knowledge exchange has been developed and applied with increasing success over the last five years. One of the two main strands of our approach is the provision of freely available online resources that enable the public, service users, service providers, policy makers and decision makers to access information that will leave them better informed. In particular, we aim to promote the sharing of this information across organisational, geographical and international boundaries.

Our other strand of activity involves facilitating conversations where the learning from comparative successes and failures is shared face-to-face. Increasingly we are looking to bring the views and experience of global experts to these conversations.

## Our programme of good practice work delivered during 2014-15, in alignment with our Plan



## Case study: Mirror, mirror on the wall ... reflecting on good governance shared learning seminars

The focus of these seminars was to discuss how best public sector executives and non-executives can seek assurance that governance arrangements are working as effectively as they can. Working with the Centre for Public Scrutiny and Grant Thornton we aimed to bring together the most up-to-date thinking and examples of good practice from across Wales and beyond.

The seminar was designed to be most useful for public sector members, managers and officers, including Leaders, Cabinet Members, Audit Committee Chairs and Members, Scrutiny Chairs, Chief Internal Auditors, Heads of Democratic Services, Board Secretaries and Members.

Delegates that attended the seminars in early December 2014 were involved in discussions on:

- the importance of good governance, particularly in bringing about cultural change in public sector organisations;
- the implications of poor governance;
- how to obtain assurance that governance arrangements are sound; and
- different approaches to ensuring better governance from a variety of public and private sector organisations.



## Case study: Making better use of public assets shared learning seminar

Public services in Wales continue to face significant budgetary challenges, and over the next ten years the 'big three' service areas of health, social care and education are likely to consume all but the smallest part of available public funding. If public services, particularly those outside the big three, are to be sustained and transformed, it is vital that public sector land or assets are used to their maximum potential.

This seminar, which we delivered in January 2015 in partnership with the National Assets Working Group, was focused on discussing and sharing examples of innovative and collaborative approaches to asset management.

This seminar was aimed at public and third sector Chief Executives, Directors of Finance, Heads of Housing, Heads of Regeneration, Heads of Partnership, Registered Social Landlords and Directors of Estates.

Particular emphasis was placed during the discussions on issues relating to:

- transferring a community asset from one organisation to another;
- taking a collaborative approach to managing public sector assets;
- dealing with surplus public sector property; and
- partnership working in developing a new community asset.







## Engagement and joint working

The Auditor General and Wales Audit Office are committed to effective stakeholder engagement to inform the development, maximise the relevance, and extend the reach and impact of the Auditor General's work.

We are also committed to working closely with the other UK audit agencies through the Public Audit Forum<sup>2</sup>, and with the other main external review bodies in Wales through the Inspection Wales initiative, to enhance the efficiency and effectiveness of public audit and the collective impact of our work. We represent Wales on the international audit stage.

The Wales Audit Office is able to make arrangements with certain types of bodies for it or the Auditor General to provide services to, or to exercise the functions of those bodies. But, we are mindful that all such activities should be self-financing and should not be undertaken to the detriment of our core audit work in Wales.

<sup>2</sup> The public audit agencies, the National Audit Office, the Northern Ireland Audit Office, the Audit Commission for Local Authorities and the National Health Service in England, the Wales Audit Office and Audit Scotland have established the Public Audit Forum to provide a focus for developmental thinking in relation to public audit. The main role of the Forum is consultative and advisory. It is not able to direct the national audit agencies and other bodies involved in public audit.

## The Auditor General's programme of joint working activity delivered during 2014-15, in alignment with our Plan

### Joined up delivery

National Fraud Initiative with other UK audit agencies

Working with Estyn to undertake value for money studies of Regional Education Improvement Consortia

Working with Care and Social Services Inspectorate Wales and the Older People's Commissioner on a study on the independence of older people

Annual certification of the accounts of the European Agricultural Guarantee Fund (EAGF) and European Agricultural Fund for Rural Development (EAFRD)

Follow-up joint review with Healthcare Inspectorate Wales of governance arrangements at Betsi Cadwaladr University Health Board

### Commissioned audit work

Further Education College audits

Audit of EU grant claims for the University of South Wales

Review for the Welsh Government of the impact of digital development in enhancing town centres

Review of governance and decision making for the Office of National Statistics

Chief Auditor to and audit of the accounts of the Government of Anguilla

Waste management and trade refuse benchmarking groups

### Participation with observer status on external working groups

Partnership Council for Wales

Reforming Local Government Programme Board

Well-being of Future Generations (Wales) Bill advisory and reference group

Welsh Government Treasury Implementation Board

Finance Minister's Welsh Tax Forum

Advisory panel for the review of the role and functions of the Children's Commissioner

CSSIW Local Authority Inspection Framework Board

Local Government Data Unit Board

Fire and Rescue Service National Framework Project Board

### Membership of external working groups

EURORAI

International Integrated Reporting Council's Public Sector Integrated Reporting Network

Public Audit Forum

Financial Reporting Advisory Board

CIPFA/LASAAC Local Authority Code Board

ICAEW Public Sector Audit Committee

CIPFA Audit and Accounting Standards Panel

Inspection Wales initiative

DWP Housing Benefit and Welfare Reform UK inspectorates liaison group

Youth Justice Board/HMIP 'Keeping in Touch' liaison panel

## Case study: Data matching

In June 2014, we published the findings of the National Fraud Initiative (NFI) in Wales 2012-13. The NFI is run every two years to match data across organisations and systems in order to help public bodies identify potentially fraudulent or erroneous claims and transactions. The NFI in Wales is run in collaboration with NFI exercises in England, Scotland and Northern Ireland to enable data to be matched across national boundaries. The Welsh Government and all Welsh unitary authorities, police, fire and NHS bodies participate in the exercise.

The 2012-13 exercise resulted in Welsh public bodies detecting and preventing fraud and error totalling more than £4 million, with a cumulative impact since the initiative was commenced in Wales in 1996 of over £26 million. The frauds identified included false claims for housing benefit, public sector pensions and council tax discounts.

Subsequently, the matching exercise has led to the revocation or cancellation of:

- over 700 ineligible council tax discounts;
- more than 300 fraudulent or erroneous housing benefit claims;
- nearly 5,000 concessionary travel passes; and
- more than 600 blue badge parking permits where there was no ongoing eligibility.

Forty individuals were successfully prosecuted for fraud offences and a further 73 individuals who had wrongly claimed housing benefit received local authority official cautions or administrative penalties.

A new NFI exercise for 2014-15 is currently underway. The latest exercise has introduced a new **Application Checker** module, designed to help identify potentially fraudulent or erroneous applications for benefits, services or employment in advance of any award decisions. It is anticipated that this new service will play a key role in preventing frauds from occurring in the first place and removing the need for costly, time-consuming case investigations.



## Case study: Working with Estyn to review regional education consortia



In 2011, the Welsh Government determined that unitary authorities in Wales should work together in four regional education consortia to raise school standards and realise efficiencies. In February 2014, the Welsh Government published a **National Model for Regional Working** which outlined its expectations for how the consortia should work.

In light of the potential risks associated with the establishment and operation of these innovative consortia arrangements, the Auditor General decided to undertake a study of their governance and financial management arrangements. At around the same time, Estyn was planning to undertake a review of regional improvement support provided to schools. We therefore agreed to co-ordinate our evidence gathering and fieldwork to avoid any duplication and maximise the efficiency and collective impact of our work.

Teams from Estyn and the Wales Audit Office carried out joint fieldwork visits in 2014-15 to the four consortia. By working together and sharing evidence and interviews, the teams gained a rounded picture of the extent of progress being made and provided joint feedback to each consortium. Many recommendations for improvement were quickly implemented. Our respective reports were complimentary, consistent and published simultaneously.

The Auditor General's report, published on 3 June 2015, concluded that, after an uncertain start, the foundations for regional school improvement services are being established, and that despite remaining weaknesses there are some positive signs of progress.

# Running the business

## Our governance and leadership

As prescribed by the Public Audit (Wales) Act 2013, we are now in the unique position of having not only non-executive and executive members of the Wales Audit Office Board, but also employee elected members to provide an extra dimension of insight and experience. Our new governance arrangements provide us with a real opportunity to further develop and progress as a business.

The Wales Audit Office also has a senior management structure which is designed to provide clear lines of reporting and accountability, and to enable the Auditor General's work to inform the public and influence public service delivery in the most efficient and effective way.

An outline of the control structure of the Wales Audit Office, accounts of corporate governance and risk management for the year, and a description of the principal risks and uncertainties we faced in 2014-15, is provided in the [Governance Statement](#).

Further information relating to membership of the Board and the Management Committee during 2014-15 is provided in the [Directors' Report](#).

A valuable mechanism for evaluating the effectiveness of our governance and leadership is through undertaking stakeholder surveys. We ran our latest survey in May and June 2014, and many of the views expressed in the survey indicated a positive and, in some cases, improved position since the last survey in 2012:

- 74 per cent of those who responded were very confident in our audit work and no responders had no confidence;
- 75 per cent of those who responded rated our value for money as good or excellent; and
- 90 per cent of those who responded considered us to be an authoritative commentator on the financial position of public bodies.

Our stakeholders also identified a number of areas where they felt there was a need for further development, including in relation to enhancing partnership working with inspection and regulation bodies, and we continue to take account of their views and comments in our ongoing business planning.

## Our use of resources

We have been working hard to embed the principles of sustainable development in the way we run our business, and in the way we resource the Auditor General's audit work, for a number of years. Sustainable development is about meeting the needs of the present without compromising the ability of future generations to meet their own needs.

## Financial management and efficiencies

Over two thirds of Wales Audit Office funding came from fees charged to audited bodies, in accordance with a scheme of fees approved by the National Assembly. The remainder mainly comprised financing from the Welsh Consolidated Fund (again approved by the National Assembly) and a grant from the Welsh Government for improvement assessment work at local government bodies.

In these times of significant financial restraint, robust financial management and cost efficiency remains a priority at the Wales Audit Office. After accounting adjustments, our operating expenditure was £0.3 million less in 2014-15 than the previous year. Staff vacancies were a significant contributory factor; we experienced particular difficulties in recruiting to financial auditor positions due to strong market competition. We did not need to call upon a £0.2 million general contingency held within the approved budget, which was subsequently returned to the Welsh Consolidated Fund alongside £0.5 million of other unused funds.

In our [Estimate for 2014-15](#), we identified a requirement for investment in a new audit information management system, and that additional capital funding through a Supplementary Estimate might need to be sought during the year. Through careful management of our resources, we were instead able to fund this investment internally with approval from the National Assembly for transferring £0.2 million of our existing revenue funds to capital. The new system will ensure business continuity and enhance efficiency in data capture, manipulation and sharing.

Our workforce must be sufficiently mobile in order to effectively deliver the Auditor General's work programme at public bodies throughout Wales. During 2014-15, some 806,000 miles were travelled over 17,600 journeys (compared to 824,000 miles and over 17,300 journeys in 2013-14). Travel, transport and subsistence costs during 2014-15 totalled £1.3 million (2013-14 £1.2million), £930,000 of which related to lease cars and transport or mileage allowances for staff, £84,000 to the use of public transport with the balance relating to accommodation and subsistence.

A review is underway to ensure that our approach to transport arrangements is based on clear principles to support mobile working at an appropriate level. The review will make recommendations aligned with our responsibilities and duties in relation to the health, safety and well-being of staff, environmental sustainability, achieving value for money in our transport arrangements, and with the Ethical Standard requirement for regular periodic rotation of our financial auditors between audit assignments.

We aim to pay 95 per cent of supplier invoices within 30 days of receipt, based on continuous monitoring of payments. For 2014-15 we paid nearly 99 per cent of invoices on time (compared to 96 per cent in 2013-14). Eighty six per cent of payments were made within ten days of the receipt of invoices.

Details of how liabilities in respect of the Principal Civil Service Pension scheme have been treated in our accounts are included in the [Remuneration Report \(pages 59 to 67\)](#) and in Note1(iv) of the Notes to the Accounts. There are no liabilities in respect of payments made for stakeholder pensions.

Internal Audit reports in the year provided substantial assurances on our key financial controls and payroll arrangements.

## Quality of our work

The overall quality of our work is of paramount importance to us and our stakeholders. In March 2014, following a period of external consultation, the Auditor General published a revised Code of Audit Practice, alongside a Statement of Practice for local government improvement audit, assessment and special inspection functions. The [Code and Statement](#) prescribe the way in which the Auditor General's audit and certain other functions are to be exercised. Both documents are designed to complement International Standards on Auditing and embody best professional practice.

## Principles of audit

1

### Public focus

Audit is carried out on behalf of the public and in the public interest. The public has a legitimate stake in audit work and should be engaged with its processes.

2

### Independent

Audit must be, and be seen to be, independent. Auditors should report in public without being influenced by fear or favour.

3

### Proportionate

Audited bodies need to be given enough space to deliver services to a high standard. They should be subject to sufficient, but not excessive, levels of scrutiny.

4

### Accountable

Auditors are publicly funded and are accountable for the stewardship of the resources provided to them. They must work economically, efficiently and effectively.

5

### Sustainable

Audit work must be undertaken with regard to sustainable development as a central organising principle for integrated decision making and reporting by audited bodies.

Our latest round of internal Quality Control Reviews found that all the audit work examined met or exceeded the required standards. In 2014-15 we continued to work with other UK public audit institutions to carry out and further develop a programme of reciprocal peer reviews to ensure that our quality arrangements continuously improve. During the year we also successfully completed the second year of a three-year contract with the Quality Assurance Department of the Institute of Chartered Accountants in England and Wales (ICAEW). The contract is designed to apply external rigour to our quality review processes.

A [Transparency Report for 2013-14](#), which provides more detail on how the Wales Audit Office is meeting high standards in the way it works and in the quality of its work, is available on our website; a similar report for 2014-15 will be published later in 2015.

The Auditor General also continued to work in collaboration with relevant regulators and inspectorates such as Estyn, Healthcare Inspectorate Wales and the Care and Social Services Inspectorate Wales to support the delivery of coordinated, high-quality audit, inspection and regulation across Welsh public services.

External stakeholders continue to hold positive views on the quality of our work, as judged by responses to our stakeholder survey on the robustness of the evidence behind our judgements, and on the clarity and balance of messages in our reports.

## Recruitment, trainee scheme and work experience

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

During the 2014-15 financial year, 12 trainees successfully moved on to the next stages of their studies, collectively achieving an 82 per cent first-time pass rate for examinations with the Institute of Chartered Accountants in England and Wales (ICAEW). Dylan Rees became a multi-prize winning trainee following his successes in 2013-14, with an award for his results on Taxation.

Four final year trainees successfully passed all final examinations at the first time of sitting and are now applying for full Chartered membership of the ICAEW. The Wales Audit Office also received a Kaplan nomination and was short-listed for the PQ Awards Training Manager of the Year award for the support we provided to our trainees.

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

We also, through our links with Careers Wales and local schools and universities, offer work experience opportunities in the Wales Audit Office. During 2014-15, seven students undertook work placements with us.

We experienced significant difficulties recruiting financial audit team members during the year, as a result of strong market forces. We are currently reviewing our staff numbers, skill mix and salary levels with a view to overcoming these difficulties in 2015-16.



## Learning and development

We continue to invest in staff learning and development to support our staff in the delivery of their work. In 2014-15, the average amount of time spent per employee on a range of learning and development activities increased from eight to ten days. Some of the training was designed and delivered in-house, and where appropriate and cost-effective, external training support was also commissioned to deliver training to our bespoke requirements.

During 2014-15, we delivered the third and final phase of our Ignite leadership and management development programme. The programme focused on achieving results through effectively managing and motivating teams, and combines bite-sized learning sessions with case study fieldwork. We received positive feedback from Ignite participants.

We also implemented an Employee Self-Service (ESS) system whereby staff are able to search and complete bookings for approved training courses and record all continuous professional development activities. An electronic evaluation form enables us to quickly capture outcomes and then measure the success and impact of the training courses. Ninety seven per cent of staff felt that the courses they attended in 2014-15 were effective in helping them meet their objectives.

## Environmental stewardship

We have been re-accredited for 2014-15 at Level 4 (the second highest level) of the Green Dragon Environmental Standard, demonstrating our ongoing commitment to effective environmental management. We are now working towards achieving Level 5 (the highest level) by 2016-17.

During the year, in an effort to reduce our overall greenhouse gas emissions, we introduced a lower ceiling limit for fleet and grey fleet vehicles of 125g/km from October 2014.

Just over 40 per cent of our waste in 2014-15 was reused, recycled or composted. We are committed to further improvement on this figure, as demonstrated in our Annual Plan for 2015-16, where we have set ourselves more challenging targets of 60 per cent in 2015-16 and 70 per cent by 2018.

Paper use and water consumption were reduced in 2014-15, and we also made further investment in our video-conferencing facilities, as part of our ongoing commitment to support flexible working and to reduce unnecessary travel and associated costs.

‘It really made me think more about the way I work and also my strengths and weaknesses. The charity challenge is really interesting... Ignite was definitely the best course I have been on so far in my 8 years at Wales Audit Office’



## Promoting use of the Welsh language

The Wales Audit Office is committed to, and takes pride in, providing a bilingual service. Our **Welsh Language Scheme** forms the basis for our approach and highlights our determination to treat the English and Welsh languages on an equal basis. Our public documents are available in both English and Welsh, we have a fully bilingual website, and we communicate with the public, audited bodies and the media in both languages.

During 2014-15, the Auditor General and the Wales Audit Office submitted a joint response to the Welsh Language Commissioner's standards investigation. The Welsh language standards will eventually replace the current system of Welsh language schemes.

We also took the opportunity to further review our current arrangements. As a result, we identified a number of steps we need, and have begun to take, to strengthen our capacity to provide bilingual services in the longer term.

Alongside implementing a proactive effort to recruit auditors with Welsh language skills, our staff completed online assessments to gauge their current grasp of the language and to provide us with accurate data on their level of proficiency.

This information has enabled us to provide staff with training most suited to their needs. A number of staff have subsequently enrolled on Welsh language training courses, ranging from basic 'meet and greet' to higher proficiency levels. The information will also be used to inform our workforce planning, helping us ensure we have the right people, with the right language skills, in the right places.

During 2014-15, we also updated our arrangements for securing effective translation services by joining a new all-Wales translations framework.



Cymraeg

## Employee well-being

We are committed to encouraging a healthy lifestyle and a good work-life balance amongst our staff. We also want our staff to feel valued and fully supported when they are experiencing difficulties, irrespective of whether or not there is an impact on their ability to undertake their role.

In 2014-15 we developed a new well-being policy, supplemented by guidance to support our commitments and to ensure any staff health and well-being issues are proactively and sensitively identified, and holistically and confidentially managed.

The Well-being Policy and introduction of a real time recording initiative are just two elements of a wider initiative to actively promote and support staff emotional and physical health and wellbeing across the organisation, which also includes an annual programme of health and well-being events.

An employee assistance programme is also available via either a 24-hour telephone service or through an online facility. The employee assistance programme provides staff with professional advice and emotional support on a range of matters.

We closely monitor rates of sickness absence and have in place a range of mechanisms for supporting successful return to work. An average of nine days per employee was lost to sickness absence during the reporting year ending 31 March 2015. We are working to reduce this to 6.5 days.

## Equality, diversity and dignity at work

Our [Joint Strategic Equality Plan](#), published in May 2014, 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 activities.

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.

We held a consultation day event in June 2014 to meet groups from across Wales that represent people with protected characteristics, and to discuss how best we can achieve more effective engagement in relation to planning, scoping and gaining views on the impact of our work. The overwhelming response from that event was that we should engage through the Equality and Human Rights Coalition that is facilitated by the Wales Council for Voluntary Action (WCVA). We subsequently attended a meeting of the Coalition in February 2015 to gain an understanding of how best we can work with them and achieve more effective engagement.

We also took steps in 2014-15, including through implementation of an e-recruitment system, to update and improve the quality of our employment diversity monitoring information, which in turn will serve to underpin more effective reviews in relation to equal pay.

Towards the end of the year, we decided to contract an external supplier to undertake an accessibility audit of our website to highlight any remaining issues that are likely to restrict or stop anyone with a particular impairment from using our site.

Following successful completion of the audit, we will make any necessary amendments to our site, with a view to gaining:

- a recognised certificate of accreditation;
- validation of meeting Web Content Accessibility Guidelines level 2.0 AA; and
- a greater understanding of digital inclusion.

A full report on our progress on delivering our equality objectives during 2013-14 is available on our website; a similar report for 2014-15 will be published later in 2015.

## 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, which helps to develop our in-house skills and build successful teams.

During the 2014-15 financial year, our staff worked on case studies with Touch Trust and Llamau.

‘Llamau were extremely pleased with the opportunity to take part in the Ignite program. As a charity, our time can sometimes be stretched, so it was fantastic to have external volunteers look at the issues we face and offer advice and solutions. We were very pleased with the results of our challenge, and with the communication throughout the process.’

Carys Burgess  
Fundraising Officer, Llamau



‘Working with the Ignite team has been an amazing and wonderful experience for Touch Trust. To be in the team’s company, seeing the enthusiasm, the expertise as well as the compassion for what we are doing has been inspiring and encouraging. We were working with high achieving people who are established authorities in our community and to see them giving their time and experience with such commitment to help those less fortunate than themselves was humbling and also inspiring for us. The pack that they produced for us will be a model for our fund raising now and for any larger fund raising plans in the future. It will help us succeed as an organisation – it is as big as that.’

Dilys Price OBE  
Director and Founder, Touch Trust



## 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, participating in conservation projects and the administration of public events.

In addition, a charity is chosen each year by staff vote to be the focus for a range of fundraising activities and opportunities for learning. At our staff conference in January 2014, staff chose the charity Changing Faces as the focus for their fundraising activities in 2014-15. Over the course of the year, our staff held a number of fundraising events in their own time:

- in June 2014, a group of staff donned their walking boots and completed the 25km 'Welsh Three Peaks' challenge;
- a team of staff entered and completed the 2014 Cardiff half marathon; and
- a number of other events were held, including cake sales, raffles and a quiz night.

In total, staff raised £8,275 for the charity.

For 2015-16, Crossroads, which is part of the Carers Trust, will be the staff-chosen focus for fundraising activities.

Staff are also able to participate in a 'give as you earn' scheme and donate a proportion of their earnings to charities of their choice.



# Future focus for our work

On 30 March 2015, the Auditor General and the Chair of the Wales Audit Office laid before the National Assembly an **Annual Plan** for the year ending 31 March 2016, which includes additional information on our three-year priorities.

The Plan:

- describes the aims and objectives of our work;
- sets out our priorities in the exercise of our functions both for 2015-16 and for the three-year period 2015-2018;
- provides detail on the Auditor General's planned programme of audit work for 2015-16;
- sets out the resources available and which may become available to the Wales Audit Office, and how those resources are to be used in our work programmes; and
- describes how we will measure and report on our performance.

Public bodies throughout Wales currently face a number of difficult challenges and need to find new and better ways of designing and delivering services. Our Plan is a blueprint of how we will prioritise and strengthen our programmes of work during 2015-16 and for the next three years so that they can add maximum value, thereby playing our part in helping and encouraging the Welsh public sector to succeed.

When devising the Plan during 2014-15, we paid particular attention to considering what sort of audit office Wales needs now and in the future, how best we can work together with other external review bodies and our key stakeholders, and how we can effectively assess whether we are getting it right.

Our new framework of key performance measures laid out in the Plan is centred on the following themes and questions about our activities.

## Impact

To what extent is our work informing the people of Wales, helping public bodies in Wales to succeed, and valued by our stakeholders?

## Delivery

Are we delivering our audits on time and to the required quality and professional standards?

## Leadership

Are our governance and leadership arrangements operating effectively?

## Financial

How well are we managing our finances and assets?

## Social

How well are we promoting and supporting equality, well-being and learning?

## Environmental

How well are we managing our impact on the environment?

## Communication

How well are we raising awareness of and encouraging engagement with our work?

Our suite of targets has been developed with reference to current levels of performance and appropriate benchmarks. The targets will be subject to further scrutiny and refinement during 2015-16 to ensure they are suitably challenging but achievable within the specified timescales.

Further information on the main trends and factors likely to affect our future development, performance and position in relation to corporate governance and risk management can be found in the [Governance Statement](#).



**Huw Vaughan Thomas**

Auditor General for Wales and Accounting Officer

10 June 2015



# Accountability

Key statements and reports that enable us to meet accountability requirements and demonstrate compliance with good corporate governance

# Directors' Report

## General matters

The [Remuneration Report](#) and notes to the primary financial statements provide an indication of how pension liabilities are treated in the accounts and make reference to the statements of the Civil Service Pension Scheme.

Information on our Register of Interests and how access to the information in that Register may be obtained is provided in the [Governance Statement](#).

Wales Audit Office sickness absence data is provided in the [Strategic Report](#) as part of the social summary and the management commentary on our use of resources.

Information on our reporting of personal data related incidents is included in the information governance section of the [Governance Statement](#).

The future focus for our work section of the [Strategic Report](#) provides an outline of likely future developments in the business of the Auditor General and Wales Audit Office.

On 4 July 2013, the Public Audit (Wales) Act 2013 established the Wales Audit Office as a new body corporate but without resource-holding functions. On 1 April 2014, the Wales Audit Office became fully established with the transfer of staff, property, rights and liabilities from the Auditor General under the 2013 Act. Accordingly, 2014-15 is the first full accounting year of the new Wales Audit Office. Previous year's figures given in these statements relate to the Auditor General and are presented in italics for comparison purposes only and these do not form part of the statutory accounts.

## The Wales Audit Office Management Committee



**Huw Vaughan  
Thomas**  
Auditor General,  
Accounting Officer  
and Chief Executive



**Anthony Barrett**  
Assistant Auditor  
General and Head of  
Financial Audit



**Gillian Body**  
Assistant Auditor  
General and Head of  
Performance Audit



**Alan Morris**  
Sector Lead,  
Local Government  
and Criminal Justice



**Mike Usher**  
Sector Lead,  
Health and Central  
Government



**Kevin Thomas**  
Director of Corporate  
Services



**Steve O'Donoghue**  
Director of Finance

## The Wales Audit Office Board



David Corner  
Non-executive  
Member



Lindsay Foyster  
Non-executive  
Member



Peter Price  
Non-executive  
Member



Steve Burnett  
Non-executive  
Member and  
Senior Independent  
Director



Isobel Garner  
Non-executive  
Chair

### The Board is responsible for:

- Monitoring the exercise of the Auditor General's functions
- Providing the Auditor General with resources
- Employing staff and providing resources for the exercise of the Auditor General's functions
- Charging fees for work done by the Auditor General
- Preparing jointly with the Auditor General an annual plan



Huw Vaughan  
Thomas  
Auditor General  
for Wales and  
Chief Executive



Kevin Thomas  
Appointed  
Employee  
Member



Amanda Hughes  
Elected  
Employee  
Member

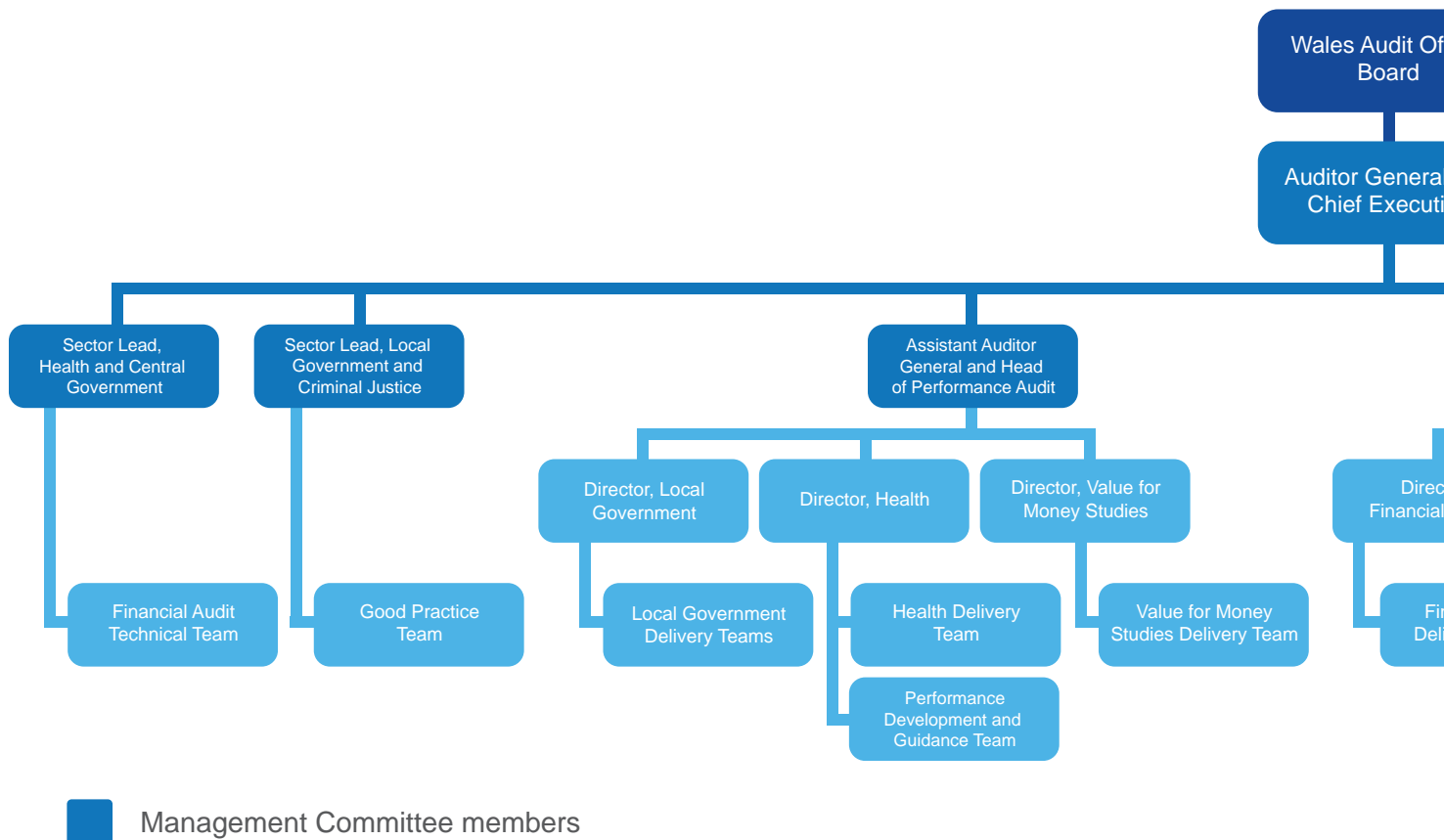


Louise Fleet  
Elected  
Employee  
Member

## ole for:

- General's functions
- with advice
- se of the Auditor General's functions
- e Auditor General
- n and estimate of income and expenses

## Wales Audit Office organisation chart

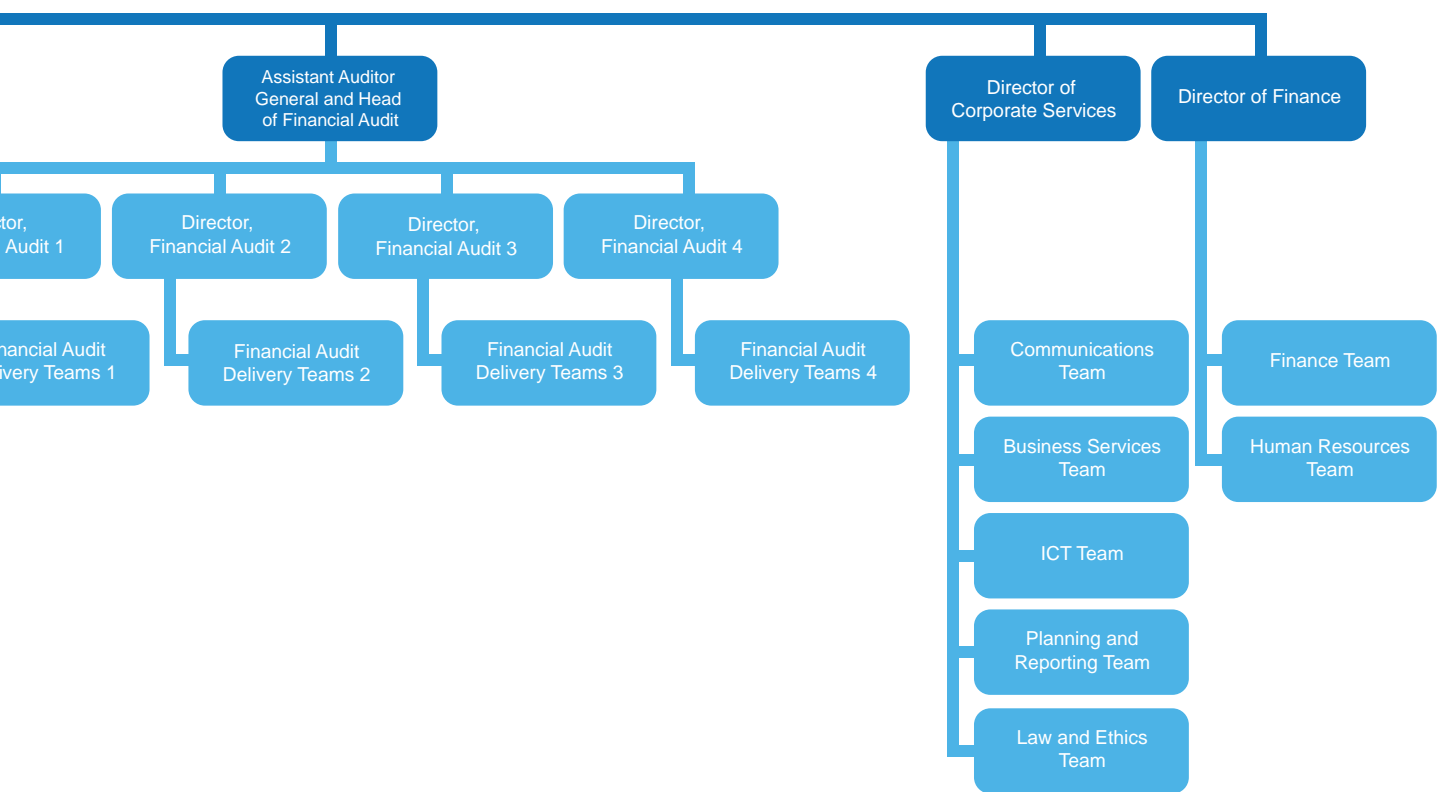


### Notes:

- Sector Leads also maintain a portfolio of operational responsibilities for which they act as Directors and report to the relevant Assistant Auditor General
- The Management Committee and other Directors meet on a regular basis as a broader Senior Leadership Team
- The Board and its sub-Committees, and the Management Committee are supported by a Board Secretary

Office

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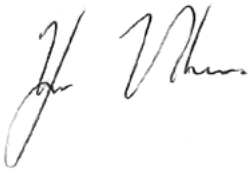
## Auditor of the Wales Audit Office

Baker Tilly UK Audit LLP have been appointed as external auditor of the Wales Audit Office by the Finance Committee of the National Assembly for Wales for a period of three years commencing 1 April 2014.

In addition to their work to form an opinion on the financial statements, Baker Tilly also provide value for money reports on the Wales Audit Office to the Finance Committee, which are available on the [National Assembly's website](#).

Details of the cost of external audit services are disclosed in the notes to the primary financial statements.

So far as I am aware, there is no relevant audit information of which our auditor is unaware, and I have taken all the steps that I ought to have taken in order to make myself aware of any relevant audit information, and to establish that our auditor is aware of that information.



**Huw Vaughan Thomas**  
Auditor General for Wales and Accounting Officer

10 June 2015



# Remuneration Report

## Remuneration policy

### Auditor General for Wales

The Auditor General's remuneration is determined by the National Assembly for Wales and, in accordance with the Public Audit (Wales) Act 2013, is met from the Welsh Consolidated Fund (WCF). For enhanced transparency, the remuneration of the Auditor General is disclosed in this Remuneration Report.

### Wales Audit Office Board

The Wales Audit Office Board comprises 5 non-executive members appointed by the Assembly, along with two elected employee members, the Auditor General for Wales and his nominated employee member the Director of Corporate Services.

The remuneration of the non-executive members of the Wales Audit Office Board is non-pensionable and is determined by the Assembly, and in the case of the Chair, is met from the WCF in accordance with the Public Audit (Wales) Act 2013. For enhanced transparency, the remuneration of the Chair of the Wales Audit Office Board is disclosed in this Remuneration Report. The two elected employee members were appointed by the non-executive members of the Board, following a staff ballot, in May 2014. The allowances that they receive for their Board related duties are disclosed in this report. The Auditor General and the Director of Corporate Services receive no additional allowances for their Board related duties.

### Non-Executive committee members

In addition to the non-executive Board members, the Wales Audit Office Board has also appointed an independent member of the Audit and Risk Assurance Committee. Remuneration for this post was determined by the Board and is non-pensionable.

Prior to the establishment of the Wales Audit Office Board, a Shadow Board and three governance committees were put in place to prepare the organisation for the implementation of the 2013 Act. The remuneration of the non-executive members of these committees was determined by the Auditor General. This remuneration was non-pensionable.

### Wales Audit Office staff

All members of staff are employed by the Wales Audit Office on such terms and conditions as the Board determines. Remuneration of all members of staff is subject to consultation with trade unions under a collective agreement and is pensionable under the Civil Service Pension Scheme.

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, Management Committee members) of the Wales Audit Office, along with members of the Wales Audit Office Board and previous 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 2014-15 was £153,000 (2013-14: £151,500).

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 2014-15 were £27,927 (including employer contributions of £23,079 and member contributions of £4,848) (2013-14: £27,217 including employer contributions of £23,303 and member contributions of £3,914).

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

## Senior management

The Management Committee was chaired by the Auditor General and additionally during 2014-15 comprised:

	<b>Date of appointment to Wales Audit Office or precursor organisation</b>	<b>Date of appointment to post</b>	<b>Date of termination</b>	<b>Contract</b>
<b>Anthony Barrett</b> (Assistant Auditor General and Head of Practice Financial Audit)	24/01/2001	01/04/2014	N/A	Permanent
<b>Gillian Body</b> (Assistant Auditor General and Head of Practice Performance Audit)	02/09/1981	01/04/2014	N/A	Permanent
<b>Alan Morris</b> (Sector Lead Local Government and Criminal Justice)	16/10/2000	01/04/2014	N/A	Permanent
<b>Steven O'Donoghue</b> (Director of Finance)	28/04/2014	28/04/2014	N/A	Permanent
<b>Kevin Thomas</b> (Director of Corporate Services)	26/10/1992	01/04/2014	N/A	Permanent
<b>Mike Usher</b> (Sector Lead NHS and Central Government)	17/09/1987	01/04/2014	N/A	Permanent

Members of the Management Committee are subject to an annual 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 Management Committee.

	Year to 31 March 2015						Year to 31 March 2014					
	Salary <sup>1</sup>	Benefits in kind <sup>2</sup>	Taxable expenses	Total Excl Pension	Pension benefit <sup>3</sup>	Total single figure of remuneration	Salary	Benefits in kind	Taxable expenses	Total Excl Pension	Pension benefit	Total single figure of remuneration
	Bands of £5,000	To nearest £100	To nearest £100	Bands of £5,000	To nearest £1,000	Bands of £5,000	Bands of £5,000	To nearest £100	To nearest £100	Bands of £5,000	To nearest £1,000	Bands of £5,000
Anthony Barrett	115-120	4,700	14,300	130-135	26	160-165	115-120	4,600	19,800	140-145	32	170-175
Gillian Body	120-125	-	-	120-125	13	135-140	120-125	-	-	120-125	(172)	(50-55)
Alan Morris <sup>4</sup>	90-95	2,200	-	90-95	94	185-190	-	-	-	-	-	-
Steven O'Donoghue <sup>5</sup>	70-75	-	-	70-75	42	110-115	-	-	-	-	-	-
Kevin Thomas	115-120	3,500	19,600	135-140	62	200-205	105-110	4,600	16,100	125-130	33	160-165
Mike Usher <sup>4</sup>	105-110	-	-	105-110	13	115-120	-	-	-	-	-	-

1 Including transport allowance paid to Gillian Body and Kevin Thomas. Mike Usher is entitled to transport allowance, but did not exercise this entitlement during 2014-15. Steven O'Donoghue is not entitled to transport allowance.

2 Leased cars

3 Pension benefits and comparatives have been included in line with the 2014-15 FReM. Previously employer contributions were disclosed.

4 Alan Morris and Mike Usher became members of the Management Committee on 1 April 2014

5 Steven O'Donoghue joined the Wales Audit Office on 28 April 2014

The relationship between the remuneration of the highest-paid director and the median remuneration of the workforce is as disclosed in the following table.

	Year to 31 March 2015	Year to 31 March 2014
Band of highest-paid director's total remuneration excluding pension contributions (£'000)	135-140	140-145
Median total remuneration based on full-time-equivalent staff (excluding pension contributions) (£)	44,704	43,499
Remuneration ratio	3.100	3.225

In 2014-15, no employees (2013-14: none) received remuneration in excess of the highest-paid director. Remuneration ranged from £14,900 to £138,575 (2013-14: £20,340-£142,960). Total remuneration includes salary, transport allowance and benefits in kind. In the case of the highest-paid director, it also includes taxable expenses. It does not include severance payments, employer pension contributions and the Cash Equivalent Transfer Value (CETV) of pensions.

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 (excluding pension contributions) was £153,000 which represented 3.423 times the median total remuneration for the Wales Audit Office (2013-14: £151,500, ratio: 3.483).

## Salary

'Salary' includes gross salary and any other allowance (e.g. transport allowance) to the extent that it is subject to UK taxation.

## Benefits in kind

The monetary value of benefits in kind represents leased car benefits provided by the Wales Audit Office and treated by Her Majesty's Revenue and Customs (HMRC) as a taxable emolument.

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 2014-15 was £10,684 (2013-14: £11,424). 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.

The Wales Audit Office does not pay bonuses to any members of staff.

## Taxable expenses

As disclosed in Note 15, the accounts include a provision for a 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.

Information on the expenses of Management Committee members is published on the [Wales Audit Office website](#).

## Senior management pension details

	Accrued pension at pension age as at 31 March 2015 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31 March 2015	CETV at 31 March 2014	Real increase in CETV	Employer contribution to partnership pension account
	£'000	£'000	£'000	£'000	£'000	Nearest £100
Anthony Barrett	35-40	0-5	574	518	12	0
Gillian Body	45-50 plus lump sum of 145-150	0-5 plus lump sum of 0-5	974	919	10	0
Alan Morris	50-55	5-10	947	817	87	0
Steven O'Donoghue	30-35	0-5	371	329	23	0
Kevin Thomas	45-50	0-5	644	572	39	0
Mike Usher	35-40 plus lump sum of 105-110	0-5 plus lump sum of 0-5	593	556	7	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 monies 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 range between 1.5% and 6.85% of pensionable earnings for classic and 3.5% and 8.85% for premium, classic plus and nuvos. 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 pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% 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 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% 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.civilservicepensionscheme.org.uk](http://www.civilservicepensionscheme.org.uk)

New Career Average pension arrangements will be introduced from 1st April 2015 and the majority of classic, premium, classic plus and nuvos members will join the new scheme. Further details of this new scheme are available [on the website](#).

## Cash Equivalent Transfer Values

A 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 cash equivalent transfer value

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.

## Wales Audit Office Board remuneration

In addition to the remuneration or allowance for their role, Board 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.

The Auditor General for Wales and the Director of Corporate Services receive no additional allowances in respect of their Board duties. Their remuneration as members of the Management Committee is disclosed above.

Figures for 2013-14 represent totals from the date of appointment in October 2013 to 31 March 2014.

	Remuneration/ Allowance		Tax inclusive expenses		Total	
	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14
	£	£	£	£	£	£
Steven Burnett	12,500	5,746	3,031	2,838	15,531	8,584
David Corner	12,500	5,746	9,643	3,029	22,143	8,775
Lindsay Foyster <sup>2</sup>	537	-	112	-	649	-
Isobel Garner (Chair) <sup>1</sup>	25,000	13,508	8,108	1,571	33,108	15,079
Christine Hayes <sup>2</sup>	7,882	5,746	1,818	1,504	9,700	7,250
Peter Price	12,500	5,746	1,304	166	13,804	5,912
Amanda Hughes <sup>3</sup>	3,573	-	378	-	3,951	-
Louise Fleet <sup>3</sup>	3,573	-	693	-	4,266	-
<b>Total</b>	<b>78,065</b>	<b>36,492</b>	<b>25,087</b>	<b>9,108</b>	<b>103,152</b>	<b>45,600</b>

1 Isobel Garner, as Chair of the Wales Audit Office Board is paid directly from the WCF and receives no remuneration from the Wales Audit Office other than reimbursement of travel and expenses. Her remuneration has been disclosed for enhanced transparency.

2 Christine Hayes resigned from the Wales Audit Office Board on 18 November 2014 and was replaced by Lindsay Foyster on 16 March 2015.

3 Amanda Hughes and Louise Fleet are employee members of the Wales Audit Office Board and were appointed by the non-executive members in May 2014 following a staff ballot. The allowances disclosed above relate solely to their board member duties.



## Non-executive committee members' remuneration

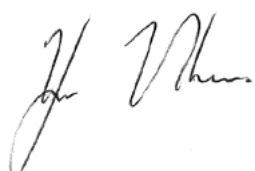
The following table set out the remuneration and expenses of the non-executive members of Wales Audit Office committees prior to the establishment of the Board along with the appointed non-executive member of the Audit and Risk Assurance Committee. Non-executive committee members are able to claim for 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 table.

	Remuneration		Tax inclusive expenses		Total	
	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14
	£	£	£	£	£	£
Rosamund Blomfield-Smith	-	7,000	-	2,518	-	9,518
Dr Michael P Brooker	-	7,000	-	331	-	7,331
Steven Burnett <sup>1</sup>	-	2,681	-	-	-	2,681
Mary Champion	-	3,750	-	340	-	4,090
Alison Gerrard <sup>2</sup>	2,500	-	107	-	2,607	-
Christine Hayes <sup>1</sup>	-	2,681	-	-	-	2,681
Dr Elizabeth Haywood	-	5,000	-	-	-	5,000
Michael Heap	-	5,000	-	-	-	5,000
Peter Laing	-	-	-	572	-	572
Gilbert Lloyd <sup>3</sup>	3,625	7,250	-	-	3,625	7,250
Denver Lynn	-	-	-	3,947	-	3,947
Dr Arun Midha	-	3,750	-	-	-	3,750
Deep Sagar	-	14,176	-	2,477	-	16,653
Canon David Stanton	-	5,000	170	1,383	170	6,383
Haydn Warman	-	3,750	-	-	-	3,750
<b>Total</b>	<b>6,125</b>	<b>67,038</b>	<b>277</b>	<b>11,568</b>	<b>6,402</b>	<b>78,606</b>

1 Mr Burnett and Mrs Hayes were members of non-executive committees prior to their appointment to the new Wales Audit Office Board in October 2013.

2 Mrs Gerrard was appointed as an independent member of the Audit and Risk Assurance Committee on 1 October 2014.

3 Mr Lloyd was an independent member of the Audit and Risk Assurance Committee until September 2014.



**Huw Vaughan Thomas**  
Auditor General for Wales and Accounting Officer  
10 June 2015

# Statement of Accounting Officer's Responsibilities

Under paragraph 33 of Schedule 1 to the Public Audit (Wales) Act 2013, 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 following the 2013 Act and will apply for 2014-15 onwards.

The Statement of Accounts must give a true and fair view of:

- a** the state of the Wales Audit Office's affairs at the end of the financial year, and
- b** the Wales Audit Office's income and expenditure in the financial year.

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

- a** include a statement of net revenue outturn, net capital outturn and net cash requirement as against the estimates approved by the National Assembly [and any necessary supporting notes];
- b** include a statement of the change in taxpayers' equity and cash flows for the financial year;
- c** in relation to money provided by the National Assembly, disclose any material expenditure which is inconsistent with the purposes intended by the Assembly;
- d** in relation to resources authorised by the National Assembly, disclose any material use of resources which is inconsistent with the purposes for which the Assembly authorised that use; and
- e** disclose any material transactions which are inconsistent with relevant authority.

As per the Memorandum for the Accounting Officer issued by the Welsh Assembly, the Accounting Officer must:

- Ensure that there is a high standard of financial management in the Wales Audit Office and that its financial systems and procedures promote the efficient and economical conduct of business and safeguard financial propriety and regularity;
- Ensure funds are applied only to the extent and for the purpose authorised by Parliament and the Assembly;
- Ensure that the resources for which the Wales Audit Office is responsible for are properly and well managed and safeguarded;
- Provide advice to the Wales Audit Office on all matters of financial propriety and regularity.

# Governance Statement

This statement sets out the control structure of the Wales Audit Office, and provides an account of corporate governance and risk management, alongside a description of the principal risks and uncertainties we face.

As Accounting Officer and working together with the Wales Audit Office Board, I must be able to assure the National Assembly for Wales, the United Kingdom Parliament and the public of high standards of probity in the management of public funds in relation to the Wales Audit Office's governance, decision-making and financial management.

In discharging this responsibility and amongst other requirements, I must seek to ensure that:

- a sound system of internal control is maintained in the Wales Audit Office, including a robust internal audit process, to support the proper exercise of statutory functions; and
- the Wales Audit Office's management of opportunities and risk achieves the right balance commensurate with the business of the Auditor General and the Wales Audit Office.

The full scope of my responsibilities as Accounting Officer is described in the Memorandum for the Accounting Officer of the Wales Audit Office issued on 31 March 2014 by the Finance Committee of the National Assembly, to which I am accountable in my capacity as Accounting Officer.

## Corporate governance

### The governance framework

The governance structure of the Wales Audit Office, including information on the coverage of the Board's work and on its committees, is summarised in the following exhibit.

Further information on membership of the Board and Management Committee can be found in the [Directors' Report](#).

The Management Committee and other Directors also meet on a regular basis as a broader Senior Leadership Team. The Board and its Committees, and the Management Committee are supported by a Board Secretary.

### **Finance Committee of the National Assembly**

Scrutinises the Wales Audit Office's use of resources and is responsible for the appointment of the non-executive members of the Wales Audit Office Board and the external auditor

### **Wales Audit Office Board**

Monitors the exercise of the Auditor General's functions

Provides the Auditor General with advice

Employs staff and provides resources for the exercise of the Auditor General's functions

Charges fees for work done by the Auditor General

Prepares jointly with the Auditor General an estimate of income and expenses, annual plan, interim report(s) and an annual report

### **Remuneration Committee**

Advises the Board on whether the remuneration arrangements:

- a support its strategic aims;
- b enable the efficient, effective and economic conduct of business; and
- c comply with regulatory requirements

### **Audit and Risk Assurance Committee**

Advises the Board on whether the audit and risk assurance arrangements:

- a support its strategic aims;
- b enable the efficient, effective and economic conduct of business; and
- c comply with regulatory requirements

### **Management Committee**

Provides executive management and governance to the operational delivery of the work of the Auditor General and Wales Audit Office. Chaired by the Auditor General for Wales, as Chief Executive and Accounting Officer.

## Account of corporate governance

On 4 July 2013, certain provisions of the Public Audit (Wales) Act 2013 were commenced by order, including those which:

- established the Wales Audit Office as a corporate body; and
- appointed the Auditor General as a member of the Board and the Chief Executive of the Wales Audit Office.

This allowed the National Assembly to appoint five non-executive members of the Wales Audit Office; a process which it completed on 17 October 2013.

These appointments were necessary to ensure that the Wales Audit Office could prepare for full commencement of the provisions of the 2013 Act from 1 April 2014 when, amongst other responsibilities, it became the employer of staff and the holder of all other resources.

At the Board's first meeting on 23 October 2013, it agreed to establish two committees – for Audit and Risk Assurance and for Remuneration.

At the Board meeting on 23 April 2014<sup>3</sup>, following full commencement of the provisions of the 2013 Act, the Auditor General recommended Kevin Thomas, the Director of Corporate Services, for appointment to the Board by non-executive members<sup>4</sup>. The non-executive members accepted the Auditor General's recommendation.

The 2013 Act also prescribes that the remaining two Board members are to be appointed following a ballot of staff. The Wales Audit Office commissioned Electoral Reform Services to conduct the ballot in early 2014-15, using the single transferable vote method. The Elections Officer, Peter Price, reported at the Board meeting on 23 May 2014<sup>5</sup> that Amanda Hughes and Louise Fleet had been elected following the staff ballot<sup>6</sup>. He proposed their appointment as employee members of the Board. The non-executive members appointed them to the Board in accordance with the result of the ballot.

The Elections Officer also reviewed the rules governing the election and the effectiveness of the arrangements in place for its administration. He reported to the Board his conclusion that, whilst there was scope for improvement, the Board had put in place robust arrangements for conducting the election and that those arrangements had worked well in practice. The number of candidates prepared to stand exceeded early expectations and the 83 per cent turnout represented a high level of engagement amongst staff which bodes well for the future.

The full Board of nine members, as determined by the 2013 Act, therefore comprises a majority of five non-executive members (including the Chair), the Auditor General, an appointed employee member and two elected employee members.

The Remuneration Committee comprises the five non-executive members of the Board. The Audit and Risk Assurance Committee comprises two non-executive Board members, an elected employee Board member and an independent member.

<sup>3</sup> The Board's first meeting in 2014-15

<sup>4</sup> Under Schedule 1 of the 2013 Act

<sup>5</sup> The Board's second meeting in 2014-15

<sup>6</sup> Again under Schedule 1 of the 2013 Act

When carrying out its work, the Board applies a formal Scheme of Delegation, terms of reference incorporating its procedural rules, a Members' Code of Conduct and a Code of Relationship Practice between the Wales Audit Office and the Auditor General.

The Board receives assurance that its objectives are being met through:

- internal management reports;
- independent internal reports, including internal audit reports and the reports of the Audit and Risk Management Committee and the Remuneration Committee; and; and
- external audit reports.

The level of assurance sought and provided is proportionate to the associated levels of risk.

In 2014-15, the Board approved, amongst other business, a revised fee scheme for 2014, an estimate of income and expenses for 2015-16, an interim report on progress made against the 2014-15 annual plan, a fee scheme for 2015 and an annual plan for 2015-16. These documents were laid before the National Assembly and scrutinised by the Finance Committee. The Board considered these documents in the context of the Wales Audit Office strategy for 2013-16 which remains relevant under the new governance arrangements.

For non-executive members, the Board Secretary maintained a register of interests, which was updated during the year to capture any additional information from declarations at Board and committee meetings. This ensured that potential conflicts of interest were identified in advance of meetings where practicable and appropriate action taken to mitigate them. Subject to applicable exemptions, this is available on request by emailing [info@audit.wales](mailto:info@audit.wales)

The Chair of the Wales Audit Office and the chairs of its committees have a right of access, and can report any matters of concern, directly to the Chair of the Finance Committee.

The Head of Internal Audit and the external auditor continue to have open and confidential access to the Audit and Risk Assurance Committee, including via a private session before each committee meeting.

The Board is satisfied that the Wales Audit Office is compliant with the requirements of the Code of Good Practice for Corporate Governance insofar as its requirements were relevant and practical. The arrangements did not comply with the Code's requirements in respect of board composition since to include ministerial representation and government officials would have risked compromising my independence as Auditor General.

## Attendance at Board and committee meetings 2014-15

	Board	ARAC	RC	MC
Number of meetings held	8	3	3	15
<b>Members of the Board and its committees</b>				
Isobel Garner – Non-executive Chair	8		3	
Steve Burnett – Non-executive Member and Senior Independent Director	7		2	
David Corner – Non-executive Member and Audit and Risk Assurance Committee (ARAC) Chair	8	3	3	
Peter Price – Non-executive Member and Remuneration Committee (RC) Chair	8		3	
Christine Hayes – Non-executive Member <sup>1</sup>	4	1	1	
Lindsay Foyster – Non-executive Member	1		1	
Huw Vaughan Thomas – Auditor General for Wales, Chief Executive and Accounting Officer <sup>2</sup>	8	3	3	13
Kevin Thomas – Appointed Employee Member and Director of Corporate Services <sup>3</sup>	8	3		14
Amanda Hughes – Elected Employee Member	6			
Louise Fleet – Elected Employee Member	7	2		
Gilbert Lloyd – Independent Non-executive ARAC Member <sup>4</sup>		1		
Alison Gerrard – Independent Non-executive ARAC Member		2		
<b>Members of the Management Committee (MC) who are not Board members<sup>5</sup></b>				
Anthony Barrett	3	1		12
Gillian Body	4	1		15
Mike Usher	1			14
Alan Morris	1			12
Steve O'Donoghue	7	3	3	11

<sup>1</sup> Christine Hayes, who was also a member of the ARAC, resigned from the Board for personal reasons in November 2014; in March 2015, the National Assembly appointed a new non-executive member, Lindsay Foyster, who the Board appointed to the ARAC in the same month

<sup>2</sup> Huw Vaughan Thomas attended ARAC and RC meetings in his capacity as Chief Executive and Accounting Officer.

<sup>3</sup> Kevin Thomas attended ARAC meetings in his capacity as Director of Corporate Services.

<sup>4</sup> The services of the former Chair of the Auditor General's Audit and Risk Management Committee, Gilbert Lloyd, were retained for six months to secure a measure of continuity pending completion of the audit of the Auditor General's 2013-14 annual report and accounts. Following an open recruitment exercise, the Board appointed a new independent member, Alison Gerrard, in October 2014

<sup>5</sup> Management Committee members attended meetings of the Board, ARAC and RC as necessary to give briefings or to take their advice

## Board performance and effectiveness review

In 2014-15, the Board commissioned external support for a Board effectiveness review which is being conducted in two phases. In March 2015 the Board received the interim report of the first phase - a benchmarking exercise focused on tasks and roles, interactions and individual contributions. That report helped to inform a development session in May 2015.

Later in 2015-16, phase two of the project will deliver an assessment report outlining strengths, areas for development, direction of travel, and recommending actions and activity to enhance performance. We will report on the outcomes in the 2015-16 annual report and accounts.

Also during the year:

- the Board continued with its convention of holding informal briefing sessions before meetings as an effective mechanism for improving members' knowledge and understanding of particular aspects of the business, thereby enhancing Board effectiveness;
- the Board participated in two externally facilitated development sessions including with the Senior Leadership Team, designed to strengthen working relationships, build a mutual understanding of respective roles, responsibilities and expectations, and to help shape our longer-term strategy;
- the Chair completed one-to-one reviews with each Board member in which she discussed with them their individual contributions; and
- the Senior Independent Director completed an appraisal of the Chair's performance and set objectives for 2015-16.

In May 2014, the Board continued to express some concerns about the quality of management information and the absence of an approved Wales Audit Office business plan with robust performance measures and targets against which it could monitor progress. In October 2014, executive management launched, on an internal pilot basis, a draft three-year business plan. Following a period of consultation and further development, a final version of the business plan, including agreed performance measures and associated targets, was approved by the Board in March 2015. The business plan was incorporated as part of the Annual Plan for 2015 16 which was published and laid before the National Assembly.

The Wales Audit Office also continued to refine its business cycle to ensure that executive management, Board committee and Board meetings are aligned appropriately for effective decision-making. This is an ongoing process that recognises the need to balance pre-planned agendas with the flexibility to account for matters that emerge at short notice.



## Report of the Audit and Risk Assurance Committee

The Audit and Risk Assurance presented its annual report to the Board and Accounting Officer in June 2015, summarising its conclusions from the work it had undertaken during 2014-15.

In terms of risk, the Committee reported that three items of business had warranted particular attention in 2014-15:

- the development of new risk management arrangements;
- the implementation of real-time recording arrangements; and
- the appointment of an elected employee Board member to the Committee.

Overall, the Committee was satisfied that, taking account of the internal and external audit opinions, it had completed sufficient work to provide assurance that the Wales Audit Office's systems are delivering an effective framework of governance, risk management and control.

## Report of the Remuneration Committee

The Remuneration Committee presented its annual report to the Board and Accounting Officer in May 2015. The Committee reported that its business in 2014-15 was largely reactive, dealing with specific matters brought to its attention by management rather than emerging from a pre-planned work programme.

In terms of risk, the Committee reported that three items of business had warranted particular attention:

- the competitiveness of a particular salary band range, and its implications for recruitment and retention of financial audit staff;
- the management of sickness absences, including staff sick pay entitlement and health screening; and
- the review of transport allowances and the current car lease scheme.

In 2015-16, the Committee intends to develop a forward work programme which will provide more comprehensive assurances to the Board on matters within the Committee's remit.

## Internal auditor's report

BDO LLP were appointed as the internal auditors of the Wales Audit Office for the year ended 31 March 2015 following a tender exercise which was concluded in June 2014. An internal audit plan was prepared for consideration and was approved by the Audit and Risk Assurance Committee at its meeting on 24 November 2014.

During 2014-15, seven internal audit reports were issued by BDO LLP on reviews of: payroll, financial controls (interim and final), real-time recording, fraud controls and business planning.

### Summary of the levels of assurance provided in internal audit report opinions in 2014-15

Design of internal control framework	Substantial			1	4
	Moderate			1	1
	Limited				
	None				
Assurance level	None	Limited	Moderate	Substantial	
Operational effectiveness of internal controls					

In his annual statement of assurance for 2014-15, the Head of Internal Audit reported that:

'As the provider of internal audit services to the Wales Audit Office, we are required to provide the Board with an opinion on the adequacy and effectiveness of internal control processes, which supports the organisation's own Governance statement.

'In giving our opinion it should be noted that assurance can never be absolute. The Internal Audit service provides the Wales Audit Office with reasonable assurance that there are no major weaknesses in the internal control system for the areas reviewed for the period from 1 April 2014 to 31 March 2015. Therefore, the statement of assurance is not a guarantee that all aspects of the internal control system are adequate and effective. The statement of assurance should confirm that, based on the evidence of the audits conducted, there are no signs of material weaknesses in the framework of control.

'In assessing the level of assurance to be given, we have taken into account:

- all internal audits undertaken by BDO LLP during 2014-15;
- follow-up action confirmed as taken in respect of audits from previous periods;
- whether any significant recommendations have not been accepted by management and the consequent risks;
- the impact of any significant changes in the Wales Audit Office's objectives or systems;
- the requirements of International Internal Audit Standards and Public Sector Internal Audit Standards; and
- Any limitations which may have been placed on the scope of internal audit.

'We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness of the Wales Audit Office's risk management and internal control arrangements.

'In our opinion, based on the reviews undertaken completed during the period, we are able to conclude that risk management, control and governance arrangements were operating with sufficient effectiveness to provide reasonable assurance that the related risk management, control and governance objectives were generally achieved by the end of the period under review.'

## Risk management

Given the nature of our business, our tolerance of risk in areas of professional audit judgement, regularity and propriety, and financial management is low. In other areas, such as in relation to the exchange of good practice and engaging more effectively with the public, we are prepared to accept more risk in order to take advantage of opportunities to pursue our aim and objectives.

The Wales Audit Office is committed to adopting best practice in the identification, evaluation and cost-effective control of risks to ensure they are reduced to an acceptable level or eliminated. It is acknowledged that some risks will always exist and will never be eliminated – but these too must be monitored and controlled.

### Risk management and control framework

The Board has overall responsibility for risk management, and receives and considers a strategic risk register at each of its meetings.

The Board is supported by the Audit and Risk Assurance Committee, which advises the Board on:

- its risk strategy, including the appropriateness of the organisation's approach to setting its appetite for risk;
- whether the risk management function is performing its role in accordance with relevant professional standards;
- the effectiveness of the risk identification and assessment processes that inform executive decision-making; and
- management's responsiveness to risk assessment.

The Management Committee is responsible for managing risk on a day to day basis, and maintains a risk register with identified strategic and operational risks that could affect the achievement of the Wales Audit Office's aim and objectives.

A summary risk register, which details any significant changes to the risk profile, is a standing agenda item at each Management Committee meeting. Management Committee reviewed the full risk register every quarter in 2014-15, in advance of its consideration by the Audit and Risk Assurance Committee.

The Accounting Officer advises the Board and its committees on the system of internal control, and is supported in doing so by the Management Committee.

## Account of risk management

At the beginning of 2014-15, the Head of Internal Audit finalised his review of the Wales Audit Office's risk management arrangements. The review set out to determine the extent to which the arrangements were in accordance with best practice and the extent to which risk management was embedded across the organisation.

The conclusion of the review was that whilst there were a number of strong features within the overall risk management model, there was a need to strengthen risk management arrangements in a number of areas, and to improve risk awareness and ownership throughout the organisation.

The Internal Audit report was used to inform a programme of work undertaken in 2014-15 to improve Wales Audit Office risk management arrangements. The Board agreed a strategic statement on risk at its meeting in July 2014, and approved a plan for developing improved risk management arrangements for formal launch on 1 April 2015. The key stages of the project were:

- development of a new risk management framework;
- redesigning the risk register to ensure that risks are clearly articulated and have clear mitigating controls and actions;
- including within the risk register both gross (inherent) and net (residual) risk ratings, to increase the level of clarity both of the risks themselves but also of the mitigating controls and actions;
- developing a clear process for risks to be escalated up to the strategic risk register;
- revising reporting arrangements at all levels to ensure that risk management can effectively inform and enable decision making; and
- ensuring that the risk framework and associated processes are fully embedded within management processes.

Key stakeholders were engaged throughout the delivery of the project to ensure ownership and that any concerns or queries were captured and addressed. The new risk management arrangements were agreed in principle by the Board in January 2015, and were run in parallel with existing risk management arrangements for the final quarter of the financial year to test their operational effectiveness. The new arrangements were formally launched on 1 April 2015.

## The Wales Audit Office's strategic risk profile

The Wales Audit Office's risk profile was amended over the course of 2014-15 as part of the broader project for improving risk management arrangements.

As in previous years, there were a number of key strategic risks that fluctuated during the year and that particularly engaged the time of the Board and Management Committee:

- Financial audit has experienced significant and persistent resourcing shortages through the year as a result of staff turnover and recruitment difficulties. In response, we reviewed the auditor salary package, tried new approaches to recruitment and accelerated the appointment of trainee auditors. This risk remains under active oversight by the Board in view of ongoing concerns that some future audit deadlines may be missed.
- We are continuing to work with the National Assembly's Finance Committee to overcome complexity and reduce risk in our fee charging arrangements. Section 23 of the Public Audit (Wales) Act 2013 requires that the fee charged for each individual piece of audit work at an audited body 'may not exceed the full cost' of that work. This requirement can result in a scenario where we have to refund costs for one piece of work whilst raising additional invoices for another, all for the same audited body. We are seeking a minor legislative change to enable fee scales and fee amounts to be set at an appropriate level for a particular body in the round.
- Last year, the Board approved a project to replace our out-dated financial audit management and records system. The project was in progress at the 2014-15 year-end and has, to date, remained on track and within budget. However, due to the previously mentioned resourcing difficulties, there remains a risk that implementation could be impacted during times of peak workload, thereby potentially affecting business continuity.
- The Wales Audit Office faces similar challenges to other public sector bodies in terms of securing a sustainable organisation delivering good value for money. These challenges are exacerbated by a number of factors, including:
  - experiencing a managed decline in our commissioned grants certification work, arising from a Welsh Government decision to bring the 2014-20 EU audit programme entirely in-house, and an ongoing review of its use of external auditors for grants certification;
  - having to make increases to some audit fees in order to comply with the revised fee-setting basis for our audit work introduced by the Public Audit (Wales) Act 2013, and due to an HMRC ruling on our VAT status;
  - increases in demand for us to undertake commissioned audit work; and
  - seeking out transformational changes to reduce our cost base whilst recognising that around 70 per cent of our costs relate to staffing.

I am satisfied that the risks associated with these projects have been monitored and managed effectively during the year.

In addition, a number of risks were successfully managed and removed from the risk register during 2014-15. These include:

- The risk of insufficient interest from firms in our supply contracts. We successfully mitigated this risk and awarded new supply contracts in 2014-15 which provide both better value for money and greater resourcing flexibility to support the Auditor General's work.
- The risk of initial tensions between the supervisory and executive nature of the new Board's functions such that the Auditor General's audit independence could be compromised. This risk has been addressed by successfully implementing our new governance arrangements, supported by a Code of Relationship Practice and the ongoing work of the Chair and Auditor General to mitigate that risk.
- The risk of delays to the delivery of the internal audit programme. Internal Audit has now been successfully outsourced to provide better value for money, and more reliable assurance on the operation of our internal control framework.

The Wales Audit Office faces a number of newly identified risks going forward into 2015-16, which have been reflected in our strategic risk register. These include:

- the risk of the Wales Audit Office having insufficient capacity, capability and flexibility to meet the requirements of the rapidly changing audit environment (including due to faster closure of local government accounts and the decline of commissioned grant certification work); and
- the risk of public service and constitutional reform resulting in significant changes to the volume and nature of our audit work.

We have commissioned work to improve our workforce planning arrangements to mitigate these new risks.

I will continue to ensure that risks are generally well managed, that where there are weaknesses, appropriate actions are in place to tackle them, and that the Wales Audit Office's internal controls are regularly reviewed to ensure they remain effective.

## Information governance

As Auditor General, I have privileged and wide-ranging access to data and information to support the discharge of my audit functions 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 and sensitive 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.

The Director of Corporate Services is accountable to the Board for information governance. He acted 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 adopted ISO 27001, the international standard for information security management, scaling its arrangements in line with the needs of the organisation.

There were no personal data related incidents reportable to the Information Commissioner's Office in 2014-15.

We are committed to openness and transparency in the way we operate as a business. The Auditor General and the Wales Audit Office have 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.



In the 2014-15 financial year, we received 44 requests for information. In two cases we did not meet the statutory deadline. In one of those cases the request was made in the course of ongoing dialogue with an Assembly Member, and a meeting was arranged to discuss related matters before the response was provided. In the other case, the request was embedded within audit related correspondence, and the auditor who was handling the correspondence did not initially recognise that an element necessitated handling in accordance with information law legislation.

We were not subject to any reviews in 2014-15 by the Information Commissioner.

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

**Huw Vaughan Thomas**  
Auditor General for Wales and Accounting Officer

10 June 2015

# Independent Auditor's Report to the National Assembly for Wales

We certify that we have audited the financial statements of the Wales Audit Office for the year ended 31 March 2015 under Schedule 1 of the Public Audit (Wales) Act 2013. These financial statements comprise the Summary of Resource Outturn, the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity, and related notes. The financial reporting framework that has been applied in their preparation is HM Treasury directions issued under the 2013 Act. We have also audited the information in the Remuneration Report that is described in the report as having been audited. We have also undertaken work to obtain reasonable assurance that expenditure to which the statement relates has been incurred lawfully and in accordance with the authority that governs it and that money to which the statement relates, received by the Wales Audit Office for a particular purpose or particular purposes, has not been expended otherwise than for that purpose or purposes.

This report is made solely to the National Assembly for Wales to whom it is addressed in accordance with the Public Audit (Wales) Act 2013 and for no other purpose. Our audit work has been undertaken so that we might state to the National Assembly for Wales those matters we are required to state to them in an auditor's report 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 Wales Audit Office, 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 68](#), the Wales Audit Office and the Auditor General for Wales are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and the Auditor General is also responsible for ensuring expenditure to which the statement relates has been incurred lawfully and in accordance with the authority that governs it and that that money to which the statement relates, received by the Wales Audit Office for a particular purpose or particular purposes, has not been expended otherwise than for that purpose or purposes.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International 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 a reasonable assurance opinion that expenditure to which the statement relates has been incurred lawfully and in accordance with the authority that governs it and that that money to which the statement relates, received by the Wales Audit Office for a particular purpose or particular purposes, has not been expended otherwise than for that purpose or purposes.

## Scope of the audit on the financial statements

A description of the scope of an audit on financial statements is provided on the [Financial Reporting Council's website](#).

We are also required to obtain evidence sufficient to give reasonable assurance that the expenditure to which the statement relates has been incurred lawfully and in accordance with the authority that governs it and that that money to which the statement relates, received by the Wales Audit Office for a particular purpose or particular purposes, has not been expended otherwise than for that purpose or purposes. We have conducted our work in accordance with the Audit Practices Board Practice Note 10 in this respect.

## Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Wales Audit Office affairs as at 31 March 2015 and of its net operating cost for the year then ended; and
- have been properly prepared in accordance with the HM Treasury directions issued under the Public Audit (Wales) Act 2013.

## Opinion on regularity

In our opinion:

- the expenditure to which the statement relates has been incurred lawfully and in accordance with the authority that governs it;
- the money to which the statement relates, received by the Wales Audit Office for a particular purpose or particular purposes, has not been expended otherwise than for that purpose or purposes.

## Opinion on other matters

In our opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance HM Treasury directions issued under the Public Audit (Wales) Act 2013; 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.

Baker Tilly UK Audit LLP  
11 June 2015

Registered Auditors  
Davidson House  
Forbury Square  
Reading  
RG1 3EU

# Primary financial statements and notes

Summary of Resource Out-turn for the year ended 31 March 2015

Note	2014-15 Estimate			2014-15 Out-turn			Net total out-turn compared to estimate	2013-14 Out-turn	
	Gross expenditure	Income	Net Total	Gross expenditure	Income	Net Total			
	£'000	£'000	£'000	£'000	£'000	£'000			
SORO1	Revenue	23,315	(17,639)	5,676	22,412	(17,119)	5,293	(383)	4,865
SORO1	Capital	298	-	298	289		289	(9)	20
	Total resources	23,613	(17,639)	5,974	22,701	(17,119)	5,582	(392)	4,885
SORO2	Net cash requirement			5,974			5,276	(698)	5,094

## Summary of cash payable to the Welsh Consolidated Fund (WCF)

Arising from the operations of the Wales Audit Office for the 2014-15 financial year, the sum of £698,000 is repayable to the WCF.

## Notes to the Summary of Resource Out-turn

### Note SORO1: Analysis of net resource out-turn 2014-15

This note has been included for 2014-15 to compare the out-turn with the Estimate for 2014-15 on the same basis as the Estimate was prepared and reflecting in-year management reporting. Information for 2013-14 is based on the Accounts format and hence is not directly comparable.

	2014-15 Estimate	2014-15 Out-turn	2014-15 Net out-turn compared to estimate	2013-14 Out-turn
	£'000	£'000	£'000	£'000
<b>Expenses</b>				
Staff-related costs <sup>1</sup>	16,230	15,693	(537)	15,722
Accommodation costs	941	913	(28)	850
Learning and development	407	408	1	144
IT costs	601	426	(175)	574
Supplies and services	5,136	4,972	(164)	7,038
<b>Total expenses</b>	<b>23,315</b>	<b>22,412</b>	<b>(903)</b>	<b>24,328</b>
<b>Income</b>				
Audit and inspection fees	(16,169)	(16,108)	61	(16,606)
WPI grant	(1,170)	(947)	223	(1,409)
Other income	(300)	(64)	236	(27)
<b>Total income</b>	<b>(17,639)</b>	<b>(17,119)</b>	<b>520</b>	<b>(18,042)</b>
Net revenue resource	5,676	5,293	(383)	6,286
<b>Capital expenditure</b>	<b>298</b>	<b>289</b>	<b>(9)</b>	<b>20</b>

<sup>1</sup> Staff related costs includes travel and subsistence included in other costs in the Statement of Comprehensive Expenditure and excludes the cost of training time for our trainees which is included within Learning and Development.

## Explanation of variances

The reduction in staff related costs as compared to the Estimate is as a result of staff vacancies during the year reflecting the recruitment difficulties faced, particularly in respect of financial auditors.

A reduced requirement for repairs and maintenance resulted in lower than planned expenditure on accommodation costs.

Expenditure on new IT equipment and software along with associated consultancy costs was lower than originally planned.

The supplies and services budget included general contingency sums that were not required in 2014-15.

The reduction in audit fee income as compared to 2013-14 reflects additional work carried out during 2013-14 and a reduction in fees received for grant certification work in 2014-15.

Income from the Wales Programme for Improvement (WPI) grant was less than originally anticipated due to a reduction in work carried out in the year.

The estimate for other income included expected fees for 'commissioned' work over and above our statutory audit work. The fees for this work have now been included within audit and inspection fees.

## Note SORO2: Reconciliation of net resource out-turn to net cash requirement

	2014-15 Estimate £'000	2014-15 Out-turn £'000	2013-14 Variance £'000	2013-14 Out-turn £'000
Revenue resources	5,676	5,293	(383)	4,865
Capital resources	298	289	(9)	20
<b>Adjustments:</b>				
Non-cash items (depreciation)		(177)	(177)	(97)
Movements in working capital other than cash		(129)	(129)	306
<b>Total net cash requirement</b>	<b>5,974</b>	<b>5,276</b>	<b>(698)</b>	<b>5,094</b>

The movements in working capital in the above table is net of the movements in receivables (minus £164,000), payables (plus £136,000) and current provisions (minus £101,000) as included in the Statement of Financial Position.

## Statement of Comprehensive Net Expenditure for the year ended 31 March 2015

	Note	2014-15 £'000	2013-14 £'000
<b>Expenditure</b>			
Staff and associated costs	4	15,406	15,291
Bought-in services	6	3,156	3,308
Other operating costs	7	3,850	4,093
Distribution of reserves to local government bodies	7	-	1,633
		<b>22,412</b>	<b>24,325</b>
<b>Income</b>			
Audit fee income	2	(16,108)	(16,606)
Inspection grant	2	(947)	(1,409)
Other operating income	3	(57)	(20)
		<b>(17,112)</b>	<b>(18,035)</b>
<b>Net (expenditure)</b>		<b>5,300</b>	<b>6,290</b>
Interest payable/(receivable)		(7)	(7)
Corporation tax payable/(recoverable)		-	3
<b>Net expenditure after tax and interest</b>		<b>5,293</b>	<b>6,286</b>
<b>Total comprehensive net expenditure for the year</b>		<b>5,293</b>	<b>6,286</b>

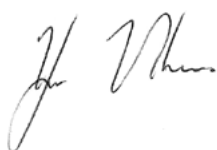
The notes that follow on [pages 93 to 115](#) form part of these financial statements

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

## Statement of Financial Position at 31 March 2015

	Note	31 March 2015 £'000	31 March 2014 £'000
<b>Non-current assets</b>			
Property, plant and equipment	8	623	666
Intangible assets	9	252	97
		<b>875</b>	<b>763</b>
<b>Current assets</b>			
Trade receivables and work in progress	10	2,166	1,996
Other receivables	11	566	572
Cash and cash equivalents	12	2,841	4,489
		<b>5,573</b>	<b>7,057</b>
<b>Total assets</b>		<b>6,448</b>	<b>7,820</b>
<b>Current liabilities</b>			
Trade payables and other current liabilities	13	(2,055)	(1,860)
Deferred income	14	(2,404)	(2,463)
Provisions for liabilities and charges	15	(536)	(637)
Distribution of reserves to local government bodies	13	(2)	(1,633)
WCF (see Summary of Resource Out-turn)		(698)	(337)
		<b>(5,695)</b>	<b>(6,930)</b>
<b>Total assets less current liabilities</b>		<b>753</b>	<b>890</b>
<b>Non-current liabilities</b>			
Provisions for liabilities and charges	15	(770)	(890)
		<b>(770)</b>	<b>(890)</b>
<b>Total assets less liabilities</b>		<b>(17)</b>	<b>(0)</b>
<b>Taxpayers' equity</b>			
General fund		(17)	(0)
		<b>(17)</b>	<b>(0)</b>

The notes that follow on [pages 93 to 115](#) form part of these financial statements.



**Huw Vaughan Thomas**  
Auditor General for Wales and Accounting Officer

10 June 2015



## Statement of Cash Flows for the year ended 31 March 2015

		2014-15	2013-14
	Note	£'000	£'000
<b>Cash flows from operating activities</b>			
Comprehensive net expenditure		5,293	6,286
Non cash: depreciation and amortisation	7	(177)	(227)
Increase/(decrease) in trade and other receivables	10, 11	164	1,046
(Increase)/decrease in trade and other payables	13, 14	(136)	(316)
(Increase)/decrease in distribution of reserves to LG bodies	13, 14	1,631	(1,633)
(Increase)/decrease in provisions	15	221	(17)
<b>Net cash outflow from operating activities</b>		<b>6,996</b>	<b>5,139</b>
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment	8	72	16
Purchases of intangible assets	9	217	38
<b>Net cash outflow from investing activities</b>		<b>289</b>	<b>54</b>
<b>Cash flows from financing activities</b>			
WCF		(5,974)	(5,431)
WCF repaid		337	268
<b>Net financing</b>		<b>(5,637)</b>	<b>(5,163)</b>
<b>Movements in cash and cash equivalents</b>	12	<b>1,648</b>	<b>30</b>

The notes that follow on [pages 93 to 115](#) form part of these financial statements.

## Statement of Changes in Taxpayers' Equity for the year ended 31 March 2015

	<b>£'000</b>
<b>Balance at 31 March 2013</b>	1,192
Changes in taxpayers' equity in 2013-14	
Total comprehensive expenditure	(6,286)
WCF finance	5,431
	337
Payable to WCF	(337)
<b>Balance at 31 March 2014</b>	<b>0</b>
Changes in taxpayers' equity in 2014-15	
Total comprehensive expenditure	(5,293)
WCF finance	5,974
	681
Payable to WCF <sup>1</sup>	(698)
<b>Balance at 31 March 2015</b>	<b>(17)</b>

<sup>1</sup> As reported in the Summary of Resource Out-turn for the year ended 31 March 2015.

The notes that follow on [pages 93 to 115](#) 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 2014-15 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 (IFRS) 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 Wales Audit Office for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Wales Audit Office 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 32 of Schedule 1 of the Public Audit (Wales) Act 2013. 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 WCF is not direct government grant and is credited directly to taxpayers' equity.
- (iv) The PCSPS is an unfunded multi-employer defined benefit scheme to which both employee and employer contribute. The Wales Audit Office 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.
- (v) 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.
- (vi) 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.

- (vii) Fixed assets are held at depreciated replacement costs as an approximation to fair value.
- (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 (including IT infrastructure)	10 years (or shorter of asset life or length of lease for fittings in leased buildings)
Computer equipment	3 years
Office equipment	5 years

The change in depreciation policy for fixtures and fittings has resulted in a reduction in depreciation charges in 2015-16 of £67,000.

Under the Wales Audit Office'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 (a): Wales Audit Office operating segments

2014-15

	Financial audit	Performance audit	Activities funded by WCF	Total
	£'000	£'000	£'000	£'000
Audit fees	(12,268)	(3,840)		(16,108)
Grant		(947)		(947)
Other income			(57)	(57)
<b>Total</b>	<b>(12,268)</b>	<b>(4,787)</b>	<b>(57)</b>	<b>(17,112)</b>
Expenditure	12,582	4,480	5,350	22,412
	<b>314</b>	<b>(307)</b>	<b>5,293</b>	<b>5,300</b>

2013-14<sup>7</sup>

	Financial audit	Performance audit	Activities funded by WCF	Total
	£'000	£'000	£'000	£'000
Audit fees	(11,848)	(4,758)		(16,606)
Grant		(1,409)		(1,409)
Other income			(20)	(20)
<b>Total</b>	<b>(11,848)</b>	<b>(6,167)</b>	<b>(20)</b>	<b>(18,035)</b>
Expenditure	12,343	6,571	5,411	24,325
	<b>495</b>	<b>404</b>	<b>5,391</b>	<b>6,290</b>

The Wales Audit Office reports income and expenditure on its two main audit functions for which fees are charged and also for activities which are funded directly from the Welsh Consolidated Fund (WCF). More detail on these activities is provided in the Strategic Report on [pages 9 to 50](#).

<sup>7</sup> Prior to 2014-15 our expenditure was analysed to separately distinguish those elements of the budget of the Wales Audit Office that were subject to approval by budget motion of the National Assembly from those elements that were not. From 1 April 2014 all income and expenditure is subject to such approval. 2013-14 comparative information has been restated to reflect this.

## Reconciliation to Statement of Comprehensive Net Expenditure

	<b>2014-15</b>	<b>2013-14</b>
	<b>£'000</b>	<b>£'000</b>
Net expenditure per above analysis	5,300	6,290
Corporation tax	0	3
Interest receivable	(7)	(7)
Per Statement of Comprehensive Net Expenditure	5,293	6,286

## Note 2 (b): Analysis of audit fee income

	<b>2014-15</b>			<b>2015-16</b>		
	<b>Financial Audit</b>	<b>Performance Audit</b>	<b>Total</b>	<b>Financial Audit</b>	<b>Performance Audit</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Local Government Audit	6,146	2,556	8,702	5,433	3,456	8,889
Local Government Grant Certification	2,079	-	2,079	2,496	-	2,496
NHS	2,107	1,273	3,380	2,039	1,263	3,302
Central Government Audit	1,936	11	1,947	1,880	39	1,919
	12,268	3,840	16,108	11,848	4,758	16,606

## Note 3: Other operating income

	<b>2014-15</b>	<b>2013-14</b>
	<b>£'000</b>	<b>£'000</b>
Sundry income	57	20
	57	20

## Note 4: Staff and associated costs

<b>(i) Staff costs</b>	<b>2014-15</b>	<b>2013-14</b>
	<b>£'000</b>	<b>£'000</b>
Staff salaries	10,655	10,668
Non-executive committee member fees <sup>1</sup>	59	90
Social security costs	1,055	1,042
Pension costs (PCPS) <sup>2</sup>	2,115	2,116
Pension costs (Stakeholder pensions)	3	7
	13,887	13,923
Transport allowance and leased cars	772	742
Subscriptions and other benefits <sup>3</sup>	48	47
	14,707	14,712
Audit and inspection contractors <sup>4</sup>	548	323
	15,255	15,035
Redundancy, early retirement and severance costs	240	400
Less monies received in respect of outward secondments <sup>5</sup>	(89)	(144)
Net staff costs	15,406	15,291

1 As stated in the Remuneration Report with the exception of the Chair of the Wales Audit Office Board whose remuneration is met by the Welsh Consolidated Fund.

2 Principal Civil Service Pension Scheme as described in the Remuneration Report.

3 Mainly fees for the membership of professional bodies

4 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

5 A member of the senior leadership team was seconded to another organisation for 6 months of the financial year. The Wales Audit Office was reimbursed 50% of the costs of this secondment for 2 months which are included within this figure.



**(ii) Staff numbers**

	<b>2014-15</b>	<b>2013-14</b>
	<b>£'000</b>	<b>£'000</b>
Average number of full-time-equivalent, UK-based, permanent staff employed during the year	241	243
Audit and inspection contractors (average number of full-time equivalents in year)	12	7

More detailed information in respect of the remuneration and pension entitlements of the senior management is shown in the Remuneration Report on [pages 59 to 67](#).

No members of staff retired early on health grounds during the year.

## Note 5: Redundancies, early retirements and severances

The Wales Audit Office operates voluntary severance arrangements in accordance with the Civil Service Compensation Scheme 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 2014-15 was £316,825 (2013-14: £378,409). This will deliver annual savings of £330,000.

A number of employees entered into approved exit packages during 2014-15 and 2013-14 as summarised below:

Exit package cost band	2014-15			2013-14		
	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 £25,000	-	1	1	-	-	-
£25,001 – £50,000	-	2	2	-	1	1
£50,001 – £100,000	-	2	2	-	2	2
£100,001 – £150,000	-	1	1	-	1	1
<b>Total</b>	-	<b>6</b>	<b>6</b>	-	<b>4</b>	<b>4</b>

Five of the six people who were approved for voluntary exit in 2014-15, had leaving dates in 2015-16. The costs of the 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. Any additional costs that are not met by the PCSPS are met instead by the Wales Audit Office and are recognised in these financial statements.

## Note 6: Bought-in services

	<b>2014-15</b>	<b>2013-14</b>
	<b>£'000</b>	<b>£'000</b>
Payments to private accountancy firms	3,070	3,168
Research and other consultancy costs	86	140
	<hr/> 3,156	<hr/> 3,308

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

	<b>2014-15</b>	<b>2013-14</b>
	<b>£'000</b>	<b>£'000</b>
Accommodation		
Rent lease costs	459	453
Other costs	373	397
Supplies and services	1,931	2,233
Recruitment and transfers	62	76
Depreciation and amortisation	177	227
Professional fees		
Internal audit services	30	17
External audit fees	37	25
Fees for other services (VFM)	-	-
Other professional fees	78	90
Travel and subsistence	492	431
Learning & development	203	144
Distribution of reserves to local government bodies <sup>1</sup>	-	1,633
Write off of debts	8	-
	<hr/> 3,850	<hr/> 5,726

<sup>1</sup> Accumulated reserves to 31 March 2014 were distributed to local government bodies in accordance with the commitment made in the annual Estimate for 2014-15.

## Note 8: Property, plant and equipment

	Furniture and fittings	Information technology	Office equipment	Total
2014-15	£'000	£'000	£'000	£'000
<b>Cost</b>				
At 31 March 2014	1,377	223	115	1,715
Additions	-	49	23	72
Disposals	-	-	-	-
At 31 March 2015	1,377	272	138	1,787
<b>Depreciation</b>				
At 31 March 2014	826	137	86	1,049
Provided in period	81	15	19	115
Disposals	-	-	-	-
At 31 March 2015	907	152	105	1,164
<b>Net book value</b>				
At 31 March 2015	470	120	33	623
At 31 March 2014	551	86	29	666
<b>Asset financing</b>				
Owned	470	120	33	623

<b>2013-14</b>	<b>Furniture and fittings</b>	<b>Information technology</b>	<b>Office equipment</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Cost</b>				
At 31 March 2013	1,377	207	115	1,699
Additions	-	16	-	16
Disposals	-	-	-	-
At 31 March 2014	1,377	223	115	1,715
<b>Depreciation</b>				
At 31 March 2013	697	121	65	883
Provided in period	129	16	21	166
Disposals	-	-	-	-
At 31 March 2014	826	137	86	1,049
<b>Net book value</b>				
At 31 March 2014	551	86	29	666
At 31 March 2013	680	86	50	816
<b>Asset financing</b>				
Owned	551	86	29	666

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.

	<b>Total</b>
<b>2014-15</b>	<b>£'000</b>
<b>Cost</b>	
At 31 March 2014	719
Additions	217
Disposals	(107)
At 31 March 2015	<u>829</u>
<b>Amortisation</b>	
At 31 March 2014	622
Provided in period	62
Disposals	(107)
At 31 March 2015	<u>577</u>
<b>Net book value</b>	
At 31 March 2015	<u>252</u>
At 31 March 2014	<u>97</u>
<b>Asset financing</b>	
Owned	<u>252</u>

	<b>Total</b>
<b>2013-14</b>	<b>£'000</b>
<b>Cost</b>	
At 31 March 2013	712
Additions	38
Disposals	(31)
At 31 March 2014	<u>719</u>
<b>Amortisation</b>	
At 31 March 2013	592
Provided in period	61
Disposals	(31)
At 31 March 2014	<u>622</u>
<b>Net book value</b>	
At 31 March 2014	<u>97</u>
At 31 March 2013	<u>120</u>
<b>Asset financing</b>	
Owned	<u>97</u>

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.

No material inventories are held.

## Note 10: Trade receivables and work in progress

	<b>31 March 2015</b>	<b>31 March 2014</b>
	<b>£'000</b>	<b>£'000</b>
Trade receivables		
Central government	102	82
Local government	616	253
NHS	242	205
External to government	18	31
Work in progress		
Central government	455	592
Local government	587	833
NHS	6	-
External to government	140	
	<hr/> 2,166	<hr/> 1,996

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

A provision for bad and doubtful debts has not been required in 2014-15 (2013-14: not required).



## Note 11: Other receivables

	<b>31 March 2015</b>	<b>31 March 2014</b>
	<b>£'000</b>	<b>£'000</b>
Prepayments and accrued income	565	571
Loans to employees <sup>1</sup>	1	1
	<hr/> 566	<hr/> 572

<sup>1</sup> Cycle to work scheme

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:

	<b>31 March 2015</b>	<b>31 March 2014</b>
	<b>£'000</b>	<b>£'000</b>
Central government bodies	585	704
Local government bodies	1,375	1,268
NHS bodies	248	205
Bodies external to government	524	391
	<hr/> 2,732	<hr/> 2,568

## Note 12: Cash and cash equivalents

	<b>31 March 2015</b>	<b>31 March 2014</b>
	<b>£'000</b>	<b>£'000</b>
Balance at 1 April	4,489	4,519
Net change in cash and cash equivalents	(1,648)	(30)
Balance at 31 March	<u>2,841</u>	<u>4,489</u>

	<b>31 March 2015</b>	<b>31 March 2014</b>
	<b>£'000</b>	<b>£'000</b>
Current account	2,128	2,781
Euro account	1	1
Global Treasury Fund	712	1,707
	<u>2,841</u>	<u>4,489</u>

Cash and cash equivalents include all funds held in accounts to which the Wales Audit Office has instant access. The Current account includes an overnight interest-bearing facility. The Euro account is maintained to simplify occasional overseas transactions.

The Global Treasury Fund is provided by the Goldman Sachs. 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

	<b>31 March 2015</b>	<b>31 March 2014</b>
	<b>£'000</b>	<b>£'000</b>
Trade payables <sup>1</sup>	585	217
VAT	80	53
Taxation and social security costs	327	320
Accrual for holiday entitlement not yet taken	481	481
Redistribution of reserves to local government bodies <sup>2</sup>	2	1,633
Other accruals <sup>3</sup>	582	789
	2,057	3,493

1 All trade payables are falling due within one year.

2 In accordance with the 2013 Act, the Wales Audit Office is unable to hold accumulated reserves effective from 1 April 2014. In preparation for this, reserves accumulated to 31 March 2014 were distributed to local government bodies. There is a balance of £1,560 to be distributed to 52 town and community councils.

3 The bulk of the other accruals (£330,000) relates to accrual of trade payable invoices received post year end. £250,000 is in respect of pension contributions for March 2015, paid in April 2015.

## Note 14: Deferred income

	<b>31 March 2015</b>	<b>31 March 2014</b>
	<b>£'000</b>	<b>£'000</b>
Deferred income	2,404	2,463
	2,404	2,463

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:

	<b>31 March 2015</b>	<b>31 March 2014</b>
	<b>£'000</b>	<b>£'000</b>
Central government bodies	645	461
Local government bodies	1,752	3,179
NHS bodies	990	1,043
Bodies external to government	1,074	1,273
	<hr/> 4,461	<hr/> 5,956

## Note 15: Provisions for liabilities and charges

	<b>Dilapidations<sup>1</sup></b>	<b>Early retirement and severance<sup>2</sup></b>	<b>HMRC</b>	<b>Other</b>	<b>Totals</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
At 31 March 2014	556	882	89	-	1,527
Provided in year	28	247	10	50	335
Provisions utilised in year	-	(523)	-	-	(523)
Provisions released in year			(33)		(33)
At 31 March 2015	<hr/> 584	<hr/> 606	<hr/> 66	<hr/> 50	<hr/> 1,306

1 The Wales Audit Office uses HM Treasury's discount rate net of CPI at November 2014 for balances of 5-10 years of -1.50 per cent to calculate this balance

2 The Wales Audit Office uses HM Treasury's discount rate net of CPI at November 2014 of 1.30 per cent to calculate this balance.

Analysis of expected timing:

	<b>Dilapidations</b>	<b>Early retirement and severance</b>	<b>HMRC</b>	<b>Other</b>	<b>Totals</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Not later than one year	30	390	66	50	536
Later than one year and not later than five years	38	216	-	-	254
Later than five years	516	-	-	-	516
	<b>584</b>	<b>606</b>	<b>66</b>	<b>50</b>	<b>1,306</b>

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 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 a contractor who has provided services to the Wales Audit Office during the period 1 April 2009 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 Death in Service benefit.

The other provision reflects a commitment to compensate leased car users adversely affected at the end of the current lease scheme.

## Note 16: Operating leases

There were aggregate minimum lease payments at 31 March 2015 in respect of non-cancellable car leases:

	<b>31 March 2015</b>	<b>31 March 2014</b>
	<b>£'000</b>	<b>£'000</b>
Within one year	189	158
Within one to five years	226	241
	<hr/>	<hr/>
	415	399

There were aggregate minimum lease payments at 31 March 2015 in respect of the three office accommodation leases:

	<b>31 March 2015</b>	<b>31 March 2015</b>	<b>31 March 2014</b>	<b>31 March 2014</b>
	<b>£'000</b>	<b>Number of properties</b>	<b>£'000</b>	<b>Number of properties</b>
Within one year	440	3	446	3
Within one to five years	1,563	2	1,783	2
Over five years	1,042	1	1,262	1
	<hr/>		<hr/>	
	3,045		3,491	

Office accommodation leases are subject to periodic rent reviews.

## Note 17: Capital commitments

There were no capital commitments at 31 March 2015 (31 March 2014: none).

## Note 18: Losses and special payments

### Special payments

There were no special payments in 2014-15 (2013-14: none).

### Losses

There were no disclosable losses in 2014-15 (2013-14: none).

## Note 19: Derivatives and financial instruments

IFRS 7 **Financial Instruments Disclosures** requires disclosure of information about the significance of financial instruments to an entity, and the nature and extent of risks arising from those financial instruments, both in qualitative and quantitative terms. Owing to the nature of the Wales Audit Office'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 Wales Audit Office can borrow funds, the office has not been required to do so in this financial year. The Wales Audit Office can also invest surplus funds, which is done through an overnight interest-bearing account and in the Global Treasury 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 risk appetite, and the backing of the WCF, the Wales Audit Office is not exposed to significant liquidity risks.

### Interest rate risk

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

### Foreign currency risk

The Wales Audit Office'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 Wales Audit Office's financial assets and liabilities as at 31 March 2015 (31 March 2014: nil).



## Note 20: Related party transactions

The Wales Audit Office is a body corporate established under statute and has had material transactions with the Welsh Consolidated Fund and with bodies audited by the Auditor General 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

The Wales Audit Office works to annual funding arrangements by statute. Although voted funding has only been approved for nine months after the date of signing these statements, an Estimate for the 2016-17 financial year will be presented to the Finance Committee of the National Assembly in the autumn of 2015-16 and there is no reason to believe that funding will not be approved for that financial year.

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## Estimate of the Income and Expenses for the Year Ending 31 March 2017

Jointly prepared and laid before the National Assembly for Wales under  
Section 20(1) of the Public Audit (Wales) Act 2013.

Isobel Garner  
**Chair, Wales Audit Office**

Huw Vaughan Thomas  
**Auditor General for Wales**

# Preface

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.

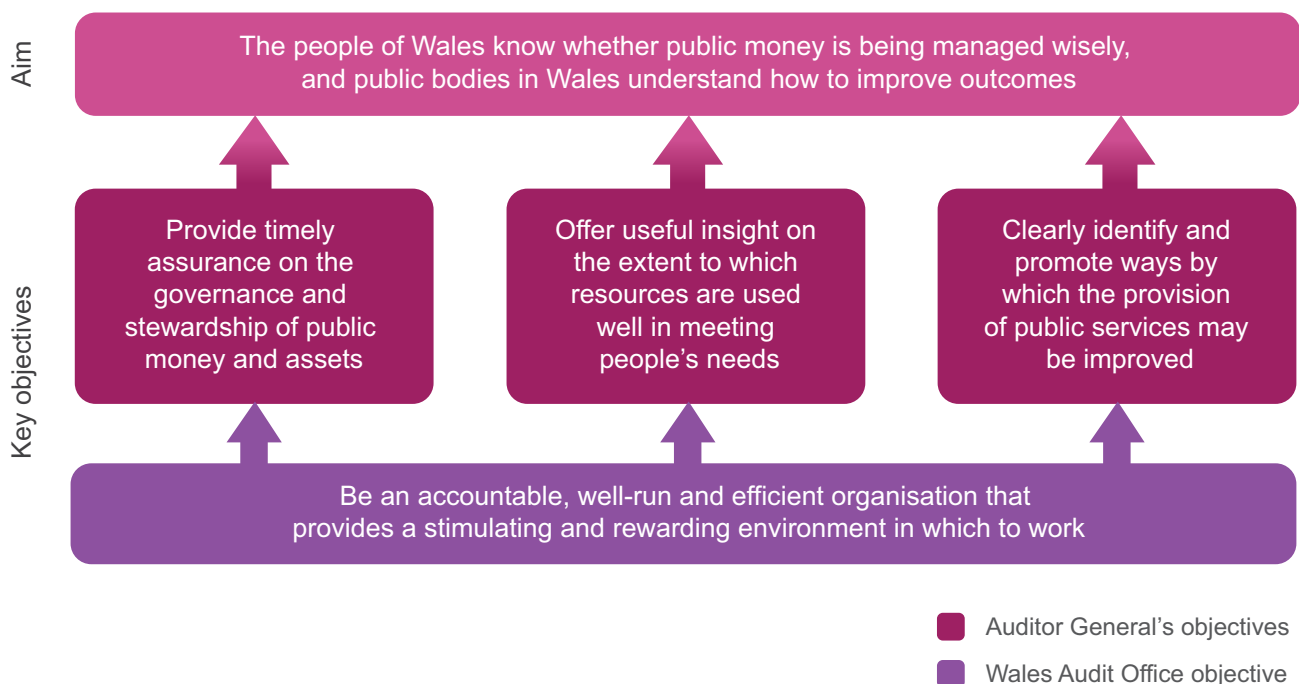
The Finance Committee of the National Assembly may make any modifications to the estimate which it considers appropriate, but no modification can be made unless:

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

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.

For the first time a draft Fee Scheme, prepared under Section 24 of the Public Audit (Wales) Act 2013, is included for consideration alongside the Estimate.

## Wales Audit Office's aim and objectives



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# Foreword

The Board of the Wales Audit Office has prepared this Estimate jointly with the Auditor General, fulfilling our statutory remit to provide resources to the Auditor General and to secure resources for our own work programme.

Our aim at the Wales Audit Office is for the people of Wales to know whether public money is being managed wisely and for public bodies in Wales to understand how to improve outcomes. We are clear that the vital role of independent audit is never more heightened than when resources are scarce and sound decision making is ever more crucial in positively impacting people's lives.

This Estimate demonstrates the Board's determination that the Wales Audit Office is a well-run and accountable organisation. Despite the significant cost pressures we face next year, through forward planning and a focus on efficiency and effectiveness we are able to freeze the fee rates for our audit staff. We are making savings of over £1 million to make this possible, containing our costs to less than a fifth of one penny of every pound audited.

There is a direct dependency between our Estimate, as approved by the National Assembly's Finance Committee, and the fee rates we set. Within this document, for the first time we include a Draft Fee Scheme so that the Finance Committee can consider it alongside the Estimate. The fee rates and fee scales included have been subject to consultation not only with local government bodies, as required by statute, but with all other audited bodies too. We see this as an important step in enhancing transparency.

The consultation feedback has told us that, in the main, audited bodies welcome the greater transparency in how fees are calculated and the proposed further freezing of our fee rates. We are sensitive to the pressures faced by audited bodies, and the need for our audit work to continue to add value as well as provide assurances on governance and use of the public pound. The consultation feedback reinforces the continuing need for us to streamline our audit approaches and ensure the right skills mix to deliver quality work with maximum impact to help public bodies secure change and improvement. In this Estimate we set out how we are playing our part in austerity.

The Estimate and Fee Scheme are joined by our Business Plan including the Annual Plan. The Annual Plan sets out our key priorities, objectives and performance measures for the year, providing a fuller picture of the use of the resources secured through the Estimate. Our Annual Plan for 2015-16 included forward priorities for 2016-17, which will be delivered through this Estimate and be further detailed in the Annual Plan for 2016-17, to be laid before the National Assembly in March 2016.

As we present this Estimate and Draft Fee Scheme for consideration, we stress our determination for the Wales Audit Office to play its part in austerity alongside ensuring that we continue to help public bodies secure change and improvement through these challenging times.

Isobel Garner  
**Chair, Wales Audit Office**

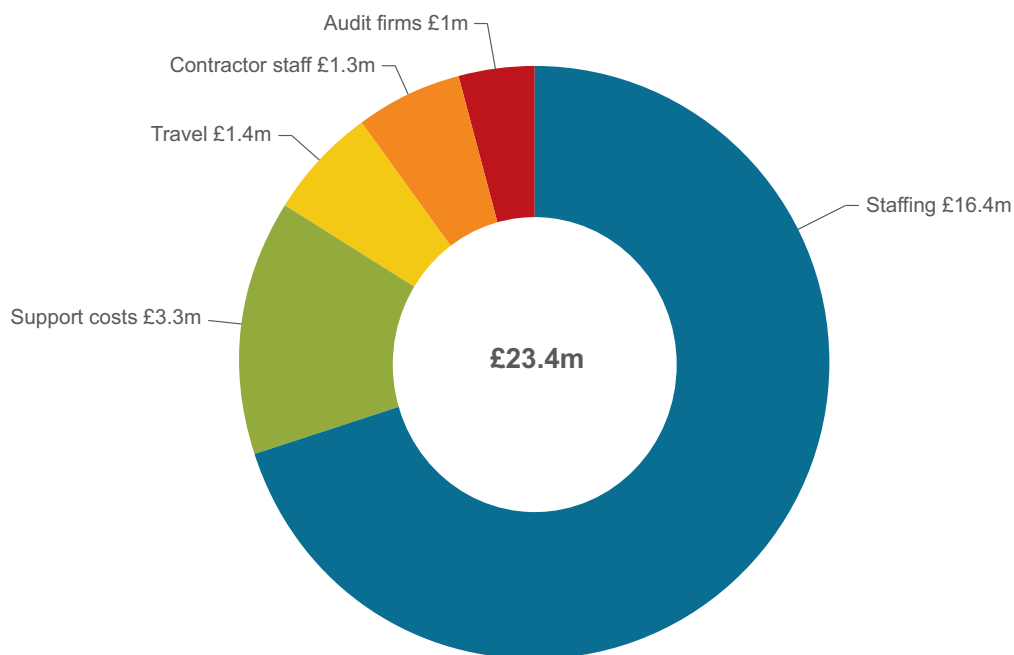
Huw Vaughan Thomas  
**Auditor General for Wales**

# The impact, cost and funding of the Wales Audit Office

- 1 Independent audit of the use of public funds is an essential component of democratic accountability. The public needs to be adequately informed about the activities of public bodies and how they use public money. And, public bodies need to understand how to improve outcomes and succeed. The public needs to be able to access information which is timely, impartial, accurate, comprehensive and clear. It is in these difficult times, of much greater pressures and risk, but also opportunity, that the role of audit is heightened.
- 2 Every year, the Auditor General reports on the accounts of over 800 public bodies in Wales; undertakes annual improvement assessments at all 28 local government improvement authorities and structured assessments at all 10 NHS bodies. He publishes around 15 national reports annually, looking at value for money and proper use of public money, and certifies over £2.5 billion worth of grant claims. It is this work that provides the quantum over which the Wales Audit Office costs are recovered, by way of fee charges to audited bodies, a grant for the Wales Programme for Improvement (WPI) work, and funding from the Welsh Consolidated Fund (WCF).

## Expenditure

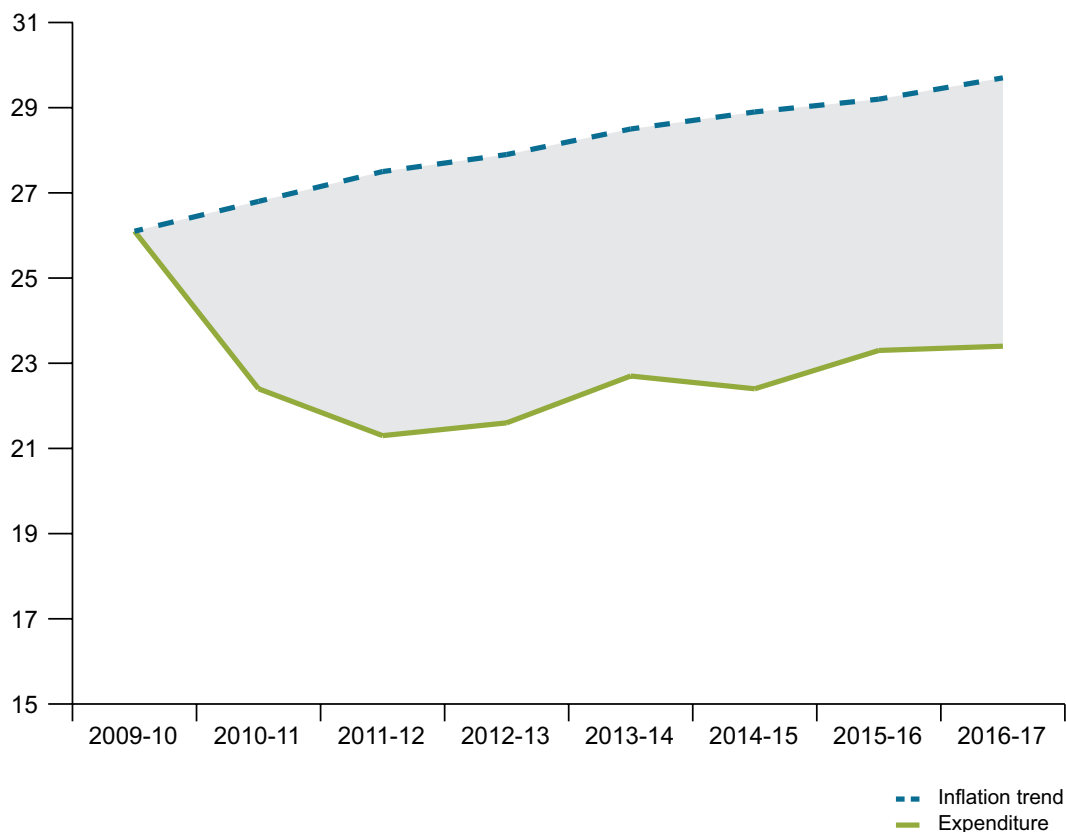
Exhibit 1: Estimate of expenses 2016-17





- 3 The Wales Audit Office provides the Auditor General with the resources he needs to undertake his work effectively. The majority of our costs relate to the 272 full-time equivalent staff we employ, our contractors, the delivery of services across Wales and providing the necessary infrastructure and support services to deliver our work. Further detail can be found in [Appendix 1](#).
- 4 Since 2009-10, the Wales Audit Office has reduced its expenditure by 21.5 per cent in real terms<sup>1</sup>, as represented in [Exhibit 2](#). The cumulative saving generated across those years (the shaded area in [Exhibit 2](#)) amounts to over £41 million, reducing both the call on the WCF, other than for new responsibilities, and the amount required to be raised from audit fees.

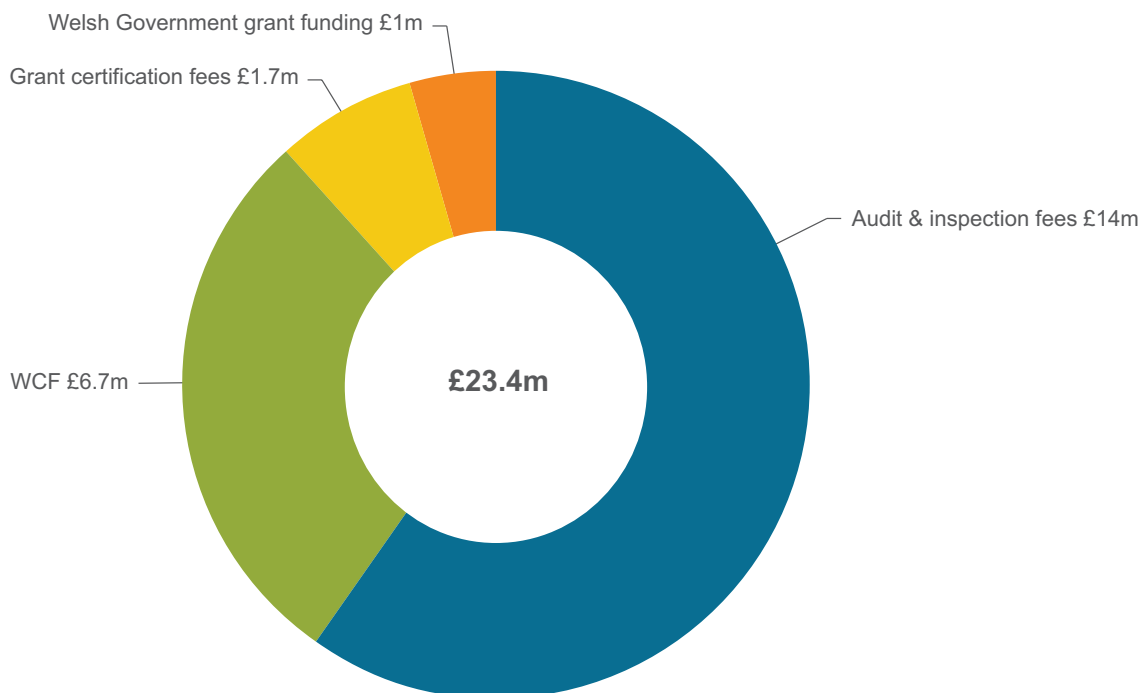
Exhibit 2: Expenditure 2009-10 to 2016-17



<sup>1</sup> Based on GDP deflators published by ONS June 2015

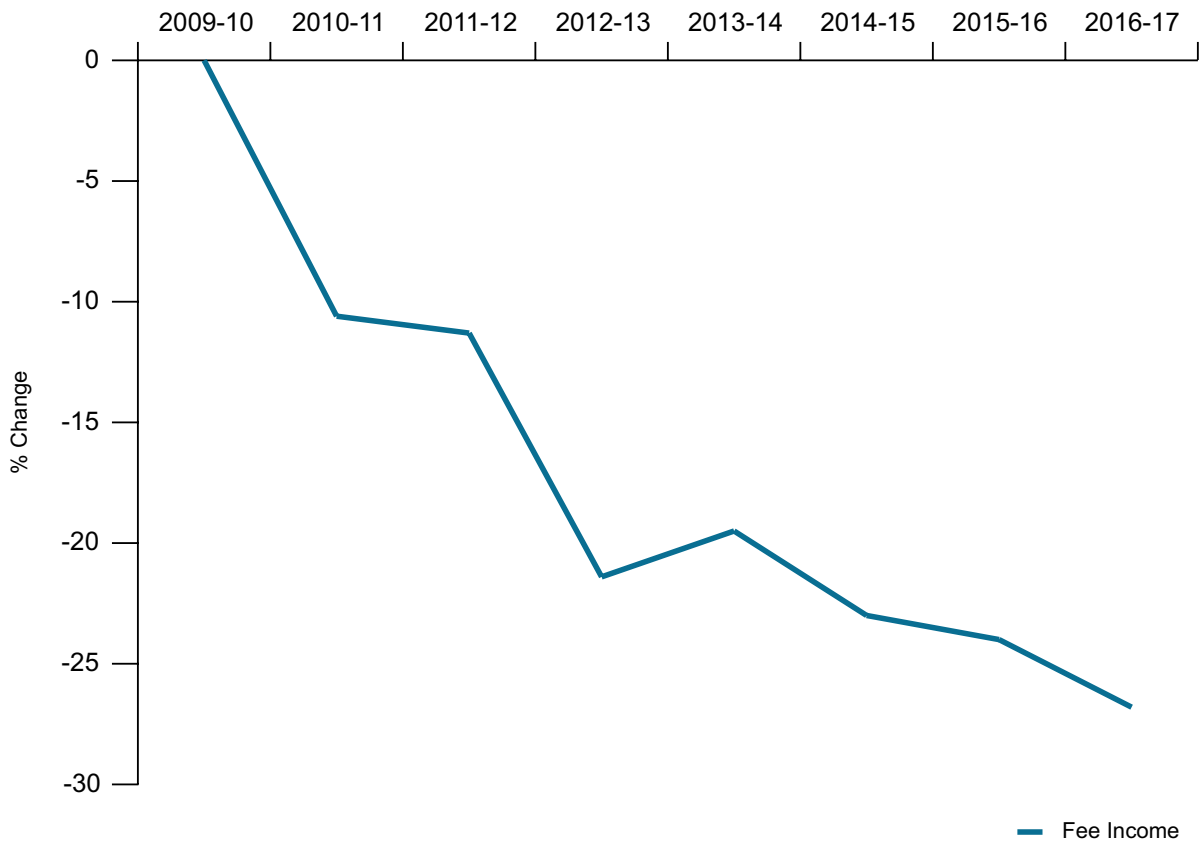
## Funding

Exhibit 3: Estimated funding 2016-17



- 5 Broadly, 71 per cent of the Wales Audit Office's expenditure is funded through fees charged to audited bodies and a grant from the Welsh Government for the WPI. The remaining 29 per cent is provided directly from the WCF, per [Exhibit 3](#). This is comparable with Audit Scotland which received 74 per cent of its income from fees in 2014-15. Further details on our income and expenditure can be found in [Appendix 1](#).

Exhibit 4: Real-terms reduction in fee income 2009-10 to 2016-17



6 Exhibit 4 illustrates the trend in our annual fee income from 2009-10 to our estimated position for 2016-17 showing a 26.8 per cent reduction in fee income over the period.

# Cost reduction and cost efficiency at the Wales Audit Office

- 7 Since 2009-10 we have reduced our operating costs by over 21 per cent in real terms. In 2016-17 we face significant cost pressures, as set out in [Exhibit 5](#):

## Exhibit 5: Significant cost pressures in 2016-17

	£'000
Cost of one per cent public sector pay policy along with contractual pay increments	460
Cost of inflationary increases on other areas including increased energy costs and business rates for our premises and workforce planning	350
Cost of statutory increases in employers' national insurance contributions	190
<b>TOTAL</b>	<b>1,000</b>

- 8 The Board is committed to ensuring the Wales Audit Office itself is a well-run and accountable organisation that demonstrates the highest standards of efficiency and effectiveness and that our work represents good value. Cost efficiency continues to be a priority for the Board. Building on savings achieved in previous years, we take a forward-planning approach that will enable us to achieve additional savings for 2016-17. This means that we can fund the above mentioned significant pressures without impacting fee rates or increasing our call on the WCF (other than for agreed additional activities). To deliver this, we will achieve the savings set out in [Exhibit 6](#).

## Exhibit 6: Savings identified for 2016-17

	£'000
Procurement savings from revised contracting arrangements with audit firms	640
Efficiency and Effectiveness Programme and vacancy management	220
Reduction in management and administration costs	140
<b>TOTAL</b>	<b>1,000</b>

- 9 So as to ensure the most cost-effective audit operating model, steps taken over the past year mean that we will be containing our operating costs by undertaking more audit work in-house, with less contracted out to audit firms. This will result in us spending £0.6 million less on a like-for-like basis next year for a quantum of audit work currently contracted out.
- 10 Continued streamlining of our structures, processes and the services provided by our corporate centre mean that our overhead costs are expected to be £1.1 million (14 per cent) lower than equivalent spend in 2013-14. We have restructured, contracted out payroll and internal audit services, and are part-way through a fundamental review of our key business processes with a view to searching out further opportunities for improved value for money.

# Securing quality audit delivery for the Auditor General

- 11 We provide highly skilled staff to undertake broadly 90 per cent of the Auditor General's work programme, complemented by a further 10 per cent of audit resource contracted from private sector accountancy firms and specialist contractors. It is this strength of expertise that reports on the accounts of over 800 public bodies in Wales; undertakes annual improvement assessments and structured assessments, produces national reports and certifies over £2.5 billion worth of grant claims. The main operational activities of the Auditor General are set out in [Appendix 2](#).

## Well-being of Future Generations Act 2015

- 12 The Well-being of Future Generations (Wales) Act 2015 requires specified public bodies to set and publish well-being objectives, take steps to meet those objectives and report annually on their progress. It also requires the Auditor General to carry out examinations into the extent to which those public bodies set objectives and take steps to meet them in accordance with the sustainable development principle.
- 13 Funding of £122,000 per annum was agreed in our Estimate for 2014-15 for developmental work associated with the then Future Generations Bill. This developmental work continues in 2016-17, where we propose to work with audited bodies and the Future Generations Commissioner for Wales to develop and pilot the necessary audit approaches that are needed to fulfil the Auditor General's duty under the Act. For this, we seek additional set-up funding from the WCF, taking total funding to £422,000 in 2016-17 as set out in the Regularity Impact Assessment. As we confirm our audit approaches and respond to continuing consultation from the Welsh Government, we will be talking to audited bodies about the implications for their fees from 2017-18 and will be exploring alternative funding models with the next National Assembly's Finance Committee.
- 14 We have also urged the Welsh Government to reconsider the audit requirements for Local Government under Part 1 of the Local Government (Wales) Measure 2009. The Auditor General has given evidence to the National Assembly that reducing the extensive assessment requirements placed on him by the Measure and introducing instead simplified improvement planning and reporting requirements that are integrated with other legislation would have the potential to reduce costs for both Local Authorities and auditors, ensuring that limited resources are used to best effect. Our stated position, for Local Government, is that the additional fees which we are required to charge in respect of work arising from the Well-being of Future Generations Act should be offset by reductions in fees resulting from the repeal or reform of the Measure. Fee Consultation responses from Local Government bodies have reinforced this view.
- 15 For health bodies, we will seek to adapt existing audit work to meet the new requirements so as to minimise any increase in fees.

- 16 For central government bodies, the Auditor General's duty under the Act necessitates additional audit work compared with current, which will result in additional fee charges. Fee Consultation feedback tells that the smaller, Welsh Government Sponsored Bodies will struggle to absorb the additional costs in the absence of additional funding.
- 17 **In order to carry out the proposed piloting of our audit work, we seek one-off additional WCF funding of £300,000 in 2016-17.**

### **Promoting the development of accounting trainees**

- 18 There is a growing recognition that, largely due to the austerity climate, there has been an under-investment in the development of future finance professionals across the Welsh public sector. Recent Auditor General Reports have commented on the lack of financial capacity and capability in many of the bodies he audits.
- 19 We aim to increase the number of trainees we recruit each year. In order to recruit in a market for the best graduates alongside international accountancy firms we need to offer an attractive and competitive training scheme. In doing so we intend to establish a collaborative secondment programme under which our trainees would spend time working in the wider public sector in Wales.
- 20 This will present significant potential benefits by providing a pool of highly qualified financial professionals for employment by other Welsh public bodies in due course, many of whom are facing significant financial challenges against a background of financial management skills shortages that in turn hinders effective succession planning. Additional advantages include the provision of job opportunities for graduates, which supports the objectives of the Well-being of Future Generations (Wales) Act 2015, contributing to the well-being goals of a more equal and prosperous Wales.
- 21 The proposal is to fund the secondment time of trainees through WCF resources rather than through increasing fee charges. There are a number of potential partners from across the public sector in Wales who have expressed significant interest in working in partnership with us on this scheme. We are looking to pump-prime this interest, enabling us to then further explore take-up and opportunities for cost sharing in future years. This funding will be in addition to current funding of £320,000 that meets the costs of study time and professional qualification fees.
- 22 **In order to underpin the trainee secondment scheme, we seek additional WCF funding of £132,000 in 2016-17.**

## Strategic transformation, auditing in an age of austerity

- 23 We recognise that auditing in an age of austerity calls for remodelling our audit approach. We have reviewed our skills mix on financial audits using benchmarking information from private firms and other audit bodies. Increasing the number of audit trainees that we employ enables us to reduce the extent to which we use fully-qualified auditors for the more routine audit checks, and helps contain the cost of audit in the longer term.
- 24 Advances in computer technology and in computing power, together with significantly cheaper storage and processing costs, are set to transform the nature of much of our operational audit work over the next five to ten years. The traditional annual audit of financial statements needs to evolve to keep pace with this rapid expansion in the volume of available information. In common with the other public audit bodies across the UK, we are exploring how best to take advantage of developments in this fast-moving area.
- 25 Our two operational business areas, Financial Audit and Performance Audit, are also seeking to better align audit cycles and reporting for Local Government audited bodies. Going forward, we hope to apply a model that is already embedded and working well for NHS bodies. We continue to urge for the repeal of the Local Government (Wales) Measure 2009, to allow us to deliver a more effective, streamlined audit experience from the perspective of audited bodies with opportunities for reporting pan-Wales on issues of national significance.
- 26 We have been working closely with the Welsh Government to enhance the impact of grant certification work by streamlining the requirements placed upon the Auditor General. We have agreed, in principle, a model that focuses more on the outputs and outcomes from grant-supported activity, moving away from the traditional audit approach of checking invoices. This should provide the Welsh Government and audited bodies with a clearer understanding of the difference grant-supported activity is making, whilst also reducing the cost of grant certification work.
- 27 Together with our Inspection Wales partners CSSiW, HIW and Estyn, we look to learn from the Scottish Crerar experience of co-ordinating the use of audit, inspection and regulatory bodies. We are committed to sharing our respective knowledge and experiences to focus our respective review activities to best effect, and maximise the impact of our collective resources.
- 28 **We seek to reprioritise £100,000 of current WCF funding to provide capacity and expertise to develop options for strategic realignment of our work (para 37).**



## Welsh Revenue Authority

- 29 The draft Tax Collection and Management (Wales) Bill currently before the National Assembly for Wales includes provision for the Auditor General for Wales to examine, certify and report on the Welsh Revenue Authority's (WRA) annual accounts and the separate Tax Statement and to lay a copy of the certified documents and the report on them before the National Assembly for Wales. The Bill's provision for the WRA's audit enables the Wales Audit Office to charge a fee for that audit under the Public Audit (Wales) Act 2013. The costs of auditing the Tax Statement, however, will be met from the Welsh Consolidated Fund (via our Estimate from 2018-19 onwards). In the interim some preparatory work is required and we propose to reprioritise some of the existing WCF funding to fund this. For 2016-17, this work will include a report by the Auditor General on the preparations being made by the Welsh Government for the devolution of taxes to Wales from April 2018.
- 30 **We seek to reprioritise £50,000 of current WCF funding and for preparatory work associated with the Welsh Revenue Authority (para 37).**

## National Fraud Initiative (NFI)

- 31 For 2015-16 the National Assembly's Finance Committee approved funding of £50,000 for the first year of the two-year NFI cycle. The NFI is a collaborative UK-wide exercise undertaken every two years that matches electronic data within and between public and private sector bodies to prevent and detect fraud. Since its commencement in 1996, NFI exercises have resulted in the identification of more than £26 million of fraud and overpayments in Wales (c £1.5million annually), and £1.17 billion across the UK. Savings impact across public finances rather than necessarily at the body that has paid to participate. The Public Accounts Committee has made clear its desire for greater public sector participation, leading to the Finance Committee's approval to fund NFI work from WCF instead of fee charges.
- 32 Costs increase in the second year of the cycle then revert to the lower level the following year. The increase covers the cost of data collection and analysis and reporting back to participants. For 2016-17 the estimated cost is £180,000, covering £100,000 for mandatory participants, £50,000 for additional voluntary participants and £30,000 to access a data checking system.
- 33 Fee Consultation feedback has told us that audited bodies very much value the switch to WCF funding. The consultation process has itself encouraged wider interest in participation, along with promotion of it in a Fraud Awareness learning event run by our Good Practice Exchange.
- 34 **In order to continue to provide free participation in the NFI, we seek an increase of WCF funding of £130,000 in 2016-17, to reduce again the following year.**

### Fee subsidy for Welsh Government Sponsored Bodies (WGSBs)

- 35 In April 2014, we discussed with the Welsh Government the impact on WGSBs of potentially significant increases in their audit fees following the enactment of the Public Audit (Wales) Act 2013. At that time, the Welsh Government declined to pursue any changes in its funding models for WGSBs. In order to mitigate the adverse financial impact of that decision on the WGSBs, we therefore allocated £250,000 of our WCF funding in 2014-15 on an interim basis to subsidise the fees otherwise chargeable for those bodies, then extended this to 2015-16 too. The level of subsidy provided has reduced to £120,000 and impacts the fees of the following bodies:
- Arts Council for Wales (including the Lottery Fund)
  - Welsh Language Commissioner
  - Higher Education Funding Council
  - Hybu Cig Cymru
  - National Library of Wales
  - National Museums and Galleries of Wales
  - Sports Council for Wales (including the Lottery Fund)
- 36 The WGSBs are in an anomalous position as the only audited bodies which are not being charged full audit fees. We fully appreciate the financial impact that withdrawal of this subsidy will have on the WGSBs concerned, but against the backdrop of new priorities and pressures identified in the paragraphs above, we consider that the Finance Committee needs to take a positive decision on the matter. The options are (a) to continue subsidising the bodies concerned through the Wales Audit Office's Estimate, or (b) to agree to its discontinuation and urge the Welsh Government to provide compensating adjustments to their Grant in Aid funding for the WGSBs. In both cases the funds will ultimately derive from the WCF.
- 37 **This Estimate assumes a reduction in WCF funding of £250,000 in relation to discontinuation of the WGSB fee subsidy, offset by £150,000 as reprioritised under paragraphs 28 and 30.**

### Estimated use of WCF

- 38 **Exhibit 7** sets out the areas of expenditure funded from the WCF rather than the fees we charge audited bodies. These are costs that are more closely linked to our pan-Wales role in providing audit leadership, setting standards, delivering National Assembly policy and supporting National Assembly scrutiny. This does not include the £1 million of significant cost pressures we are facing in 2016-17, which will be met from internal efficiencies, it represents only adjustments for the new priorities set out above, representing an overall funding increase of £422,000.

Exhibit 7: Estimated use of WCF

	Year to 31 March 2017 £'000	Year to 31 March 2016 £'000
Value-for-money examinations and studies by the Auditor General including reactive studies	1,760	1,760
Technical support, research and development including compliance and quality assurance	744	744
Good Practice Exchange	540	540
Local government national studies	530	530
Staff learning and development	500	500
Development of accounting trainees programme (paragraphs 18 to 22)	452	320
Preparation and piloting implementation for the Well-being of Future Generations Act (paragraphs 12 to 17)	422	122
Providing support to the Public Accounts Committee and other National Assembly committees	420	420
Wales Audit Office Governance Structure	300	300
Contribution to all-Wales travel costs	300	300
Responding to issues that have been brought to our attention through correspondence from the public, elected representatives and others	200	200
Strategic transformation and sectoral intelligence (paragraphs 23 to 28)	230	130
Welsh Revenue Authority preparatory work (paragraphs 29 to 30)	50	-
Fully funding the National Fraud Initiative (paragraphs 31 to 34)	180	50
Depreciation funding for the new audit platform approved in 2015-16 (removal of £40,000 one off funding for 2015-16)	50	90
Transitional subsidy for the audit fees of Welsh Government sponsored bodies (paragraphs 35 to 37)	-	250
<b>Total revenue expenditure requirement</b>	<b>6,678</b>	<b>6,256</b>

## Capital and ICT investment

- 39 As recommended by the Finance Committee, we have developed three-year capital investment priorities which meet the needs of our internal IT strategy, as set out in **Exhibit 8:**

### Exhibit 8: Capital Investment Priorities

	2015-16 £'000	2016-17 £'000	2017-18 £'000	2018-19 £'000
Planned PC/IT renewal	50	50	50	50
Performance Audit knowledge management system	–	80	–	–
North Wales office relocation	–	50	–	–
Network infrastructure renewal	–	40	–	40
Video conferencing infrastructure renewal	–	30	30	10
Customer Relationship Management system	–	–	50	–
Replacement Financial System	–	–	150	100
<b>TOTAL</b>	<b>50</b>	<b>250</b>	<b>280</b>	<b>200</b>

- 40 The programme conveys the need to increase baseline capital funding from the level of £50,000 in 2015-16. Investment priorities in the coming years cover:
- A rolling programme of PC/IT equipment renewal in order to avoid significant changes to capital funding from year to year.
  - Building on the delivery of the new audit platform for Financial Audit work, we will look to improve efficiency in knowledge management for our Performance Audit work.
  - The relocation of our North Wales Office due to lease-end at the current Ewloe location will require some capital modifications to new premises.
  - Periodically we need to refresh the data network infrastructure associated with our offices in order to ensure it remains supportable and able to accommodate future connectivity demands.
  - Our video conferencing facilities have proved themselves in reducing the costs, environmental and staff time impacts of business travel, so we will invest further in the facilities at our three office locations.

- We see easy access to intelligence on our customer base as being a key step in our moves in providing a more integrated audit service. We will explore a Customer Relationship Management system as part of this.
- Procurement regulations require periodic tendering for supplies and services, with our core Finance System to be reviewed in the latter years of this programme.

## The fee regime

- 41 We do not generate profits on our fees. Under legislation, we must charge no more than the full cost of the exercise of a function. There is a tension between quoting audited bodies an up-front fee for the work to be undertaken on specific audits and having a sufficiently flexible regime that recognises the inevitability of variances.
- 42 Fee rates are calculated by dividing our total estimated costs, other than those covered by the WCF, by the amount of audit work to be undertaken in the year. We set our audit fees based on the estimated skills mix and number of days required to complete the work. The actual expenditure, actual skills mix and actual days' work inevitably differ and the fee set may be found to be less than or exceed the actual costs we incur.
- 43 Unlike traditional audit firms we cannot make profits on one audit assignment to offset losses on another. Where we make a surplus on an audit assignment, we refund it to the audited body. Where we incur additional costs over the agreed fee, we assess the reasoning and form a view as to whether we should pass on that cost to the audited body. The Public Audit (Wales) Act 2013 legitimises the charging of all additional costs, but the realities of application mean there is tension with audited bodies where we seek to charge costs greater than the quoted fee.
- 44 Since operating under the new regime from 1 April 2014, to date a total of £283,000 has been quantified as refundable to 21 audited bodies, with 15 audited bodies facing potential additional charges totalling £194,000. Ten audited bodies are in both groups. We are still working through the complexity of the scenarios before discussing further with the bodies affected.
- 45 A funding model which allows for greater flexibility in the fee regime, or one which provides greater emphasis on core funding through the WCF and less on specific fee charges, would likely be significantly more efficient and cost-effective to administer. This need not be seen to compromise the important principles of transparency and accountability. We acknowledge that the National Assembly's Finance Committee has advised it will include these issues in its legacy report in order to allow more time for consideration further into the maturity of the 2013 Act.

## Fee Scheme 2016-17

- 46 For the first time, we have included within this Estimate document, our draft Fee Scheme for 2016-17 ([Appendix 3](#)). We see this as an important step in further enhancing transparency and demonstrating the relationship between fee rates and the approved Estimate. Following consideration of the Estimate and draft Fee Scheme, we will lay our Fee Scheme for 2016-17 before the National Assembly and then advise audited bodies of their estimated fees for next year.
- 47 We again considered it vital to avoid increases in fee rates. This Estimate therefore sets fee rates for 2016-17 at the same level as first set from 1 April 2014 ([Exhibit 9](#)). Fee scales, where applicable, have not increased from those set in 2015-16.

### Exhibit 9: Fee rates for audit staff

Grade	Fee rate 2016-17 (£ per hour)	Fee rate since 1 April 2014 (£ per hour)
Engagement director/lead	162	162
Audit manager	111	111
Performance audit lead	93	93
Financial audit team leader	75	75
Performance auditor	65	65
Financial auditor	56	56
Audit trainees	43	45

- 48 We went beyond the statutory fee consultation requirements and, in September 2015, consulted with all audited bodies and other stakeholders on our fee scales and fee rates for 2016-17. We received 20 responses, being more than the 12 received the previous year.

49 Consultation responses told us that:

- The freezing of fee rates is very much welcomed, as are the broadly comparable fee scales and the funding of participation in the National Fraud Initiative.
- The approach of enhanced transparency is welcomed, but with encouragement to go further.
- The potential for fee refunds is welcomed but the ability to charge further costs is of concern to audited bodies.
- There is significant concern from Welsh Government Sponsored Bodies at the prospect of ending the subsidy of their fees. Our Estimate sets out our reasoning for doing so.
- There are concerns regarding the changes to charging for audit work at Town and Community Councils. We have been communicating these changes for some time and must move to the position of recovering the costs of the work undertaken at smaller Councils. The Auditor General's recent report highlighted that although the timeliness of delivering end of year accounts from Town and Community Councils in Wales has improved, there remains scope for the sector as a whole to improve its financial management and governance.
- There is considerable pressure for a more streamlined audit approach, to help reduce overall fees charged for audit work. Our Estimate explains how we recognise that auditing in an age of austerity calls for rethinking of the audit work we undertake and how it is undertaken. We have prioritised capacity for transformational thinking.

50 The Board welcomes this feedback and has taken it into account in finalising this Estimate and the enclosed draft Fee Scheme.



## Forward look

- 51 The horizon for our public audit work presents a complicated picture for the Wales Audit Office, encompassing:
- continued public sector funding restraint and responses to it such as new models of service delivery and financing mechanisms;
  - digitisation of service delivery, increased public access to audit-related data and expanded use of social media and other digital communication;
  - demographic changes at both ends of the age spectrum;
  - the Welsh Government's legislative programme and any impacts for the work of the Wales Audit Office;
  - impacts of further devolution and tax-raising powers for Wales;
  - a reduction in grant claim work arising from simplification of auditing requirements by the grant-awarding bodies;
  - earlier closure of local government accounts from 2018-19, with resultant impacts on resourcing across local government and the Wales Audit Office;
  - anticipated reconfiguration of the structure of local government, reducing from 22 unitary authorities and a possible restructuring of the national park authorities; and
  - public sector pay restraint competing with private sector auditor salaries.
- 52 Within the changes above, we would expect a significant increase in the amount of correspondence and associated reactive work that we will be expected to manage.
- 53 We are actively planning for all of the above in order to ensure that we continue to provide quality audit services, by:
- setting an annual efficiency savings target through our Efficiency and Effectiveness Programme – to help ensure every pound we spend has maximum impact;
  - reviewing our workforce planning strategy and considering the skills mix and workforce model that will be required in the future – so we can reshape our workforce over time, recognising such changes cannot be achieved overnight;
  - capitalising on our strategic intelligence to inform developing policy and position ourselves for effective responses; and
  - creating capacity for transformational thinking in our approaches to audit work.
- 54 Our annual estimates and interim and annual reports, laid at the National Assembly, will demonstrate each year how we are facing the challenges and remaining focused on ensuring the people of Wales know whether public money is being managed wisely and that public bodies in Wales understand how to improve outcomes.

# Estimated budget requirements of the Wales Audit Office for the year ending 31 March 2017

- 55 Under Section 125 of the Government of Wales Act 2006, 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 WCF for certain relevant persons, including the Wales Audit Office.
- 56 In respect of the services and purposes of the Wales Audit Office and the Auditor General in the year ending 31 March 2017, the Budget Motion will authorise:
- 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);
  - the amount of resources accruing to the Wales Audit Office in the financial year, which may be retained rather than being paid into the WCF; and
  - the amount which may be paid out of the WCF to the Wales Audit Office.
- 57 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 2016-17 budget requirements**

	£'000
Resources other than accruing resources for use by the Wales Audit Office on the discharge of the statutory functions of the Wales Audit Office and the Auditor General, and on the administration of the Wales Audit Office:	
• Revenue	6,678
• Capital	250
Accruing resources from fees and charges for audit, grant certification and related services; grants received to fund audit services; other recoveries of costs associated with the functions of the Auditor General or Wales Audit Office; miscellaneous income from publications, conferences, provision of administrative, professional and technical services; recoveries of costs of seconded staff; recoveries of staff loans; recoveries of car leasing payments; recoveries of any costs incurred for a third party; and interest received on working balances – all for use by the Wales Audit Office on the discharge of the functions of the Auditor General and on related services and the administration of the Wales Audit Office.	16,715
Net cash requirement from the WCF to meet the net amounts falling due for payment in the year by the Wales Audit Office.	6,728

58 **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 2017.

**Table 2: Reconciliation of resource requirement to cash drawing requirement from the WCF**

	£'000
Net request for resources – revenue and capital	6,928
Non-cash adjustment – depreciation and accruals	(200)
Net cash requirement from the WCF to meet the net amounts falling due for payment in the year by the Wales Audit Office	6,728

# Appendix 1

## Wales Audit Office income and expenses

	Year to 31 March 2017 £'000	Year to 31 March 2016 £'000	
Expenses	Staff costs	16,183	14,540
	Contractor staff	1,213	1,073
	Travel and subsistence	1,414	1,290
	Private sector firms (including VAT)	953	2,825
	Accommodation	986	976
	ICT	459	472
	Balance of irrecoverable VAT	390	390
	Wales Audit Office Governance Arrangements	300	300
	External training	275	266
	Legal and professional fees	214	254
	Translation of documents	120	110
	Other costs	886	704
	<b>EXPENSES TOTAL</b>	<b>23,393</b>	<b>23,200</b>
	Income	Audit fees	14,066
Grant certification fees		1,663	2,063
WPI grant from the Welsh Government		986	986
<b>INCOME TOTAL</b>		<b>16,715</b>	<b>16,944</b>
<b>Total revenue budget to be funded by WCF</b>	<b>6,678</b>	<b>6,256</b>	

### Analysis of estimated fee income

Sector	Audit of accounts £'000	Performance audit £'000	Grant certification £'000	Total £'000	Total 2015-16 £'000
Local government bodies	5,935	2,541	1,660	10,136	10,413
Central government bodies	1,895	–	–	1,895	1,871
NHS bodies	1,955	1,468	3	3,426	3,343
Other income	245	27	–	272	331
<b>Total fee income</b>	<b>10,030</b>	<b>4,036</b>	<b>1,663</b>	<b>15,729</b>	<b>15,958</b>
<b>2015-16 Comparator</b>	<b>9,919</b>	<b>3,976</b>	<b>2,063</b>	<b>15,958</b>	<b>-</b>

## Appendix 2

# Main operational activities and associated sources of funding

Activity	Scale	Source of funding
Audit of accounts prepared by central government and health bodies	Eight accounts prepared by the Welsh Government; 25 other accounts, including the Assembly Commission; eight Welsh Government Sponsored Bodies, seven health boards; and three NHS trusts.	Fees charged to audited bodies, and finance from the WCF in relation to subsidised fees.
Audit of accounts prepared by local government bodies	Twenty-two unitary authorities, four police and crime commissioners and chief constables, three fire and rescue authorities, three national park authorities, one internal drainage board, eight pension funds, and approximately 750 town and community councils and other small bodies.	Fees charged to audited bodies.
Local government improvement assessments	Includes annual audits of whether authorities have discharged their improvement planning and performance reporting duties; annual assessments of the likelihood of compliance with improvement duties; cyclical in-depth corporate assessments and special inspections. Undertaken at 28 improvement authorities, (the 22 unitary authorities, three fire and rescue authorities, and three national park authorities).	Fees charged to audited bodies. The Welsh Government also provides grant funding to support improvement assessment work.
Local performance audit work at health bodies	Includes assessments of arrangements to secure value for money in the use of resources. Undertaken at seven health boards and three NHS trusts.	Fees charged to audited bodies.
Certification of grant claims and returns	Thirty-two local government schemes (around 750 claims with a total value of some £2.5 billion).	Fees charged to audited bodies.
Value-for-money examinations and studies	Typically around 15 examinations, studies and other outputs are undertaken each 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.	Financed from the WCF, following approval by the National Assembly.
Good Practice Exchange	Working with others to share learning and good practice.	Finance from the WCF following approval by the National Assembly.
Other significant activities	Includes: <ul style="list-style-type: none"> <li>• checking requests for grant of approval to draw from the WCF;</li> <li>• anti-fraud and other data-matching exercises, including the NFI;</li> <li>• responding to issues that have been brought to our attention through correspondence from the public, elected representatives and others;</li> <li>• providing support to the Public Accounts Committee and other National Assembly committees; and</li> <li>• administration of the Wales Audit Office.</li> </ul>	Financed from the WCF, following approval by the National Assembly, and some activities are also funded by fees charged to audited bodies.

# Appendix 3

## Draft Fee Scheme 2016-17

### Introduction

- 1 This Fee Scheme has been prepared by the Wales Audit Office under section 24 of the Public Audit (Wales) Act 2013 (the Act) ([Appendix 1](#)). The Fee Scheme, following approval by the National Assembly's Finance Committee, provides the basis on which the Wales Audit Office charges fees.
- 2 For the first time, the Wales Audit Office Estimate (for 2016-17), considered by the Finance Committee in November 2015, included a draft Fee Scheme in full. This new approach reflects the Wales Audit Office Board's determination to further enhance transparency and to demonstrate the direct relationship between our cost base and its resultant impact on fee rates.
- 3 The Board has listened carefully to stakeholder feedback in relation to our cost-efficiency agenda and the fee rates we set. In seeking the National Assembly's support for our Estimate for 2016-17, we proposed in the Estimate:
  - A second-year freeze of fee rates and fee scales in cash terms, which feedback told us would be welcomed.
  - To meet some £1million of cost pressures in relation to staff pay, inflation and other costs through internal savings and efficiencies so as not to affect fees.
  - To continue to set targets under our Efficiency and Effectiveness Programme to build on savings already delivered.
  - To continue to fund National Fraud Initiative (NFI) work from our charge on the Welsh Consolidated Fund rather than through fees charged to participating bodies. Feedback told us that audited bodies welcome this approach.
  - To introduce public sector secondment opportunities for our accounting trainees, without impacting fees charged for audit work.
  - To create capacity for transformational thinking in our approaches to audit work. Feedback reinforced the need for us to do more developmental work as part of balancing the overall cost of audit on public bodies.
- 4 This Fee Scheme reflects the approved Estimate and in broad terms sets out:
  - The enactments under which the Wales Audit Office charges audit fees.
  - The arrangements for setting those fees, which comprise either:
    - fee scales that set out fee ranges for particular areas of audit work in local government; or
    - fee rates for work not covered by fee scales.

- 5 Broadly, 71 per cent of our expenditure is funded through fees charged to audited bodies and a grant from the Welsh Government to support improvement assessment work. The remaining 29 per cent is provided directly from the Welsh Consolidated Fund through vote of the National Assembly. Further information about our expenditure and funding is contained in annual estimates of income and expenditure which are laid before the National Assembly.

### List of enactments

- 6 [Appendix 2](#) sets out the enactments under which the Wales Audit Office may and must charge fees.

### Fee rates and fee scales

- 7 The Wales Audit Office does not generate profits on fees. Legislation requires that the fees we charge may not exceed the full cost of exercising the function to which the fee relates. Our fee rates are set at a level to recover that full cost.
- 8 There is a tension between providing audited bodies with an up-front fee for the work to be undertaken on specific audits and having a sufficiently flexible regime that recognises the inevitability of variances. We set our audit fees based on our estimated expenditure, the estimated skills mix and the estimated number of days required to complete the work. Where the required work is significantly greater than that originally estimated, as a result of complexities experienced during the audit, we may charge a higher fee, as permitted by legislation.
- 9 Evidently, our fee-charging arrangements are complex, cumbersome and expensive to administer and are regarded by some as no more than circulating funds within the public sector. We will continue to explore alternative mechanisms in discussion with the National Assembly's Finance Committee. The Board would welcome a simplification of the Public Audit (Wales) Act 2013 in relation to the audit fee charging requirements.
- 10 We went beyond the statutory fee consultation requirements and, in September 2015, consulted with all audited bodies and other stakeholders on our fee scales and fee rates for 2016-17. We received 20 responses, being more than the 12 received the previous year. Those responses told us that:
- The freezing of fee rates is very much welcomed, as are the broadly comparable fee scales for local government bodies and the funding of participation in the National Fraud Initiative.
  - The approach of enhanced transparency is welcomed, but with encouragement to go further.



- The potential for fee refunds is welcomed but the ability to charge further costs is of concern to audited bodies.
  - There is significant concern from Welsh Government Sponsored Bodies at the prospect of ending the subsidy of their fees. Our Estimate sets out our reasoning for doing so.
  - There are concerns regarding the changes to charging for audit work at Town and Community Councils. We have been communicating these changes for some time and must move to the position of recovering the costs of the work undertaken at smaller Councils. The Auditor General's recent report highlighted that although the timeliness of delivering end of year accounts from Town and Community Councils in Wales has improved, there remains scope for the sector as a whole to improve its financial management and governance.
  - There is considerable pressure for a more streamlined audit approach, to help reduce overall fees charged for audit work. Our Estimate explains how we recognise that auditing in an age of austerity calls for rethinking of the audit work we undertake and how it is undertaken. We have prioritised capacity for transformational thinking.
- 11 The Board welcomed this feedback and responds to it through this Fee Scheme and our business planning framework.
- 12 **Exhibit 1** sets out the hourly fee rates for audit staff which reflect direct costs and a due proportion of overhead costs. The costing model is audited by the external auditors of the Wales Audit Office.

#### Exhibit 1: Fee rates for audit staff – on all audit work

Grade	Fee rate 2016-17 (£ per hour)	Fee rate since 1 April 2014 (£ per hour)
Engagement director/lead	162	162
Audit manager	111	111
Performance audit lead	93	93
Financial audit team leader	75	75
Performance auditor	65	65
Financial auditor	56	56
Audit trainees	43	45

- 13 We are required to prescribe fee scales for:
- work relating to the audit of local government bodies;
  - work under the Local Government (Wales) Measure 2009; and
  - data-matching work (NFI).
- 14 Fee scales for the audit of 2015-16 financial accounts and 2016-17 improvement audits and assessments are provided in [Appendix 3](#) in relation to work conducted at unitary authorities, fire and rescue authorities, national park authorities, police and crime commissioners and chief constables, town and community councils and local government pension funds. A separate fee scale is provided in relation to the NFI.
- 15 Fee scales are a means of regulating the cost of public audit, through setting limits and by reviewing fees against those limits. Fee scales also provide a framework for auditors to assess the amount of annual audit work necessary and the fee to be charged for that work at a particular audited body.
- 16 Audited bodies not covered by the statutory requirement for a fee scale have their estimated audit fees calculated in the same way as for those which are covered – that is, through applying the fee rates published in this Fee Scheme to the estimated team mix and hours of input required for the audit.
- 17 Auditors undertake grant certification work on behalf of the Auditor General. The amount of grant certification work undertaken in any year is dependent on the number of schemes subject to audit and the number of audited bodies participating in those schemes. Charges for this work are calculated using the fee rates and reflecting the size, complexity or any particular issues in respect of the grant in question.
- 18 The fee rates apply to all audit work that the Wales Audit Office will charge for, except to the extent that the fee scales, where applicable, regulate the amount to be charged (or in the case of work done by agreements prior to 1 April 2014, rates are in terms as agreed). If it subsequently appears to the Wales Audit Office that the work involved in a particular audit differs substantially from that originally envisaged, the Wales Audit Office may charge a fee which differs from that originally notified.
- 19 In the case of the provision of other administrative, professional or technical services provided, fees will be charged in accordance with the relevant agreement, subject to such amounts being capped at the full cost of providing the service. To meet their statutory responsibilities, it is sometimes necessary for auditors to carry out work which goes beyond their general duties. Additional work can include reports in the public interest, extraordinary audit, special inspections and further work in relation to electors' questions and objections, and the prevention of unlawful expenditure. Charges for this type of work will reflect the nature of the work required.

- 20 Where specialist support or legal or other professional advice is required, this will be charged to audited bodies in addition to the cost of Wales Audit Office staff.
- 21 Where funding is provided through the Estimate, the Wales Audit Office may subsidise the fees charged to audited bodies on a transitional basis under the approval given.

### **Charging of fees**

- 22 Charging arrangements will be agreed with audited bodies and may encompass one-off, periodic, regular or annual charging, as appropriate in the circumstances.
- 23 Audited bodies are expected to pay the Wales Audit Office's invoices within their performance target for creditor payments, usually 10 days in the public sector. We may charge for the administrative costs incurred in pursuing late payments.
- 24 On completion of audit assignments, we will assess the actual costs incurred in undertaking the assignment in comparison with the fee charged. We will refund any excess of fee over cost and, conversely, we may charge additional cost where the fee falls short. We will process refunds and additional charges in a manner which seeks to minimise administrative costs, such as through offsetting against future fees or fees for other aspects of audit activity.

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

- (1) The Wales Audit Office must prepare a scheme relating to the charging of fees by the Wales Audit Office.
- (2) The scheme must include the following:
  - (a) a list of the enactments under which the Wales Audit Office may charge a fee;
  - (b) where those enactments make provision for the Wales Audit Office to prescribe a scale or scales of fees, that scale or those scales;
  - (c) where those enactments make provision for the Wales Audit Office to prescribe an amount to be charged, that amount; and
  - (d) where no provision is made for a scale or scales of fees or for an amount to be prescribed, the means by which the Wales Audit Office is to calculate the fee.

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

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

Nature of work	Enactments <sup>2</sup>
<b>The Wales Audit Office may charge fees for the following activities</b>	
• Audit of accounts by the Auditor General (other than local government accounts)	• Section 23(2) Public Audit (Wales) Act 2013
• Value for money studies undertaken by agreement	• Section 23(3)(a)-(c) Public Audit (Wales) Act 2013
• Any administrative, professional or technical services to be provided by the Wales Audit Office or the Auditor General by arrangement under section 19 of the Public Audit (Wales) Act 2013	• Section 23(3)(d) Public Audit (Wales) Act 2013
• An extraordinary audit of a local government body	• Section 37(8) of the Public Audit (Wales) Act 2004
• Data-matching exercises	• Section 64F(A1) of the Public Audit (Wales) Act 2004 • A fee scale must be prescribed for this work
<b>The Wales Audit Office must charge fees for the following activities</b>	
• Work under the Local Government (Wales) Measure 2009	• Section 27 of the Local Government (Wales) Measure 2009 • A fee scale must be prescribed for this work
• Grant certification services	• Section 23(4)(a) Public Audit (Wales) Act 2013
• Studies at the request of educational bodies under section 145B of the Government of Wales Act 1998	• Section 23(4)(b) Public Audit (Wales) Act 2013
• Auditing the accounts of a local government body and undertaking studies by agreement with a local government body	• Section 20(A1)(a)-(b) of the Public Audit (Wales) Act 2004 • A fee scale must be prescribed for the audit of the accounts of local government bodies
<b>Other fee charging provisions</b>	
• Benefit administration studies for the Secretary of State. The amount of the fee must be a reasonable amount agreed between the Secretary of State and the Wales Audit Office.	• Section 45 of the Public Audit (Wales) Act 2004
• Assisting Her Majesty's Chief Inspector of Education and Training in Wales	• Section 41A of the Education Act 1997

<sup>2</sup> Once commenced, paragraph 32 of Schedule 4 to the Well-being of Future Generations (Wales) Act 2015 will amend section 23 of the Public Audit (Wales) Act 2013 so as to provide that Wales Audit Office may charge a fee in relation to examinations under section 15 of the 2015 Act. The Welsh Government is, however, yet to appoint a date for the commencement of paragraph 32 of Schedule 4 to the 2015 Act.

## Appendix 3 – Fee scales for work undertaken at local government bodies

### Unitary authorities

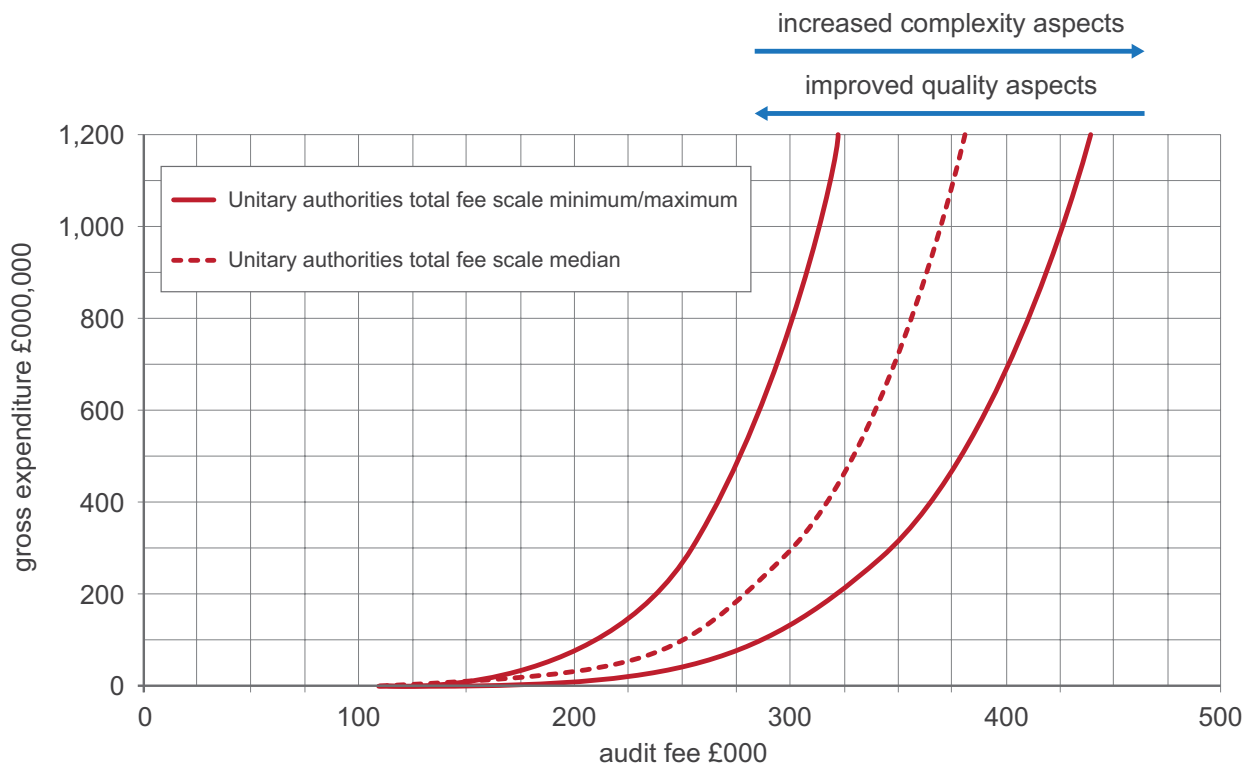
#### Fee scale for audit of 2015-16 accounts

Gross expenditure £000,000	Fee range £000			Previous year median £000
	Minimum	Median	Maximum	
100	119	140	161	140
200	143	168	193	168
300	159	187	215	187
400	172	202	232	202
500	182	214	246	215
600	191	225	259	225
700	199	234	270	235
800	206	243	279	243
900	213	251	288	251
1,000	219	258	296	258
1,100	225	264	304	265
1,200	230	271	311	271

#### Fee scale for 2016-17 improvement audits, assessments and special inspections under the Local Government (Wales) Measure 2009

All unitary authorities	Fee range £000			Previous year median £000
	Minimum	Median	Maximum	
	94	112	130	112

### Graphic of total fee scale for unitary authorities



## Fire and rescue authorities

### Fee scale for audit of 2015-16 accounts

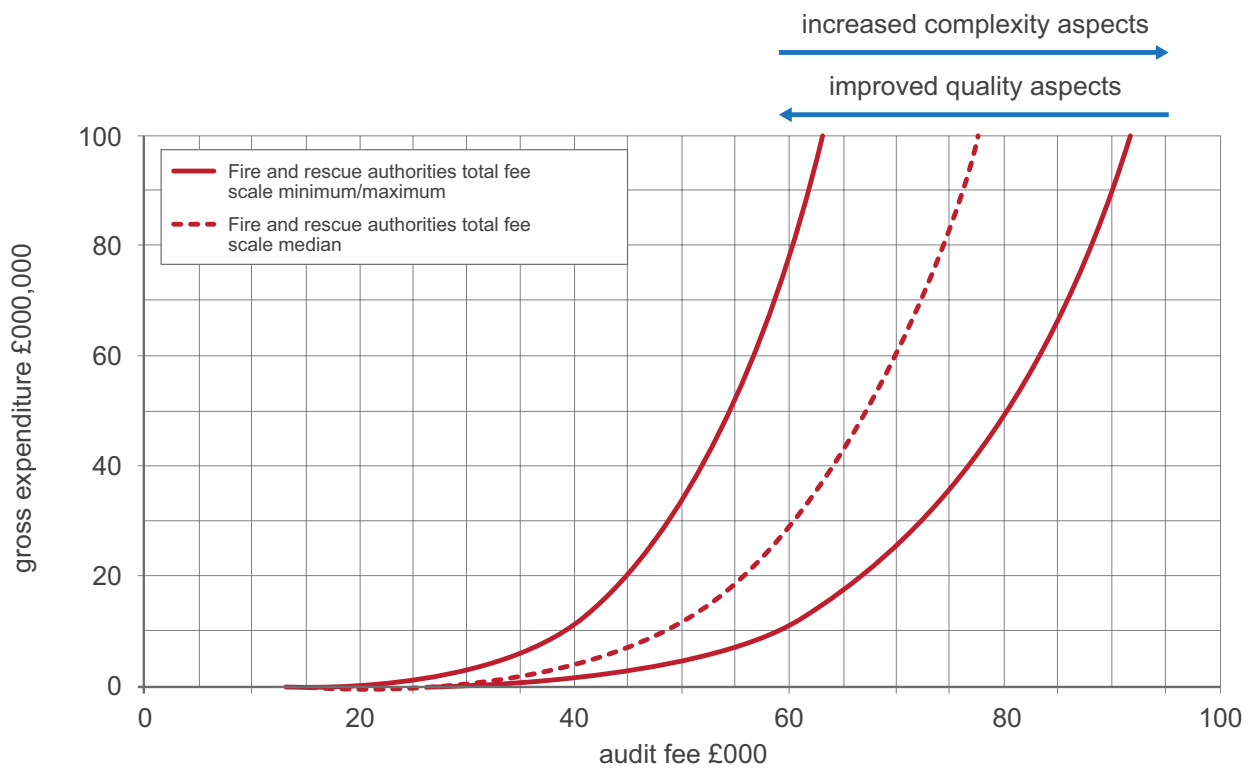
Gross expenditure £000,000	Fee range £000			Previous year median £000
	Minimum	Median	Maximum	
20	35	41	47	41
40	42	49	57	49
60	47	55	63	55
80	50	59	68	59
100	53	63	72	63

### Fee scale for 2016-17 improvement audits, and assessments and special inspections under the Local Government (Wales) Measure 2009

All fire and rescue authorities	Fee range £000			Previous year median £000
	Minimum	Median	Maximum	
	9	14	19	15



**Graphic of audit total fee scale for fire and rescue authorities**



## National park authorities

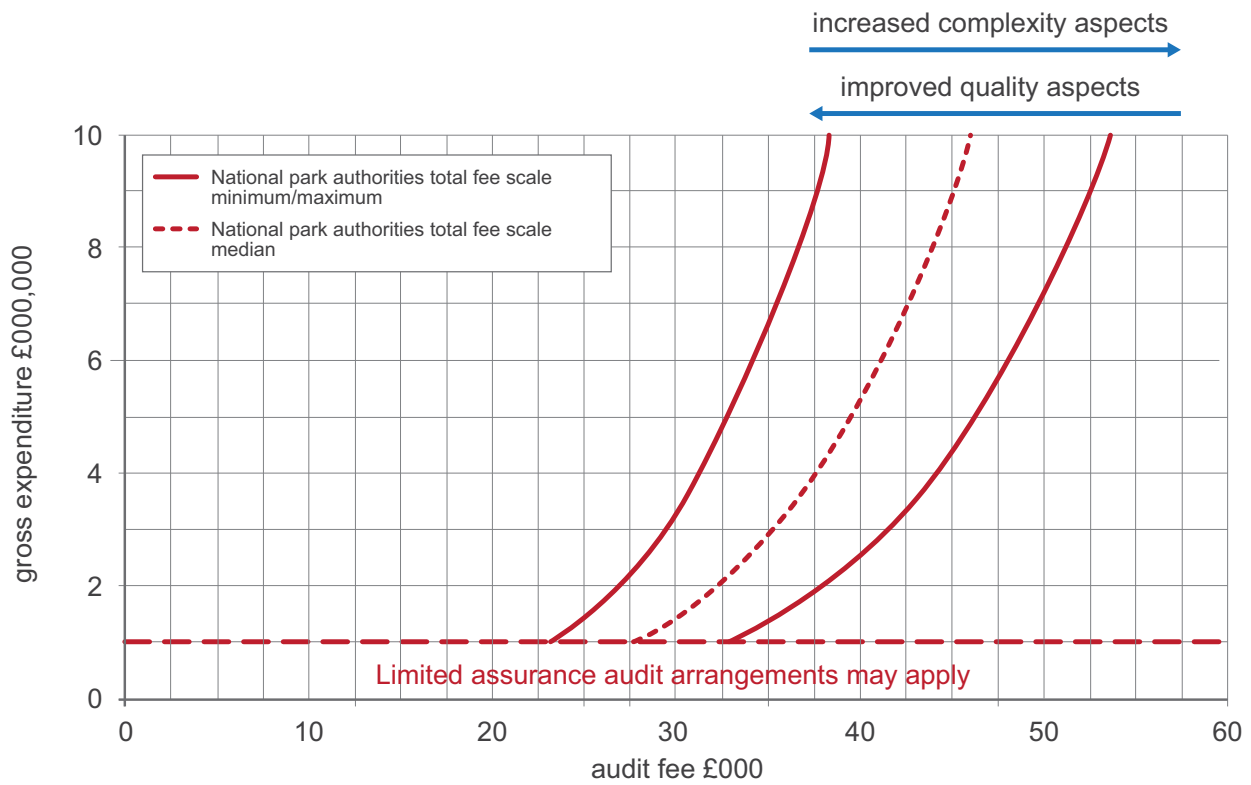
### Fee scale for audit of 2015-16 accounts

Gross expenditure £000,000	Fee range £000			Previous year median £000
	Minimum	Median	Maximum	
2	22	25	29	25
4	26	31	35	31
6	29	34	39	34
8	31	37	42	37
10	33	39	45	39

### Fee scale for 2016-17 improvement audits, and assessments and special inspections under the Local Government (Wales) Measure 2009

All national park authorities	Fee range £000			Previous year median £000
	Minimum	Median	Maximum	
	5	7	9	7

## Graphic of total fee scale for national park authorities



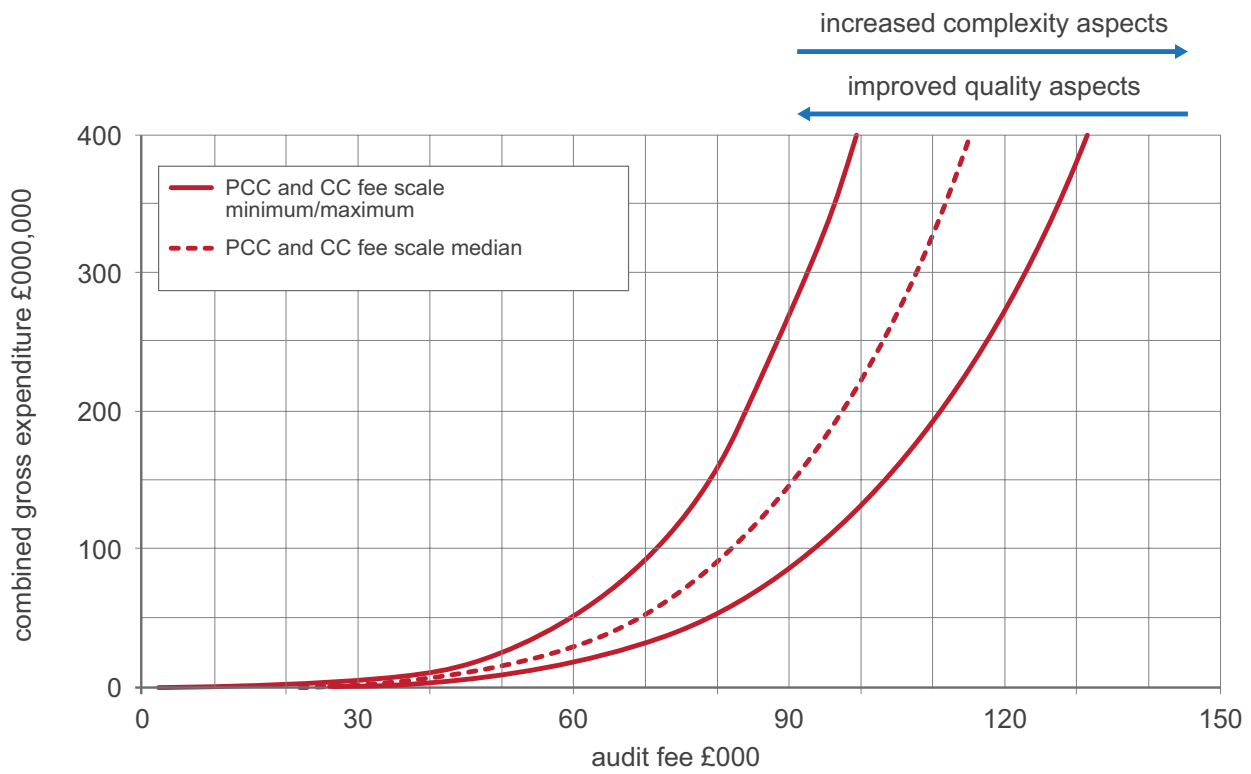
## Police and crime commissioners and chief constables

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

### Fee scale for audit of 2015-16 accounts

Combined gross expenditure of PCC and CC £000,000	Combined fee range for PCC and CC £000			Previous year median £000
	Minimum	Median	Maximum	
50	61	70	79	70
100	71	82	94	83
150	78	91	103	91
200	84	98	111	98
250	89	103	117	103
300	93	108	123	108
350	96	112	128	112

**Graphic of total fee scale for police and crime commissioners and chief constables**



### Town and community councils with annual income or expenditure under £2.5 million

Town and community councils in Wales are subject to a limited assurance audit regime. For 2016-17 we will switch to charging for work on a time basis rather than the historical basis of a fixed fee according to expenditure/income bands. The fee rate charges are as set out in [Exhibit 1](#). The estimated impact of this switch is set out in the table below.

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

It is emphasised that the actual charge made to any particular body will be dependent on the time actually worked on that particular audit. The ranges provided in the table below are for indicative purposes only.

#### Estimated time charges for audit of 2015-16 accounts of town and community councils

Annual income or expenditure (fees are payable on whichever is the higher each year)	Indicative baseline charge	Indicative upper range fee	Fee charged in previous year
£Nil – £99	£Nil	£Nil	£Nil
£100 – £5,000	£30	£280	£30 – £80
£5,001 – £100,000	£160	£320	£175 – £350
£100,001 – £500,000	£200	£380	£415 – £650
£500,001 – £2,500,000	£240	£460	£920

## Local government pension funds

### Fee scale for audit of 2015-16 accounts

All pension funds	Fee range £000			Previous year median £000
	Minimum	Median	Maximum	
	30	40	50	40

### Fee rates for other work in local government

The audit of other types of local government body, work which goes beyond the general duties of the Auditor General, and grant certification work

Other than those types of bodies for which fee scales have been prescribed, there are a small number of other types of local government body. For audits of these bodies, a zero-based approach to audit planning will still be applied, with resource requirements converted into fees directly based on the costs of delivering the work or by applying the fee rates as set out in [Exhibit 1](#).

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

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

We are working closely with the Welsh Government and hope to be able to agree a model that focuses more on the outputs and outcomes from grant-supported activity, moving away from the traditional audit approach of checking invoices. This should provide the Welsh Government and audited bodies with a clearer understanding of the difference grant-supported activity is making, whilst also reducing the cost of grant certification work. We expect to pilot this approach during 2016-17 and will discuss fee implications with pilot authorities.

Estimates of the relative proportions of financial audit staff grades to be used for different types of grants work are provided below.

Grade of staff	Complex grants staff mix %	All other grants staff mix %
Engagement director	1 to 2	0 to 1
Audit manager	4 to 6	1 to 2
Team leader	18 to 21	12 to 16
Team member/trainee	77 to 71	87 to 81

Complex grants include:

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

### **Fee scales for work undertaken under the National Fraud Initiative (data matching)**

In order to support Welsh public bodies in combating fraud, the Auditor General conducts the National Fraud Initiative (NFI) in Wales on a biennial basis. The NFI is also run in England, Scotland and Northern Ireland. The NFI matches data across organisations and systems to help public bodies identify potentially fraudulent or erroneous claims and transactions. The NFI has been a highly effective tool in detecting and preventing fraud and overpayments. Since its commencement in 1996, NFI exercises have resulted in the detection and prevention of more than £26 million of fraud and overpayments in Wales and £1.17 billion across the UK.

The Auditor General conducts the NFI using his statutory data-matching powers under Part 3A of the Public Audit (Wales) Act 2004.

For 2015-16, the National Assembly approved a fee scheme containing a £nil fee scale for all participating bodies. The Wales Audit Office will instead fund the work through payment from the Welsh Consolidated Fund as approved through the Estimate. The reasoning for this is to encourage greater voluntary participation of non-mandated organisations, in line with the aspirations of the Public Accounts Committee. In tandem and in line with the Board's



aspirations for a simplified funding regime, a £nil fee scale is set for mandatory participants too. This helps avoid any confusion and provides a clear message in terms of the costs of participation in the NFI. In totality, NFI work is no longer funded through fee charges. As required by legislation, the fees for mandatory participants are shown below.

**Exhibit 2: NFI fees**

Type of body	Fee 2016-17 £	Previous fee 2014-15 £
Unitary authority	Nil	3,650
Police and crime commissioners and chief constables	Nil	1,000
Fire and rescue authority	Nil	1,000
NHS trust	Nil	1,000
Local health board	Nil	1,000
Other – voluntary	Nil	Subject to agreement with each body

Mandatory participants will also be provided with access to the NFI Application Checker without charge.



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# Interim Report

An assessment of progress  
made against our 2015-16  
Annual Plan during the  
period 1 April 2015 to  
30 September 2015





# Interim Report

This Interim Report covers the period from 1 April 2015 to 30 September 2015 and has been jointly prepared, and is laid before the National Assembly for Wales, by the Auditor General for Wales and the Chair of the Wales Audit Office, in accordance with the requirements of the Public Audit (Wales) Act 2013.

The Interim Report includes an assessment of the extent to which:

- the exercise of the functions of both the Auditor General and the Wales Audit Office has been consistent with the Annual Plan prepared for 2015-16 under section 25 of the Public Audit (Wales) Act 2013; and
- progress has been made to achieve the priorities set out in the Plan.

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

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# Foreword from the Auditor General for Wales and the Chair of the Wales Audit Office

This Interim Report describes, for the period 1 April 2015 to 30 September 2015, the progress we have made towards:

- delivering the Auditor General's planned programme of audit work for 2015-16;
- achieving our priorities for the three-year period 2015-2018; and
- achieving our key performance measure targets.

Over the last six months, there has been no need to deviate significantly from the work programmes laid out in our Annual Plan for 2015-16. Nearly all planned work has either been delivered, or is progressing to plan, which is a credit to the professionalism, dedication and hard work of the staff of the Wales Audit Office.

We have also made good progress towards achieving our three-year priorities and newly-introduced key performance measure targets, which are aimed at enhancing the effectiveness of public sector audit in Wales.

However, we do not intend to rest on our laurels. We are now focused on continuing this momentum for the remainder of 2015-16 and beyond to ensure our work adds maximum value to the Welsh public sector and the people of Wales.

**Huw Vaughan Thomas**  
Auditor General for Wales

**Isobel Garner**  
Chair, on behalf of the Wales Audit Office

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# During the period 1 April 2015 to 30 September 2015, the exercise of the functions of the Auditor General for Wales and Wales Audit Office has been consistent with our 2015-16 Annual Plan

There has been no need to deviate significantly from the planned work programmes of the Auditor General and Wales Audit Office for 2015-16. Nearly all planned work has either been delivered, or is progressing to plan.

**See Appendix 1 – Detailed information on the programmes of work carried out by the Auditor General and the Wales Audit Office from 1 April 2015 to 30 September 2015, consistent with our Plan**

Some highlights are:

- audits of the accounts of over 800 public bodies, and providing timely audit opinions on the 2014-15 accounts of all NHS, central government and principal local government bodies;
- improvement audits and assessments of 28 local government bodies, and the publishing of 20 annual improvement reports;
- certification work on local government grant schemes worth approaching £3 billion and involving around 450 individual claims, and of European structural fund claims from the Welsh Government and its sponsored bodies worth around £300 million;
- a rolling programme of local government and NHS studies, and the publishing of three national reports;
- local performance audit work and structured assessments at all 10 NHS bodies, and the publishing of a comparative picture of orthopaedic services report for each local health board;
- an ongoing programme of value for money studies and reactive examinations that delivered six outputs during the period for consideration by the Public Accounts Committee;
- a programme of good practice work that included the delivery of four shared learning seminars, three shared learning webinars and a good practice guide on staff involvement and engagement; and
- a programme of joint working activity that included working closely with the other UK audit agencies and with the other main external review bodies in Wales to enhance the collective impact of our work.

In the Plan we indicated that the programme of work undertaken for consideration by the Public Accounts Committee retains a degree of flexibility to respond to changing circumstances, priorities and risks, and that the plans for certain value for money studies were under review.

The Auditor General has since informed the Public Accounts Committee that in the short-term, the development of a new Picture of Public Services report will take priority over a planned study on early intervention and behaviour change. The Picture of Public Services report will include some commentary on the theme of early intervention and behaviour change and further work in this area is now being taken forward as part of our good practice programme.

Looking further forward, the Auditor General is also reviewing plans for a study on Welsh Government interventions in local government, in light of the Welsh Government-commissioned review of the Anglesey intervention and to take into account any wider implications arising from the local government reform programme.

In addition, over the past few months the Auditor General has discussed with the Public Accounts Committee and the Welsh Government topics that he is considering commencing as value for money studies over the coming 12-month period.

# We are continuing to make good progress towards achieving our three-year priorities and key performance measure targets

As of 30 September 2015 we are on track to achieve each of the 37 three-year priorities set out in the Plan. However, the Auditor General's new duty under the Well-being of Future Generations (Wales) Act 2015 has resulted in a need for us to rethink our central government audit work priority focused on publishing an annual overview report on the results of audit work undertaken within the central government sector.

## **See Appendix 2 – Commentary on the progress we have made during the reporting period towards achieving each of our three-year priorities**

The overall position at 30 September 2015 in terms of our 35 key performance measures can be summarised as follows:

- We have achieved our targets for 15 of the measures.
- We have substantially exceeded our targets for two measures: I1 (Proportion of recommendations or proposals for improvement that are fully accepted for implementation by audited bodies) and C2 (Proportion of media articles published about our work that have positive or neutral sentiment).
- Data for measure I2 (Value of potential savings identified through our work) will be collated during the last quarter of 2015-16.
- We are yet to commence data collection against two of the impact measures: I4 (Proportion of stakeholders who said that, through our work, they gained useful insight that they would not have acquired otherwise) and I5 (Proportion of stakeholders who believe our work has led to improvements in the provision of public services). We will be collecting data as planned via a stakeholder engagement exercise scheduled to be carried out in the second half of 2015-16.
- For the remaining 17 measures where the target has yet to be achieved, the associated risk has been assessed as low for nine of the measures, medium for a further seven of the measures, and high for the remaining measure: E4 (Proportion of our total waste produced that is reused, recycled or composted).

We have set out plans to achieve all remaining targets.

Current performance against the targets for the leadership and social measures L2, L3, L4 and S3, which has been measured through a recent staff 'pulse' survey, is currently a primary focus for the Board and Senior Leadership Team. We have considered how best to address the issues and concerns raised and, as part of our response, have agreed to work with our staff and trade union partners on an exercise to analyse and develop organisational engagement and trust over the next six months, taking an approach used at one of our recent Good Practice Exchange events.

Further work is also currently being undertaken, including with support from the sustainability charity WRAP and the Environment Agency, to reassess our waste monitoring methodologies and performance against our target for measure E4.

## **See Appendix 3 – A full assessment of progress made in the first half of 2015-16 towards achieving each of our key performance measure targets**

# Appendix 1 - Detailed information on the programmes of work carried out by the Auditor General and the Wales Audit Office from 1 April 2015 to 30 September 2015, consistent with our Plan

## Audit work carried out at local government bodies

The Auditor General's programme of work in local government covers a broad range of bodies, including unitary authorities, fire and rescue authorities, national park authorities, police and crime commissioners and chief constables, local government pension funds and town and community councils. During the reporting period, work has been undertaken on audits of accounts, certification of grant claims and returns, improvement audits and assessments, and local government studies, consistent with our Plan and in compliance with auditing and ethical standards and statutory reporting requirements. Audit opinions on the 2014-15 accounts of all principal local government bodies were provided by the statutory deadline, and 20 annual improvement reports and three national reports were published.

### Audits of accounts

- 22 unitary authorities
- 3 fire and rescue authorities
- 3 national park authorities
- 4 police and crime commissioners
- 4 chief constables
- 8 pension funds
- A number of other smaller local government bodies including joint committees and harbour authorities
- Limited assurance audits of over 740 town and community councils

### Improvement audits and assessments

- 22 unitary authorities (including six more detailed corporate assessments)
- 3 fire and rescue authorities
- 3 national park authorities

### Certification of grant claims and returns

Up to 25 schemes worth approaching £3 billion and involving around 450 individual claims

### Studies completed or substantially completed

- Financial resilience of councils in Wales
- Safeguarding - governance arrangements
- Financial management and governance in community and town councils 2013-14
- Addressing health and social care demand - supporting the independence of older people
- Delivering with less - leisure services

### Ongoing studies

- Financial position and resilience (follow-up study)
- Council funding of third sector services
- The strategic approach of councils to income generation and charging for services
- The effectiveness of local community safety partnerships

## Audit work carried out at NHS bodies

The Auditor General's work across NHS Wales covers all seven local health boards and the three NHS Trusts, as well as the work of the Welsh Government's Health and Social Care Department. Between 1 April 2015 and 30 September 2015, the Auditor General has provided an annual opinion on the 2014-15 accounts of each NHS body, and has reported publicly on the arrangements in place to secure economy, efficiency and effectiveness in their use of resources including through the publishing of a comparative picture of orthopaedic services report for each local health board. This work has been delivered in line with the timetable set out in our Plan and in compliance with auditing and ethical standards and statutory reporting requirements.

### Audits of accounts

- 7 local health boards
- 3 NHS trusts
- Local health board summarised accounts
- NHS trusts summarised accounts

### Studies completed or substantially completed

- Medicines management in the acute sector
- Outpatient services: follow-up appointments
- Governance arrangements at Betsi Cadwaladr University Health Board (follow-up study)

### Local performance audit work

- 7 local health boards
- 3 NHS trusts

### Ongoing studies

- IT infrastructure and capacity
- Radiology services
- NHS Consultant Contract (follow-up study)
- Hospital catering and patient nutrition (follow-up study)

### Structured assessments

- 7 local health boards
- 3 NHS trusts

## Audit work carried out at central government bodies

The central government sector in Wales covers a diverse range of public bodies, including the Welsh Government and its sponsored bodies, the offices of various statutory commissioners, inspectors and regulators, and the National Assembly Commission. During the reporting period, the Auditor General has provided an annual opinion on the 2014-15 accounts of the listed central government bodies, consistent with our Plan and in compliance with auditing and ethical standards and statutory reporting requirements. Performance audit work has also been conducted within this sector, as part of the Auditor General's programme of value for money studies.

### Welsh Government accounts

Welsh Government Consolidated Accounts  
Non-Domestic Rating Account  
Welsh Consolidated Fund receipts and payment account  
Whole of Government Accounts  
Approval of payments out of the Welsh Consolidated Fund

### Accounts of Welsh Government sponsored bodies

Arts Council of Wales  
Arts Council of Wales Lottery Fund  
Care Council for Wales  
Higher Education Funding Council for Wales  
National Library of Wales  
National Museums and Galleries of Wales  
Natural Resources Wales  
Sports Council for Wales Main and Trust Accounts  
Sports Council for Wales Lottery Fund  
Local Democracy and Boundary Commission for Wales

### National Assembly for Wales accounts

National Assembly for Wales Commission  
Assembly Members Pension Fund

### Accounts of commissioners, inspectors and regulators

Children's Commissioner for Wales  
Older People's Commissioner for Wales  
Public Services Ombudsman for Wales  
Welsh Language Commissioner  
Estyn  
General Teaching Council for Wales

### Certification of grant claims and returns

European structural fund claims from the Welsh Government and its sponsored bodies worth around £300 million

## Audit work undertaken for consideration by the Public Accounts Committee

This programme of audit work includes value for money examinations, the preparation of summary reports of the findings from audit work across multiple NHS, central government and/or local government bodies, and examinations undertaken in response to issues of public concern identified through our audit work or raised with the Auditor General. The outputs from this programme over the reporting period, which have been delivered consistent with our Plan, have supported the work of the National Assembly's Public Accounts Committee and other Assembly committees to help maximise the impact of their scrutiny inquiries. Looking forward, the Auditor General may decide to produce national summary reports of local NHS performance audit findings in a number of other areas, but the exact timing and content of these outputs are currently being confirmed.

### Value for money studies, summary reports or reactive examinations completed

- Welsh Government investment in next generation broadband infrastructure
- Regional education consortia
- Orthopaedic services
- Primary Care Prescribing – summary of local audit findings – memorandum for the Public Accounts Committee
- Governance in the NHS in Wales – memorandum for the Public Accounts Committee'
- Regeneration Investment Fund for Wales

### Ongoing value for money studies

- Picture of public services
- Welsh Government acquisition of Cardiff Airport
- Development of Natural Resources Wales
- Rail services
- Welsh Government response to audit recommendations
- Flood and erosion risk management
- Public procurement and the National Procurement Service

### Summary reports in progress

- Medicines management

### Ongoing reactive examinations

- NHS waiting lists and private practice
- Wales Life Sciences Investment Fund
- Governance review of the National Library of Wales

## Good practice work

One of the two main strands of our good practice work is the provision of freely available online resources that enable the public, service users, service providers, policy makers and decision makers to access information that will leave them better informed. Our other strand of activity involves facilitating conversations where the learning from comparative successes and failures is shared face-to-face. A number of outputs have been delivered from this programme over the period 1 April 2015 to 30 September 2015, consistent with our Plan, and with particular emphasis on promoting the sharing of information across organisational, geographical and international boundaries.

### Shared learning seminars delivered

- NHS waiting times
- Independence of older people
- Trust during major organisational change
- Trustees and governance of third sector activities

### Shared learning webinars delivered

- Patient experience
- Staff involvement and engagement
- Fraud and corruption

### Good practice guides delivered

- Staff involvement and engagement

### External facilitation of shared learning and community support

- Academi Wales summer school
- NHS Wales Finance Directors Network
- Good Practice Wales
- Sustainable Futures Commissioner
- Public Health Wales



## Joint working activity

Over the reporting period, the Auditor General and Wales Audit Office have continued to exercise their commitment to effective stakeholder engagement to inform the development, maximise the relevance, and extend the reach and impact of the Auditor General's work. Consistent with our Plan, we have also worked closely with the other UK audit agencies and with the other main external review bodies in Wales to enhance the collective impact of our work, and have undertaken a small amount of commissioned audit work.

### Joined up delivery

National Fraud Initiative with other UK audit agencies

Working with Estyn to undertake value for money studies of regional education consortia

Working with Care and Social Services Inspectorate Wales and the Older People's Commissioner on a study on the independence of older people

Annual certification of the accounts of the European Agricultural Guarantee Fund (EAGF) and European Agricultural Fund for Rural Development (EAFRD)

Follow-up joint review with Healthcare Inspectorate Wales of governance arrangements at Betsi Cadwaladr University Health Board

### Participation with observer status on external working groups

Partnership Council for Wales

Reforming Local Government Programme Board

Well-being of Future Generations (Wales) Bill advisory and reference group

Welsh Government Treasury Implementation Board

Finance Minister's Welsh Tax Forum

CSSIW Local Authority Inspection Framework Board

Local Government Data Unit Board

Fire and Rescue Service National Framework Project Board

### Commissioned audit work

Audit of EU grant claims for the University of Glamorgan

Chief Auditor to and audit of the accounts of the Government of Anguilla

Waste management and trade refuse benchmarking groups

### Membership of external working groups

EURORAI

International Integrated Reporting Council's Public Sector Integrated Reporting Network

Public Audit Forum

Financial Reporting Advisory Board

CIPFA/LASAAC Local Authority Code Board

ICAEW Public Sector Audit Committee

CIPFA Audit and Accounting Standards Panel

Inspection Wales initiative

DWP Housing Benefit and Welfare Reform UK inspectorates liaison group

Youth Justice Board/HMIP 'Keeping in Touch' liaison panel

## Appendix 2 - Commentary on the progress we have made during the reporting period towards achieving each of our three-year priorities

### Audit work at local government bodies

Three-year planned priorities	When	Management lead	Progress commentary
Further enhance our local assessments of financial health and quality of financial planning and continue to provide an annual all-Wales overview	2015 and each year thereafter	Alan Morris Sector Lead, Local Government and Criminal Justice	On track. Plans have been developed for a 2015-16 assessment of local government financial health to build on the 2014-15 all-Wales overview published in April 2015. Delivery planned for the remainder of 2015-16.
Better integrate the planning and reporting of our local audit of accounts and performance audit work, particularly in relation to examining the effectiveness of governance arrangements, and further align our work with that of other external review bodies	2015-2016	Alan Morris	On track. Initial work has been undertaken to better integrate planning of our 2015 work programmes. Further work is planned for the remainder of 2015-16 to further integrate plans during 2016-17. Our local government strategy group is also considering how to better integrate the annual reporting of our audit work, taking particular account of the requirements of the Well-being of Future Generations (Wales) Act and Local Government White Paper proposals.
Prepare for the introduction of faster closure of local government accounts, and for the impact of changes to the grant funding regime in Wales, whether arising from new terms and conditions set by the Welsh Government or the introduction of Universal Credit by the Department for Work and Pensions	2015-2016	Anthony Barrett Assistant Auditor General and Head of Financial Audit	On track. We have commenced work on preparing for faster closure in local government. The Welsh Government has now issued a consultation document setting out the proposed timetable for earlier closure. We have already taken account of a reducing level of grant certification in our financial and workforce planning for 2016-17 and beyond. We will shortly commence our preparations for the introduction of Universal Credit.
Modify our framework for the audit of town and community councils to provide more informative reporting on the effectiveness of governance arrangements	2016	Anthony Barrett	Our framework for the audit of town and community councils has now been modified, and new work in this area is due to start early next calendar year.
Examine local government bodies' preparedness and planning for reform and mergers	2016-2018	Alan Morris	Yet to commence. Our work in this area is due to start next year. Initial consideration is being given to incorporating work on preparedness for mergers into 2016-17 audit work programmes, including corporate assessments.

## Audit work at NHS bodies

Three-year planned priorities	When	Management lead	Progress commentary
Establish an NHS Expert Panel, including academics and health professional bodies, to advise on all aspects of our health audit programme	2015	Gillian Body Assistant Auditor General and Head of Performance Audit	On track. Membership has been identified for an Expert Panel that will advise on the design of the Auditor General's 2016 NHS performance audit programme.
Further enhance the content and impact of our reports for NHS bodies on the effectiveness of governance arrangements to better support both corporate and service improvement	2015	Gillian Body	On track. An updated Memorandum on Governance in the NHS in Wales was prepared for consideration by the Public Accounts Committee for its meeting in April 2015. The effectiveness of governance arrangements is now routinely monitored as part of annual structured assessment work at all ten NHS bodies, with local tailoring to focus on progress made against previously identified areas of improvement.
Participate fully in applying the new protocol for identifying and responding to serious issues affecting service delivery, quality and safety of care and organisational effectiveness across NHS Wales	2015 and each year thereafter	Mike Usher Sector Lead, Health and Central Government	On track. Continued engagement in the tri-lateral NHS Wales protocol arrangements with both the Welsh Government and Healthcare Inspectorate Wales. Scheduled and 'ad hoc' discussion mechanisms have been operating successfully in practice, and all three parties will be jointly reviewing the effectiveness of the protocol in late 2015.
Draw on local audit work to present a national picture of relative financial and service performance by NHS bodies	2015 and each year thereafter	Mike Usher	On track. For 2015-16 a Picture of Public Services report will replace the annual NHS finances report output. Structured assessment work at local NHS bodies will be undertaken during 2016 to support the 2016-17 NHS finances report.
Publish an audit review of the initial operation of three-year NHS integrated delivery plans	2017	Mike Usher	Yet to commence. Detailed planning and scoping for this project is due to commence in autumn 2016.

## Audit work at central government bodies

Three-year planned priorities	When	Management lead	Progress commentary
Publish an annual overview report on the results of audit work undertaken within the central government sector	2015 and each year thereafter	Mike Usher	Under review. The Picture of Public Services report will include central government sector coverage. The Auditor General's new duties under the Well-being of Future Generations (Wales) Act 2015 have led to a need to rethink this planned priority.
Explore with the Welsh Government the potential for undertaking a cyclical programme of governance and performance audit reviews across each of the Welsh Government departments and sponsored bodies	2015-2016	Mike Usher	Deferred. Work on this priority will commence after the Assembly elections in May 2016.
Provide the National Assembly's Finance Committee and Public Accounts Committee with an audit commentary on preparedness for the introduction of fiscal powers and on progress made throughout the planning and implementation stages	2015-2018	Mike Usher	On track. The 'go live' date for fiscal devolution to Wales has now been confirmed as 1 April 2018. Based on the Scottish experience, we anticipate producing an initial Auditor General written commentary in late 2016 or early 2017, with further update reports to follow as required. In the meantime, we will continue to liaise closely with both National Assembly Committees to ensure that their requirements are met.
Evaluate and prepare for the accounting and audit implications of the implementation of Welsh fiscal powers, together with the UK Government's impending response to the 'Silk 2' report	2015-2018	Mike Usher	On track. We have commenced discussions with both the National Audit Office and Audit Scotland on the accounting and audit implications of fiscal devolution for Wales and are receiving excellent co-operation. We also have an observer on both the Welsh Government Programme Board and the Welsh Tax Forum, and so we are privy to real-time intelligence to help inform our assessments of workforce planning and other implications.

## Audit work for consideration by the Public Accounts Committee

Three-year planned priorities	When	Management lead	Progress commentary
Put in place discrete arrangements to strengthen our forensic audit capacity and ensure timely responses to issues of public concern without detracting from our statutory audit work	2015-2016	Gillian Body	On track. Recruitment of members of a new investigative studies team is nearing completion. We have also recently engaged with our counterparts at the National Audit Office who have similar arrangements, to learn from their set up experiences.
Increase the impact of, and engagement with our public reporting through enhancing the design of our reports and broadening our communication channels	2015-2017	Gillian Body	On track. Our Communications Team has redesigned the look and format of our report template to improve accessibility for on-line readers. Following training for staff on 'data storytelling', we are making increased use of info graphics and social media to promote the key messages in our reports.
Enhance our work that examines whole systems and the linkages between service providers, including in particular the interface between health and social care provision	2015-2018	Gillian Body	On track. Forward planning for the next performance audit cycle of work has been undertaken in Summer 2015.
Better understand the expectations and requirements of the Public Accounts Committee, through surveying members on their views of our support for their scrutiny work, and seeking feedback on individual audit reports	2016-2017	Gillian Body	Yet to commence. However, preparatory work is already underway to consider the optimum approach and timing.
Raise awareness of the work of the Auditor General and Wales Audit Office amongst Assembly Committees, including through contributing to the induction of new Assembly Members after the 2016 Assembly elections	2016-2017	Huw Vaughan Thomas Auditor General and Chief Executive	Yet to commence. Work on this priority will commence after the Assembly elections in May 2016.

## Exchange of good practice

Three-year planned priorities	When	Management lead	Progress commentary
Encourage improvements in public services by capturing at least 50 pledges to action from an annual programme of 12 shared learning events, and monitor their translation into action	2015 and each year thereafter	Alan Morris	On track. We capture pledges to action at the end of each shared learning seminar. We are also piloting a new 'Random Coffee Trials' approach over the next six months, through which we facilitate follow-up conversations between delegates on how they are implementing pledges to action. We will assess the success of this approach at the end of the pilot.
Develop programmes of good practice work on key challenges facing public services including governance, risk management, strategic financial management and planning for the long term	2015 and each year thereafter	Alan Morris	On track. Examples in early 2015-16 include seminars on the Wellbeing of Future Generations (Wales) Act 2015, faster closure of accounts, governance, integration of health and social care, and trust in organisations during times of change.
Invest in developing and supporting self-sustaining 'communities of interest' to build upon the momentum generated by our good practice and shared learning activity	2015 and each year thereafter	Alan Morris	On track. Work is being undertaken with seminar partners during 2015-16 to develop communities of interest to build on the momentum generated at events. A planned national study on approaches to behaviour change across public services is going to be delivered in an innovative way using good practice methods and with a strong focus on the development of communities of practice.
Increase the proportion of audit projects that incorporate good practice and shared learning activity and outputs	2015 and each year thereafter	Alan Morris	On track. Links between the Good Practice Team and our audit teams are being strengthened and an increasing number of 2015-16 seminars are being linked to audit projects or associated work streams. Examples include faster closure of accounts, independence of older people, NHS waiting times, whistleblowing, governance, IT audit work and studies on behaviour change and interventions in local government.

## Engagement and joint working

Three-year planned priorities	When	Management lead	Progress commentary
Put in place arrangements for more effective management of correspondence received from the public or other interested parties about matters relevant to the Auditor General's functions, including providing swifter and more substantive responses	2015	Kevin Thomas Director of Corporate Services	On track. A review of correspondence handling was incorporated into the recently completed Corporate Services restructure project. New guidance for the public on corresponding with the Auditor General for Wales has been developed and published on our website. Revised processes to support accountabilities for handling correspondence are being implemented.
Further enhance our sector understanding and relationships with audited bodies to both better inform our work programme and contribute to developments and improvements across the public sector	2015 and each year thereafter	Huw Vaughan Thomas	On track. The work of the Sector Leads is strengthening our engagement at a strategic level particularly through participation in various groups as observers. The recently established Engagement Director role is also helping to further enhance engagement with audited bodies.
Engage more effectively with the public, their representatives and other stakeholders to gauge the impact of our work, assess our performance and measure our success	2015 and each year thereafter	Huw Vaughan Thomas	On track. We have established an impact task and finish group which draws on staff from each part of Wales Audit Office, and have been liaising with colleagues at Audit Scotland, which has recently concluded a similar exercise, to develop our approach and maximise the impact of our work. We have also established and are in the process of implementing a new stakeholder engagement strategy.
Encourage participation in the National Fraud Initiative from a greater range of bodies in receipt of public funding, and expand the information used in the data matching exercise	2015-2016	Anthony Barrett	On track. We have extended participation by providing NFI participants with unlimited access to the new NFI Application Checker tool during 2015-16. Application Checker is designed to help identify potentially fraudulent or erroneous applications for benefits, services or employment at the application stage by matching key application information to existing NFI datasets. Application Checker has the potential to be a highly valuable tool in fraud prevention.

Three-year planned priorities	When	Management lead	Progress commentary
Further enhance the efficiency and effectiveness of audit, inspection and regulation in Wales through working with other external review bodies to streamline our reviews and strengthen joint working and the sharing of intelligence and resources	2015-2018	Huw Vaughan Thomas	On track. Significant developments have taken place through the Inspection Wales Programme to help improve cooperation and collaboration between the four partners. During the period we published a report on a review of regional education consortia that was undertaken jointly with Estyn, and have undertaken joint work with CSSIW on the independence of older people, and with Healthcare Inspectorate Wales in our ongoing governance work at Betsi Cadwaladr Health Board.



## Our governance and leadership

Three-year planned priorities	When	Management lead	Progress commentary
Strengthen our workforce strategy to meet current demand and ensure we are able to anticipate and respond to future legal, environmental, and professional developments, including through effective succession planning	2015-2016	Steve O'Donoghue Director of Finance	On track. A strategic workforce planning project is currently underway and on schedule, with external input.
Strengthen leadership capability, including through the use of 360° performance reviews for senior staff and supporting reviews of Board effectiveness	2015-2018	Huw Vaughan Thomas	On track. A revised performance appraisal scheme for Senior Leadership Team members has been agreed, which includes 360° feedback. Proposals for a Senior Leadership Development Programme are also currently being developed.
Monitor the evolution of our unique governance arrangements, with a view to sharing knowledge, learning and experience	2015-2018	Huw Vaughan Thomas	On track. In accordance with good practice, the Board will assess its effectiveness and that of its committees annually. To support that work, the Board has engaged consultants to undertake a Board Effectiveness Review, with the latest development workshop being held in May 2015. The purpose of the review is to help the Board optimise the collective and individual effectiveness of its members to support delivery of its strategic aims and objectives.
More effectively use external benchmarking and comparison to assess our performance and measure our success and impact	2015-2018	Kevin Thomas	On track. We have been working with the other UK audit agencies to develop our use of external benchmarking as part of a broader exercise to develop management information.

## Our use of resources

Three-year planned priorities	When	Management lead	Progress commentary
<p>Make better use of technology and information management to rationalise and streamline our business systems and processes, through implementation of a rolling three-year ICT plan</p>	<p>2015-2018</p>	<p>Kevin Thomas</p>	<p>On track. We introduced a new travel and expenses system from 1 April 2015. Over the reporting period we have piloted and tested a more effective and integrated time recording and audit data management IT platform. The time recording element of the new IT platform went live for use by all staff at the start of October 2015, and roll out of the enhanced data management element of the platform is planned for mid-November to better support our financial audit work. Consideration is also being given to the use of cloud storage.</p>
<p>Make further arrangements to establish the Wales Audit Office as a recognised training ground for pan-public sector accountants</p>	<p>2015-2017</p>	<p>Anthony Barrett</p>	<p>A bid for additional funding to support this initiative will be included in our Estimate for 2016-17.</p>
<p>Keep a tight grip on costs, seek further efficiencies and keep fees as low as possible</p>	<p>2015-2018</p>	<p>Steve O'Donoghue</p>	<p>An efficiency and effectiveness programme has been approved by the Board, with targets set for a saving of £760,000 in 2015-16. Our year-end forecast is currently on track to achieve this.</p>
<p>Make better use of our physical and information assets to support the delivery of our objectives</p>	<p>2015-2018</p>	<p>Kevin Thomas</p>	<p>On track. Alongside implementation of the new IT platform, we have also made a decision to move offices in North Wales to reduce our overall costs, ensure better use of our office space and improve our environmental performance.</p>

Three-year planned priorities	When	Management lead	Progress commentary
<p>Demonstrate our corporate social responsibility through our work on:</p> <ul style="list-style-type: none"> <li>• improving environmental stewardship;</li> <li>• promoting a healthy lifestyle and good work-life balance amongst our staff;</li> <li>• advancing equality of opportunity, eliminating discrimination and fostering good relations; and</li> <li>• promoting use of the Welsh language and meeting the new Welsh language standards</li> </ul>	2015-2018	Kevin Thomas	<p>We secured re-accreditation at Green Dragon Level 4 in June 2015, and we are continuing to work towards achieving level 5.</p> <p>We are delivering a range of wellbeing awareness events over the course of the year, and work is in hand to develop health screening arrangements.</p> <p>An accessibility audit of our website was undertaken during April 2015 with a view to gaining accreditation, and physical access audits have recently been undertaken at our three main offices. More effective external engagement arrangements have been established with the Equality and Human Rights Coalition facilitated by the WCVA.</p> <p>A Task and Finish Group has been established to coordinate the development of a linguistic skills strategy. Regular basic Welsh training courses are now available to staff. A full-time Welsh Language Officer was appointed in June 2015 as part of the Corporate Services restructure project.</p>

# Appendix 3 - A full assessment of progress made in the first half of 2015-16 towards achieving each of our key performance measure targets

## Impact

To what extent is our work informing the people of Wales, helping public bodies in Wales to succeed, and valued by our stakeholders?

No.	Measure description	Target	Performance at 30 Sep 2015	Commentary
11	Proportion of recommendations or proposals for improvement that are fully accepted for implementation by audited bodies	90 per cent	98 per cent	349 recommendations or proposals for improvement were made during the reporting period, of which 342 were fully accepted for implementation by audited bodies.
12	Value of potential savings identified through our work	At least £6 million in 2015-16	Not available	No data available yet. Data on identified potential efficiency gains or future savings will be collated during the last quarter of 2015-16.
13	Proportion of stakeholders who consider the Auditor General to be an independent and authoritative commentator on the governance and stewardship of public money and assets	At least 90 per cent	92 per cent	Latest stakeholder survey undertaken in second quarter of 2014-15. Stakeholder feedback to be sought again during fourth quarter of 2015-16.
14	Proportion of stakeholders who said that, through our work, they gained useful insight that they would not have acquired otherwise	At least 80 per cent	Not available	No data available yet. Stakeholder feedback to be sought during last quarter of 2015-16.
15	Proportion of stakeholders who believe our work has led to improvements in the provision of public services	At least 80 per cent	Not available	No data available yet. Stakeholder feedback to be sought during last quarter of 2015-16.

● Low risk     
 ● Medium risk     
 ● High risk     
 ● On target

For performance measures where we are yet to achieve our targets, we have provided an assessment of the risk of us not being able to achieve the targets by 31 March 2016.

## Delivery

### Are we delivering our audits on time and to the required quality and professional standards?

No.	Measure description	Target	Performance at 30 Sep 2015	Commentary
D1	Proportion of audit products delivered on time	95 per cent	93 per cent	Of 999 audit products delivered during the reporting period, 927 were delivered on time. The timely delivery of performance audit work has been adversely affected by a shortfall in capacity in 2014-15. 24 of the 'late' reports had been planned for delivery prior to the start of this financial year. The timeliness of performance audit reports planned for delivery within the reporting period was significantly higher.
D2	Number of national reports published	14 per annum	18	Rolling annual total. Performance has exceeded our target total. Seven national reports were published in the first half of 2015-16 which included the purdah period 1 April to 8 May 2015.
D3	Number of good practice products delivered, including seminars and webinars	20 per annum	24	Rolling annual total. We exceeded our target despite not holding or promoting any shared learning seminars during the purdah period 1 April to 8 May 2015.
D4	Proportion of audits that are delivered in accordance with required quality standards	100 per cent of annual sample	100 per cent	Latest results from our 2015 annual quality assurance review. All audits reviewed in the sample met the required quality standards.
D5	Proportion of requests to draw from the Welsh Consolidated Fund that are processed within 24 hours of receipt of required information	100 per cent	100 per cent	Data for the first half of 2015-16 as measurement commenced 1 April 2015. To be presented as a rolling annual total once sufficient data is available.

● Low risk    
 ● Medium risk    
 ● High risk    
 ● On target

For performance measures where we are yet to achieve our targets, we have provided an assessment of the risk of us not being able to achieve the targets by 31 March 2016.

## Leadership

### Are our governance and leadership arrangements operating effectively?

No.	Measure description	Target	Performance at 30 Sep 2015	Commentary
L1	Proportion of stakeholders that said they have confidence in our work	At least 90 per cent	94 per cent	Latest stakeholder survey undertaken in Q2 2014-15. Stakeholder feedback to be sought again during Q4 of 2015-16.
L2	Proportion of staff that feel they understand and are engaged with our strategic approach as set out in the Plan	At least 80 per cent	64 per cent	Results from the last staff 'pulse' survey which was run in April and May 2015, shortly after the launch of our 2015-16 Annual Plan. The Senior Leadership Team recognise that more needs to be done to engage with staff on our strategic approach. They have taken measures to prioritise engagement in the period since the survey was conducted and are committed to taking further action to improve engagement in the development and application of future Plans.
L3	Proportion of staff that feel they are trusted to carry out their job effectively, feel recognised when they have done their job well, and feel their manager motivates them to be more effective in their job	At least 80 per cent	75 per cent	Results from the last staff 'pulse' survey which was run in April and May 2015. Management is working in partnership with trade unions and Coventry University to develop a better understanding of the dynamics underpinning trust at the Wales Audit Office.
L4	Proportion of staff that believe they would be supported if they try a new idea, even if it may not work, and feel encouraged to come up with new and better ways of doing things	At least 80 per cent	69 per cent	Results from the last staff 'pulse' survey which was run in April and May 2015. The current level of performance is of concern to the Senior Leadership Team and will be picked up via the aforementioned trust survey work, running through Autumn 2015.
L5	Proportion of staff that feel their performance is evaluated fairly	At least 95 per cent	98 per cent	Data from employee response forms completed as part of the 2014 performance appraisal. Performance is ahead of target and aligns with implementation of a new performance appraisal approach.

● Low risk    
 ● Medium risk    
 ● High risk    
 ● On target

For performance measures where we are yet to achieve our targets, we have provided an assessment of the risk of us not being able to achieve the targets by 31 March 2016.

## Financial

### How well are we managing our finances and assets?

No.	Measure description	Target	Performance at 30 Sep 2015	Commentary
F1	Variance between actual and budgeted income as per the approved annual Estimate	Less than one per cent at year end	1.2 per cent	Based on forecast year end out-turn
F2	Variance between actual and budgeted expenditure as per the approved annual Estimate	Less than two per cent at year end	1.2 per cent	Based on forecast year end out-turn
F3	Value of aged debts over 60 days	Less than £300,000	£0.2m	Performance is attributed to increased debt chasing activity in the second quarter of 2015-16.
F4	Value of cost savings generated throughout the business	£760,000 in 2015-16	£839,000	£575,000 of savings target was identified in our 2015-16 budget. A further £264,000 of savings has been identified in our second quarter budget review, which has been used to offset income reductions.
F5	Costs including for rent and rates per whole-time equivalent	Less than £3,300 in 2015-16	£3,443	Only previously calculated at financial year end. In 2015-16 we have moved to quarterly reporting and our figures are based on current expenditure, extrapolated to a full year estimate. During the reporting period we have secured alternative North Wales office accommodation, which will further assist us in improving our space and cost efficiency. The benefits of this office move will be realised in 2016-17.

● Low risk    
 ● Medium risk    
 ● High risk    
 ● On target

For performance measures where we are yet to achieve our targets, we have provided an assessment of the risk of us not being able to achieve the targets by 31 March 2016.

## Social

### How well are we promoting and supporting equality, well-being and learning?

No.	Measure description	Target	Performance at 30 Sep 2015	Commentary
S1	Average working days lost per member of staff per annum	Less than 6.5 days	7.9 days	Staff sickness absence in the last quarter of 2014-15 was affected by a number of long-term sickness absences, and is reflected in this rolling annual figure. However, significant improvements to sickness absence levels have been reported in the first half of 2015-16.
S2	Proportion of staff that feel they are able to access appropriate learning and development opportunities when they need to	At least 80 per cent	80 per cent	Results from the last staff 'pulse' survey which was run in April and May 2015. The level of performance reflects the investment made in learning and development support for staff, both in time resource (on average 10 days per WTE) and funding (around £1,000 per person).
S3	Proportion of staff that feel they are treated fairly and with respect, feel valued and feel the organisation respects individual differences	At least 80 per cent	66 per cent	Results from the last staff 'pulse' survey which was run in April and May 2015. The Senior Leadership Team is working in partnership with trust experts at Coventry University to help us better understand the underlying dynamics that have led to this level of performance. The work will involve conducting staff interviews and focus groups across the workforce in the second half of the year.
S4	Proportion of staff that feel they have an acceptable workload and are able to strike a good balance between their work and private life	At least 80 per cent	69 per cent	Results from the last staff 'pulse' survey which was run in April and May 2015. The Senior Leadership Team has subsequently emphasised the importance of the use of overtime and time off in lieu options when dealing with workload pressures in the busiest periods.
S5	Proportion of our outputs that are compliant with our Welsh language scheme	100 per cent	100 per cent	All external publications produced during the period were made available in a bilingual format. No complaints were received during the reporting period and as such, compliance is noted as 100 per cent.

● Low risk    
 ● Medium risk    
 ● High risk    
 ● On target

For performance measures where we are yet to achieve our targets, we have provided an assessment of the risk of us not being able to achieve the targets by 31 March 2016.



## Environmental

### How well are we managing our impact on the environment?

No.	Measure description	Target	Performance at 30 Sep 2015	Commentary
E1	Level of Groundwork Wales Green Dragon Environmental Standard accreditation	Maintain at Level 4 in 2015-16	4	Level 4 accreditation maintained (certificate June 2015). Currently working toward our overall target of Level 5 accreditation by 2016-17.
E2	Total CO <sub>2</sub> equivalent emissions from sources that we own or control, from consumption of purchased electricity, or that are produced indirectly as a consequence of our activities	Less than 530 tonnes in 2015-16	270 tonnes	Data for the first half of 2015-16. This year we have moved from year-end to quarterly reporting. Our performance will be presented as a rolling annual total once sufficient data is available. We are exploring ways to minimise business travel whilst maintaining the quality and timeliness of our work.
E3	Total waste produced	Less than 60 tonnes in 2015-16	30.3 tonnes	Data for the first half of 2015-16. This year we have moved from year-end to quarterly reporting. Our performance will be presented as a rolling annual total once sufficient data is available. We are exploring ways of further reducing our waste with a view to achieving our overall target of less than 50 tonnes by 2018.
E4	Proportion of our total waste produced that is reused, recycled or composted	60 per cent in 2015-16	39.0 per cent	During the recent Green Dragon audit, it was acknowledged that we may be understating our performance. We are currently awaiting a response from the Environment Agency on our use of conversion factors, and are undertaking a review of our waste monitoring methodologies with support from WRAP.
E5	Paper consumption	Less than 2,200 reams in 2015-16	1,235 reams	Data for the first half of 2015-16. This year we have moved from year-end to quarterly reporting. Our performance will be presented as a rolling annual total once sufficient data is available.

● Low risk    
 ● Medium risk    
 ● High risk    
 ● On target

For performance measures where we are yet to achieve our targets, we have provided an assessment of the risk of us not being able to achieve the targets by 31 March 2016.

## Communication

### How well are we raising awareness of and encouraging engagement with our work?

No.	Measure description	Target	Performance at 30 Sep 2015	Commentary
C1	Number of page views	250,000 per annum (amended target)	99,000	Data is for the first half of 2015-16, which included the recent purdah period. The original annual target of 750,000 views was set prior to the introduction of improved website tracking at the end of 2014-15, which enables us to exclude views made internally by our staff. Performance is now being measured on this revised basis, and so the original target, which is now considered unrealistic, will be reset in accordance with the new measurement approach next year.
C2	Proportion of media articles published about our work that have positive or neutral sentiment	At least 70 per cent	99 per cent	Media coverage dipped during the purdah period. However, levels of press interest have subsequently risen, particularly following publication of our Regeneration Investment Fund for Wales and Regional Educational Consortia national reports, and our 'My Pembrokeshire' campaign. The small numbers of negative articles during the period were focused on perceived delays to publication of some national reports, and the leaked results of our staff survey.
C3	Klout score - a measure of our social media influence by analysing our Twitter account activity	Score of 45 out of 100	47	Strong levels of engagement on social media has led to us consistently exceeding the Klout score industry average of 40 – peaking at 51 during the period. We have actively looked to grow followers over recent months, leading to us being ranked within the top 0.6% of those talking about 'accounting' and ranking in the top 0.1% of those talking about the 'public sector' on both Twitter and Facebook. Alongside our national reports, a particular social media success during the period was our #careerthatcounts recruitment campaign.
C4	Number of attendees at our shared learning seminars	600 per annum	444	Rolling annual figure. We did not hold or promote any shared learning seminars during the purdah period 1 April to 8 May 2015. During the reporting period, we held two specialist but lower attendance seminars on NHS waiting times.
C5	Number of instances where our staff are invited to present audit learning at externally hosted conferences and events	25 per annum	10	Data is for the first half of 2015-16. Speaking engagements covered a broad range of our work. Topics included explaining changes to the 2015-16 audit arrangements for community councils at the One Voice Wales conference, explaining our take on medicines management to the NHS community, and presenting our audit work on procurement to audit colleagues from across Europe at the EURORAI seminar in St Petersburg.

● Low risk    
 ● Medium risk    
 ● High risk    
 ● On target

For performance measures where we are yet to achieve our targets, we have provided an assessment of the risk of us not being able to achieve our targets by 31 March 2016.

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Date: 29 September 2015  
Our ref: HVT/2391/caf  
Page: 1 of 4

Dear Jocelyn

### **AGW WORK ON THE PREVENTATIVE AGENDA IN THE NHS**

At the meeting of the Finance Committee on 21 May 2015, I agreed to provide some additional information on the work I have undertaken that is relevant to the preventative agenda in the NHS, and which could feed into the Committee's planned scrutiny work in this area in the autumn.

Whilst my work programme in recent years has not included a study that has looked explicitly at the promotion of healthy lifestyles, I have undertaken a number of reviews which include "preventative themes" as part of a wider approach to managing demand on NHS resources, and to help to promote greater patient independence and less reliance on more specialist acute services.

I have set out below the areas of my work which I believe may be of interest to the Committee. At this stage I have just provided some high level details of the topics my staff have looked at in recent years and the key findings. If the Committee feels that these are areas that are relevant to its planned scrutiny work, I can arrange for a slightly more detailed briefing material to be pulled together.

#### **Management of Chronic Conditions**

In Wales, it is estimated that over 800,000 people have at least one chronic condition such as diabetes, coronary heart disease and chronic obstructive pulmonary disease (COPD). Whilst a key aim must be to prevent people developing these conditions in the first place, or to at least delay their onset, it is inevitable that with a growing number of people living longer, the management of chronic conditions will present an increasing challenge for health and social services.

In March 2014, I published a report which looked at the progress NHS bodies had made in managing patients with chronic conditions since the publication of previous audit findings in 2008. A particular focus of the work was to assess the progress being made in helping patients stay well in the community by supporting them to self-manage their chronic conditions, and to ensure services are responsive enough to prevent their conditions deteriorating, thereby minimising avoidable hospital admissions.

My report showed that the Welsh Government has set out a clear vision for improving the management of chronic conditions. Locally there was improved access to patient education programmes to support self-management of long term conditions. Budgets for community services had increased, there are more nurses working in a community setting, and patients are able to get quicker access to community based services. Collectively this has led to reduced hospital admissions for chronic-condition-related illnesses.

However, the report also indicated that further progress was needed. In several health boards, the plans that set out how care will be shifted from hospital to community settings were insufficiently clear. Most of the community based services for chronic conditions were still only available on weekdays and there was a need to better co-ordinate the work of the different staff groups and teams that care for patients with chronic conditions. Importantly, more work was also required to improve processes for identifying and supporting those patients at greatest risk of an unplanned hospital admission. A copy of my report can be found at:

<http://www.audit.wales/system/files/publications/The%20Management%20of%20Chronic%20Conditions%20in%20Wales%20-%20An%20Update.pdf>

### **Orthopaedic services**

In June of this year, I published the findings from a review of orthopaedic services across Wales. As part of that review, my staff looked at the extent to which health boards have developed lifestyle and exercise programmes to help reduce the demand on orthopaedic services, and to potentially avoid the need for surgical interventions. I concluded that there was evidence of some good progress across Wales with the implementation of such programmes. Most – but not all - health boards have established weight loss schemes or community based lifestyle programmes for patients with orthopaedic problems. GPs usually have direct access to these services but the capacity of the teams providing the services is typically small.

There is good evidence to support the value of such schemes. In 2011, Aneurin Bevan University Health Board launched a Joint Treatment Programme for patients with hip or knee pain. The scheme focuses on education, exercise and weight loss. A financial

evaluation of the scheme showed that there was cost of £239 for each patient completing the programme compared with a cost of £8,400 for two total knee replacements. Other health boards have developed similar initiatives such as the Joint Care Pathway for knee patients in Cardiff and Vale University Health Board, and the Orthopaedic Obesity Referral Pathway in Cwm Taf University Health Board. My all Wales report on Orthopaedic Services can be found at: <http://www.audit.wales/publication/review-orthopaedic-services>. I have also published individual health board level reports which can also be found on the Wales Audit Office website.

Although it was not an explicit part of my review of Orthopaedic Services, my staff did pick up peripheral intelligence on the value of the National Exercise Referral Scheme (NERS). This is a scheme that is run in partnership between local authorities, health boards and the Welsh Government. It was launched in 2007 with the aim of increasing the number of people sustaining long term physical exercise. The physiotherapists my staff spoke to during the Orthopaedic review spoke highly of the NERS but also expressed concern about its future sustainability given the pressure on local authority funding and associated potential closures of some leisure centres. If Committee members are interested, more information on the NERS can be found at : <http://www.physicalactivityandnutritionwales.org.uk/page.cfm?orgid=740&pid=34474>. The findings of a formal evaluation of the scheme in 2010 are available at: <http://gov.wales/statistics-and-research/evaluation-national-exercise-referral-scheme/?lang=en>

## **Hospital Catering and Patient Nutrition**

In March 2011, I published a report that examined hospital catering and patient nutrition arrangements in Welsh hospitals. This included a review of how well the all Wales Hospital Nutritional Care Pathway is being implemented. A key component of this pathway is the initial screening of patients on admission to identify those with nutritional problems, and those at risk of, or who are already suffering from, malnutrition.

As part of the review, my staff examined 291 patient casenotes across 23 hospitals in Wales. Whilst there was evidence of some form of nutritional screening in all the casenotes examined, important information such as height, weight, recent weight loss and appetite were often missing. The audit also found unacceptable variation in the extent to which nutritional screening resulted in development of a nutritional care plan and referral to a dietician for patients who were deemed to be at risk. Importantly, at the time of the audit none of the information gleaned from nutritional screening was being used by NHS bodies to fully appreciate the number of patients admitted with nutritional problems. My 2011 report on Hospital Catering and Patient Nutrition can be found at: [http://www.audit.wales/system/files/publications/Hospital\\_Catering\\_and\\_Patient\\_Nutrition](http://www.audit.wales/system/files/publications/Hospital_Catering_and_Patient_Nutrition)

[English 2011.pdf](#). Audit work is currently underway to assess the progress that NHS bodies and the Welsh Government have made in implementing my recommendations, together with those made by the Public Accounts Committee following their inquiry. I plan to brief that Committee on the findings of this follow up work towards the end of 2015.

In addition to the work in the NHS I have outlined above, the Committee may also be interested in the findings emanating from my Local Government study on the *Independence of Older People*. I am due to publish that report during the week commencing 12 October 2015, and would be happy to provide the Committee with a more detailed briefing on the findings following publication of the report. Some of the key messages will be around the extent to which the pressures on local government finance are impacting on councils' ability to maintain expenditure on schemes which support older people to live independently. It will also comment on the extent to which specific funding streams, such as the Intermediate Care Fund, are resulting in sustainable service improvements, and the extent to which information is available to allow councils to properly evaluate the impact of "preventative" services they are providing.

I would also look to reflect some themes relating to early intervention and public behaviour change in my *Picture of Public Services* report, due for publication around the end of this calendar year. In addition, the Committee may wish to be aware that my Good Practice Exchange work also includes activities relevant to these themes.

I trust the information set out in this letter is helpful, and provides the Committee with some insight on the recent and planned work which is relevant to the preventative agenda in health and social care. If any, or all of the material referred to above is felt to be relevant to the Committee's planned scrutiny work in the autumn, I would be happy to have further discussions with you on how best we could support that work.

Yours sincerely



**HUW VAUGHAN THOMAS**  
**AUDITOR GENERAL FOR WALES**

Jane Hutt AM  
Minister for Finance and Government Business  
Welsh Government

13 October 2015

Dear Jane

### Draft Wales Bill

I am writing with regards to the draft Wales Bill, which I understand is expected to be published next week. The Finance Committee will be considering the draft Bill following October recess.

In anticipation of the draft Bills publication and the Committees consideration it would be helpful to have your view on whether the draft Bill will enable financial framework legislation to be brought forward covering finance accountability and audit arrangements (as currently contained in the Government of Wales Act 2006), and as recommended by the Committees Part 2 report into [Best Practice Budget Procedures](#).

In addition it would also be helpful if you could provide information as to whether, in your view, the draft Bill will result in:

- any additional costs associated with the new powers in the Bill and how any additional costs will be funded;
- any further impact on the Welsh Government's budget or audit arrangements.

As you will be aware the Assembly's opportunity for scrutiny of the draft Bill is limited, therefore I would be grateful if you could issue a response to this letter by Friday 30 October.





I am copying this letter to the First Minister, as the overarching lead responsible for the draft Wales Bill within the Welsh Government.

Yours sincerely,

A handwritten signature in black ink that reads "Jocelyn Davies". The signature is written in a cursive style with a small dot above the 'i' in Davies.

**Jocelyn Davies AM**  
**Chair**



**Y Gwir Anrh/Rt Hon Carwyn Jones AC/AM**  
**Prif Weinidog Cymru/First Minister of Wales**



Llywodraeth Cymru  
Welsh Government

Jocelyn Davies AM  
Chair  
Finance Committee  
National Assembly for Wales  
Cardiff Bay  
Cardiff

23<sup>rd</sup> October 2015

Dear Jocelyn

**DRAFT WALES BILL**

I am writing in response to your letter of 13 October to Jane Hutt requesting information on the Welsh Government's position on the draft Bill.

We are in discussion with the Presiding Officer about how to take forward arrangements for providing evidence to Committees. Until this has been clarified I am not in a position to provide written evidence ahead of the next Committee meeting.

I will write to you again once the position is clearer.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Carwyn Jones'. The signature is fluid and cursive, with the first name 'Carwyn' being more prominent.

**CARWYN JONES**

**Y Gwir Anrh/Rt Hon Carwyn Jones AC/AM**  
**Prif Weinidog Cymru/First Minister of Wales**



**Llywodraeth Cymru**  
**Welsh Government**

Jocelyn Davies AM  
Chair  
Finance Committee  
National Assembly for Wales  
Cardiff Bay  
Cardiff

30<sup>th</sup> October 2015

Dear Jocelyn

**DRAFT WALES BILL**

I am writing in response to your letter of 13<sup>th</sup> October requesting a paper setting out the Welsh Government's views to assist in your Committee's consideration of the Draft Wales Bill. I also refer to my letter of 23 October on this matter.

I can now confirm that a paper will be provided to your Committee but unfortunately it will not be possible to meet the timescales set out in your letter. I expect the paper to be available on or after 10 November.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Carwyn Jones'.

**CARWYN JONES**

Huw Vaughan Thomas - Auditor General for Wales  
Wales Audit Office  
24 Cathedral Road  
Cardiff  
CF11 9LJ

## Draft Wales Bill

20 October 2015

Dear Huw,

Following publication of the [draft Wales Bill](#) today, the Public Accounts Committee may wish to consider the draft Bill and any implications that may be specific to the work of this Committee and that of the Auditor General for Wales. While the Constitutional and Legislative Affairs Committee will be responsible for considering the draft Bill and reporting on it all Assembly Committees will have the opportunity to examine the draft Bill and contribute to this work. Given the short timescales for consultation on the draft Bill any consideration by the Public Accounts Committee will need to be undertaken at the beginning of November.

Therefore to help inform the Committee's consideration of these matters and to report in sufficient time to inform the work of the Constitutional and Legislative Affairs Committee, I would be grateful to receive any comments you may have on the draft Bill by 30 October 2015. I am copying this letter to Jocelyn Davies AM – Chair of the Finance Committee due to that Committee's functions relating to the Wales Audit Office.

Yours sincerely,



**Darren Millar AM – Chair**



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

Date: 29 October 2015  
Our ref: HVT/2402/fgb  
Page: 1 of 2

Dear Darren

## **THE DRAFT WALES BILL**

Thank you for your letter of 20 October 2015 inviting me to comment on the draft Wales Bill.

It appears that the provisions currently contained in the 2006 Act that protect certain key aspects of existing legislation relating to the Auditor General's functions have been reproduced in the draft Bill, albeit in a re-arranged form. Those provisions protect the Auditor General's powers to undertake examinations and studies of the Welsh Government and related bodies, and the Auditor General's overall audit independence, and they are appropriate.

I do, however, have some general value for money-related concerns at the apparent effect of paragraph 218 of the new Schedule 7A and paragraph 8 of the new Schedule 7B proposed by the draft Bill. These provisions appear to present scope for argument as to whether public bodies that could be considered integral parts of the Welsh public sector are excluded from the definition of "Welsh public authority". Such an exclusion would seem to arise in the case of bodies with general or supplementary powers that are not confined to exercise "only in relation to Wales", which by virtue of subparagraphs 218(4) and (5) and subparagraphs 8(3) and (4) would seem to put the relevant bodies outside the definition. Examples of such powers may include the general powers of Local Health Boards (under paragraph 13 of Schedule 2 to the National Health Service (Wales) Act 2006, and the WAO's powers for the provision of services (under section 19 of the Public Audit (Wales) Act 2013). I think it would be desirable to have clarity on this point, as the present drafting seems to present potential for dispute and consequential expense.

Another matter that is of relevance to the Wales Audit Office and the Welsh public sector in general is that the draft Bill seems to raise a need for a consequential amendment to the Public Contracts Regulations 2015 so as to allow Welsh public bodies to continue to advertise their requirements on “Sell2Wales” instead of “Contracts Finder”. Regulation 1 of the 2015 Regulations provides that Part 4 of those Regulations (which concerns “Contracts Finder”) does not apply to bodies that wholly or mainly exercise “Welsh devolved functions”. However, “Welsh devolved functions” is defined in the Regulations as functions within the Assembly’s competence under section 108 of the Government of Wales Act 2006. If the exemption from using Contracts Finder is to continue to have effect, the reference to section 108 will need to change to section 108A.

I believe that the normal means for making such an amendment to regulations is by statutory instrument, for which there is provision in the draft Bill. The UK Government may already have such an amendment in mind, but in any case it may be helpful for the Welsh Government to keep this matter in view.

I should also mention that I am concerned at the draft Bill’s reduction in the protection of section 30 of the Government of Wales Act 2006. Under paragraph 7(2)(xv) of the new Schedule 7B, subsections (2) to (4) of section 30 of the 2006 Act are excluded from protection from modification by Assembly legislation. The effect of this is to allow the removal of the preclusion from PAC membership of Welsh Ministers and to allow the removal of the preclusion of a member of a government party from chairing the Committee. Such developments would not be conducive to good scrutiny and governance.

Given the Finance Committee’s functions relating to the Wales Audit Office, I am copying this letter to Jocelyn Davies AM.

Yours sincerely



**HUW VAUGHAN THOMAS**  
**AUDITOR GENERAL FOR WALES**

cc Ms Jocelyn Davies AM, Chair, Finance Committee

# Agenda Item 7

By virtue of paragraph(s) vi of Standing Order 17.42

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# Agenda Item 8

By virtue of paragraph(s) vi of Standing Order 17.42

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# Agenda Item 9

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