

Agenda – Finance Committee

Meeting Venue:

Committee Room 4 – Tŷ Hywel

Meeting date: 15 November 2017

Meeting time: 09.00

For further information contact:

Bethan Davies

Committee Clerk

0300 200 6372

SeneddFinance@assembly.wales

1 Introductions, apologies, substitutions and declarations of interest

(09.00)

2 Paper(s) to note

(09.00)

(Pages 1 – 3)

2.1 PTN1 – Letter from the Public Services Ombudsman for Wales: Estimate 2018–19 – 27 October 2017

(09.00)

(Pages 4 – 6)

3 Welsh Government draft budget 2018–19: Evidence session 6 (Sustainable Development Alliance)

(09.00–09.40)

(Pages 7 – 25)

Anne Meikle, Chair of the Sustainable Development Alliance (WWF Cymru)

Annie Smith, Sustainable Development Alliance (RSPB Cymru)

Hayley Richards, Sustainable Development Alliance (Oxfam Cymru)

Paper 1 – Written evidence: Sustainable Development Alliance

4 Motion under Standing Order 17.42 to resolve to exclude the public from item 5 and items 7–10

(09.40)

5 Welsh Government draft budget 2018–19: Consideration of evidence

(09.40–09.55)



09.55–10.00 Break

6 Wales Audit Office and the Auditor General for Wales's annual report 2016–17 and estimate of income and expenses 2018–19: Evidence session

(10.00–11.00)

(Pages 26 – 392)

Huw Vaughan Thomas – Auditor General for Wales

Isobel Garner – Chair, Wales Audit Office

Kevin Thomas – Director of Corporate Services, Wales Audit Office

Steve O'Donoghue – Director of Finance, Wales Audit Office

Paper 2 – Estimate of the income and expenses for the year ended 31 March 2019

Paper 3 – Business Case: Data Analytics

Paper 4 – Annual Report and Accounts 2016–17

Paper 5 – Final Audit Findings Report Year ended 31 March 2017

Paper 6 – Annual Plan 2017–18

Paper 7 – Interim Report – An assessment of progress made against our 2017–18 Annual Plan during the period 1 April to 30 September 2017

Paper 8 – Explanatory Memorandum to the Finance Committee regarding the variation of the estimate of the Wales Audit Office for the year ending 31 March 2018

Paper 9 – The complex public audit fee regime in Wales – a case for change

7 Wales Audit Office and the Auditor General for Wales's annual report 2016–17 and estimate of income and expenses 2018–19: Consideration of evidence

(11.00–11.15)

8 Tax Collection and Management (Wales) Act 2016: Statutory Instruments

(11.15–11.35)

(Pages 393 – 401)

Paper 10 – The Tax Collection and Management (Permitted Disclosures) (Wales) Regulations 2017

Paper 11 – The Tax Collection and Management (Administration) (Wales) Regulations 2017

[The Tax Collection and Management \(Permitted Disclosures\) \(Wales\) Regulations 2017](#)

[The Tax Collection and Management \(Permitted Disclosures\) \(Wales\) Regulations 2017 – Explanatory Memorandum](#)

[The Tax Collection and Management \(Administration\) \(Wales\) Regulations 2017](#)

[Explanatory Memorandum to the Tax Collection and Management \(Administration\) \(Wales\) Regulations 2017](#)

9 Financial implications of the Public Health (Minimum Price for Alcohol) (Wales) Bill

(11.35–11.45)

(Pages 402 – 407)

Paper 12 – Financial scrutiny of the Public Health (Minimum Price for Alcohol) (Wales)

10 Scrutiny of the Assembly Commission Draft Budget 2018–19: Consideration of the Assembly Commission's response

(11.45–12.00)

(Pages 408 – 415)

Paper 13 – Assembly Commission's response to the Finance Committee's report on the Assembly Commission Draft Budget 2018–19

Concise Minutes – Finance Committee

Meeting Venue:

Committee Room 2 – Senedd

Meeting date: Wednesday, 25 October
2017

Meeting time: 09.32 – 11.00

This meeting can be viewed
on [Senedd TV](#) at:

<http://senedd.tv/en/4425>

Attendance

Category	Names
Assembly Members:	Simon Thomas AM (Chair) Neil Hamilton AM Mike Hedges AM Eluned Morgan AM David Rees AM Steffan Lewis AM Nick Ramsay AM
Witnesses:	Victoria Winckler, Bevan Foundation Auriol Miller, Institute of Welsh Affairs
Committee Staff:	Bethan Davies (Clerk) Leanne Hatcher (Second Clerk) Georgina Owen (Deputy Clerk) Joanne McCarthy (Researcher) Christian Tipples (Researcher) Helen Jones (Researcher)



1 Introductions, apologies, substitutions and declarations of interest

1.1 The Chair welcomed Members to the meeting.

2 Paper(s) to note

2.1 The papers were noted.

2.1 **PTN1 – Letter from Dr Ed Poole, Wales Governance Centre to the Chair – Welsh Government draft budget 2018–19 – 16 October 2017**

3 Welsh Government draft budget 2018–19: Evidence session 5

3.1 The Committee took evidence from Auriol Miller, Director, Institute of Welsh Affairs; and Dr Victoria Winckler, Director, Bevan Foundation on the Welsh Government draft budget 2018–19.

4 Motion under Standing Order 17.42 to resolve to exclude the public for the remainder of the meeting

4.1 The motion was agreed.

5 Welsh Government draft budget 2018–19: consideration of evidence

5.1 The Committee considered the evidence received.

6 Financial implications of the Regulation of Registered Social Landlords (Wales) Bill

6.1 The Committee considered the financial implications of the Regulation of Registered Social Landlords (Wales) Bill and agreed to invite the Cabinet Secretary for Communities and Children in for further scrutiny.

7 Public Services Ombudsman (Wales) Bill: Issues raised by the Auditor General for Wales

7.1 The Committee agreed to write to the Auditor General for Wales responding to the issues raised.

8 Public Services Ombudsman for Wales Estimates 2018–19: Consideration of draft report


8.1 The Committee agreed the report with minor changes.

Agenda Item 2.1

Our ref: NB/MA

Ask for: Nick Bennett

Your ref:

 01656 641150

Date: 27 October 2017

 Matthew.aplin@ombudsman-wales.org.uk

Mr Simon Thomas
Chair of the Finance Committee
National Assembly for Wales
Cardiff Bay
CARDIFF
CF99 1NA

Dear Chair

Finance Committee – 11 October 2017
Public Services Ombudsman for Wales's Estimate Submission 2018/19

Thank you for the opportunity to give evidence to the Committee on my estimate for 2018/19 earlier this month. I welcome being able to discuss my submission and I hope that Committee Members found this useful.

I gave an undertaking to the Committee that I would provide details regarding Abertawe Bro Morgannwg University Health Board upheld complaints over the past two financial years. Additionally, I said I would provide a breakdown of complaints received by Local Authority area and this information is set out at Appendices A and B.

Yours sincerely



Nick Bennett
Ombudsman

Appendix A

2016/17 Complaints received – Breakdown by Local Authority

Local Authority	Complaints Received
Blaenau Gwent County Borough Council	12
Bridgend County Borough Council	44
Caerphilly County Borough Council	54
Cardiff Council	143
Carmarthenshire County Council	44
Ceredigion County Council	32
City and County of Swansea	52
Conwy County Borough Council	28
Denbighshire County Council	24
Flintshire County Council	39
Gwynedd Council	32
Isle of Anglesey County Council	24
Merthyr Tydfil County Borough Council	10
Monmouthshire County Council	18
Neath Port Talbot County Borough Council	38
Newport City Council	26
Pembrokeshire County Council	29
Powys County Council	54
Rhondda Cynon Taf County Borough Council	47
Torfaen County Borough Council	23
Vale of Glamorgan Council	41
Wrexham County Borough Council	46

Appendix B

Abertawe Bro Morgannwg University Health Board Upheld Complaints

The number of upheld complaints increased from 17 in 2015/16 to 24 to 2016/17. If early resolution and voluntary settlements are included, the figure would increase from 29 in 2015/16 to 42 in 2016/17.

Agenda Item 3

INTRODUCTION

The Sustainable Development (SD) Alliance is a group of organisations that cares passionately about the Wales we live in now and will pass on to the next generation. Our Alliance brings together over 30 organisations, from environment and development charities to faith and belief, language, community and women's groups. We share a commitment to shaping a sustainable future for Wales – fighting for social justice in Wales and around the world and doing so within the environmental limits of our one planet, using only our fair share of resources.

CONSULTATION RESPONSE

1. What, in your opinion, has been the impact of the Welsh Government's 2017-18 budget?

The Environment & Rural Affairs MEG for 2017-18 was £383m, which does not address the needs of this area. This allocation has been on the back of sustained cuts to the environment and natural resources budgets over the last few years, which was recently highlighted in a letter to Finance Secretary, Mark Drakeford, by Wales Environment Link. This is very concerning, particularly given the need – recognised in Wales' legislation – to reverse the decline to biodiversity and ensure the resilience of ecosystems. This is also reflected in the [State of Natural Resources Report](#), which flags up urgent concerns about our environment's resilience and can also be seen in ongoing concerns about Natural Resources Wales' capacity.

2. What expectations do you have of the 2018-19 draft budget proposals?

The SD Alliance expects to see the Welsh Government budget reflect the goals and principles embedded in the Wellbeing of Future Generations (Wales) Act 2015. The Act requires all Welsh public bodies, including the Welsh Government, to act in accordance with the sustainable development principle. Given that the budget underpins the actions that Welsh Government will take in the next twelve months, the budget must also work in accord with the principles. In general terms, this means we would expect to see:

- A clear shift in expenditure towards programmes aimed at preventing problems occurring e.g. energy efficiency measures preventing fuel poverty at a large scale; habitat creation to reverse biodiversity decline; habitat restoration to build ecosystem resilience; using the best evidence to tackle flooding and air pollution (with 'nature based solutions', to use language from the Natural Resources Policy); and investment in anti-poverty programmes to promote equality and reverse deprivation.
- Financial arrangements, such as pooled budgets, that encourage and require collaboration between Welsh Government departments and among public bodies, which facilitate the achievement of multiple well-being goals. These ideally should be linked to the delivery of the wellbeing objectives.
- An emphasis on addressing long term problems such as tackling poverty, natural resource depletion and climate change.

It is essential that such shifts in monetary allocations, and the reasons for them, are clearly explained in the narrative accompanying the budget so that public bodies in receipt of funding are fully aware of how they will also need to change their approach to budget setting.

It's important that the Welsh Government shows leadership in implementing the framework of the Wellbeing of Future Generations Act and there needs to be coherence across policy areas. The Welsh Government's policy and spending should be pulling in the same direction and planning for the long term; policies that have a counter-productive effect need to be removed. For example, as Wales moves towards renewable energy, it is counter-productive if Welsh public sector pension funds remained invested in fossil fuels.

To drive change on our path towards sustainable development, there are four over-arching areas that the SD Alliance would expect to see prioritised within the budget:

- To transition to a low-carbon and resource-efficient economy.
- To reduce consumption and promote sustainable production.
- To ensure a comprehensive decarbonisation programme across all MEGs. One of the ways this can be demonstrated is via a carbon impact assessment of the fiscal budget.
- To ensure natural capital is recognised and investment increased in line with delivering on the Natural Resources Policy. WWF has recommended – in the report [‘A Greener Budget: choices for a prosperous future’](#) – that there is a ‘natural capital stress test’ at the heart of budget-making.

In addition, a budget needs to be allocated for activities that contribute towards the wellbeing goal of ‘a globally responsible Wales’, such as the Wales for Africa programme. Wales for Africa activities are beyond the remit of climate change mitigation and adaptation activities, so are not part of that budget line. There are other organisations, such as the Size of Wales, which addresses both climate change and tackling poverty internationally, so also fulfils the global goal. It would be helpful for the positive impact of such programmes to be recognised and to therefore encourage wider participation from public bodies, in line with Wales’ commitment to the UN Sustainable Development Goals.

3. Committee would like to focus on a number of specific areas in the scrutiny of the budget, do you have any specific comments on the areas identified below?

1) Financing of local health boards and health and social care services

The NHS is the biggest expenditure of the Welsh Government, so should be an exemplar for sustainable development in terms of procurement. Contracts should be predicated on ensuring products are sustainable, e.g. MSC certified fish, FSC certified timber and Fairtrade tea, coffee, sugar and cotton. The [NHS Wales Shared Services Partnership](#) has already enacted this through its fish procurement.

In terms of health services themselves, social prescriptions ought to be implemented, to stress the importance of access to natural green spaces. This is important for both physical activity and mental wellbeing. Both the RSPB report [‘Natural Health’](#) (and the more in-depth report [‘Natural Thinking’](#)) and the Wildlife Trusts report on [‘Wellbeing benefits from natural environments rich in wildlife’](#) outline the array of positive impacts the natural world provides to people. There are also several reports concerned with young people’s disconnect from nature, which could be causing problems later on. The National Trust describes it as ‘Nature Deficit Disorder’ in their report [‘Natural Childhood’](#), which is evidenced in both children and adults, particularly in urban areas.

2) Approach to preventative spending and how is this represented in resource allocation

The Welsh Government could certainly have more focus on preventative spending across the piece, rather than just in health. For example, energy efficiency programmes are one of the best preventative investments for people's health, for good housing stock, keeping people out of poverty and decreasing carbon emissions. A large-scale energy efficiency programme would also upskill and re-skill those in the construction sector. A [WWF Cymru report](#) from 2012 showed that by bringing all the least efficient houses in Wales up to a rating of D it would “*reduce greenhouse gas emissions from the housing sector by 40% and reduce the number of households in fuel poverty by 40%.*” There is a [more recent report by WWF and the Energy Saving Trust](#) that looks at the progress towards meeting the target of reducing Welsh emissions by 40% by 2020 (compared to the 1990 baseline).

Similarly, investing in environmental protection is preventative in terms of protecting future generations from developing climate change problems. Carbon budgeting is an inherently preventative measure by reducing the damage our emissions are causing. Investment in environmental protection and restoration to ensure our ecosystems are resilient – and can support social, cultural and economic resilience – is key for Wales' future.

3) Sustainability of public services, innovation and service transformation

Procurement is one of the best levers to direct public spending to sustainable choices, and to ensure a market for the business which is transitioning to sustainable production. For example, all Welsh Government contracts and buildings can switch to sustainable products including: MSC certified fish, FSC certified timber and paper, and Fair Trade. By using contract management techniques, businesses can be pushed to lower their carbon emissions and move towards carbon neutral fleets and premises. The Welsh Government should exemplify good practice for their own carbon neutral premises, including initiatives like microgeneration on all authority buildings and rain water harvesting.

4) Welsh Government policies to reduce poverty and mitigate welfare reform

As the economy transitions to a low-carbon one, decent work for workers should be guaranteed. [Oxfam's report](#) from Scotland explored what 'quality work' looks like from workers' point of view. In Wales, the Welsh Government can, to some extent, improve and enforce basic employment conditions and create effective employment strategies. They can also establish a 'Business Pledge' model, similar to Scotland's approach, where the Pledge is a commitment by accredited companies to adopt fair and progressive business practices, based around various components. Better labour market data is also essential to understand the extent to which people's needs are being met. This can all be enhanced through the Welsh Government's [Code of Practice for Ethical Employment in Supply Chains](#).

Decent work should also come with a decent wage; Wales could become a Living Wage Nation (using Living Wage Foundation rates of pay) by ensuring that all Welsh public bodies are Living Wage accredited employers, and using levers such as procurement and grant funding to incentivise employers to provide decent work with decent conditions.

5) The Welsh Government's planning and preparedness for Brexit

Environmental standards, agricultural policy and fisheries are some of the most significant areas that a post-Brexit UK will need to legislate for, which does bring forward opportunities for improvement and reform. Wales Environment Link has put together a [Sustainable Land Management Vision](#) for a post-Brexit Wales, centred on the need for a new agricultural policy. Farming subsidies should be refreshed to a 'public money for public goods' model with payments for ecosystems services.

The Welsh Government also needs to ensure that important EU environmental legislation protecting wildlife and the environment is retained and strengthened in Wales in the long term; there have been a number of welcome statements relating to this, but no detailed commitments to date.

6) How the Welsh Government should use new taxation and borrowing powers

There is a lot of possibility for innovation in using new taxes, which The Bevan Foundation highlighted in their report: [‘Tax for Good: Devolved taxes for a better Wales’](#). Suggestions on taxing sun beds, polystyrene packaging and sugar should all be explored within the context of the Wellbeing Goals.

7) How evidence is driving Welsh Government priority setting and budget allocations

It is deeply worrying to have seen reductions to environment and natural resources budgets over the last few years, with ongoing concerns about Natural Resources Wales (NRW) having sufficient funds whilst their remit and responsibilities increase in embedding the Environment Act. It’s important they are adequately funded as they put together Area Statements which deliver the Welsh Government’s Natural Resources Policy, as well as their existing regulatory and monitoring requirements.

In their last budget scrutiny, the [CCERA Committee](#) highlighted NRW’s request for three-year budget settlements to better manage the challenges they are facing. NRW’s [State of Natural Resources Report](#) (SoNaRR) provides the evidence base to show that none of Wales’ ecosystems is resilient and we need to address this if we are to maintain and enhance the benefits we gain from the natural environment. As mentioned above, evidence identified in SoNaRR should be clearly driving priority setting and budget. Now the Natural Resources Policy is published, the SD Alliance would expect the budget to support delivery of this and set out how it will be delivered across Welsh Government portfolios.

8) How the Future Generations Act is influencing policy making

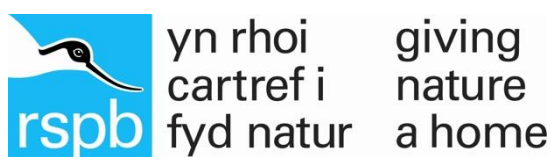
The SD Alliance is concerned that the Welsh Government’s approach so far has not been delivering fully on the Wellbeing of Future Generations Act. There has been no participation of organisations from the Alliance in the development of the Wellbeing Objectives or the cross-cutting strategies. We do not consider this as effective engagement required under the Act’s five ways of working. This is a considerable failure of the Welsh Government in its main strategic requirements of the Act; if this is not being achieved it does not send good signals for what is taking place across rest of organisation.

This was inconsistent with the Welsh Government’s previous commitment to engage with stakeholders on how the strategies are formed. The Finance & Local Government Secretary said in a [written statement](#) on the wellbeing objectives that they *“will be tested further through the development of the strategies and will engage businesses, public bodies, people and communities in this important work.”* It is very disappointing that this did not take place.

In addition, the WFG Act does not seem to be changing the Welsh Government’s decision-making. The continued commitment to the M4 relief road, for example, in spite of [advice from the Future Generations Commissioner](#) that it is ‘ill-conceived’, is a significant failure to consider the WFG framework in policy decisions.

SD ALLIANCE SUPPORT

This paper has been put together and supported by the following members of the SD Alliance: Bat Conservation Trust, Cynnal Cymru, Hub Cymru Africa, Keep Wales Tidy, Llais y Goedwig, Oxfam, RSPB, Size of Wales, Sustrans, Wales Environment Link, WCVA and WWF Cymru.



Hub Cymru Africa



Document is Restricted

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Estimate of the income and expenses for the year ended 31 March 2019



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

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

Mae'r ddogfen hon hefyd ar gael yn Gymraeg.
This document is also available in Welsh.

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Huw Vaughan Thomas
Auditor General for Wales

Isobel Garner
Chair, Wales Audit Office

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.

A draft Fee Scheme, prepared under Section 24 of the Public Audit (Wales) Act 2013, is included for consideration alongside the Estimate in view of their interdependency.

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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.

The Auditor General's aim is to enable the National Assembly and the people of Wales to know whether public money is being managed wisely. Through this document, the Wales Audit Office re-affirms its commitment to play its part in a time of austerity whilst protecting the public pound and working with our audited bodies to secure on-going improvement in the services they deliver.

The £21.6 million spent annually on the Wales Audit Office represents just one thousandth of the £18 billion spent on Wales's public services annually. 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 on people's lives.

There is a direct dependency between our Estimate, as approved by the National Assembly's Finance Committee, and the fee rates we propose for audit work. Within this document, we include a draft Fee Scheme so that the Finance Committee can consider it alongside the Estimate. The fee rates and statutory fee scales shown have been subject to consultation not only with local government bodies, as required by statute, but with all other audited sectors too. By reviewing our audit approach and seeking to make greater use of data and technology, we are seeking to reduce our audit fees over time whilst still ensuring audit quality for all audited bodies.

The Wales Audit Office is acutely aware of the funding restraint faced by the Welsh public sector. We have reallocated existing resources and identified further cost savings in order to meet our strategic priorities and other cost pressures. As a result we are not seeking any additional funding above the amount requested for 2017-18, other than for cyclical costs associated with the National Fraud Initiative.

For the last three years, we have received transitional dedicated funding to develop our approach to auditing delivery against the Well-being of Future Generations Act without necessitating the charging of fees to our audited bodies. This development work will be completed during 2017-18 and going forward, any audit work required will be funded from the fees charged to audited bodies. In most cases this will be at no extra cost, but for some central government bodies there will need to be a proportionate increase in the fees charged, reflecting a completely new and additional area of audit activity with those bodies.

In March 2017 we set out our key priorities, objectives and performance measures in our [Annual Plan for 2017-18](#). This Estimate is designed to show how our forward priorities for 2018-19, will be delivered in the year. Our updated Annual Plan for 2018-19 will be laid before the National Assembly in March 2018.



Isobel Garner
Chair, Wales Audit Office



Huw Vaughan Thomas
Auditor General for Wales

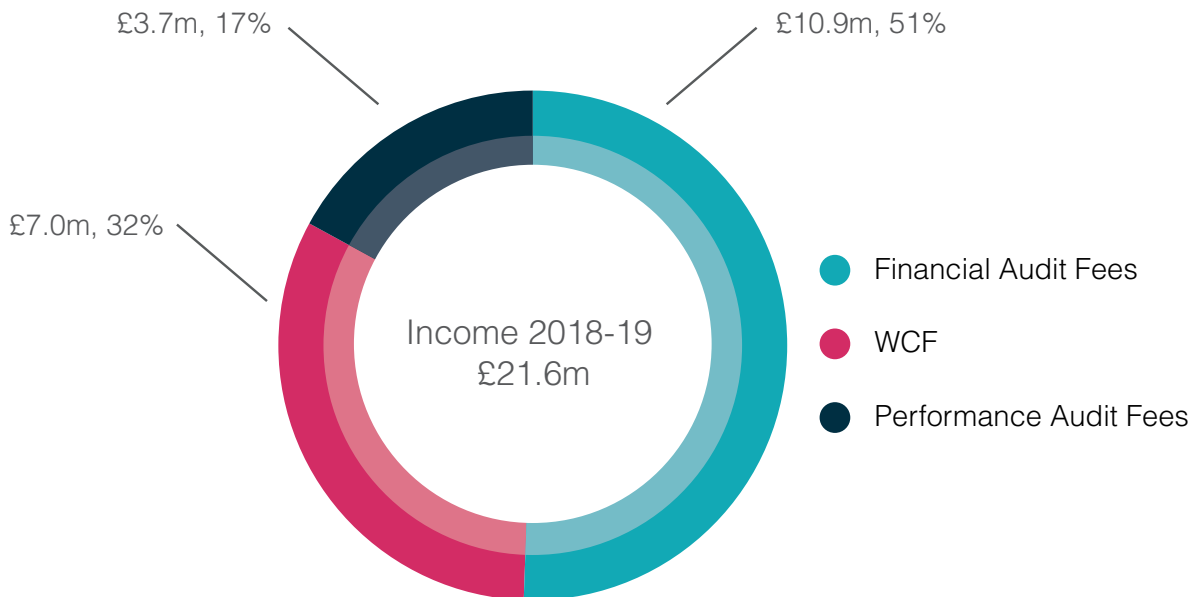
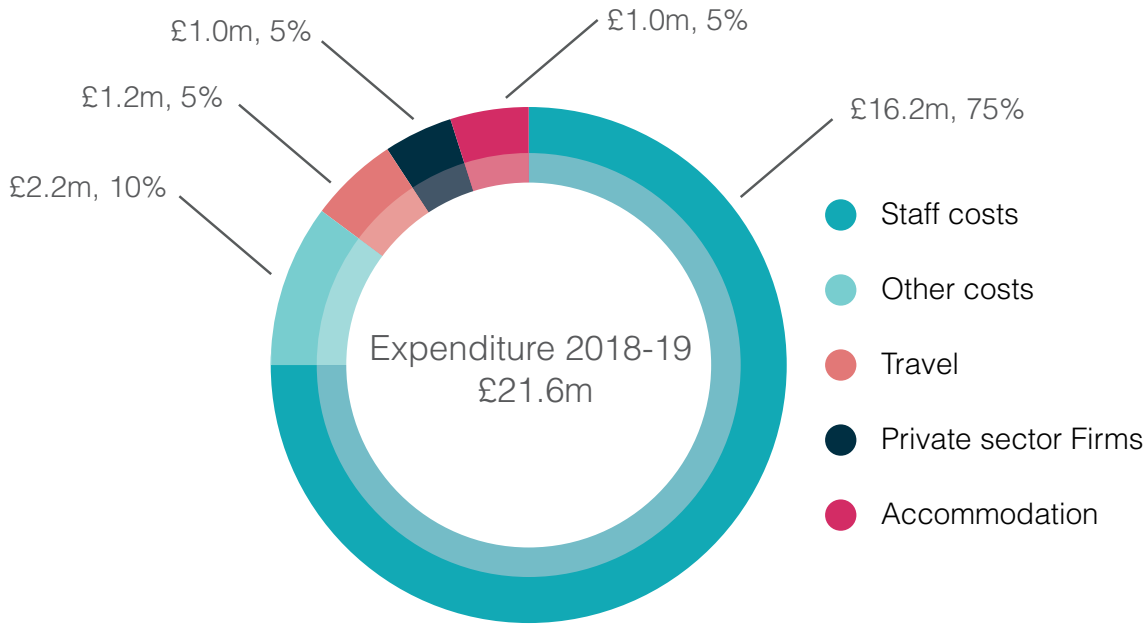
Our work

- 1 As the statutory external auditor for most of the public sector in Wales, the Auditor General is responsible for the audit of the majority of public money spent in Wales.
- 2 The Wales Audit Office is required to provide the Auditor General with the resources he needs to undertake his work effectively. The majority of our costs relate to the staff we employ, our contractors, the delivery of audit services across Wales and providing the necessary infrastructure and support services to deliver the work. Further detail can be found in [Appendix 1](#).
- 3 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 14 national reports annually, looking at value for money and proper use of public money, certifies around £2.5 billion worth of grant claims, and advises on the work of the Public Accounts Committee. The main operational activities of the Auditor General are set out in [Appendix 2](#).
- 4 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 and funding from the Welsh Consolidated Fund (WCF).
- 5 The Board provides highly skilled staff to undertake around 90% of the Auditor General's work programme, complemented by a further 10% of audit resource contracted from private sector accountancy firms and specialist contractors.
- 6 Our Annual Plan for 2017-18 sets out our strategic priorities, and this Estimate for 2018-19 demonstrates the funding needed to meet those priorities for next year.

Value for money at the Wales Audit Office

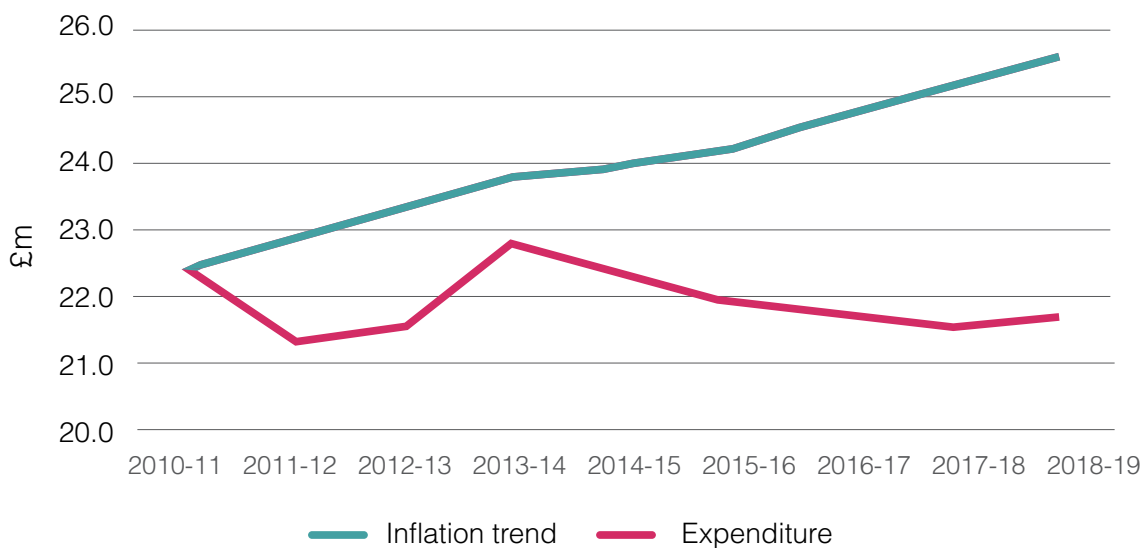
- 7 We expect to spend £21.6 million in 2018-19 delivering public audit across Wales. This represents one thousandth of the total expenditure of £18 billion on which we provide assurance.
- 8 The large majority of our expenditure (almost 75%) is on staff costs – both our directly employed staff and seasonal and specialist contractor staff that we use to meet peaks in our workload and to provide specialist skills for individual pieces of work.
- 9 The £2.2 million spent on other costs includes £0.5m of irrecoverable VAT on goods and services as a result of the special VAT status of the Wales Audit Office. The cost of this has increased in recent years and is having to be met from efficiency savings on other budgets.
- 10 Around 68% of our expenditure is funded through fees charged to audited bodies; the remaining 32% is provided directly from the Welsh Consolidated Fund (WCF).
- 11 **Exhibit 1** demonstrates where we plan to spend this money in 2018-19 and how it will be funded.

Exhibit 1 – Wales Audit Office Expenditure and Income 2018-19



12 Since 2010-11, the year the current Auditor General took office, the cost of public audit in Wales has reduced by 15% in real terms¹, as represented in Exhibit 2. The cumulative saving generated across those years amounts to almost £19 million, reducing both the call on the Welsh Consolidated Fund (WCF), other than for new responsibilities agreed with the Finance Committee, and the amount required to be raised from audit fees.

Exhibit 2 – Expenditure 2010-11 to 2018-19



13 Over the same period we have worked hard to absorb cost increases from pay agreements, contractual salary increments, general inflation and increases in employers' national insurance and pension contributions. We have done this by:

- Revising our staff skills mix to reduce the number of senior managers and increase our graduate trainees
- Cutting costs by increasing efficiency in our corporate centre
- Completing the implementation of a new staff travel scheme saving 11% annually
- Making procurement savings in respect of our use of private sector firms and corporate systems including time recording and expenses management
- Reducing the number of senior Directors by moving to just one Assistant Auditor General instead of two.

¹ Based on GDP deflators published by ONS, June 2017.

- 14 The Board remains 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. Building on savings achieved in previous years, we take a forward-planning approach that will enable us to achieve additional savings for 2018-19.
- 15 We are investing in strategic transformation projects to ensure our impact continues to be maximised in the changing environment ahead. It is important to us that we achieve our strategic objectives in a cost effective manner, within the context of our Medium Term Financial and Workforce Plans. Our first project 'Cutting Edge audit' was completed during 2017-18 and made 7 key recommendations – the first of these relating to the development of a Data Analytics team is detailed further in this Estimate.

Funding our strategic priorities

Strategic Priority 1

Report authoritatively on whether public bodies are acting in accordance with the sustainable development principle



	Year to 31 March 2019 £'000	Year to 31 March 2018 £'000
Developing our audit approach and moderating the impact on fees for work required to comply with the requirements of for the Well-being of Future Generations Act 2015 (Staff time).	Nil	300
16 During 2016-17 and 2017-18 we received funding to allow us to develop our audit approach to the Wellbeing of Future Generation Act without requiring us to charge fees to audited bodies for this work. Exhibit 3 sets out how we have used this funding during 2017-18.		
17 As we move in to business as usual, from 2018-19, we will be adjusting our audit work in Local Government and NHS bodies to discharge the Auditor General's duties within the current fees. This will not be possible for central government bodies, as there is no existing programme of Central Government performance work, and hence it will be necessary for us to charge a fee for the work required. We are discussing the implications of this with individual audited bodies.		

- 18 Funding awarded in 2017-18 for the development and piloting of our work associated with the Wellbeing of Future Generations Act 2015 will not be required in 2018-19.

Exhibit 3 – Wellbeing of Future Generations ACT– 2017-18

Wellbeing of Future Generations Act –2017-18

Developing our audit approach

We are using the majority of the WCF funding to meet the staffing costs of developing, consulting upon and testing our audit approach without impacting on audited body fees. Funds are being used to employ a dedicated Project Manager and to backfill audit staff involved in development activity without passing on those costs through fees.

Pilot sites

We are working with the following bodies to develop and test audit methods over the course of 2017-18. The pilot bodies are:

- Aneurin Bevan Health Board
- Vale of Glamorgan Council
- The three National Park Authorities
- Welsh Government
- Natural Resources Wales
- Sport Wales
- Torfaen Public Service Board

This work includes engaging with pilot bodies and wider stakeholders in the design and development of audit methods. It will also involve evaluating those methods and developing tools, guidance and training to support their use in future audit work.

Year One Commentary

We are undertaking a Year One Commentary to identify how each of the 44 bodies are beginning to respond to the requirements of the Act and to share examples of emerging good practice.

Strategic Priority 2

Support strong public sector financial management at a time of austerity



	Year to 31 March 2019 £'000	Year to 31 March 2018 £'000
Cost of delivering value-for-money studies by the Auditor General including Local Government National Studies and all-Wales summaries of local NHS audit work. Responding to issues that have been brought to our attention through correspondence from the public, elected representatives and others (Staff time)	2,720	2,720
Research and development associated with our Local Government performance audit work (Staff time)	280	325 ²
Providing support to the Public Accounts Committee and other National Assembly committees. (Staff time)	190	190
Wider public sector benefit		
The Good Practice Exchange. (Staff time and associated costs)	540	540
Cyclical funding for the National Fraud Initiative (Staff time and participation fees)	180	50
Total Strategic Priority 2	3,910	3,825

National reports, including reactive work – £2.72 million

- 19 We aim to deliver at least 14 national reports each year drawing on audit work across various parts of the Auditor General's programme. Of these reports, we would typically expect that at least 10 would, by their nature, provide material to support the scrutiny work of the Public Accounts Committee and/or other National Assembly committees.
- 20 The Auditor General is required to take account of the views of the Public Accounts Committee when determining the work to be undertaken as part of his programme of value for money examinations. He updates the Public Accounts Committee regularly on all audit work in progress that could support the Committee's own work.
- 21 Some recent completed national reports include a [Review of the implementation of the 2014 NHS Finances \(Wales\) Act](#) and consideration of the Welsh Government's arrangements for the [21st Century Schools and Education Programme](#).
- 22 We will continue to commit resources to provide the necessary capacity and to develop our capability to carry out reactive work in response to issues brought to our attention through correspondence from the public, elected representatives and others. The resources committed for this purpose from the 2018-19 estimate relate primarily to the work of the investigative studies team that we established in 2015. Recent examples of national reports led by the investigative studies team include a review of the Welsh Government's funding of [Carmarthenshire Energy Limited](#) and a review of the Welsh Government's initial funding of the [Circuit of Wales project](#).

Research and development: Local Government Performance Audit – £0.28 million

- 23 During 2017-18 it became apparent that proposals for the use of the Wales Programme for Improvement Grant provided by Welsh Government were increasingly at odds with the Auditor General's independence, as set out in section 8(1) of the Public Audit (Wales) Act 2013. As a result the Welsh Government and ourselves mutually agreed it was no longer appropriate for us to receive this grant of £460,000 per year. The potential for this was highlighted in our Estimate for 2017-18 and is the subject of a Supplementary Estimate for 2017-18 which will be considered by Finance Committee.

- 24 Continued funding is still required to provide capacity for the research and development of all-Wales Local Government performance audit work, including:
- the development of audit methods,
 - risk assessment tools, and
 - benchmarking of performance information across Wales.
- 25 Research and development allows us to develop products which help us to deliver our work in a timely and cost effective way, reducing the fees that we need to charge for this work.
- 26 Without it, we will be unable to resource the Auditor General's programme of work. We have reviewed the volume of research, development and management work required and estimate that it will cost £280,000 in 2018-19. If this is not funded from the Welsh Consolidated Fund we will need to pass on the costs to our Local Government audited bodies through increased fees.

Exchange of Good Practice – £0.54 million

- 27 Our Good Practice Exchange (GPX) was established in 2006 to gather and share relevant knowledge and innovative practices to support the Welsh public sector to deliver better services using shared learning seminars, online guidance, case studies and social media.
- 28 A recent report on the impact of our audit work by Rocket Science, a consultancy which has also worked with other audit offices, concluded that our GPX product can truly be considered as leading edge.
- 29 Events being delivered in 2017-18 include seminars around managing risk and organisation change, webinars on financial resilience, open standards and workforce planning and seminars on how to involve service users and members of the public in service delivery through the use of social media. A full list of events is available on [our website](#).

- 30 During 2016 the activities of the GPX were evaluated by the Hull University Business School, Centre for Systems Studies. The evaluation built upon the outputs of wider Wales Audit Office reviews and confirmed the positive experience of GPX key stakeholders, such as the 2016 Chief Executive's survey in which 84% said that public services benefitted from the work of the GPX. Specifically the Hull University focussed upon the value created through the development of a network of social, relational and reputational capital across Welsh Public Services. The modest size of the GPX Team allowed it to operate in a lean and agile manner, drawing upon the authority and independence of the Auditor General's activities. This creates an environment of trustworthiness and credibility, which helps to facilitate the transfer of good practice between individuals and organisations.
- 31 The report concluded that the impact of the networks developed by, and activities of the GPX team have far reaching positive outcomes for the quality of citizen experiences and cost to the public purse. The capabilities, reputation and positioning within the Wales Audit Office were seen as a significant positive, and an opportunity to support the transition of Welsh Public Services to models of service delivery that are required to meet future demographic, economic and legislative pressures.

National Fraud Initiative – £0.18 million

- 32 Our Estimate also provides funding to allow both mandatory and voluntary participants in the [National Fraud Initiative](#) (NFI) to do so free of charge. Since its launch in 1996, NFI exercises have resulted in the detection and prevention of more than £30 million of fraud and overpayments in Wales and £1.3 billion across the UK.
- 33 Public bodies tell us that the Assembly's funding of this service, through our Estimate, is valued. A further 6 bodies have signed up recently and we would expect this number to increase in 2018-19 when we roll out the full programme of data collection.
- 34 For 2017-18 our Estimate included funding of £50,000 for the first year of the two-year NFI cycle. 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 2018-19 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.
- 35 In order to continue to provide free participation in the NFI, we seek an increase of WCF funding of £130,000 in 2018-19, to reduce again the following year.

Strategic Priority 3

Make more effective use of data and embrace cutting edge technology



	Year to 31 March 2019 £'000	Year to 31 March 2018 £'000
Strategic transformation programme including Data Analytics (Staff time and associated costs)	310	100

Data Analytics £0.26m

- 36 Our 2017-18 Estimate included funding for a project to identify priority areas for transforming the way we use data and technology. The 'Cutting Edge Audit Office' project resulted in eight recommendations to the Wales Audit Office Board who, in September 2017, supported an outline business case to pursue, as a priority, significant additional investment in data analytics.
- 37 Data analytics (DA) is a rapidly developing agenda for many public and private organisations and it refers to using technology to analyse and present data so that conclusions can be drawn about the information it contains. Examples of DA include the use of computer coding to automate aspects of data analysis, and the use of data visualisation software to present data in new, insightful ways in order to achieve greater impact and understanding. **Exhibit 4** sets out some of the expected benefits of investing in DA.

Exhibit 4 – Benefits of investing in Data Analytics

Benefits of investing in Data Analytics

Greater assurance from our work

Data analytics will provide a better, more comprehensive evidence base for our work. We will be able to state our conclusions with greater certainty because we will be able to examine entire populations of data, and/or use statistical sampling rather than basing our conclusions on smaller, judgmental samples of the data.

Greater insight from our work

Data analytics will make it much easier to unearth patterns in data, hidden linkages and trends across sectors. The insight created by data analytics will help us ask questions of the data that we would not previously have thought of. Our current approaches to data analysis tend to have a backward-looking focus, by reflecting on what has already happened within public bodies. Data analytics will help us develop approaches to future modelling and forecasting, thereby helping us move towards audit work that is forward-looking and predictive.

Greater impact through data visualisations

Data analytics will help us report our audit findings in a much more engaging way. Through data visualisation software and approaches, we will present interactive information that will help our audiences to explore and understand the data, to enable them to ask questions based on this understanding.

Added value to our work in audited bodies

Data analytics will help us deliver added value to our audits. Our new data-led approaches will reveal things about our audited bodies that are so far unknown. The insight we provide will help audited bodies to take ownership and make better use of their own information, thereby strengthening their data capabilities.

Benefits of investing in Data Analytics

Improved efficiency in the way we work

Data analytics will help us complete elements of our work more quickly. It will be quicker to secure data from our audited bodies and we will manage that data more effectively and more securely. Data will be more readily available to auditors, helping us reduce our audit time. Aspects of our data analysis will be automated, thereby freeing up time for our staff to focus on higher-value work. However, whilst financial efficiencies are possible in the long-term, they cannot be secured without time and investment.

Improved business intelligence within the Wales Audit Office

We also intend to apply data analytics to our corporate functions. Improved business intelligence will enhance our ability to plan, carry out and measure our work, leading to more insightful decision making and performance impact.

- 38 In addition to the benefits set out above, there are some considerable risks to the wider Welsh public sector if we do not invest in DA. Other audit bodies and private audit firms are already investing in DA and we need to catch up and avoid falling behind the industry standard practice. There is also growing expectation within the bodies we audit that our work should exploit DA techniques. Finally, as DA is set to be a key area for audit in future years (linked to developments in Artificial Intelligence), if the Wales Audit Office is not investing in DA, the organisation will not be seen as an attractive prospect for new staff.
- 39 Investment in data analytics will be required over the medium to long term. Our research to date indicates it will take more than three years to roll out a data analytics capability. However, as our capability develops, and as data analytics becomes more embedded in the organisation, we anticipate that data analytics will in time become a standard part of our audit approach and thereby supported through our established fee regime and not through additional funding.

Strategic Transformation £0.05m

- 40 In addition to our proposals to invest in Data Analytics, we will continue to invest in our Strategic Transformation project looking at radical solutions as to how we might transform our audit and business processes by 2025. For 2018-19 we are proposing a reduction in this funding of £50,000 in view of the major investment project outlined above.

Strategic Priority 4

Streamline our business processes and strengthen our governance arrangements



	Year to 31 March 2019 £'000	Year to 31 March 2018 £'000
Strategic Priority 4		
Investment in staff learning, development and succession planning.	500	500
Support for Wales Audit Office audit trainees.	320	320
Wales Audit Office Governance	315	300
Equalisation of all-Wales travel costs	285	300
Sectoral intelligence	130	130
Depreciation funding for capital assets	50	50
Ensuring compliance with Welsh Language standards	Nil	20
General Data Protection Regulation (GDPR)	Nil	Nil
Wider Public Sector Benefit		
Finance Skills Development	207	212
Apprenticeships in the Wales Audit Office	40	Nil
Total Strategic Priority 4	1,847	1,832

Staff learning and development – £0.82 million

- 41 Developing and training our staff remains a key priority for the Wales Audit Office and, for our professionally qualified staff meets the requirement that they maintain Continuous Professional Development (CPD). The costs associated with this (both staff time and external training costs) are met from the Welsh Consolidated Fund rather than from the fees charged to audited bodies.
- 42 In addition to the Pan Wales graduate trainee secondment programme the Wales Audit Office also invests time and resources in developing graduate trainees for its own use.
- 43 We are working towards a target where 80% of our staff feel they are able to access appropriate learning opportunities. In 2016-17, a staff survey revealed that 76% agreed that they did.

Wales Audit Office governance – £0.315 million

- 44 The Public Audit (Wales) Act 2013 established the requirement for a Wales Audit Office Board made up of Non –Executive members, senior management and elected staff members. The costs associated with this, including senior management time along with administration costs and the direct costs of the Board are met from the Welsh Consolidated Fund.

Strategic sectoral intelligence – £0.13 million

- 45 The nature of our external audit role gives us a wide reach across the Welsh public sector and a depth in terms of our knowledge and understanding of individual public bodies. We provide a range of advice and support to executive teams and those charged with responsibility for the scrutiny of executive decision making. We participate as ‘observers’ in a wide range of programme or project boards; thereby protecting our audit independence from policy decisions, but bringing to the table our experience and technical advice to help support well-informed decision making and sound risk management.
- 46 Our sector leads for health and central government, and local government and criminal justice support our work across the Welsh public sector. This strategic engagement also helps to ensure that our own planning and audit work programmes are informed by an understanding of new and emerging developments in the public sector. By their nature, it is not appropriate to fund the cost of this work through our audit fees to individual public bodies.

Meeting Welsh language standards – £Nil

- 47 The Wales Audit Office and the Auditor General are both working towards full compliance, wherever possible, with the 2015 Welsh Language Standards. In 2017-18 we identified specific funding to provide training to our reception staff to ensure they can provide bilingual services. Funding for on-going training will be prioritised within existing training budgets for 2018-19 onwards and hence we are reducing our call on the Welsh Consolidated Fund by £20,000 in respect of the Welsh Language Standards.

General Data Protection Regulation (GDPR) – £Nil

- 48 The GDPR, which comes into force from 1 May 2018, requires the Wales Audit Office to designate a Data Protection Officer (DPO) to exercise functions set out in the GDPR. Those functions include monitoring compliance with the GDPR and co-operating with the Information Commissioner, as well as advising the organisation and reporting directly to the Board. The DPO may be a member of staff, or they may fulfil the role on the basis of a service contract. Our preparatory work indicates that the additional annual cost of the DPO is likely to be in the region of £20,000. We will meet this cost in 2018-19 by increasing our efficiency savings target for the year.

Finance Skills Development – £0.207 million

- 49 Our Pan Wales graduate trainee programme is used to support secondments across the Welsh public sector with the dual aim of helping to remodel our own workforce through the greater use of trainees and to contribute to the future pool of finance talent available to the wider Welsh public sector.
- 50 From a Wales perspective it also helps to address some of the loss of public sector graduate jobs identified in a recent report³ on the number of graduates who leave Wales following graduation. On completion of their training, some of our recently qualified accountants have also remained in Wales, taking up positions in the BBC as well as private sector firms.
- 51 **Exhibit 5** details what we have achieved to date with this funding.

3 Resolution Foundation report 'Get a Move On' published August 2017

Exhibit 5 – Graduate Trainee Programme – Achievements to date

Graduate Trainee Programme – Achievements to date

Finance Skills Development Group

In April 2017 this Group, which includes representatives from across the Welsh Public sector was recognised for its work by being awarded the UK-wide Public Finance innovation award for Finance Training and Development. The Award nomination recognised the generous support of the National Assembly for the Group's work.

Recruitment

We recruited an additional thirteen new graduate trainees in 2017. This increases the total number of Wales Audit Office graduate trainees to 36 as at September 2017.

Secondments

Eight Wales Audit Office trainees are due to be seconded to other public sector bodies during 2017-18, an increase of 3 trainees from last year (Torfaen County Borough Council, Wrexham County Borough Council, DVLA, BBC, Cardiff and Vale College, Natural Resources Wales, Abertawe Bro Morgannwg University Health Board and Betsi Cadwaladr University Health Board). In addition, we have been able to extend the initiative to allow a qualified member of staff to undertake a valuable secondment. Appropriate safeguards are always put in place to ensure the Auditor General's audit independence.

Skills development

An enhanced trainee skills development programme is being rolled out that will culminate in an ILM accredited junior leadership programme. This will constitute accredited first line management training in the final year of a trainee's professional studies. We are exploring whether this junior leadership programme can be extended to trainees in other public bodies.

Management

All trainee line managers are receiving advanced training in coaching techniques to enhance their capability as people managers. This will better enable them to support trainees as they progress through their leadership development programme.

Graduate Trainee Programme – Achievements to date

Trainee conference

A second trainee conference has been arranged for 19 October 2017 at which we are expecting around 180 finance students from across the public sector in Wales. We have achieved a high level of interest from students and public sector leaders (who are supporting and speaking at the event).

Trainee networks

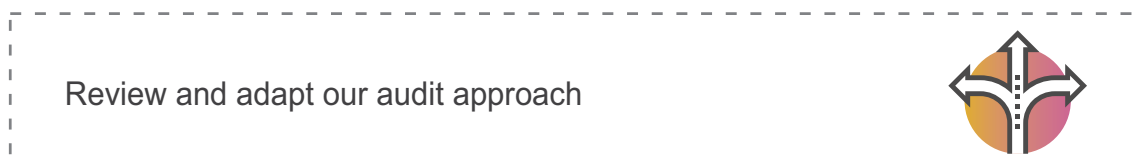
The FSDG has established three trainee networks covering the whole of Wales. These networks allow trainees from a range of employers, and studying for different qualifications, to come together and network, share experiences and hear from a variety of speakers to further enhance the trainees' professional development.

Apprenticeships in the Wales Audit Office – £0.04m

- 52 The Finance Skills Development Group (FSDG) has been asked by the Welsh Government to develop a new apprenticeship level public sector accounting framework (or to add a public stream to an existing framework). This would be based around the AAT qualification, which is universally recognised as an entry route to becoming a fully qualified accountant. This framework would be available to all public sector employers in Wales to offer apprenticeships in financial services/accounting. Accounting firms in the private sector have been very successful in recruiting into highly successful apprenticeship schemes.
- 53 We are seeking additional funding of £40,000 to develop, design and launch a new public sector accounting apprenticeship scheme in Wales. This would cover the following elements:
- Developing the new framework: £15,000
 - Providing additional pastoral support to young people joining the workforce for the first time: £10,000
 - An enhanced secondment programme for apprentices: £15,000
- 54 We plan to launch an apprenticeship scheme in the Wales Audit Office based on this framework, which would augment our highly successful graduate scheme by creating up to five initial two-year apprenticeship posts based in the Wales Audit Office. We would draw on our experience in running our graduate scheme, and would utilise the support infrastructure we have already developed for that scheme, to provide high quality development opportunities.

- 55 Our recruitment strategy would focus on young people, in particular, who might not otherwise get the opportunity to embark on a career in accounting in the public sector and to develop their softer and leadership skills as a basis for a higher level career. This is in line with Welsh Government policy to create development opportunities and meaningful jobs in one of its key priority areas – financial services – and supports the broad objectives of the Well-being of Future Generations legislation.
- 56 The scheme would be similar to the current highly successful graduate programme, with apprentices hosted by the Wales Audit Office but funded to spend some time on secondment in other public bodies to gain wider experience and further develop their skills. We are seeking funding to allow apprentices to have additional secondment opportunities to enhance the learning and development focus of the scheme.
- 57 We are also seeking a small level of additional funding to provide pastoral and other support to young people who are new to the work place and who have no experience of moving between several employer bodies. Such additional support has been a key feature of other successful apprenticeship schemes we have studied.
- 58 Other public bodies have also shown considerable interest in working on a shared/collaborative apprenticeship scheme. We believe that the arrangements we plan to put in place would then provide a foundation for a broader scheme across the whole of the public sector.
- 59 On completion of the apprenticeship scheme, these individuals would be extremely well placed to join higher level professional accountancy training schemes anywhere in the public sector.

Strategic Priority 5



	Year to 31 March 2019 £'000	Year to 31 March 2018 £'000
Strategic Priority 5		
Technical support, including compliance and quality assurance. (Staff time and associated costs)	744	744
Preparatory work for the Early Closure of Local Government Accounts (Staff time)	120	Nil
Preparatory work for the Welsh Revenue Authority. (Staff time)	50	50
Total Strategic Priority 5	914	794

Technical support and quality assurance – £0.744 million

- 60 In order to support our audit work, ensure that our auditors comply with all relevant legislation and guidance and that our audit products meet approved quality standards, we invest both staff time and resources in this stream of work. Our quality control system has been designed to comply with the quality control standards of the Financial Reporting Council. More information on the work done to meet quality standards is available in our annual [Transparency Report](#) published on our website.

Early closure of Local Government Accounts – £0.12 million

- 61 The Welsh Government intends to amend regulations which will require all local government bodies to bring forward the preparation and publication of their annual accounts. The changes are being introduced in a staged manner and all bodies will eventually be required to prepare their accounts by 31 May and publish them by the end of July. This will therefore require the Auditor General for Wales to certify local government accounts by 31 July each year rather than 30 September. This change is expected to take effect for years of account ended 31 March 2019 for fire and rescue authorities, national park authorities, police and crime commissioners and chief constables; and, for years of account ended 31 March 2021 for unitary authorities.
- 62 This will have a significant impact on the workload at peak times for the Wales Audit Office and has been the focus of our workforce planning arrangements in recent years. In advance of the deadline, we are already working closely with our audited bodies to ensure that they are properly prepared for this change. However, a short-term need for additional resources of £120,000 per year has been identified for 2018-19, increasing to £150,000 per year in 2019-20 and 2020-21. This additional resource is intended to:
- enable us to provide additional client engagement which we see as critical to the success of the early closure programme;
 - engage with GPX colleagues to develop and deliver specific learning events for audited bodies;
 - develop specific engagement with the main accountancy firms;
 - support our work in re-engineering our audit approach (including IT audit) to accommodate early closure;
 - model workforce planning assumptions and scenarios to further support our workforce planning arrangements;
 - engage with staff on the practical implications of a much heightened peak and potential solutions;
 - provide guidance, tools and training to staff; and
 - prepare enhanced Technical support including revising the Audit Delivery Manual

Changes for 2018-19 from 2017-18

- 63 The change in our call on WCF for 2018-19 from 2017-18 is detailed as shown in **Exhibit 6**. Other than the cyclical increase for the National Fraud Initiative, our call on the Welsh Consolidated Fund has remained the same as that requested in our Supplementary Estimate for 2017-18.
- 64 We have achieved this, in the context of internal cost pressures, the need to fund our strategic priorities, and wider public sector funding restraint.

Exhibit 6 – Changes in WCF Funding from 2017-18 to 2018-19

2017-18	£'000
Estimate 2017-18	6,526
Supplementary Estimate 2017-18 re research and development for Performance Audit Local Government work	325
WCF Funding 2017-18	6,851
Changes for 2018-19	£'000
Reduction in respect of WFG	(300)
Reduction in respect of Strategic Transformation	(50)
Reduction in respect of Welsh language standards	(20)
Reduction in respect of replacement of Wales Programmeresearch and development for Improvement GrantPerformance Audit Local Government work	(45)
Reduction in respect of Finance Skills Development	(5)
Revenue funding for Data Analytics	260
Preparatory work re Early Closing of Local Government Accounts (for 3 years)	120
Finance apprenticeship scheme	40
Cyclical funding for National Fraud Initiative (alternate year funding)	130
WCF Funding 2018-19	6,981

Recruitment and retention

- 65 In recent years the Wales Audit Office has been experiencing increasing difficulty in attracting high quality qualified accountants for its audit roles. This issue has been partly addressed by our policy of recruiting and training graduate trainees, but more recently we have found that once qualified, our accountants are increasingly being attracted to other organisations for significantly better salaries than can be offered by the Wales Audit Office.
- 66 For this reason, we are currently reviewing our financial auditor pay bands, the outcome of which will be reported to the Board in March 2018. No specific funding has been included in this Estimate for any potential changes arising from this review as various options for any additional costs would need to be carefully considered.
- 67 Similarly, no contingency has been included should there be any relaxation of the 1% cap on public sector pay increases in Wales. In that scenario, we may need to revisit our costing and funding assumptions.

Capital and ICT investment

68 Our capital investment priorities for 2017-18 to 2021-22, linked to our internal IT Strategy, are set out in [Exhibit 7](#).

Exhibit 7 – Capital Investment 2017-18 to 2021-22

	2017-18 £'000	2018-19 £'000	2019-20 £'000	2020-21 £'000	2021-22 £'000
Planned PC/IT renewal	50	75	75	75	75
Performance Audit knowledge management system	80	-	-	-	-
Network infrastructure renewal	20	40	20	20	20
Video conferencing infrastructure renewal	30	15	15	15	15
Strategic Transformation Project	50	-	-	-	-
Corporate Systems	100	100	100	100	100
Office accommodation	-	50	40	40	40
Replacement telephony system	50	-	-	-	-
TOTAL	380	280	250	250	250

Planned PC/IT Renewal

- 69 A rolling programme of PC/IT equipment renewal to ensure business continuity and that equipment remains up to date and reliable. During 2017-18, in line with our Strategic Transformation project to make better use of data and technology, we have replaced a number of our laptops with hybrid devices that allow staff to handwrite notes directly onto these devices in meetings, saving both staff time in typing up notes and also significantly reducing the requirement to print documents for meeting attendance. This has resulted in a 20% reduction in paper usage since the devices were introduced, leading to cost savings and helping us meet our environmental targets.

Network Infrastructure Renewal

- 70 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. This will also allow us to cater for the expected continuing transition to 'cloud services' during coming years, and for increasing use of web-based video and multimedia. Our investment will reduce in future years as more functions are moved to cloud based services.

Video Conferencing Infrastructure Renewal

- 71 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 will also continue with PC-based video conferencing to support colleagues working remotely and from offices with no VC facilities. This combined approach will ensure video conferencing is available, wherever and whenever our staff and partners find it beneficial to use it.
- 72 These devices are becoming cheaper as technology improves and hence we are reducing the budget for these going forward.

Corporate Systems

- 73 We will be replacing our current financial system during 2017-18 to ensure that our internal processes and reporting functionality continue to meet best practice standards.
- 74 In 2018-19, the contract for our HR system will need to be renewed. It is currently not certain whether this will require any capital investment so an amount has been included in the event that this is required which will be returned if unused.
- 75 Any future investment on the Performance Audit knowledge management system will also be funded from this allocation.

Office accommodation

- 76 Towards the end of our 5 year programme, the leases on our 3 office buildings in Cardiff, Swansea and Abergele will be due for renewal or ending. Over the next few years we will be undertaking a strategic review of our office accommodation requirements to determine whether savings can be made from more agile and remote working. Provision has been made for necessary access works in the interim along with costs associated with any office moves as our strategy develops.

Fee Regime, the case for change

- 77 Separate to this Estimate, we have published a case for change paper explaining the complexities of the fee regime under which the Wales Audit Office has to operate. We are urging the Finance Committee to consider progressing legislative changes to simplify the fee regime in Wales, to bring it more in line with those applicable to other audit bodies in the UK. Our case for change paper includes responses from our stakeholders, with whom we consulted on our proposals in June-July 2017.

Draft Fee Scheme 2018-19

- 78 Legislation requires us to publish a Fee Scheme at least on an annual basis. Included within this Estimate document is our draft Fee Scheme for 2018-19 ([Appendix 3](#)). This has been included to demonstrate the interdependency between fee income and the approved Estimate. Following consideration of the Estimate and draft Fee Scheme, we will lay our Fee Scheme for 2018-19 before the National Assembly and then advise audited bodies of their estimated fees for next year.
- 79 Having frozen fee rates since 2014-15 we find that we now have to make a small overall increase of less than 1% as set out in [Exhibit 8](#). This represents a 5.6% real-terms reduction in fee rates since 2014-15 when they were last changed. We will work to offset the effect of an increase in our fee rates with reductions in audit days and skills mix so that overall audited bodies should not experience an increase in total fees paid.
- 80 We will be benchmarking our fee rates, and the methodology used to calculate them, with other UK Audit bodies early in 2018. The outcome of this exercise will be considered by the Wales Audit Office Board.
- 81 We went beyond the statutory fee consultation requirements and, in August 2017, consulted with all audited sectors and other stakeholders on our fee scales and fee rates for 2018-19.

Exhibit 8 – Fee rates for audit staff

Grade	Proposed fee rate (£ per hour) 2018-19	Current fee rate (£ per hour) since 2014-15
Engagement director	159	162
Audit manager	112	111
Performance audit lead	93	93
Financial audit team leader	76	75
Performance auditor	66	65
Financial auditor	57	56
Graduate trainee	44	43

82 Consultation responses, from across all the sectors audited, told us that:

- Audited bodies value free participation in the National Fraud Initiative. Our Estimate includes provision for its continuation.
- There was concern from some central government bodies about the need for us to charge for work under the Wellbeing of Future Generations Act. The Regulatory Impact Assessment of the legislation included evidence from us in relation to potential audit costs so we have encouraged those bodies to discuss further with their sponsoring departments.
- Audited bodies acknowledge the real terms reduction in our fee rates since 2014-15 but pointed to the significant reductions in their own funding due to austerity.

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

Forward look

- 84 The evolving landscape for our public audit work presents a complicated picture for the Wales Audit Office, encompassing:
- the impact of Brexit on funding and legislation;
 - continued public sector funding restraint and responses to it, along with evolving public expectations of public services;
 - the political landscape between Westminster and Wales and the impacts of further devolution and tax-raising powers for Wales;
 - the Welsh Government's legislative programme and any impacts for the work of the Auditor General;
 - seamless public services across Wales, with greater partnerships and collaborations, such as City Deals;
 - digitisation of service delivery, increased public access to audit-related data and expanded use of social media and other digital communication;
 - earlier closure of local government accounts from 2018-19, with resultant impacts on resourcing across both local government and the Wales Audit Office; and
 - continued pay restraint in the public sector causing leakage of professional talent.
- 85 We are actively planning for all of the above, both in terms of our financial and workforce plans, in order to ensure that we continue to provide quality audit services, by:
- setting an annual efficiency savings target, £250,000 in 2018-19, 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, preparing for changes to our work programme;
 - capitalising on our strategic intelligence to inform developing policy and position ourselves for effective responses such as to Brexit and the Welsh Government legislative programme; and
 - investing in data analytics and digitisation and providing capacity for transformational thinking in our approaches to audit work.

- 86 Further, annual estimates and interim and annual reports will demonstrate 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 2019

- 87 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.
- 88 In respect of the services and purposes of the Wales Audit Office and the Auditor General in the year ending 31 March 2019, 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.
- 89 These requirements, which due to the variability of income streams can only be estimates, are summarised in [Exhibit 9](#).

Exhibit 9 – Summary of the estimated 2018-19 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	6,981
• Capital	280
Accruing resources from fees and charges for audit, grant certification and related services; other recoveries of costs associated with the functions of the Auditor General or Wales Audit Office; miscellaneous income such as from publications, conferences, provision of administrative, professional and technical services; recoveries of costs, such as seconded staff, staff loans, 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.	14,644
Net cash requirement from the WCF to meet the net amounts falling due for payment in the year by the Wales Audit Office.	7,061

90 **Exhibit 10** provides a reconciliation of the Wales Audit Office's total resource request with its net cash requirement for the year ended 31 March 2018.

Exhibit 10 – Reconciliation of resource requirement to cash drawing requirement from the WCF

	£'000
Net request for resources – revenue and capital	7,261
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	7,061

Appendix 1 – Wales Audit Office income and expenses

Estimate, year to 31 March 2018 £'000		Estimate, year to 31 March 2019 £'000	Supplementary Estimate, year to 31 March 2018 £'000
Expenses			
15,411	Staff costs	15,286	15,411
870	Contractor staff	617	735
1,299	Travel and subsistence	1,231	1,299
874	Private sector firms (including VAT)	962	874
938	Accommodation	960	938
399	ICT	397	399
390	Balance of irrecoverable VAT	500	390
300	Wales Audit Office Governance Arrangements	300	300
255	External training	275	255
201	Legal and professional fees	194	201
145	Translation of documents	145	145
-	NFI data collection	130	-
598	Other costs	628	598
21,680	EXPENSES TOTAL	21,625	21,545
Income			
13,288	Audit fees	13,193	13,288
1,406	Grant certification fees	1,451	1,406
460	WPI grant from the Welsh Government	-	-
15,154	INCOME TOTAL	14,644	14,694
6,526	Total revenue budget to be funded by WCF	6,981	6,851

Analysis of estimated fee income

Sector	Audit of accounts £'000	Performance audit £'000	Grant certification £'000	Total 2018-19 £'000	Total 2017-18 £'000
Local government bodies	5,545	2,324	1,451	9,320	9,729
Central government bodies	1,750	150	–	1,900	1,790
NHS bodies	2,018	1,228	–	3,246	3,110
Other income	150	28	–	178	65
Total fee income	9,463	3,730	1,451	14,644	14,694
2017-18 Comparator	9,498	3,790	1,406	14,694	–

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.
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, eight pension funds, 14 internal drainage districts 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, 3 fire and rescue authorities, and 3 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.
Compliance with audit requirements of Well-being of Future Generations Act 2015.	44 public bodies specified in the Act.	WCF in 2017-18. Fees charged to audited bodies from 2018-19.
Certification of grant claims and returns.	Twenty one local government schemes (around 400 claims with a total value of some £2.5 billion).	Fees charged to audited bodies.
Value-for-money studies.	Typically around 14 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.

Activity	Scale	Source of funding
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.	<p>Includes:</p> <ul style="list-style-type: none"> • checking requests for grant of approval to draw from the WCF; • anti-fraud and other data-matching exercises, including the NFI; • responding to issues that have been brought to our attention through correspondence from the public, elected representatives and others; • providing support to the Public Accounts Committee and other National Assembly committees; and • administration of the Wales Audit Office. 	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 2018-19

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Fee Scheme

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Wales Audit Office fee scales from 1 April 2018	54

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) ([Annex 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 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 2018-19, we proposed in the Estimate:
 - A small (less than 1%) increase in fee rates to be offset by reductions in audit days and skills mix in order to deliver reductions in the median fee scales for most audited bodies. In real terms this represents a reduction of 5.6% since our rates were set in 2014-15.
 - To continue in line with previous National Assembly agreement 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 design our performance audit work at Local Government and Health bodies to concurrently discharge the requirements of the Well-being of Future Generations (Wales) Act 2015 so as not to increase the overall amount of performance audit work required.
 - To charge a fee for this work for Central Government bodies from April 2018; this fee to be discussed in advance with those bodies.
 - To continue to provide public sector secondment opportunities for our accounting trainees, without impacting on fees charged for audit work.
 - To maintain 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.
- 3 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.

- 4 Broadly, 68% 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 32% 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

- 5 **Annex 2** sets out the enactments under which the Wales Audit Office may and must charge fees.

Fee rates and fee scales

- 6 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.
- 7 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.
- 8 During 2017-18 we consulted widely on legislation governing the fee regime in Wales which is more complex than in other parts of the UK and creates inefficiency and additional cost for the public sector in Wales. The outcome of this consultation has been submitted to the Finance Committee and we await their response.

- 9 We went beyond the statutory fee consultation requirements and, in August 2017, consulted all audited bodies and other stakeholders on our fee scales and fee rates for 2018-19. We received responses from across the sectors we audit. Those responses told us that:
- Audited bodies value free participation in the National Fraud Initiative. Our Estimate includes provision for its continuation.
 - There was concern from central government bodies about the need for us to charge for work under the Wellbeing of Future Generations Act. The Regulatory Impact Assessment of the legislation included evidence from us in relation to potential audit costs so we encourage those bodies to discuss further with their sponsoring departments.
 - Audited bodies acknowledge the real terms reduction in our fee rates since 2014-15 but pointed to the significant reductions in their own funding due to austerity. As a result of audit efficiencies, our Fee Scheme reduces the median fee scales despite the proposed increase in hourly rates.
- 10 The Board welcomed the feedback and responds to it through this Fee Scheme and our Estimate.
- 11 **Exhibit 1** sets out the hourly fee rates for audit staff .

Exhibit 1 – Fee rates for audit staff

Grade	Proposed fee rate (£ per hour) 2018-19	Current fee rate (£ per hour) since 2014-15
Engagement director	159	162
Audit manager	112	111
Performance audit lead	93	93
Financial audit team leader	76	75
Performance auditor	66	65
Financial auditor	57	56
Graduate trainee	44	43

- 12 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).
- 13 Fee scales for the audit of 2017-18 financial accounts and 2018-19 improvement audits and assessments are provided in Annex 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.
- 14 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.
- 15 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.
- 16 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.
- 17 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.

- 18 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.
- 19 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.

The Well-being of Future Generations (Wales) Act 2015

- 20 The Well-being of Future Generations Act 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.
- 21 During 2017-18, we are working with audited bodies named in the Act and the Future Generations Commissioner for Wales as we develop and test audit approaches to fulfil the Auditor General's duty under the Act.
- 22 For Local Government and Health bodies we will be designing our performance audit work to concurrently discharge the requirements of the Well-being of Future Generations (Wales) Act 2015 so as not to increase the overall amount of performance audit work required.
- 23 For Central Government bodies, we will however need to charge fees for this additional WFG work. As highlighted in our Fee Scheme for 2017-18, we cannot incorporate the work in to other aspects of our performance audit work, as we do not currently undertake such work for central government bodies. Engagement directors will discuss the work required and associated fees with individual bodies as appropriate.

Charging of fees

- 24 Each body's Engagement Director will explain that body's skills' mix for the audit and the factors influencing the overall fee. Charging arrangements are agreed with audited bodies and may encompass one-off, periodic, regular or annual charging, as appropriate in the circumstances.
- 25 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.
- 26 On completion of audit assignments, we will assess the actual costs incurred in undertaking the assignment in comparison with the fee charged. We will refund any excess of fee over cost and, conversely, we may charge additional costs where the fee falls short. We will process refunds and additional charges in a manner which seeks to minimise administrative costs, such as through offsetting against future fees or fees for other aspects of audit activity.

Annex 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 here 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.

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

Nature of work	Enactments
The Wales Audit Office may charge fees for the following activities	
<ul style="list-style-type: none"> Audit of accounts by the Auditor General (other than local government accounts). 	<ul style="list-style-type: none"> Section 23(2) Public Audit (Wales) Act 2013
<ul style="list-style-type: none"> Value for money studies undertaken by agreement. 	<ul style="list-style-type: none"> Section 23(3)(a)-(c) Public Audit (Wales) Act 2013
<ul style="list-style-type: none"> An examination, certification or report under section 31 of the Tax Collection and Management (Wales) Act 2016 in respect of the Welsh Revenue Authority's Tax Statement. 	<ul style="list-style-type: none"> Section 23(3)(ba) Public Audit (Wales) Act 2013
<ul style="list-style-type: none"> An examination under section 15 of the Well-being of Future Generations (Wales) Act 2015 (anaw 2) (examinations of public bodies for the purposes of assessing the extent to which a body has acted in accordance with the sustainable development principle). 	<ul style="list-style-type: none"> Section 23(3)(ca) Public Audit (Wales) Act 2013
<ul style="list-style-type: none"> Any functions of a relevant authority exercised by the Wales Audit Office or the Auditor General and undertaken by agreement, and any administrative, professional or technical services to be provided by the Wales Audit Office or the Auditor General by arrangement under section 19 of the Public Audit (Wales) Act 2013. 	<ul style="list-style-type: none"> Section 23(3)(d) Public Audit (Wales) Act 2013
<ul style="list-style-type: none"> An extraordinary audit of the accounts of a local government body. 	<ul style="list-style-type: none"> Section 37(8) of the Public Audit (Wales) Act 2004
<ul style="list-style-type: none"> Data-matching exercises. 	<ul style="list-style-type: none"> Section 64F(A1) of the Public Audit (Wales) Act 2004 A fee scale must be prescribed for this work
<ul style="list-style-type: none"> Advice and assistance provided by the Auditor General for registered social landlords. 	<ul style="list-style-type: none"> Section 145D(2) of the Government of Wales Act 1998
The Wales Audit Office must charge fees for the following activities	
<ul style="list-style-type: none"> Work under the Local Government (Wales) Measure 2009. 	<ul style="list-style-type: none"> Section 27 of the Local Government (Wales) Measure 2009 A fee scale must be prescribed for this work

Nature of work	Enactments
<ul style="list-style-type: none"> Grant certification services. 	<ul style="list-style-type: none"> Section 23(4)(a) Public Audit (Wales) Act 2013
<ul style="list-style-type: none"> Studies at the request of educational bodies under section 145B of the Government of Wales Act 1998. 	<ul style="list-style-type: none"> Section 23(4)(b) Public Audit (Wales) Act 2013
<ul style="list-style-type: none"> Auditing the accounts of a local government body and undertaking studies by agreement with a local government body. 	<ul style="list-style-type: none"> 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
<ul style="list-style-type: none"> Benefit administration studies for the Secretary of State. The Auditor General may conduct, or assist the Secretary of State in conducting, a benefit administration study only if the Secretary of State has made arrangements for the payment to the Wales Audit Office of a fee in respect of the study. The amount of the fee must be a reasonable amount agreed between the Secretary of State and the Wales Audit Office. 	<ul style="list-style-type: none"> Section 45 of the Public Audit (Wales) Act 2004
<ul style="list-style-type: none"> Assisting Her Majesty's Chief Inspector of Education and Training in Wales with inspections of local authorities. The Auditor General for Wales shall not provide such assistance unless, before he does so, the Chief Inspector has agreed to pay the Wales Audit Office a fee. 	<ul style="list-style-type: none"> Section 41A of the Education Act 1997
<ul style="list-style-type: none"> Programmes of studies relating to registered social landlords undertaken by agreement between the Welsh Ministers and the Auditor General. It shall be a term of every such programme that the Welsh Ministers must pay to the Wales Audit Office a sum in respect of the costs incurred. 	<ul style="list-style-type: none"> Section 145C(3) of the Government of Wales Act 1998

Annex 3 – Fee scales for work undertaken at local government bodies

Unitary authorities

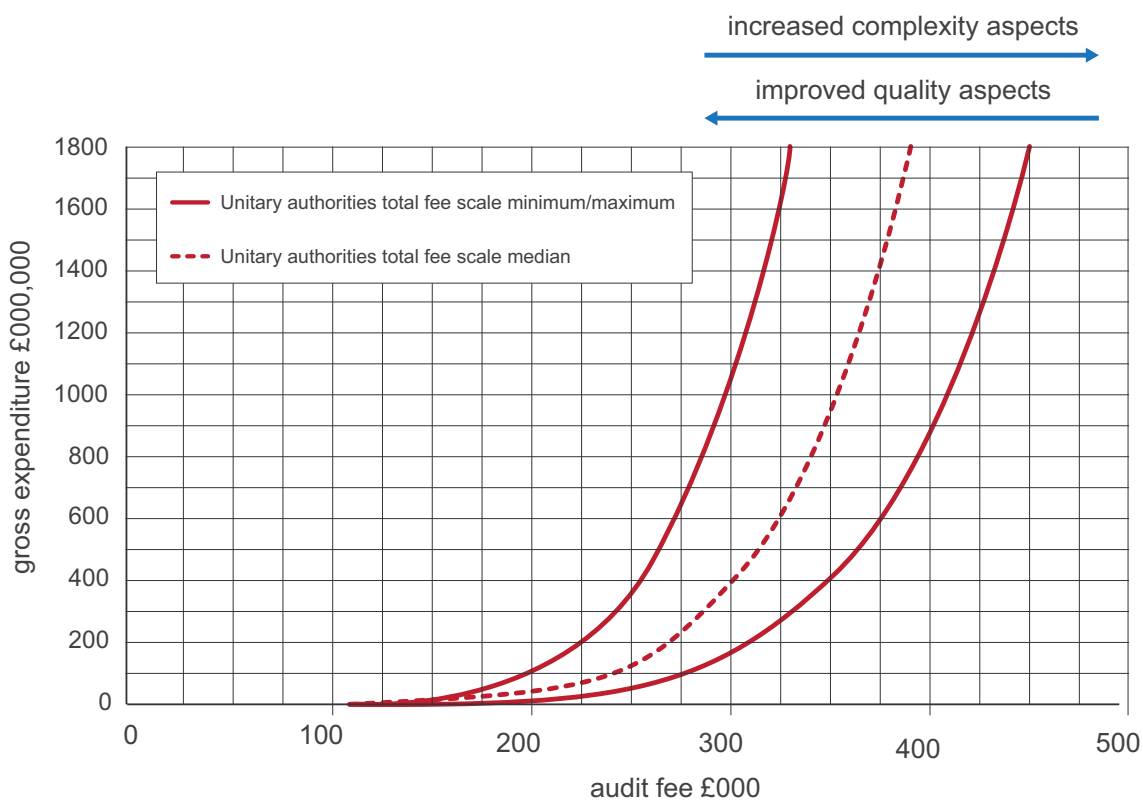
Fee scale for audit of 2017-18 accounts

Gross expenditure £000,000	Fee range £000			Previous year median £000
	Minimum	Median	Maximum	
100	117	138	158	139
200	141	166	191	167
300	157	185	212	186
400	169	199	229	201
500	180	211	243	213
600	189	222	255	224
700	197	231	266	233
800	204	240	276	242
900	210	247	284	249
1,000	216	254	292	256
1,100	222	261	300	263
1,200	227	267	307	269

Fee scale for 2018-19 for performance audit work (including 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	
	83	99	115	112

Graphic of total fee scale for unitary authorities



Fire and rescue authorities

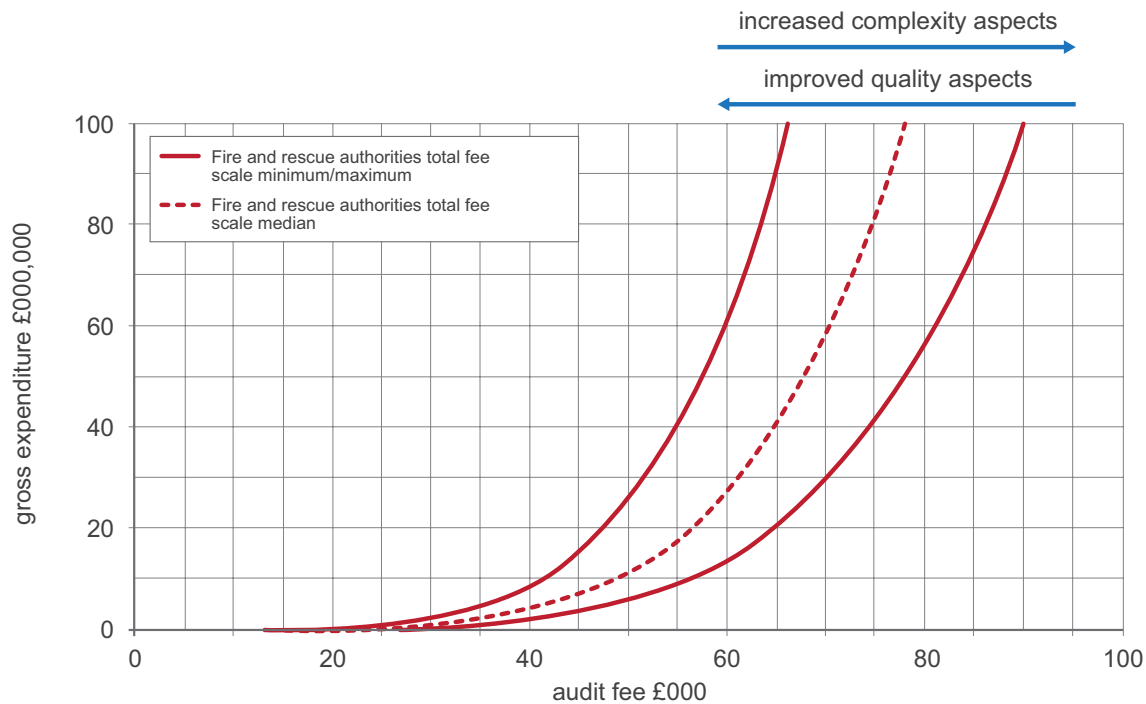
Fee scale for audit of 2017-18 accounts

Gross expenditure £000,000	Fee range £000			Previous year median £000
	Minimum	Median	Maximum	
20	34	40	46	41
40	41	49	56	49
60	46	54	62	55
80	50	58	67	59
100	53	62	71	63

Fee scale for 2018-19 for performance audit work (including improvement audits, 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	
	14	16	19	16

Graphic of audit total fee scale for fire and rescue authorities



National park authorities

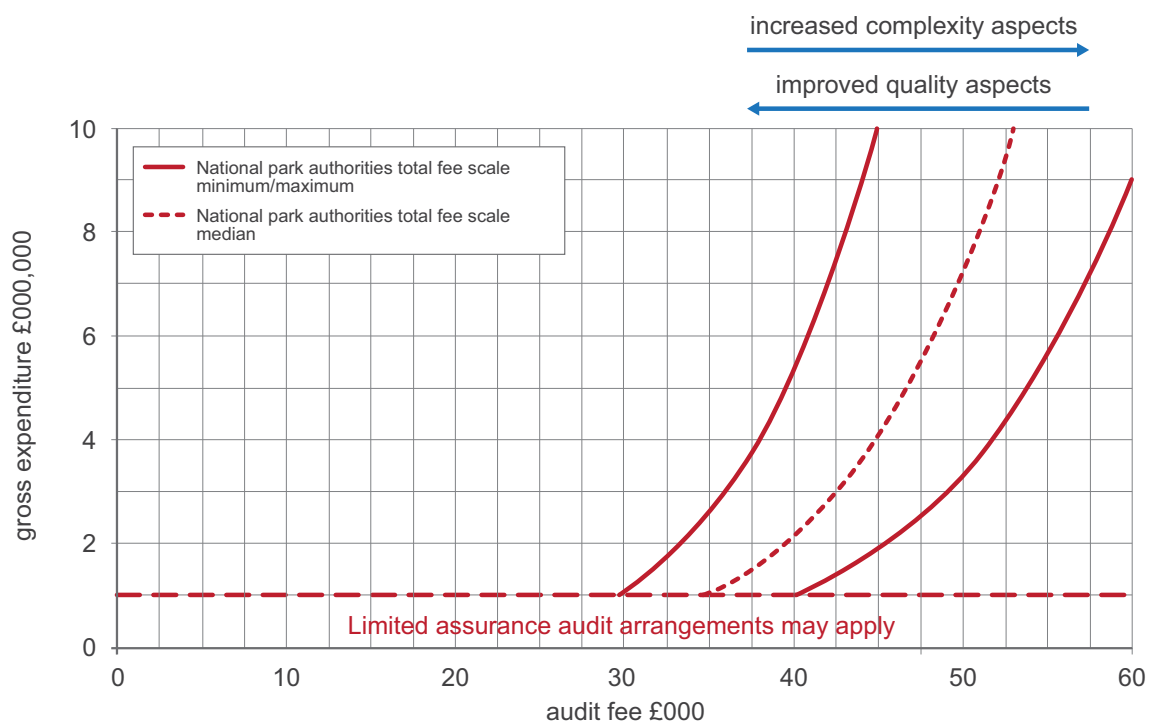
Fee scale for audit of 2017-18 accounts

Gross expenditure £000,000	Fee range £000			Previous year median £000
	Minimum	Median	Maximum	
2	21	25	29	25
4	26	30	35	30
6	29	34	39	34
8	31	36	42	37
10	33	38	44	39

Fee scale for 2018-19 for performance audit work (including improvement audits, 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	
	14	17	19	17 ⁴

Graphic of total fee scale for national park authorities



⁴ Actual fee charged to all Parks for 2017-18. This is not expected to change for 2018-19.

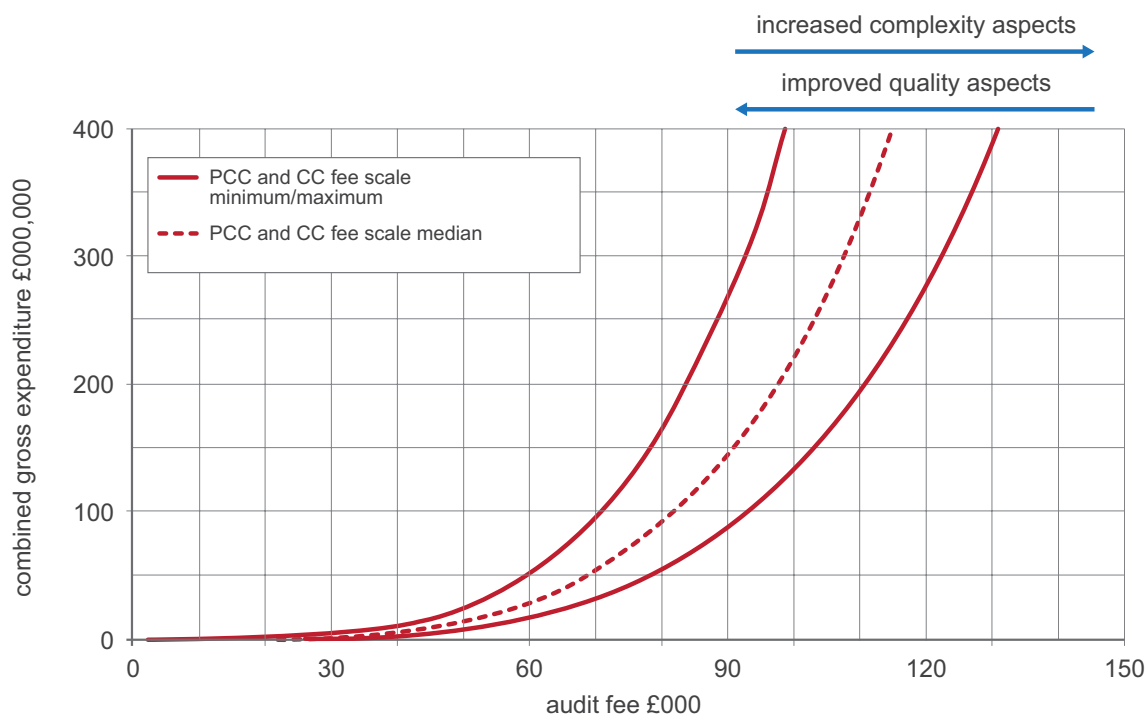
Police and crime commissioners and chief constables

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 2017-18 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	56	66	76	70
100	67	79	91	82
150	74	87	100	91
200	79	94	108	97
250	84	99	114	103
300	88	104	120	107
350	91	108	124	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. Since 2016-17 we have charged for this 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](#).

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 2017-18 accounts of town and community councils

Annual income or expenditure	Indicative baseline charge	Indicative upper range fee
£0 – £5,000	£140	£280
£5,001 – £100,000	£160	£320
£100,001 – £500,000	£200	£380
£500,001 – £2,500,000	£240	£460

Local government pension funds

Fee scale for audit of 2017-18 accounts

All pension funds	Fee range £000			Previous year median £000
	Minimum	Median	Maximum	
	33	40	55	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 as shown above, there are a small number of other types of local government body where our prescription of the fee scale is a matter of converting the resource requirements into fees directly based on the costs of delivering the work or by applying the fee rates as set out in [Exhibit 1](#). It remains the case that for audits of these bodies we apply a zero-based approach to audit planning.

For all types of local government body to meet his statutory responsibilities, it is sometimes necessary for the Auditor General to carry out work which goes beyond general duties (those set out in section 17 of the Public Audit (Wales) Act 2004). 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.

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 £30 million of fraud and overpayments in Wales and £1.3 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.

Since April 2016, the National Assembly has met the costs of running the NFI through payment from the Welsh Consolidated Fund as approved through the Wales Audit Office's Estimate, so ensuring that voluntary participants are not charged a fee for participation. As required by legislation, the fees for mandatory participants are shown below.

Exhibit 2: NFI fees

Type of body	Fee 2018-19 £
Unitary authority; police and crime commissioners and chief constables; fire and rescue authorities; NHS trusts; local health boards.	Nil
All participants may also be provided with access to the NFI Application Checker (App Check).	Nil

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

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Reference: HVT2758/caf

Date issued: 30 October 2017

Dear Simon

Business Case to develop the use of Data Analytics at the Wales Audit Office

You will see in our Estimate for next year the sum of £260,000 for a Data Analytics (DA) project to support our strategic goal of making more effective use of data and embracing cutting edge technology.

This is a specific and time bound project which will develop essential processes and skills for our staff to meet the increasing demands of a "digital society". Data analytics (DA) is a rapidly developing agenda for many public and private organisations and it refers to using technology to analyse and present data so that conclusions can be drawn about the information it contains. There are some considerable risks to the wider Welsh public sector if we do not invest in DA. Other audit bodies in the UK and elsewhere, together with private audit firms are already investing and there is also growing expectation within the bodies we audit that our work should exploit DA techniques.

Following discussion with your Clerk, we are sharing the Business Case with the Committee, to aid transparency and in order to support your scrutiny of our Estimate next month. We look forward to discussing with you.



HUW VAUGHAN THOMAS
AUDITOR GENERAL FOR WALES

Enc: Data Analytics – Business case



Reference: HVT2758ENC

Date issued: 14 September 2017

Key contact: Derwyn Owen and Anthony Barrett

Data analytics

Purpose of this paper

- 1 This business case seeks the Board's approval to pursue annual funding between 2018-19 and 2020-21 of £260,000 to deliver a three-year data analytics project.
- 2 The case clearly demonstrates the need for investment in data analytics:
 - to catch up with ongoing developments in other audit organisations;
 - to avoid falling behind industry standard practice;
 - to maintain our reputation as an informed and respected audit authority, and
 - to meet growing expectations about improvements in the insight and quality of our audit work.

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Background

- 3 One of the Wales Audit Office's ('WAO') five strategic themes for the period 2017 to 2020 is to make more effective use of data and embrace cutting edge technology. With this theme in mind, our 2017-18 Estimate included funding for a project to identify priority areas for transforming the way we use data and technology.
- 4 Using this funding, the Auditor General created the 'Cutting Edge Audit Office' project in September 2016, with the purpose of generating ideas about the ways in which the WAO should exploit technology and make better use of data in future.
- 5 The Cutting Edge Audit Office project team published its [final report](#), which was considered by the WAO Board on 8 June 2017. The report listed eight recommendations of which, the proposal to launch a three year data analytics project was given highest priority. It was given such a high priority primarily because other private and public organisations are investing in data analytics and the WAO is at risk of falling further behind. The Board endorsed this position and tasked the Management Committee with developing a data analytics implementation plan and securing the additional investment required to deliver it.
- 6 Data analytics is subject to a rapidly developing agenda within both the public and private sector. The risks arising from not investing in data analytics far outweigh the risks of investment. Data analytics is the future and we need to be prepared to embrace it.
- 7 The term 'data analytics' refers to innovative ways of using technology to analyse and present data so that conclusions can be drawn about the information it contains. In essence, data analytics is using modern techniques and technologies to make sense of, and make the most of, large quantities of data. Examples of data analytics include the use of coding or programming to automate aspects of data analysis, and the use of data visualisation software to present data in new, insightful ways.
- 8 This document provides the detailed business case as to why we believe such investment is vital to the future of the WAO in order to facilitate strategic transformation of audit, through improving our use of data and technology.

Business case for data analytics

Strategic case

- 9 The Auditor General for Wales and the Wales Audit Office set out their strategic priorities in the [Annual Plan for 2017-18](#). Building on the organisation’s cultural values, which include innovation and future focus, the plan’s five strategic themes for the period 2017 to 2020 include the following:

Make more effective use of data and embrace cutting edge technology



We will challenge our existing use of data and technology, through questioning what we normally take for granted and developing solutions for how we might use new technology to transform our audit and communication processes.

- 10 This strategic theme is underpinned by a three-year priority action to: facilitate strategic transformation of audit, through improving our use of data and technology, and our methods of communication.
- 11 We need to create a partnership between staff and technology within a secure environment. Data analytics has the potential to be a transformative influence on our financial and performance audit work, in addition to supporting our corporate services.
- 12 We identify the following as key benefits of investing in data analytics:

Benefits of investing in data analytics

Greater assurance from our work

Data analytics will provide a better, more comprehensive evidence base for our work. We will be able to state our conclusions with greater certainty because we will be able to examine entire populations of data, and/or use statistical sampling rather than basing our conclusions on smaller, judgmental samples of the data.

Greater insight from our work

Data analytics will make it much easier to unearth patterns in data, hidden linkages and trends across sectors. The insight created by data analytics will help us ask questions of the data that we would not previously have thought of. Our current approaches to data analysis tend to have a backward-looking focus, by reflecting on what has already happened within public bodies. Data analytics will help us develop approaches to future modelling and forecasting, thereby helping us move towards audit work that is forward-looking and predictive.

Benefits of investing in data analytics

Greater impact through data visualisations

Data analytics will help us report our audit findings in a much more engaging way. Through data visualisation software and approaches, we will present interactive information that will help our audiences to explore and understand the data, to enable them to ask questions based on this understanding.

Added value to our work in audited bodies

Data analytics will help us deliver added value to our audits. Our new data-led approaches will reveal things about our audited bodies that are so far unknown. The insight we provide will help audited bodies to take ownership and make better use of their own information, thereby strengthening their data capabilities.

Improved efficiency in the way we work

Data analytics will help us complete elements of our work more quickly. It will be quicker to secure data from our audited bodies and we will manage that data more effectively and more securely. Data will be more readily available to auditors, helping us reduce our audit time. Aspects of our data analysis will be automated, thereby freeing up time for our staff to focus on higher-value work. However, whilst financial efficiencies are possible in the long-term, they cannot be secured without time and investment.

Improved business intelligence within the Wales Audit Office

We also intend to apply data analytics to our corporate functions. Improved business intelligence will enhance our ability to plan, carry out and measure our work, leading to more insightful decision making and performance impact.

- 13 As well as opportunity, the advent of data analytics also brings risk. We have identified a number of risks associated with not investing in data analytics at this stage:

Risks of not investing in data analytics

We are behind other bodies on data analytics and risk falling further behind

The research of the Cutting Edge Audit Office team suggests other audit and inspection bodies are ahead of the Wales Audit Office in investing in data analytics. The National Audit Office began a data analytics project in 2014 and now has a suite of examples where data analytics approaches have enhanced the insight and/or quality of their work, as well as automating aspects of analysis and securing efficiencies. The Queensland Audit Office also began a data analytics programme in 2014. Their focus has been on automating aspects of the collection, management and analysis of financial information. Data analytics is now a core part of their financial audit work in

Risks of not investing in data analytics

more than 80 audited bodies. Queensland is heavily involved in a networking approach to spread learning on data analytics in all audit agencies in Australia and New Zealand. Our research has also highlighted good, progressive development of data analytics within Audit Scotland, the Government Accountability Office in the USA and the US Air Force Audit Agency. Private audit firms are also investing heavily in data analytics. We risk marginalisation and falling further behind comparable bodies in the UK and further afield should we not invest sufficiently in data analytics in the immediate future.

Financial standards organisations are considering the future implications of data analytics

The bodies that set financial auditing and accounting standards are strongly considering the future implications of data analytics. The Financial Reporting Council has carried out a thematic review of the private audit firms' approaches to data analytics. Similarly, the International Auditing and Assurance Standards Board has set up a Data Analytics Working Group to explore how best to respond to the emerging development in data analytics. The Institute of Chartered Accountants in England and Wales dedicated a considerable section of its November 2016 conference to discussing the potential for data analytics.

With such a focus on data analytics within these organisations, it seems highly likely that data analytics will become a core aspect of audit work in years to come. The Wales Audit Office needs to stay abreast of developments and be able to adapt its audit approach on a timely basis.

The bodies we audit have growing expectations of our use of data analytics

Many of our audited bodies are beginning to develop their own approaches to data analytics through the enhanced functionalities of their financial software packages. If our work is to remain relevant to the Welsh public sector, it is vital that the Wales Audit Office advances alongside these organisations. We will need to develop an audit approach that fully exploits the benefits of data analytics.

By not upskilling in data analytics we risk becoming an unattractive employer

If we decide not to embrace data analytics, we could struggle to attract and retain the best staff and graduate trainees who will seek employment in more progressive and innovative workplaces. Further, we could lose approved employer status should accounting bodies conclude we are not up to date with the latest methods and technologies.

Economic case

- 14 The business case for investing in data analytics is further strengthened by the potential benefits of our data analytics approach to the citizens of Wales and Welsh public bodies. The table below summarises these wider benefits:

Benefits to Welsh citizens and public bodies

A more modern audit office will lead to better scrutiny of public spending

Data analytics will provide the Wales Audit Office with new skills and approaches that, in future, will contribute significantly to our corporate aim: 'The people of Wales and National Assembly know whether public resources are being spent wisely'. Our data analytics approach will provide greater audit insight thereby improving the support we provide to public services.

Better data visualisations will increase public transparency on public spending

By presenting audit data in more visually engaging and interactive formats, we will help to raise public interest and awareness on key issues relating to public spending. This will contribute to greater transparency on the financial and corporate performance of public bodies in Wales.

Public bodies will be able to adopt our approaches to data analytics

We will seek to share the learning from our data analytics project to support public services in adopting more modern uses of data and technology. By adopting data analytics approaches, public bodies are likely to derive many of the benefits listed in paragraph 12.

There is potential for efficiencies and increased value for money from our work

Data analytics may allow us to deliver our work more efficiently. In the long term, there is potential for overall efficiencies to be secured, leading to greater value for money from the work of the audit office.

Investing now may prevent the need to invest more in future

If we do not invest in data analytics now, we run the risk of falling further behind similar audit bodies. The further we fall behind, the more difficult and costly it will be to catch up.

Financial case

- 15 The strategic and economic cases set out significant risks associated with failing to invest in data analytics, as well as clear benefits that data analytics can bring to the Wales Audit Office and the wider public sector in Wales. This business case therefore argues for funding to allow the development of our data analytics approach.
- 16 From 2018-19 onwards, we will require additional resource to progress to implementation of a three-year data analytics project, including the embedding and expansion of our pilot projects so that data analytics begins to become a core part of our business. The table below presents further detail on the finance required:

	Details	Annual Investment required ¹
Director oversight	The project requires specific, director-level leadership to oversee and drive implementation.	£10,800
Project management	We will have joint project managers from financial and performance audit, to ensure data analytics develops across our two main business areas.	£62,000
Internal advisors	We will use the expertise of our IT Manager and the manager of our IT Audit Function to optimise our approach and collaborate with other audit agencies.	£54,000
Embedding and expansion of our pilots	The core analytics team, together with delivery staff from our financial, performance and IT audit functions, will work to ensure successful pilots are adopted across our business, and implement a rolling programme of further pilot projects. Purchase of relevant software licences.	£157,200
Reference group	Project governance will be through an internal reference group, chaired by the Assistant Auditor General.	£8,500
Total		£292,500
	Removal of committed costs (ie non-fee earning corporate enabler staff) ²	£32,500
	Revised annual investment required	£260,000

¹ per published hourly rates in the WAO fee scheme

² The work of corporate enabler staff can be reprioritised without any loss of income and therefore without the need for additional cost or backfill.

Management case

- 17 The investment detailed above will provide sufficient funding to carry out our data analytics implementation plan. The plan will cover the items set out in the table below:

Details of how we will use the investment

Leadership and governance

For data analytics to succeed in the Wales Audit Office, we will need buy in from the Management Committee, Senior Leadership Team, and the Board. The Director assigned with responsibility for data analytics will empower the data analytics team to solve problems itself, in an environment of experimentation and well-managed risk taking.

An internal reference group with representation from across the WAO will provide advice when required and will scrutinise progress with the project's work plan.

Core data analytics team

We need a dedicated resource from across the organisation to ensure we can establish data analytics as a core part of our audit work in future. The team will initially consist of:

- Two project managers: One from financial audit, one from performance audit, to ensure data analytics is developed by managers from both of our main business areas, who are directly involved in operational audit work and are therefore au fait with the potential applications of data analytics. Each manager will spend one day a week on this role.
- IT audit manager and IT manager: These managers will provide specialist expertise and advice to the project. Key aspects of their work will be in ensuring our data environment is safe and secure, ongoing liaison with other audit agencies, involvement in pilot projects and advising on software solutions.
- A performance audit specialist, a financial audit trainee and data analyst on secondment from another public sector body, or as part of an internship.

The core team will likely be expanded and/or the skills mix altered as we progress through our three-year project plan. The core team will be supported by operational teams during the delivery of pilots.

Development of a detailed work plan

The data analytics team will develop a detailed work plan covering the three-year project. The work plan will be agreed with, and reviewed on a quarterly basis by, the internal reference group. The work plan will cover a rolling three-year period but should provide additional detail in relation to the tasks planned for the coming year..

Details of how we will use the investment

Staff engagement

We will communicate with our staff in a clear, honest and regular manner, to ease potential concerns, wherever possible, and to involve and engage staff to help develop our data analytics approach.

The project team will work with our Communications Team to consider an engagement strategy and branding for the project. We will proactively share with staff news of our successes, through lunchtime sessions, articles on our intranet, and we will attend team meetings. We will demonstrate what we have done and how it works.

The project team will engage with staff from all areas to find the priority, real-life problems that we will seek to solve through data analytics.

Once the project team has identified pilots, we will actively involve members of staff from outside the project team in developing the approach. This will serve to spread our impacts wider than the project team itself.

Ongoing collaboration with key partners

We will continue to understand best emerging practice in data analytics, through research and engagement with other audit agencies. We will actively promote, publicise and share the work we are doing on data analytics.

The Director will assign a member of staff to be a key point of contact with other key bodies, including the other four audit organisations in the UK and Ireland, Queensland Audit Office and the Office for National Statistics.

We will establish six-monthly meetings with these bodies to share news of the progress we have been making, and the issues we have encountered along the way.

We will also explore the possibility of developing a shared work plan with our partner audit bodies to ensure we do not duplicate our efforts.

Engagement with our audited bodies

We will communicate to audited bodies our vision for data analytics, to obtain buy-in to data analytics and sharing of data. We will need to invest time and effort in developing our relationships with audited bodies, to ensure we get access to the data we need.

This may require us to educate and inform them about the long-term benefits of data analytics. This work will start by identifying 'sympathetic' and innovative client bodies who are most likely to support us in our approach to data analytics. Once we have secured successes within the initial bodies we will spread the learning, to publicise the benefits of the approach and secure wider buy-in from other bodies.

Pilot projects

Before mainstreaming data analytics within our everyday work, we will trial specific data analytics interventions through a range of pilot projects.

To gain traction in the organisation, and to make impact quickly, the team should begin work on small-scale, deliverable interventions. These interventions should be relevant to a mix of sectors and teams within the Wales Audit Office, to ensure engagement and spread across the organisation.

The early focus will be skewed towards Financial Audit. This is where the work is most repeatable and where, based on our scoping, we feel most impact can be secured

Details of how we will use the investment

through data analytics in the medium term. This focus may lead to benefits for delivering the early closure of Local Government accounts.

The team will carry out further research on how to turn pilot projects into 'business as usual', learning from examples such as the DOING programme within the Netherlands Court of Audit.

Library of techniques

We will compile a library of proven data analytics techniques and interventions that our staff can be confident in. As the team's work progresses, it will compile a library/repository of data analytics techniques for use in common analytical procedures. This can then become a source for all auditors to pick from and use.

The team should work with other audit bodies in compiling the library, sharing approaches as much as possible and avoiding unnecessary duplication.

Each example in the library should include a fully documented description of what we have done. Our research highlighted good practice around storing and sharing the full experimental process. This helps repeatability but can also help with buy in and prevent fears of inaccuracies.

Tools and software

We will test and select a range of tools to help our data analytics work, to create a toolkit for auditors to pick from depending on the task in hand.

We should make the most of the existing tools we have, such as Microsoft Excel and IDEA. In time, we will also consider investing in some new tools, such as Tableau and Power BI. Our investment will be small scale and iterative, providing the tools to only a small number of staff before considering expansion and further investment.

Through collaboration with other audit bodies, we should try to learn about other tools and share our experiences of the tools we use.

Our general approach to procurement will be through cloud-based rental of software, rather than one-off purchases. This should help prevent over-reliance on single tools and should provide flexibility should we want to change our approach.

Data management model

We need to develop a clear, written framework that governs our data analytics techniques with a clear standardised process for understanding, gathering, storing, cleansing, transporting, sharing and finally erasing data. This model needs to be compliant with relevant legislation, specifically the General Data Protection Regulations which come into force in May 2018.

The first step of our data management model will involve understanding, very broadly, what data exists in our client's accounting systems and identifying how we need to deal with it to support our library of techniques. This will require considerable work to map the systems and data. Once we understand what data are available, we will design a set of standard processes for extracting information efficiently and transporting it into the Wales Audit Office environment.

Details of how we will use the investment

Training and skills

We will increase our skill levels to develop our data analytics approach. We will make use of our existing skills as well as developing and bringing in new skills.

Through our collaboration activities, we should seek opportunities to learn skills from our partner audit bodies. This may take the form of shadowing, secondments, shared training delivery, shared training resources, a joint competency framework for data analytics.

We are also considering becoming involved in a data analytics apprenticeship scheme developed in partnership with the Office for National Statistics and the Welsh Government. The team will then lead the development of an internal training plan for data analytics. We have also developed working links with the ONS and have agreed, for example, that some WAO staff can attend the ONS in-house training on coding and data visualisation.

Developing new outputs from our work

We will produce a range of authoritative, up-to-date outputs to promote our approach to data analytics and to spread the insight generated through our data analytics work.

Our work on data analytics should seek as an intended outcome to produce data visualisations that are engaging, interactive representations of the data we have acquired. The visualisations should publicise the data to staff, promoting its effective use and providing additional insight to audit teams. These visualisations may include standard dashboards, collating financial audit data, for audit teams to interrogate.

Wherever appropriate, we should try to make our outputs open to our audited bodies and the public. We should adopt an 'open by default' policy to promote the benefits of an open data culture.

In future, we will seek to trial approaches to reporting in 'real-time' on the progress of our work. This will provide immediate insight and feedback to our clients, allowing them to make rapid changes and improvements

- 18 As stated above, the data analytics team will develop a detailed work plan covering the three-year project. The work plan will cover a rolling three-year period but will provide additional detail in relation to the tasks planned for the coming year that should seek to ensure data analytics grows at a safe rate within the organisation. The table below describes the key phases of our project:

Key phases of the project

Year 1 (2018-19):

- Research and development.
- Detailed project design and project planning.
- Establish leadership and governance arrangements.
- Form a data analytics team.
- Second an industry expert into the core team.
- Develop a communications strategy and specific branding.
- Formalise/cultivate existing relationships with other audit bodies.
- Depending on positive evaluation, implement the initial two pilots into business as usual.
- Consult with staff to identify further pilot projects.
- Test out the possibilities of analytics software, including Tableau, Power BI and others, sharing lessons with other audit bodies
- Begin to develop our data management model (framework for data acquisition, cleansing, storing, transporting and sharing data).
- Work with other audit bodies to identify training needs.
- Research and plan for providing interactive user interface (dashboards) for audits.

Year 2 (2019-20):

- Refresh the 3-year rolling plan for data analytics.
- Continue staff engagement and expand attempts to involve staff in DA from outside the dedicated team.
- Agree a shared work plan with other audit bodies.
- Depending on positive evaluation, implement the ongoing pilots into business as usual.
- Begin to compile a library of techniques to centralise commonly used data analytics interventions.
- Share our learning with all audited bodies to show what is possible and to secure wider engagement in our approach.
- Review our data analytics tools/software and consider expansion/investment.
- Finalise and embed our data management model.
- Continue to build WAO data analytics capability, including select training in data analytics.
- Pilot interactive dashboards for audit teams.

Key phases of the project

Year 3 (2020-21):

- A significant number of pilots should by now be part of our core business.
- Expand the number of WAO staff involved in developing and performing data analytics, and update our core competencies to include data analytics.
- Extend data extraction and validation across a greater number of audited bodies.
- Expand the number and coverage of our pilots and include in our library of techniques.
- Carry out quality review of data analytics processes and data management model.
- Begin to increase our focus on performance audit, as opposed to financial audit.
- Begin to develop approaches to using data to predict, monitor and identify areas for audit.

- 19 It is important to note investment in data analytics is required over the medium to long term. Data analytics is the future. Our research to date indicates it will take more than three years to roll out a data analytics capability. However, as our capability develops, and as data analytics becomes more embedded in the organisation, we intend that data analytics will become supported through our established fee regime and not through additional funding.
- 20 The table below sets out the high-level risks relating to the delivery of our data analytics project, as well as the counter measures we intend to take.

Risks	Counter measures
Data security and information risks associated with storage of data within the Wales Audit Office environment, or through the use of cloud based systems.	Use cloud services and software independently accredited to latest data security standards. Establish data governance function within WAO Follow requirements of General Data Protection Regulation.
Lack of staff and stakeholder confidence in our data analytics approaches due to lack of understanding or suspicion of inaccuracies in our automated approaches.	Project leaders will promote data analytics within WAO, stressing the principles we are using to guide our approach, including: engagement, communication, collaboration,

Risks	Counter measures
	<p>innovation, fast-moving, selflessness and empowerment.</p> <p>Engagement with our Communications Team.</p> <p>Training and development of all staff in data analytics.</p> <p>Independent/peer scrutiny of our data analytics outputs (as we do with our current written outputs).</p>
<p>Delays in securing sufficient data from our audited bodies</p>	<p>Whilst the Auditor General has a lawful right of access to any data, early communication with audited bodies about our data analytics approach, and positive engagement by senior WAO leaders will help to address any delays.</p>
<p>Risk of competing demands on staff preventing sufficient focus on data analytics</p>	<p>Clear agreed priorities for delivery – close involvement of workforce planning team and practice business units.</p>
<p>Failure to recruit/retain sufficient staff with necessary skill set</p>	<p>Establish clear competencies for data analytics that are pursued in all recruitment processes.</p> <p>Consider developing a career pathway for data analysis professionals.</p> <p>Consider secondments with other public bodies.</p>
<p>Insufficient resourcing or prioritisation leading to slippage in achieving identified benefits</p>	<p>Sufficient funding being available.</p> <p>Review project plan in line with available funding.</p>

Commercial case

- 21 Procurement is not significant in the delivery of the project. The data analytics team will test and select a range of existing (such as Microsoft Excel and IDEA) and new tools and software products (such as Tableau and Power BI) to develop our approach. Our investment will be small-scale and iterative, providing the tools to only a small number of staff before considering expansion and further investment. Our general approach to procuring such tools will be through cloud-based rental of software, rather than one-off purchases. This should help prevent over-reliance on single tools and should provide flexibility should we want to change our approach.

Conclusion

- 22 In conclusion, we need to invest in the development of data analytics to:
- Explore how data analytics can be used to focus and streamline our audit process for both accounts work and studies/reviews
 - Provide stronger and more consistent audit evidence thereby enhancing audit quality
 - Provide greater insight into the organisations we audit and the data we examine
 - Ensure we improve access to audit information through better visualisation of data and audit findings
 - Maintain a respected, strong and relevant presence in the audit profession particularly as we continue to attract the very best graduates onto our trainee scheme
 - .

Recommendation

- 23 We recommend that the Board approves the pursuit of annual funding between 2018-19 and 2020-21 of £260,000, to deliver a three-year data analytics project.

Archwilydd Cyffredinol Cymru
Auditor General for Wales

ANNUAL REPORT AND ACCOUNTS 2016-17



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

The Annual Report for the year ended 31 March 2017 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 2016-17:

- 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 for 2016-17 have been substantively achieved.

The Accounts for the year ended 31 March 2017 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, or have any questions about its content, please contact us using the details below. We welcome correspondence in Welsh and English and we will respond in the language you have used. Corresponding in Welsh will not lead to a delay.

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SNAPSHOT OF THE YEAR



April

Held our first all-staff conference since 2015, with a particular focus on transformation of our audit approach.

May

Summarised the common themes that emerged from local reviews of follow-up outpatient appointments, which is an area that presents challenges for all seven health boards.



June

Issued reports on the accounts of each NHS body in Wales, and reported on how effectively they report on their performance to their boards.

July

Established that recent Welsh Government investment has improved coastal protection and delivered some wider benefits.



August

Produced guidance that supports NHS board members in obtaining assurance that their board is effectively meeting demand for orthopaedic services.

September

Concluded that the performance of the Wales and Borders rail franchise has improved since 2006, although comparisons with other UK rail services show a mixed performance.





October

Reported that national, regional and local priorities for community safety differ greatly, which risks confusion and uncoordinated action.

November

Established that Welsh local authorities are not generating as much income from charges for services as their counterparts in England and Scotland.



December

Reported that the National Library has improved important aspects of its governance and management arrangements, but that further work is required to place the Library on a sustainable footing.

January

Highlighted that most local authorities do not have an effective strategic approach for working with the third sector.



February

Concluded that the Welsh Government's funding and oversight arrangements for further education colleges would benefit from a longer-term and more integrated approach.

March

Identified that Wales' local government bodies have improved the quality of their financial statements, but face challenges to produce their accounts earlier.



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PERFORMANCE REPORT

A REVIEW OF THE WORK OF THE AUDITOR GENERAL AND
WALES AUDIT OFFICE IN 2016-17, INCLUDING AN ANALYSIS
OF OUR DELIVERY AND PERFORMANCE, AND OUR POSITION
AT THE END OF THE YEAR



Huw Vaughan Thomas
Auditor General for Wales and Accounting Officer
8 June 2017

OVERVIEW

Statement from the Auditor General



Thanks to the professionalism, dedication and hard work of Wales Audit Office staff and contractors, in 2016-17 we successfully delivered the entire programme of audit work laid out in our Plan for the year. We have provided a selection of case studies in this Report to give a flavour of the broad range of work that we have been involved with, and the significant contribution that work has made in terms of holding public bodies to account and improving the governance and delivery of public services in Wales.

We have also made substantial progress on, and in some cases completed the required work for, our longer-term priorities for transforming the way we deliver our audit programme. This included developing and piloting a new outcomes-based approach to grant certification, enhancing the way we use data and technology to support our work, and developing approaches aimed at ensuring we can meet the Government's earlier deadlines for preparing and publishing local government accounts.

Through working in partnership with other publicly funded bodies in Wales, we established the Finance Skills and Development Initiative, which aims to make public finance a more attractive career option for graduates. It was good to see our work here achieving national recognition when the Initiative was given one of the UK Public Finance Innovation Awards 2017.

We also consulted towards the end of the year our key stakeholders on an analysis of our future operating environment and our proposals for how we should respond. We have used their feedback in finalising our strategy for the period 2017-2020. A key element here will be piloting with our audited bodies a suitable approach to effectively deliver my duties under the Well-being of Future Generations (Wales) Act 2015.

Huw Vaughan Thomas
Auditor General for Wales

Statement from the Chair



2016-17 was an excellent year in terms of organisational performance at the Wales Audit Office.

We achieved, and in many cases exceeded, our targets for two thirds of our 35 key performance indicators, and were close to achieving our targets for another six indicators. Our performance against the remaining handful of important indicators, including a few that relate specifically to our ongoing cultural development work, will be a focus for 2017-18. Where we comfortably achieved our targets, we have set ourselves more challenging goals for the coming year.

During the year, strategic risks were well managed, and an independent evaluation concluded that we have in place an effective Board which is well resourced and exercises good oversight of both the strategic and operational aspects of the Wales Audit Office.

Looking forward, the Board's primary challenge is now to provide advice and oversight on strategic changes to drive further improvement in organisational performance and impact, particularly in light of upcoming changes to our operating environment.

The Board also recognises the potential risks to its effectiveness as the current terms of appointment of most non-executive members and its elected employee members come to an end during 2017 and 2018. We are working hard to ensure that the significant momentum gained by the Board since its establishment in 2013 is not lost, and that suitable arrangements are in place to ensure an effective transition.

As outlined in our Annual Plan for 2017-18, we are now in the process of finalising proposals for simplifying and improving the cost effectiveness of the funding arrangements of the Wales Audit Office. We will shortly be consulting with stakeholders on our draft proposals and will present the outcomes of that consultation to the Finance Committee.

Isobel Garner

Chair, on behalf of the Wales Audit Office Board

Who we are and how we operate

The Auditor General for Wales is the statutory external auditor of most of the Welsh public sector.

The Auditor General is responsible for the audit of the majority of public money spent in Wales, including the funds that are voted on 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 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 employed 253 staff as of 31 March 2017.

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.

Our Values



What we do

PUBLIC SECTOR AUDIT INVOLVES:

- ▶ PROVIDING AN OPINION ON THE ACCOUNTS
- ▶ CONSIDERING WHETHER PUBLIC MONEY IS BEING USED FOR APPROVED PURPOSES (REGULARITY)
- ▶ CONSIDERING HOW PUBLIC BUSINESS IS BEING CONDUCTED (PROPRIETY)
- ▶ EXAMINING WHETHER PROPER ARRANGEMENTS ARE IN PLACE TO SECURE 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. [Our Annual Plan for 2017-18](#) provides more information on how we follow the public pound in Wales.

We undertake our work in accordance with the Auditor General's [Code of Audit Practice](#). The Code prescribes the way in which the Auditor General's audit and certain other functions are to be carried out, and embodies what appears to the Auditor General to be best professional practice.

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.

Our aim and objectives

Our aim is that the people of Wales and National Assembly know whether public resources are being managed wisely.

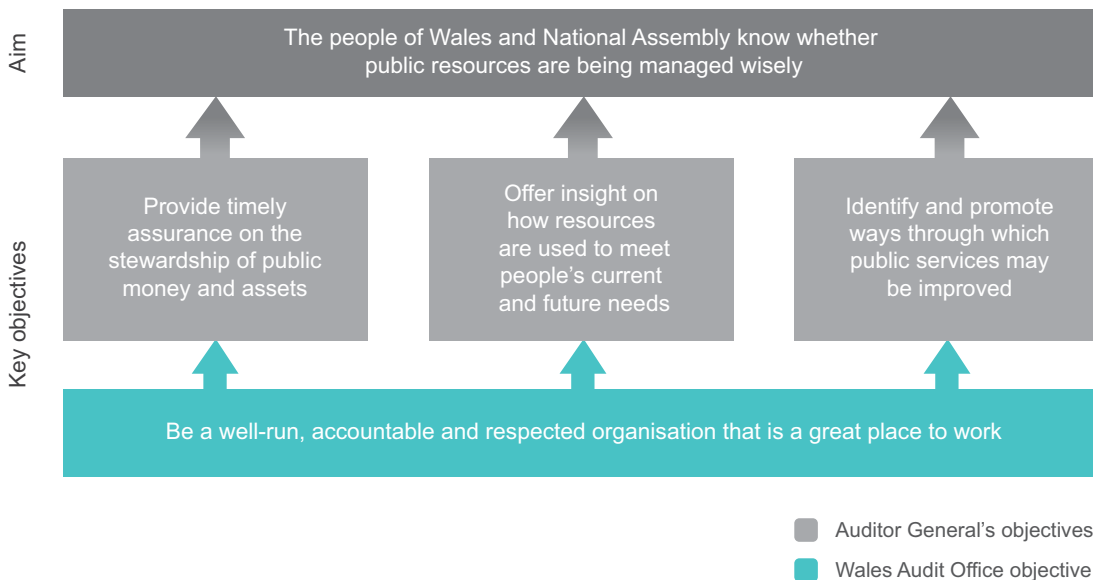
Our first three objectives focus on what we consider to be the threefold purpose of audit – providing assurance, offering insight and promoting improvement.

Our fourth 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, accountable and respected organisation that delivers value for money and provides a stimulating and rewarding environment in which to work.

The Auditor General and the Wales Audit Office jointly prepared and laid before the Assembly an [Annual Plan for the year ended 31 March 2017](#).

The Plan set out, for 2016-17, 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.

Making public money count



Key issues and risks that we face

As outlined in greater detail in our [Annual Plan for 2017-18](#), we consider the following factors to be those that will have the greatest influence over the way we deliver our work and achieve our aim and objectives over the next three years:

- We remain in a period of financial constraint
- Governance arrangements are now required to have a wider scope
- The political and policy landscape continues to evolve
- We live in an increasingly networked society

In response to our operating environment, our Plan for delivering our programmes of work during 2017-18 and for the three-year period 2017-2020 is underpinned by five high-level strategic themes.

Report authoritatively on whether public bodies are acting in accordance with the sustainable development principle	
Support strong public sector financial management at a time of austerity	
Make more effective use of data and embrace cutting edge technology	
Streamline our business processes and strengthen our governance arrangements	
Review and adapt our audit approach	

An account of our risk management in 2016-17, alongside a description of the principal risks and uncertainties we face, is provided in the [Governance Statement](#).

Performance indicators

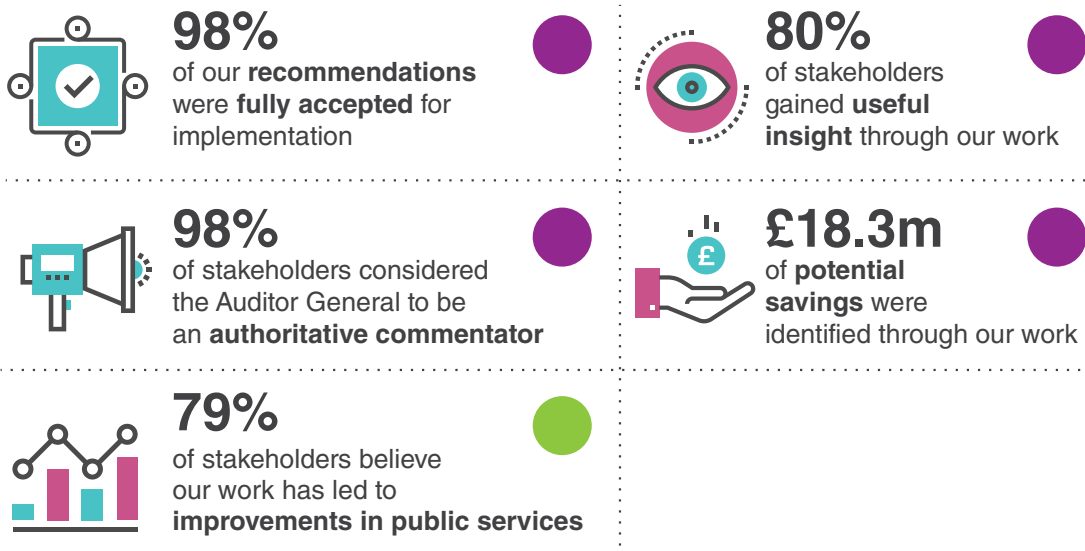
A framework of key performance indicators, centred on seven themes and questions about our activities, was included in our [Annual Plan for 2016-17](#). A suite of targets was also developed with reference to levels of performance at the end of 2015-16 and appropriate benchmarks.

Over the course of 2016-17 we used a combination of quantitative and qualitative methods to measure, report and reflect on our performance and risks. This included quarterly reporting to our Management Committee and Board on progress made in achieving our priorities and targets. Our suite of targets was also subject to further scrutiny and refinement during the year to ensure they remained suitably challenging but achievable within the specified timescales.

Overall, in 2016-17 we achieved our targets for 24 of the 35 performance indicators, and were close to achieving our targets for another five indicators. Our performance against the remaining six indicators will be a particular focus for improvement work in 2017-18.

Impact

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



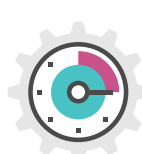
 Achieved our target
  Close to achieving our target
  Improvement required
  Significant improvement required

Delivery

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



100%
of requests to draw funds from the WCF were **processed within 24 hours**



92%
of audit products were **delivered on time**



100%
of audits were delivered in accordance with **quality standards**



20
good practice products were **delivered**



18
National reports were published



Leadership

Are our governance and leadership arrangements operating effectively?



97%
of stakeholders said they have **confidence in our work**



99%
staff feel that their **performance is evaluated fairly**



68%
of staff feel **supported to try new ideas** and ways of working



80%
of staff feel **trusted to carry out their job effectively**



69%
of **staff feel engaged** with our strategic approach



Achieved our target



Close to achieving our target



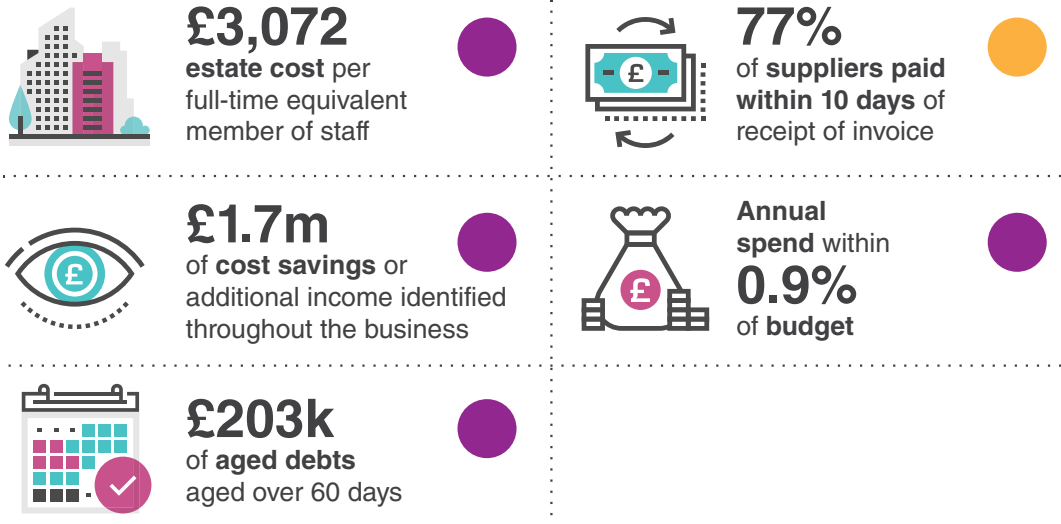
Improvement required



Significant improvement required

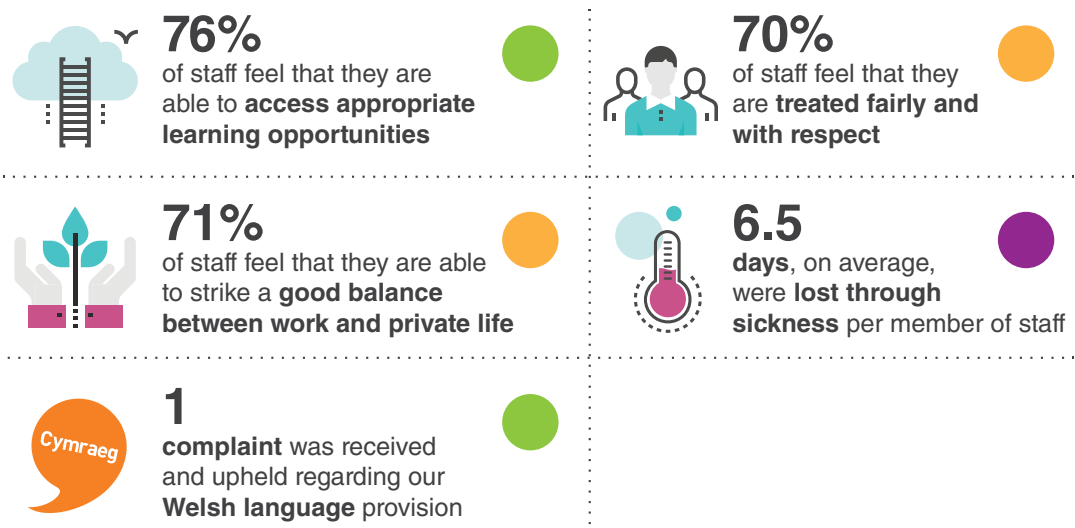
Financial

How well are we managing our finances and assets?



Social

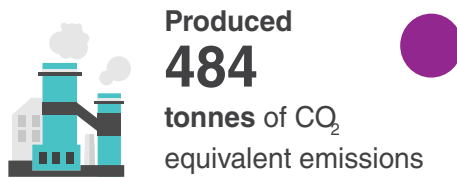
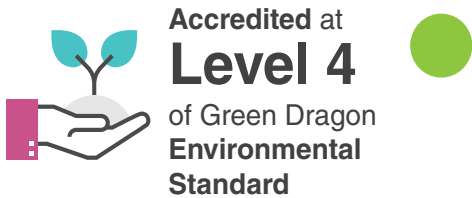
How well are we promoting and supporting equality, well-being and learning?



 Achieved our target
  Close to achieving our target
  Improvement required
  Significant improvement required

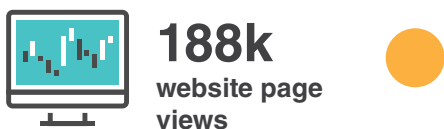
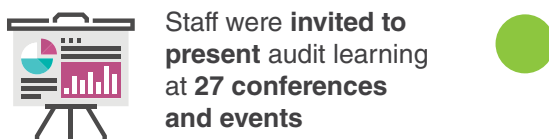
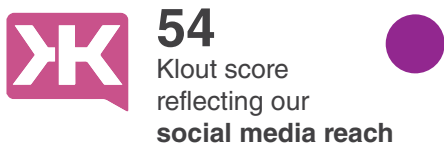
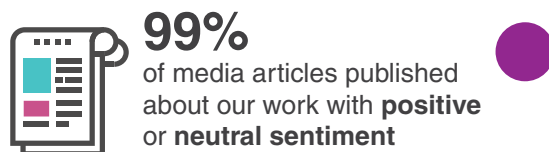
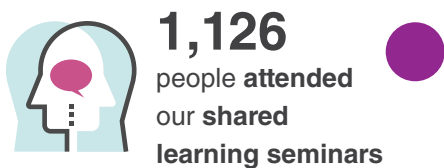
Environmental

How well are we managing our impact on the environment?



Communication

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



● Achieved our target ● Close to achieving our target ● Improvement required ● Significant improvement required

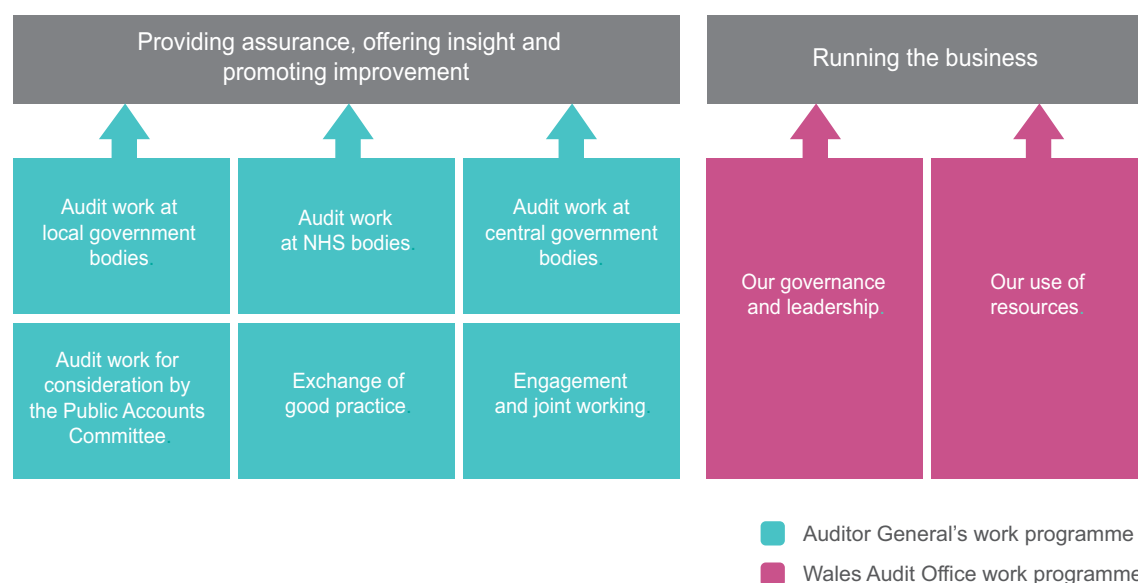
PERFORMANCE ANALYSIS

In this section we provide an assessment of the extent to which the programmes of work and three-year priorities set out in our [2016-17 Annual Plan](#) have been achieved, including through the use of case study examples.

This section should be read in conjunction with:

- [Appendix 1](#), which provides more detail on the Auditor General’s programme of audit work delivered in 2016-17; and
- [Appendix 2](#), which provides further commentary on the progress we have made towards achieving our three-year priorities.

Consistent with our Plan, our analysis 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.



In 2016-17, we successfully delivered the entire programme of work laid out in our Annual Plan for the year. And we are on track to deliver (and in some cases have already completed the necessary work on) all of our three-year priorities.



Audit work at local government bodies

Issued nearly
800
audit opinions
on the accounts of
local government
bodies

Delivered annual
improvement
assessments at all
28
improvement
authorities

Developed and
piloted a
new
outcomes-based
approach to
grant certification

Certified 21
grant schemes
worth approaching
£3
billion

All
of our three-year
priorities for local
government work
are either
complete or
on track

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 2016-17, our work on audits of accounts, certification of grant claims and returns, improvement audits and assessments, and local government studies, was completed in alignment with our Plan.

Case study: Earlier closure of accounts at Wrexham and Pembrokeshire Councils

Local government bodies are currently required to prepare their annual accounts by the end of June and publish audited versions by the end of September each year. By 2020-21 these deadlines will be brought forward by two months to May and July respectively. Ensuring a successful transition to this revised timetable presents significant challenges for both auditors and local government bodies.

An initial pilot of approaches aimed at ensuring we can meet the earlier deadlines was carried out at Torfaen County Borough Council in 2015-16. In 2016-17, additional pilots were carried out at Wrexham County Borough Council and Pembrokeshire County Council, with our financial audit teams in North Wales and West Wales working in conjunction with officers from both councils. Overall, the pilots proved to be successful and both sets of 2015-16 accounts (alongside those of Torfaen Council) were prepared and audited by the end of July 2016, some eight weeks earlier than the previous year.

The key to the success of the pilots was robust planning and open and constructive dialogue between the audit and finance teams. Through applying a 'no-surprises' approach, key milestones were identified, monitored and adhered to, and any emerging problems were resolved at the earliest opportunity. The role of the respective Audit Committees was also critical in ensuring commitment across the Council and holding officers and auditors to account.

Earlier closing is a learning curve for us all. Our local audit teams will continue to work with the three pilot Councils in 2017-18 to make further improvements to the accounts preparation and audit processes. With a view to making preparations for earlier closure at other Councils, the audit teams and finance officers involved in the pilot also shared their experiences with officers from other councils at [learning seminars held in Cardiff and Llanrwst in November 2016](#).





Audit work at NHS bodies

Issued reports on
the accounts of all

10

local health
boards and
NHS trusts

Delivered annual
**structured
assessments**
and local
performance
audit work

Highlighted scope
to secure over
**£8
million**
in savings from
better prescribing
practices

Identified
1,100 hours
of lost theatre
time at just two
health boards
in a two-month
period

All
of our three-year
priorities for NHS
audit work are
either complete
or on track

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.

During 2016-17, the Auditor General provided his audit opinions on the 2015-16 accounts of each NHS body, and reported publicly on the arrangements in place to secure economy, efficiency and effectiveness in their use of resources. This work was delivered in line with the timetable set out in our Plan.

As part of a cyclical programme of health studies, work was carried out on the studies listed in [Appendix 1](#).

Case study: Supporting efficiency and quality improvements in NHS Wales

In 2016, the Auditor General published two reports summarising the outcomes from local audit work undertaken at all health boards. Both reports have served to act as a stimulus for important national action aimed at securing better efficiency, effectiveness and economy in the way the NHS uses its resources.

Through the report [Operating Theatres: A summary of Local Audit Findings](#), we recognised the good work that has been undertaken on surgical safety within operating theatres, but highlighted that there had been insufficient focus on efficiency and productivity in recent years. Our audit work showed that the scale of potential efficiency savings is significant. A two-month snapshot audit at just two health boards identified 1,100 hours of lost theatre time, equating to just under £1 million of NHS resource.

[Managing Medicines in Primary and Secondary Care](#), was published in December 2016, and pointed to the need for medicines management to have a higher profile within NHS bodies in Wales. We identified scope to secure over £8 million in savings from better prescribing practices for a specific sample of drugs, and to improve a number of quality and safety aspects of medicines management.

The recommendations from our audit work, along with other sources of intelligence, are being used by the NHS Wales Efficiency, Healthcare Value and Improvement Group to drive forward a number of actions to secure more optimal use of medicines within the NHS in Wales and to take forward national action on operating theatres.

The Welsh Government also convened a national Theatres Efficiency and Quality event in October 2016, bringing together all relevant parties to share good practice and identify key improvement actions. We presented our audit findings at the event to help frame the day's discussion.





Audit work at central government bodies

Approved around
£1 billion
 of payments out of the Welsh Consolidated Fund every month

Provided opinions on the accounts of the Welsh Government and
11
 sponsored bodies

Carried out a review of governance arrangements at the National Library of Wales

Delivered training to accounting officers and senior officials across the Welsh Government

All
 of our three-year priorities for central government work are currently on track

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. In 2016-17, the Auditor General provided an annual opinion on the accounts of the listed central government bodies, consistent with our Plan.

Performance audit work was also conducted within this sector, as part of the Auditor General's programme of value for money studies.

Case study: Preparations for the implementation of fiscal devolution in Wales

From 1 April 2018, for the first time in over 800 years, Wales will be in charge of raising an element of its own tax revenues.

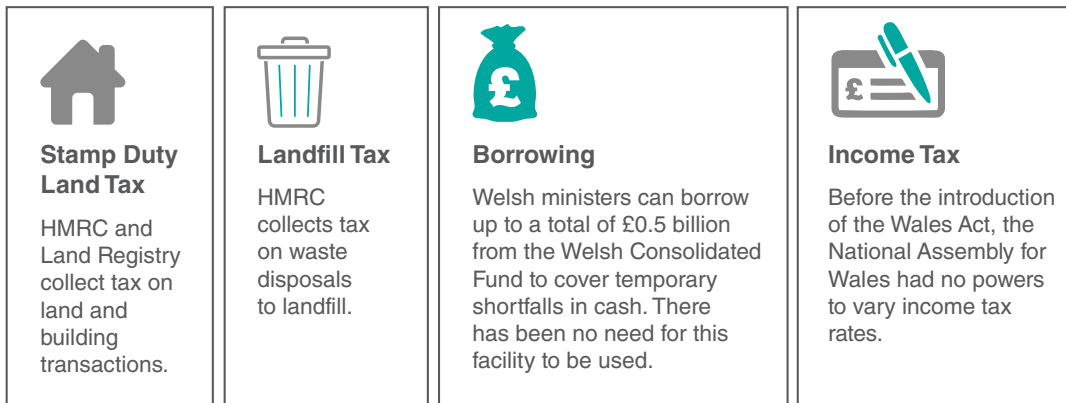
On 1 December 2016, we published a [Report](#) which identified the main focuses and challenges for the Welsh Government in 2017 in preparing to take on its new fiscal responsibilities:

- Agreeing the fiscal and legislative frameworks with key stakeholders including the UK Government;
- Getting detailed plans for establishing the Welsh Revenue Authority (WRA) in place and ensuring any amendments to the legislative framework are reflected in those detailed plans; and
- Ensuring the WRA is established on time, within cost and with the right skilled people in place.

We reported that the Welsh Government is making good progress towards making the necessary arrangements for fiscal devolution, including for establishing the WRA before the April 2018 commencement date. However, we also outlined that significant challenges and risks remain in relation to getting the detailed plans in place and delivering key projects, which will need very careful management over the coming months.

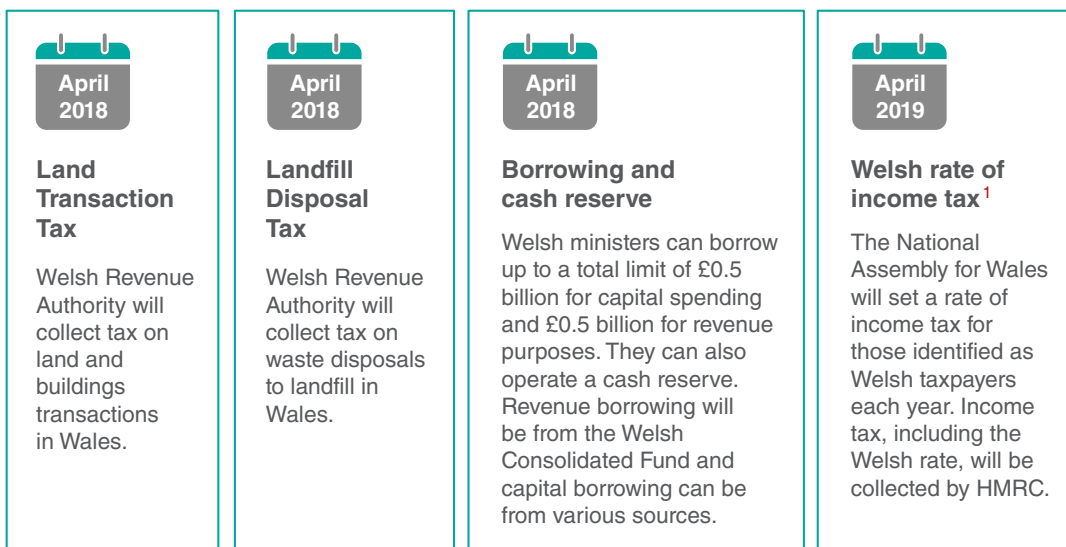
The Auditor General will continue to review the fiscal devolution agenda throughout 2017, and intends to publish further reports on the Welsh Government's progress.

Before



Wales Act 2014

After



Note

¹ Under the Wales Act 2017, the partial devolution of income tax powers to Wales may take place as early as April 2019.



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 for 2016-17, which have been delivered consistent with our Plan, have supported the work of the National Assembly's Public Accounts Committee and other Assembly committees.

As outlined in our Plan, in early 2016-17 the Auditor General considered and consulted on potential topic areas for future value for money studies. As a result, our ongoing work includes several new pieces of work added to our programme that got substantively underway in 2016-17.

During the year, we also undertook work to consider the Welsh Government's responses to previous Auditor General and Public Accounts Committee recommendations across a range of topics.

Case study: Review of the Welsh Government's funding of Kancoat Ltd

The Auditor General's review of the Welsh Government's funding of Kancoat Ltd, was the first to be undertaken by our newly established Investigative Studies Team.

In [our Report](#), published in July 2016, we provided detail on how the Welsh Government had provided Kancoat with financial support totalling £3.4 million to purchase and operate a metal coil coating production line near Swansea, with a view to creating growth and sustainable jobs.

Despite the support package provided to Kancoat, its business venture failed and the company went into administration in September 2014, owing the Welsh Government £2.6 million. We highlighted in our report that the actual cost per job created or safeguarded by Kancoat was nearly three times higher than the Welsh Government's original expectation. Only 12 jobs were created during the short life of the Company.

On hearing the evidence from our review and its subsequent inquiry, the Public Accounts Committee had serious concerns about whether the initial decision to invest in Kancoat should have been made, given the substantial uncertainties around the company and the commercial viability of the project proposed. The Committee also expressed some broader concerns about the actions taken by the Welsh Government to support Welsh business.

Consequently, the Committee has welcomed the Auditor General's decision to commence a broader value-for-money examination of the Welsh Government's overall approach to business finance.





Exchange of good practice

Hosted
20
shared learning
seminars and
webinars

1,126
people attended
our seminars
and webinars

93%
of attendees
rated our
seminars and
webinars as
useful or
very useful

83%
of stakeholders
believe our good
practice work
has benefited
public services

All
of our three-year
priorities for
good practice
work are currently
on track

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.

During 2016-17, a broad range of outputs were delivered from this programme, either consistent with or adapted from our original Plan, and with particular emphasis on promoting the sharing of information across organisational, geographical and international boundaries.

Case study: Behaviour change session – Swansea’s Got Jargon Busters

During 2016-17, our Good Practice Team worked with a number of partners to run a series of behaviour change festivals at Bangor, Swansea and Aberystwyth Universities. The aim of the festivals was to share knowledge among public service transformation teams about a range of behaviour change activities happening throughout the Welsh public sector, and to build links between the theory and practical application of behaviour change science.

One of the most impactful sessions delivered was the ‘Swansea’s Got Jargon Busters’ panel game held during the Swansea Festival in September 2016. Barod, the community interest company who delivered the session, specialise in changing behaviours around how people who deliver public services communicate with the public and the people who use those services.

The Game involved participants presenting on a service transformation-related theme for two minutes in front of a panel of Barod staff, half of whom were people with learning disabilities. If the presenter used jargon during the two minutes they were ‘buzzed’. Three buzzes and they were out of the game.

The Game had a noticeable and immediate effect on people’s behaviour. Not only were participants proud to wear a ‘Jargon Buster’ badge (if successful), but the nature of conversations markedly changed during the rest of the festival. People were far more aware of the language they chose to use, conscious of the impact it might have on those listening, and were prepared to challenge the behaviour of others. When providing feedback, one of the delegates commented: ‘This has changed what I do – much more than a training course on ‘better communication’ or a guidance document’.

In the spirit of ‘be the change you want to see’, our Good Practice Team have subsequently been applying the lessons learnt from the behaviour change session in their day-to-day activities, and encouraging others to do the same using our Good Practice blog and other methods of communication.



Engagement and joint working

Facilitated the detection and prevention of fraud and error worth more than
£4.4 million

Active member of
10
 key external working groups and an observer on seven other groups

Audited
£250 million
 of European funds used to support farmers and agriculture across Wales

66%
 of stakeholders believe we work well with other external review bodies

All
 of our three-year priorities for engagement and joint working are either complete or currently on track

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.

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.

Case study: Regional education consortia: working with Estyn

During the spring and summer of 2016, a team of our performance auditors worked alongside officers from Her Majesty's Inspectorate for Education and Training in Wales (Estyn) on the Estyn-led inspections of the four regional education consortia in Wales. The consortia provide school improvement services for councils and play an increasingly important role in the education system in Wales.

Our staff focused primarily on how the consortia manage their resources, and identified areas for improvement in terms of their assessment of value for money and medium-term financial planning.

Our participation in the 2016 inspections built on our previous joint working with Estyn to review the early development of the regional education consortia, as reported in June 2015. We used the evidence gathered through the 2016 inspections and some additional fieldwork to publish a [Memorandum for the Public Accounts Committee](#) in November 2016. We reported that reasonable progress had been made by the Welsh Government, local authorities and regional education consortia in implementing the recommendations made in our 2015 report, although the consortia were still at different stages of development.

In September 2016, the Welsh Government hosted an event at which staff from both Estyn and the Wales Audit Office presented an overview of their key findings. At the end of the event, the four consortia presented a draft action plan that sought to bring together a national approach to addressing some of the key issues.

Drawing on our memorandum and evidence from the four consortia and Estyn, the Public Accounts Committee identified wider lessons for regional working as part of its response to the Welsh Government's January 2017 White Paper on Reforming Local Government.

Our governance and leadership

The Public Audit (Wales) Act 2013 prescribes the framework for our governance arrangements, most notably in relation to the composition and functions of the Wales Audit Office Board, and the relationship between the Wales Audit Office and the Auditor General.

Our Board combines the knowledge and skills of non-executive, executive and elected employee members to provide dimensions of insight and experience that are helping to shape our strategic direction. Our 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 2016-17, is provided in the [Governance Statement](#).

Further information on membership of the Board and the Management Committee during 2016-17 is provided in the [Directors' Report](#).

During the year, the Board approved, amongst other business, the annual report and accounts for 2015-16, an estimate of income and expenses for 2017-18, an interim report on progress made against the 2016-17 annual plan, a fee scheme for 2017 and an annual plan for 2017-18 which includes additional information on our three-year strategy and priorities. These documents were laid before the National Assembly and scrutinised by the Finance Committee.

On 20 April 2017, the Wales Audit Office was commended as a finalist in the Achievement in Financial Reporting and Accountability category at the [Public Finance Innovation Awards 2017](#), which showcase and reward achievements within public finance and governance.



Our use of resources

We have been working hard to embed the principle of sustainable development¹ in the way we run our business, and in the way we resource the Auditor General's audit work, for a number of years. In this section we provide some high-level commentary on how we have managed our use of resources in 2016-17.

While neither the Auditor General nor the Wales Audit Office are listed public bodies for the purposes of the Well-being of Future Generations (Wales) Act 2015, we nonetheless seek to maximise our contribution to achieving the seven Welsh well-being goals:

- A prosperous Wales
- A resilient Wales
- A healthier Wales
- A more equal Wales
- A Wales of cohesive communities
- A Wales of vibrant culture and thriving Welsh language
- A globally responsible Wales

In addition, we have indicated in this section (through use of the relevant icons) where our performance in 2016-17 contributed to one or more of the 17 [United Nations Sustainable Development Goals](#)².



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU



The Wales Audit Office supports the Sustainable Development Goals

¹ Defined in the Well-being of Future Generations (Wales) Act 2015 as acting 'in a manner which seeks to ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs'.

² In accordance with the [HM Treasury Public sector annual reports: sustainability reporting guidance 2016-17](#).

Financial management and efficiencies

As set out in our [Estimate for 2016-17](#), robust financial management and cost efficiency remains a priority at the Wales Audit Office.

In 2016-17, we limited our net operating expenditure to within £192,000 of that allowed for in our Estimate, and identified further savings on staffing and other costs which allowed us to fund a voluntary exit scheme which will deliver annual savings of £400,000 in the future.

In line with our Estimate, we also invested £222,000 of capital funding in four areas which will deliver further efficiency savings in coming years:

- In June 2016, we invested £65,000 to move our office base in North Wales from Ewloe in the East to a more central location in Abergele. Alongside savings on lease and energy costs we also anticipate savings in staff travel costs.
- We continue to invest in videoconferencing facilities at each of our offices to reduce the requirement for staff to travel to attend meetings. In 2016-17, we invested £34,000 in additional equipment due to the increasing demand for this facility.
- Following on from the successful implementation of our audit management software for financial audit work in 2015-16, a project to digitalise audit management in our performance audit is underway. To facilitate this, we invested £25,000 in additional licences for the MK Insight software in the year.
- The balance of our capital investment, some £98,000, was invested in new IT equipment including renewed network infrastructure and the purchase of new 'hybrid' laptops which will enable our audit staff to work more efficiently and will continue to reduce our use of paper.

Quality of our work

The quality of our work is of paramount importance to us and our stakeholders. The [Code of Audit Practice](#), which is reviewed on an annual basis, alongside a Statement of Practice for local government improvement audit, assessment and special inspection functions, 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.

A [Transparency Report for 2016](#), 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 2016-17 will be published later in 2017.

Our people

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 2016-17 financial year, 24 trainees successfully moved on to the next stages of their studies, collectively achieving a 91.6% first-time pass rate for examinations with the Institute of Chartered Accountants in England and Wales (ICAEW).

In 2016-17, working in partnership with other publicly funded bodies in Wales, we also established the Finance Skills and Development Initiative, which aims to make public finance a more attractive career option for graduates and to raise the standard of financial management in the country. Under the initiative, partner organisations including the Wales Audit Office offer secondment opportunities for finance trainees to spend periods of time at other publicly funded bodies. In 2016-17, Wales Audit Office trainees completed placements at local health boards in North and South Wales, the Welsh Government, a city council and a police authority.

On 20 April 2017, the Initiative was celebrated as the overall winner in the Finance Training and Development Initiative category at the [Public Finance Innovation Awards 2017](#).



JUDGES' COMMENTS:

“THIS INNOVATIVE MODEL OF FINANCE TRAINING AND DEVELOPMENT IS AN EXCELLENT REFLECTION OF THE IMPACT OF ITS EXTERNAL ALLIANCES AND COLLABORATIVE WORKING. A TRULY ORIGINAL, BOTTOM-UP, VOLUNTEER-LED INITIATIVE.”

We continue to invest more broadly in staff learning and development to support our staff in the delivery of their work. In 2016-17, the average amount of time spent per employee on a range of learning and development activities was 9.1 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.

An electronic evaluation form enables us to quickly capture outcomes and then measure the success and impact of the training courses. 98% of staff felt that the courses they attended in 2016-17 were effective in helping them meet their objectives.



Digital transformation

A project was commenced in September 2016, aimed at transforming the way we use data and technology as part of our audit work.

A team of six junior staff, who were representative of all areas of the business, were given time and space to work towards achieving the aspirational outcome of 'Cutting edge audit through cutting edge technology and cutting edge people'.

The team developed and implemented 14 small-scale prototype changes to the way we use data and technology, which have already led to some improvements to the efficiency and quality of our work, alongside making aspects of day-to-day life easier for staff.

The fast-moving project ended in June 2017 when a final report and recommendations were made to the Wales Audit Office Board. The recommendations were aimed at sustaining the project's successes and moving the Wales Audit Office towards long-term and sustainable digital transformation.

In 2017-18, a similar project will be commenced aimed at improving the way we communicate with the public and other stakeholders.

Correspondence handling and whistleblowing (external)

We regularly receive correspondence from the public, their local and national elected representatives and others that raises potential concerns about the stewardship of public money and assets. The Auditor General is also a 'prescribed person' under the Public Interest Disclosure Act for raising whistleblowing concerns about the following matters:

- the proper conduct of public business; and
- fraud, value for money, and corruption in relation to the provision of public services.

When dealing with correspondence and communications received via our external whistleblowing arrangements, we aim to:

- respond to public concern promptly, and in a fair, objective and professional manner;
- appreciate the importance of the issues to those who have taken the time to highlight them;
- issue audit reports where we consider these are merited; and
- make sure that we do not use public money looking at issues that are not relevant to our audit work³, or spend too much time on minor issues.

In 2016-17, we received 96 items of correspondence that raised potential concerns about the stewardship of public money and assets. In 82% of these cases, a full or interim response was issued within 30 working days of receipt of the correspondence.

We also received a total of 33 communications via our external whistleblowing arrangements. Of these, 17 fell within the Auditor General's remit.

³ As a prescribed person, the Auditor General is not under a duty to investigate every disclosure he receives. He can only consider disclosures in accordance with his existing audit and related powers and duties (the Act does not confer any additional responsibilities on to the Auditor General).

Promoting use of the Welsh language

The Auditor General and Wales Audit Office take pride in providing a bilingual service. Our public documents are available in both English and Welsh, we have a fully bilingual website, and throughout 2016-17 we communicated with the public, audited bodies and the media in both languages.

We are committed to implementing and maintaining the new Welsh Language Standards. Our [Compliance Notices](#) can be found on the Welsh Language Commissioner's website.

Our final [Report on the implementation of our Welsh Language Scheme](#) is also available on our website. The Scheme formed the basis of our approach to the Welsh language prior to the introduction of the Standards.

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.

Our well-being policy is supplemented by guidance to support our commitments and ensure any staff health and well-being issues are proactively and sensitively identified and managed. We also actively promote and support staff emotional and physical health, and their wellbeing, including through an annual programme of events.

In addition, an employee assistance programme is 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.

In a survey of Wales Audit Office staff undertaken during November and December 2016, 71% of staff that took part in the survey felt that they were able to strike a good balance between their work and private life; a lower figure than our target of at least 80%, but higher than the 2016 [Civil Service People Survey benchmark score](#) of 67%. Alongside this area being a focus for improvement work in 2017-18, it is also our intention in our next staff survey to use the same framework of questions as will be used in the 2017 Civil Service People Survey, thereby widening the range of wellbeing-related data that we gather and enhancing our ability to draw benchmarking comparisons.

We closely monitor rates of sickness absence and have in place a range of mechanisms for supporting successful return to work. An average of 6.5 days per employee were lost to sickness absence during the reporting year ending 31 March 2017 (compared to 7.3 days per employee for the previous year).



3 GOOD HEALTH AND WELL-BEING



Equality and human rights

The Auditor General for Wales and Wales Audit Office are required to follow the framework of protection against discrimination, harassment and victimisation and the public sector equality duties brought in by the Equality Act 2010. We also have a responsibility to uphold the conventions set out in the Human Rights Act 1998.

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.

Our [Strategic Equality Plan](#) outlines our continued commitment to equality and our related objectives. Our [Annual Report on progress made towards delivering our equality objectives in 2015-16](#) is available on our website. Our report for 2016-17 will be published in summer 2017.



5 GENDER EQUALITY



10 REDUCED INEQUALITIES



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.

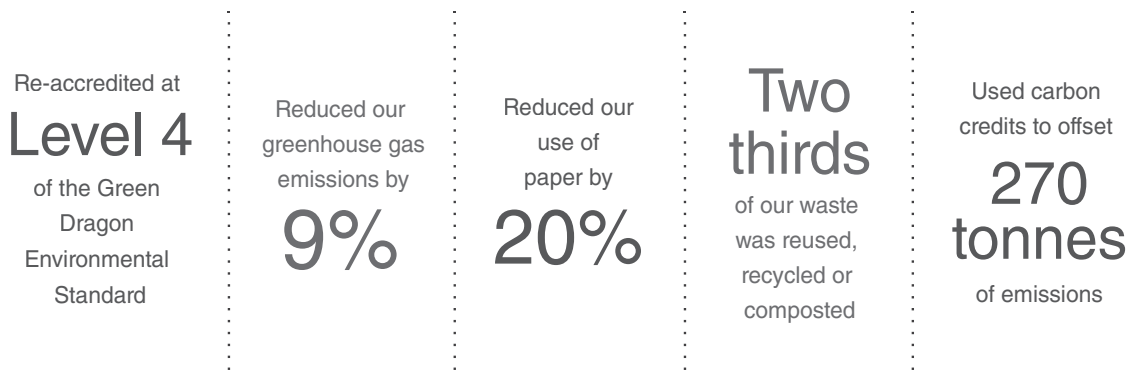
In addition, staff chose the charity CDH UK as the focus for their fundraising activities in 2016-17. Over the course of the year and in their own time, our staff held a number of fundraising events:

- Wales Audit Office colleagues donned their cycling jerseys and tackled the 87-mile Wales Velothon circuit for the second year running;
- Another group of staff achieved the impressive feat of scaling Ben Nevis;
- A number of other events were held, including regular cake sales and raffles, and a Six Nations Championship scores and results predictor competition.

In total, staff raised around £3,500 for the charity. For 2017-18, the staff-chosen focus for fundraising activities will be charities in the mental health field.



Environmental stewardship⁴



We were re-accredited for 2016-17 at Level 4 (the second highest level) of the Green Dragon Environmental Standard, demonstrating our ongoing commitment to effective environmental management. Although we did not quite reach our target of achieving Level 5 (the highest level) in 2016-17, we expect to do so in early 2017-18.

As part of this commitment, we commenced carbon offsetting to support the global reduction of greenhouse gas emissions. In January 2017, we offset⁵ 270 tonnes of carbon dioxide equivalent emissions (tCO₂e) resulting from our business travel, at a cost of £945, by supporting the following projects:

- [Planting 162 Trees in Wales](#);
- [Borehole Rehabilitation Project in Uganda](#) (108 tCO₂e); and
- [Florestal Santa Maria Reducing Deforestation in Brazil](#) (162 tCO₂e);

Sustainability considerations are also embedded in our procurement practices, where we apply the UK Government's [Flexible Framework](#) and [Buying Standards](#), including through:

- providing training for procurement staff in sustainable procurement principles;
- undertaking sustainability risk assessments for higher value procurement and considering whole life costs; and
- using government frameworks where available and ensuring that the suppliers we engage follow sustainable practices.

⁴ Prepared in accordance with [HM Treasury Public Sector Annual Reports Sustainability Reporting Guidance 2015-16](#)

⁵ Carbon offsetting is the use of carbon credits to enable organisations to compensate for some of their emissions. Organisations can make up for some of the carbon emissions by buying credits in projects by funding an equivalent carbon dioxide saving elsewhere.

We are committed to reusing our furniture where possible, using recycled stationery products, and using the Buying Standards as a guide for cleaning, construction, and purchase of equipment.

In 2016-17, we relocated our North Wales office to smaller premises with improved environmental performance. We also used the WRAP Business Waste Weights Calculator tool to provide a more accurate measurement of our levels of waste. Through using the tool we recalculated our previous years' data and established a revised baseline and targets.

Our water consumption continued to increase in 2016-17, primarily due to a leak which has now been fixed, and the ongoing increase in the number of stakeholder and shared learning events held at our premises. In 2017-18, we will explore whether there are any ways through which we can improve our performance in this area.



6 CLEAN WATER AND SANITATION



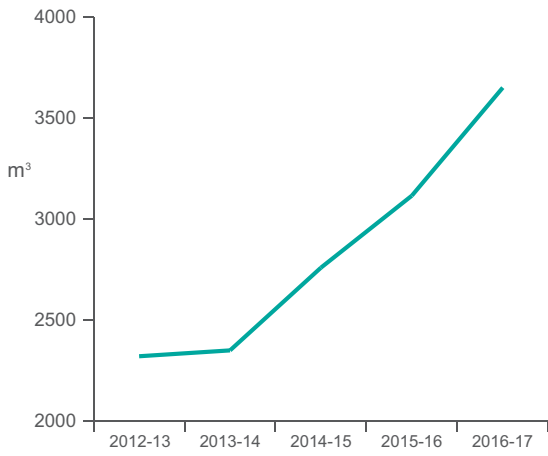
13 CLIMATE ACTION



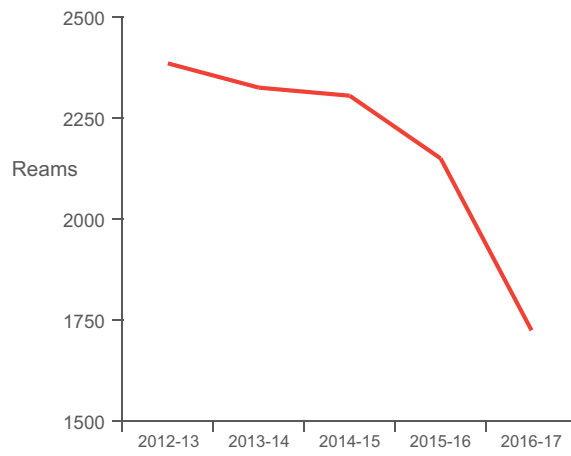
15 LIFE ON LAND



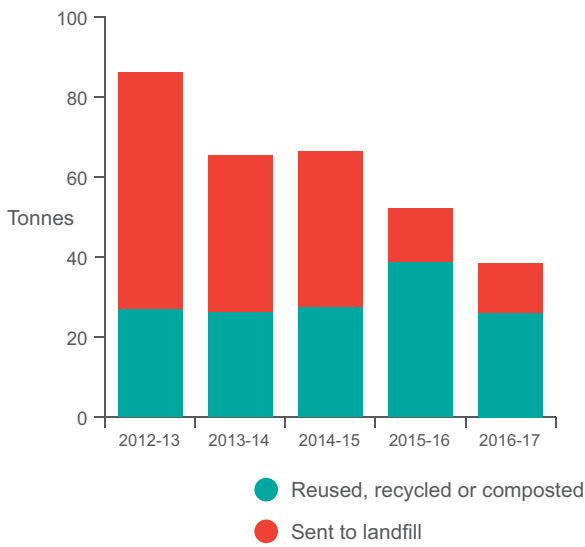
Water consumption



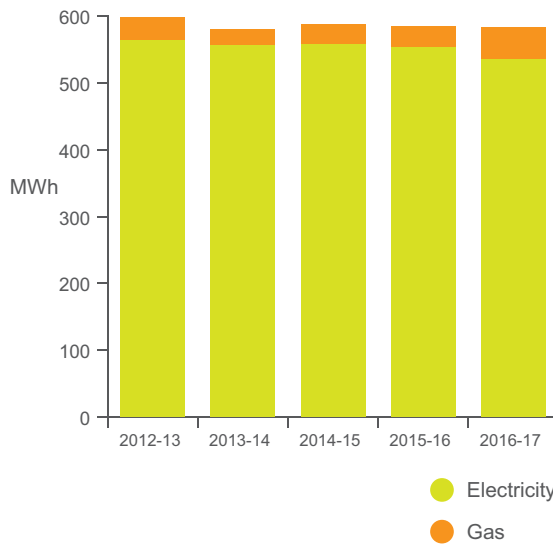
Paper consumption



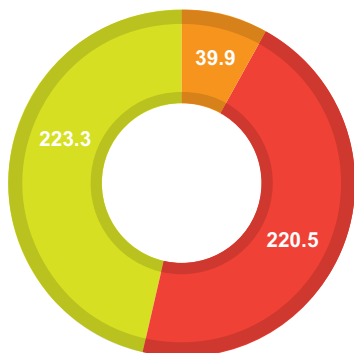
Waste minimisation and management



Energy consumption



Greenhouse gas emissions



- Scope 1 - direct CO₂ equivalent emissions from sources that we own or control (tonnes)
- Scope 2 - indirect CO₂ emissions from consumption of purchased electricity (tonnes)
- Scope 3 - other indirect emissions as a consequence of our activities (tonnes)

	2016-17	2015-16	2014-15	2013-14	2012-13
Environmental management					
Level of Green Dragon accreditation	4	4	4	4	4
Finite resource consumption⁶					
Water consumption m ³	3,650	3,116	2,760	2,351	2,322
Water consumption m ³ per FTE	13.9	10.5	12.0	10.1	9.9
Water supply costs £	6,219	6,280	4,754	4,348	3,336
Paper consumption in reams	1,725	2,150	2,305	2,325	2,385
Paper supply costs £	4,269	5,609	6,349	6,426	6,112
Waste minimisation and management⁷					
Total waste tonnes	38.7	54.9	66.5	65.8	86.0
Reused, recycled or composted	26.0	38.6	27.4	26.2	26.9
ICT waste recycled and reused (externally)	0.7	2.6	0	0	0
Furniture and equipment (externally)	2.6	12.3	0	0	0
Mixed recycling, paper, food waste, garden	22.6	23.7	27.4	26.2	26.9
Landfill	12.4	13.7	39.1	39.2	59.2
Hazardous	0.4	2.5	0	0.4	0
Reused, recycled, composted as % of total waste ⁸	67.0	70.4	41.1	39.8	31.2
Total disposal costs £	13,466	16,400	7,337	6,229	8,586

6 Good and best practice for water usage within an office is considered to be 4 m³ to 6 m³ and ≤4 m³ respectively per Full-Time-Equivalent (FTE) per annum ([Greening Government Commitment targets](#)). However, we do not currently include office visitors in our calculation which is likely to have a substantial impact on our figures due to the number of shared learning events held at our Cardiff headquarters.

7 Calculated using appropriate WRAP conversion factors.

8 78% for the Welsh Government in 2015-16 ([State of the Estate Report 2015-16](#)).

	2016-17	2015-16	2014-15	2013-14	2012-13
Greenhouse gas emissions⁹					
Total emissions tonnes CO ₂	483.7	533.0	563.1	539.5	551.6
Attributable to business travel	233.2	272.3	275.7	252.1	251.8
By car	199.5	232.7	239.1	231.2	235.9
By rail and air	33.7	39.6	36.6	20.9	16.0
Attributable to energy consumption	227.8	233.8	263.3	261.8	299.8
Electricity	220.5	228.3	257.7	257.5	293.4
Gas	7.3	5.5	5.5	4.3	6.4
Attributable to other ¹⁰	22.6	23.6	24.1	25.6	n/a
Total expenditure on business travel £000 ¹¹	1,232	1,258	1,214	1,173	1,142
Cost per FTE of business travel £	4,720	4,972	5,037	4,827	5,053
Total energy expenditure £	57,051	64,394	63,119	56,556	69,874
Efficiency of estate					
Cost per FTE £ ¹²	3,072	3,228	3,397	3,431	3,186
Cost efficiency ¹³ £ per m ²	287	300	278	285	265
Space efficiency m ² per FTE ¹⁴	10.7	10.7	12.2	12.0	12.0

9 Calculated in accordance with [DEFRA Environmental Reporting Guidelines](#).

10 Attributable to energy transmission and distribution, waste disposal and water usage and treatment. First measured in 2013-14.

11 Includes costs of leased cars, transport allowances and travel and subsistence.

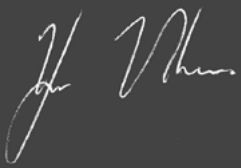
12 Compared to £3,229 for the Welsh Government as of 31 March 2016.

13 Including rent, rates and other costs.

14 Compared to 15.2 m² per FTE for the Welsh Government as of 31 March 2016. 2015-16 was the first year that we included contractors in our FTE total, to ensure a like-for-like benchmarking comparison.

ACCOUNTABILITY REPORT

KEY STATEMENTS AND REPORTS THAT ENABLE US TO MEET
ACCOUNTABILITY REQUIREMENTS AND DEMONSTRATE
COMPLIANCE WITH GOOD CORPORATE GOVERNANCE



Huw Vaughan Thomas
Auditor General for Wales and Accounting Officer
8 June 2017

CORPORATE GOVERNANCE REPORT

Directors' report

General matters

On 1 April 2014, the Wales Audit Office became fully established under the Public Audit (Wales) Act 2013 with the transfer of staff, property, rights and liabilities from the Auditor General.

The [Remuneration and staff report](#) provides an indication of how pension liabilities are treated in the accounts and makes 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, alongside information regarding our commitment to ensuring fair and equal treatment for all staff with protected characteristics (including disability¹⁵) in all aspects of employment, is provided in the Remuneration and staff report.

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

Our published [Annual Plan for 2017-18](#) provides an outline of likely future developments in the business of the Auditor General and Wales Audit Office.

Communication and engagement with staff

During the course of the year we used a variety of media and mechanisms to:

- provide Wales Audit Office employees with information on matters of concern to them as employees;
- consult with employees or their representatives on a regular basis so that the views of employees can be taken into account in making decisions which are likely to affect their interests;
- encourage the involvement of employees in the organisation's performance; and
- achieve a common awareness on the part of all employees of the financial and economic factors affecting the performance of the Wales Audit Office.

¹⁵ The Wales Audit Office subscribes to the Social Model of Disability in recognition that people with impairments are disabled by social, environmental, institutional and attitudinal barriers in society. Important definitions within the Social Model:

- impairment is an injury, illness or congenital condition that causes or is likely to cause a long-term effect on physical appearance and/or limitation of function within the individual that differs from the commonplace; and
- disability is the loss or limitation of opportunities to take part in society on an equal level with others due to social, institutional, environmental and attitudinal barriers.

These included:

- holding regular team meetings with senior staff and Board member involvement, and an all-staff conference;
- arranging 'partnership forum' meetings with trade union representatives, and engaging such representatives in the process for preparing or revising specific policies and organisational development initiatives, where relevant;
- posting regular blogs from members of the Board and Management Committee, and making Board and Management Committee minutes readily available for viewing on our intranet;
- maintaining an intranet 'carousel' of current news, reports and consultations and encouraging staff to share information and good practice through an internal social media network; and more specifically
- the Auditor General holding focus groups with staff at each of our offices during January 2017 to gather their views and hear their responses to the [Consultation on our draft strategy for 2017-2020](#);
- undertaking and sharing the results of a staff 'pulse survey', alongside making a commitment to apply the same framework of core questions as the [Civil Service People Survey](#) to our own survey in autumn 2017; and
- holding a series of culture workshops for staff between October and December 2016, to explore our differing perspectives on, and develop an agreed framework for, the values and behaviours that we should exhibit in our day to day work.

Employee elected members also provided an extra dimension of insight and experience, and conveyed a staff perception to the Board.

Auditor of the Wales Audit Office

RSM UK Audit LLP have been appointed as the external auditor of the Wales Audit Office by the Finance Committee of the National Assembly for Wales for a period of 43 months commencing 1 March 2015.

In addition to their work to form an opinion on the financial statements, RSM UK Audit LLP are engaged to 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 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.

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



Jane Holownia
Sector Lead, Local
Government and
Criminal Justice



Mike Usher
Sector Lead,
Health and Central
Government

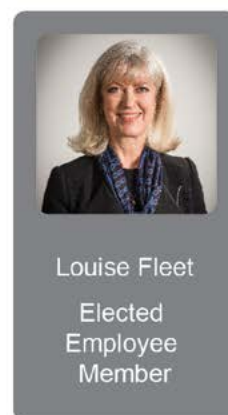
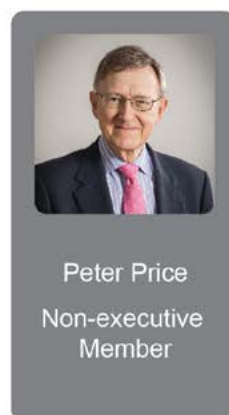
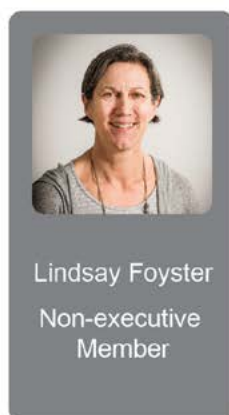
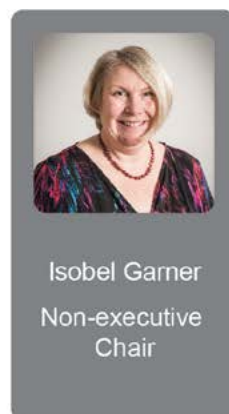
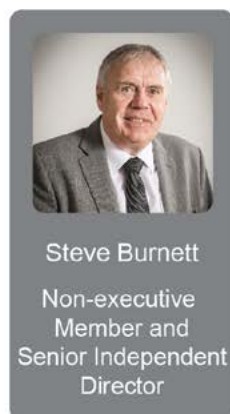
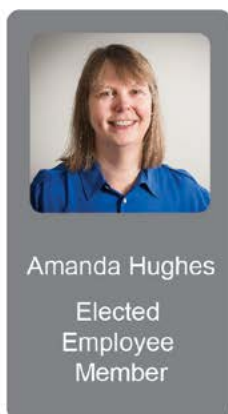


Kevin Thomas
Director of
Corporate Services



Steve O'Donoghue
Director of Finance
and HR

The Wales Audit Office Board



The Board is responsible for:

- Monitoring the exercise of the Auditor General's functions
- Providing the Auditor General with advice
- 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 and estimate of income and expenses

Statement of Accounting Officer's responsibilities

Under paragraph 33 of Schedule 1 to the Public Audit (Wales) Act 2013, the Auditor General is the Accounting Officer for the Wales Audit Office and must, for each financial year:

- keep proper accounts and proper records in relation to them; and
- prepare a statement of accounts in the form and on the basis set out in the Accounts Direction issued by the National Assembly for Wales.

The responsibilities of an Accounting Officer, including for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the Wales Audit Office's assets, are set out in [Managing Welsh Public Money](#) published by the Welsh Government.

Additional responsibilities are described in the Memorandum for the Accounting Officer of the Wales Audit Office, issued by the National Assembly, including that 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 the National Assembly;
- ensure that the resources for which the Wales Audit Office is responsible are properly and well managed and safeguarded; and
- provide advice to the Wales Audit Office on all matters of financial propriety and regularity.

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

- observe the Accounts Direction, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;

- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis.

The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Wales Audit Office and of its net resource out-turn, application of resources, changes in taxpayers' equity and cash flows for the financial year.

As Accounting Officer, I confirm that:

- as far as I am aware, there is no relevant audit information of which the Wales Audit Office's auditors are unaware;
- I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the Wales Audit Office's auditors are aware of that information; and
- this annual report and accounts as a whole is fair, balanced and understandable and that I take personal responsibility for this annual report and accounts and the judgments required for determining that it is fair, balanced and understandable.

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.

My responsibilities as Accounting Officer are set out in the [Statement of accounting officer's responsibilities](#). In discharging these responsibilities 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 Wales Audit Office.

Corporate governance

The governance framework

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

Our Board of nine members comprises a majority of five non-executive members (including the Chair), the Auditor General, an employee member appointed on the Auditor General's recommendation and two elected employee members.

There is a Senior Independent Director whose responsibilities include: deputising for the Chair when he or she is unable to act; appraising the performance of the Chair; receiving reports from whistleblowers outside the normal line management chain; and overseeing the election of employee members to the Board.

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 Practice Governing the Relationship between the Auditor General for Wales and the Wales Audit Office](#), which is approved by the National Assembly.

The Board has established two committees which operate in an advisory capacity:

- The Audit and Risk Assurance Committee comprises two non-executive Board members, an elected employee Board member and an independent member. The elected employee Board member is not a member of the Management Committee nor involved in senior level decision-making other than in a Board capacity.
- The Remuneration and HR Committee comprises three non-executive members of the Board and an elected employee Board member, but the elected employee member may not attend for those items where there is a conflict of interest that cannot be managed or mitigated.

Both committees operate according to terms of reference approved by the Board and which are reviewed every year as part of the committees' annual reporting arrangements.

I have established a Management Committee to advise me in my capacity as Auditor General, Chief Executive and Accounting Officer. The Committee operates within an agreed terms of reference which it reviews annually.

The Board and its Committees, and the Management Committee are supported by a Board Secretary. There is a forward programme of business that informs their provisional agenda, designed to ensure that business is conducted as efficiently and effectively as possible.

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

FINANCE COMMITTEE OF THE NATIONAL ASSEMBLY

Scrutinises the Wales Audit Office's use of resources, recommends the appointment of the Auditor General 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, fee scheme, annual plan, interim report(s) and an annual report.

REMUNERATION AND HR COMMITTEE

Advises the Board by scrutinising and challenging three broad areas of human resources management and development:

- a) governance;
- b) performance; and
- c) policy and remuneration.

AUDIT AND RISK ASSURANCE COMMITTEE

Advises the Board by:

- a) reviewing the comprehensiveness and reliability of sources of corporate assurance;
- b) reviewing the integrity of the annual report and accounts; and
- c) providing an opinion on how well the Board and the Accounting Officer are supported in discharging their respective roles.

MANAGEMENT COMMITTEE

Directs and oversees implementation of the aim and objectives, three-year strategy and priorities, and planned programmes of work laid out in the joint annual plan of the Auditor General and Wales Audit Office.

Attendance at Board and committee meetings 2016-17

	Board	ARAC	RHRC	MC
Number of meetings held	6	4	4	12
Members of the Board and its committees				
Isobel Garner ¹⁶	6	4		1
Steve Burnett	6		4	
David Corner, Chair of the Audit and Risk Assurance Committee (ARAC)	6	4		
Peter Price, Chair of the Remuneration and HR Committee (RHRC)	6		4	
Lindsay Foyster	6		4	
Huw Vaughan Thomas ¹⁷	5	4	4	9
Kevin Thomas ¹⁸	6	4		10
Amanda Hughes	6	3		
Louise Fleet	5		2	
Alison Gerrard ¹⁹ , Independent Non-executive ARAC Member	1	4		
Members of the Management Committee (MC) who are not Board members²⁰				
Anthony Barrett	4			10
Gillian Body	5			12
Mike Usher	3			11
Alan Morris ²¹	1	1		8
Steve O'Donoghue ²²	4	4	4	10
Jane Holownia	1			6

16 Isobel Garner attended one meeting of the Management Committee in her capacity as Chair of the Wales Audit Office.

17 Huw Vaughan Thomas attended ARAC and RHRC meetings in his capacity as Chief Executive and Accounting Officer.

18 Kevin Thomas attended ARAC meetings in his capacity as Director of Corporate Services.

19 Alison Gerrard attended one meeting of the Board as an observer.

20 Management Committee members attended meetings of the ARAC as necessary to give briefings, participate in discussions or to take their advice. They have a standing invitation to attend Board meetings.

21 Alan Morris retired from the post of Sector Lead, Local Government and Criminal Justice on 2 January 2016 and was replaced on the Management Committee by Jane Holownia.

22 Steve O'Donoghue, as Director of Finance and HR, is required to be in attendance at all meetings of the Board, ARAC and RHRC.

Account of corporate governance

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

- internal management reports, performance reports and topical briefings;
- independent internal reports, including internal audit reports and the reports of the Audit and Risk Assurance Committee and the Remuneration Committee; and
- external audit reports.

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

The 2015-16 annual report of the former Remuneration Committee noted that the Wales Audit Office's scheme of delegation reserves to the Board the setting of HR policies. In November 2015, the Board approved a proposal to reconstitute the Committee as a Remuneration and HR Committee with a wider remit to advise the Board on the HR policy framework and its fitness for supporting delivery of the Wales Audit Office's strategic objectives. The newly constituted Committee held its first formal meeting in July 2016.

In 2016-17, the Audit and Risk Assurance Committee worked with the Management Committee to conduct an assurance mapping exercise aimed at systematically aligning relevant controls and sources of assurance with the Board's information requirements, and ensuring that:

- reporting is comprehensive and robust, and
- there are no gaps or duplication.

Following review of a preliminary draft of an assurance map during the latter part of the year, further development work is currently being undertaken, with particular reference to [HM Treasury's 'three lines of defence' model for categorising sources of assurance](#). A final draft of the map will be considered by the Audit and Risk Assurance Committee at its meeting in September 2017.

The Board Secretary maintained the Board's register of interests, which members review annually. The register 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 was taken to mitigate them.

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 continued to have open and confidential access to the Chair of the Audit and Risk Assurance Committee. In addition, the Committee held a private session with the internal and external auditors 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 in central government departments](#) insofar as its requirements are relevant and practical. The arrangements did not comply with the Code's requirements in respect of the following aspects:

- The Board's composition is prescribed by statute, and to include ministerial representation and government officials would risk compromising my independence as Auditor General.
- The Board has not established a nominations committee but the functions described in the Code are undertaken by the Board and the Remuneration and HR Committee.

Board performance and effectiveness review

In September 2016, the Board considered the report of an independent evaluation of its effectiveness. The review focused on: Board tasks as set out in relevant legislation; Board composition, functioning and resources; individual contribution to the Board and group dynamics; and the impact of the Board. It established a benchmark position at the beginning of 2015 and completed a full evaluation of progress against the benchmark in July 2016.

The evaluation concluded that:

'This is an effective to highly effective Board which is well resourced and continues to develop its own performance. It has the capacity and appetite for further development to enhance its impact. The Board has firmly grasped its statutory responsibilities and exercises good oversight of the operational aspects of the Wales Audit Office. The Board's current primary challenge is how best to provide advice and oversight on strategic changes to drive improvement in organisational performance and impact.'

In November 2016, the Board approved an action plan to implement the review's recommendations and will be monitoring progress during 2017-18.

The Board has recognised the potential risks to its effectiveness as the current terms of appointment of most non-executive members and the elected employee members come to an end during 2017 and 2018. My appointment as Auditor General also terminates in 2018. The Board is working with the National Assembly's Finance Committee to ensure that arrangements are in place to ensure an effective transition.

At the end of 2016-17, the Chair was completing members' performance appraisals, informed where appropriate by input from the Chairs of the Board committees. The Senior Independent Director was also completing an appraisal of the Chair's performance, including setting objectives for the coming year.

As part of their annual reporting requirements, the Board committees each complete a self-assessment of their effectiveness. The Audit and Risk Assurance Committee has adopted the National Audit Office's checklist which captures the good practice principles described in HM Treasury's Audit Committee Handbook. The Remuneration and HR Committee has adapted the checklist to ensure that it is relevant and proportionate to its needs. The Board is satisfied with the robustness of the assessments and content that there are no matters of concern.

Report of the Audit and Risk Assurance Committee

The Audit and Risk Assurance Committee presented its annual report to the Board and Accounting Officer in June 2017, summarising its conclusions from the work it had undertaken during 2016-17.

On the strength of the work completed during the year, the Committee confirmed that:

- the strategic risk management arrangements appear to be operating effectively and are linked to the operational arrangements in place at business unit level;
- the draft annual governance statement is consistent with the Committee's view of the Wales Audit Office's control framework; and
- there appear to be no significant gaps in the assurance framework but completing the assurance map is critical to confirming that this is the case.

The Committee assessed the performance of the internal and external auditors using checklists developed from those used by one of the large accountancy practices.

The Committee was content, overall, with the quality of the external audit service, though the external auditor accepted that there was scope to further improve the liaison arrangements with internal audit (noting the constraints of international auditing standards).

In respect of the internal audit service, the Committee noted the improved arrangements for gathering feedback during the year and that the quality of core financial systems work was good. The Committee also noted that concerns raised by management during the year about the availability of specialist skills to deliver non-standard work were being addressed.

Report of the Remuneration and HR Committee

The Remuneration and HR Committee presented its annual report to the Board and Accounting Officer in June 2017.

Following the Board's approval of its work programme in July, the Committee began to settle into a routine pattern of business. More time is needed to ensure that the scope of the Committee's remit is appropriate and that the Committee is exercising its responsibilities effectively in the context of the Board's strategic functions.

The Committee has been conscious that much of its work can have a direct impact on staff morale and on the day-to-day decisions that affect staff most directly. It recognised the balance needed in providing a supportive working environment that allows staff to achieve their aspirations within the context of meeting business need.

Throughout the year, members emphasised the need for HR policies and practices to support the cultural change that the Board is seeking and to position the Wales Audit Office as an employer of choice in a competitive market.

The Committee was content overall that the policies it reviewed during the year were consistent with the Board's strategic vision.

Internal auditor's report

BDO LLP were appointed as the internal auditors of the Wales Audit Office for the year ended 31 March 2017. An internal audit plan for 2016-2019 was prepared for consideration and was approved by the Audit and Risk Assurance Committee at its meeting on 25 February 2016.

During 2016-17, seven internal audit reports were issued by BDO LLP on reviews of financial controls (interim and final), the benefits of implementation of the Insight IT platform, the policy and procedure framework, information governance, workforce planning, and fraud controls.

Summary of the levels of assurance provided in internal audit report opinions in 2015-16

Design of internal control framework	Substantial			1	3
	Moderate				3
	Limited				
	None				
Assurance level	None	Limited	Moderate	Substantial	
Operational effectiveness of internal controls					

In his annual statement of assurance for 2016-17, the Head of Internal Audit reported that:

‘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 and 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.

The conclusions and findings from our reports in the year ... confirm that, based on the evidence of the audits conducted, there are no signs of material weaknesses in the framework of control.’

Risk appetite and management

Given the nature of our business, our tolerance of risk in areas of professional audit judgement, regularity, 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 and a report which summarises any significant changes to the organisation's risk profile at each of its meetings.

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

- its risk strategy, including the appropriateness of the Wales Audit Office's approach to setting its appetite for risk;
- the Wales Audit Office's overall risk assessment processes that inform executive decision making;
- the Wales Audit Office's capability to identify and manage risk;
- the remit of the risk management function, including its access to resources and information to perform its role effectively and in accordance with the relevant professional standards, free from management or other restrictions; and
- Management's responsiveness to risk assessment.

The Management Committee is responsible for: approving and overseeing the implementation of the Wales Audit Office's risk management policy and agreeing any resources needed to support this corporately; assessing and managing strategic risks; and reviewing the operational risk register every six months.

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.

Risk assessment

At each of its meetings in 2016-17, the Board considered a summary of the key strategic risks faced by the organisation, alongside a more detailed strategic risk register which:

- provided an assessment of inherent levels of risk and assigned risk targets;
- described the key controls that had been put in place to mitigate risk likelihood and impact and achieve targets;
- provided an assessment of residual levels of risk;
- identified risk movements and highlighted changes that had been made to mitigating controls since the last Board meeting; and
- summarised the content of the register through inherent and residual risk heat maps and profiles.

A number of key strategic risks fluctuated during the year and particularly engaged the time of the Board and Management Committee. These included:

- our current workforce capacity and capability levels not meeting the requirements of our future audit environment, particularly in relation to the upcoming requirement for earlier closure of local government accounts, fiscal devolution, and delivering the Auditor General's responsibilities under the Well-being of Future Generations (Wales) Act 2015; and
- insufficient funding from fees, grant funding and financing from the Welsh Consolidated Fund for the Auditor General to deliver his statutory functions in a way that delivers the desired levels of impact and added value.

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

In 2015-16, the Board clarified the Audit and Risk Assurance Committee's role in scrutinising the strategic risk register such that its focus was on testing individual risks to determine whether, in the round, the arrangements were robust. The Committee continued that approach in 2016-17 and considered two strategic risks, alongside undertaking a review of the operational risk register. The Committee was content that its detailed reviews demonstrated that the Wales Audit Office's risk management arrangements were operating effectively.

A number of risks were successfully managed and removed from the strategic risk register during 2016-17. The risks were either closed completely or de-escalated to the operational risk register for ongoing management by the relevant risk lead.

The Wales Audit Office also faces a number of newly identified risks going forward into 2017-18, which have been reflected in our strategic risk register. In particular:

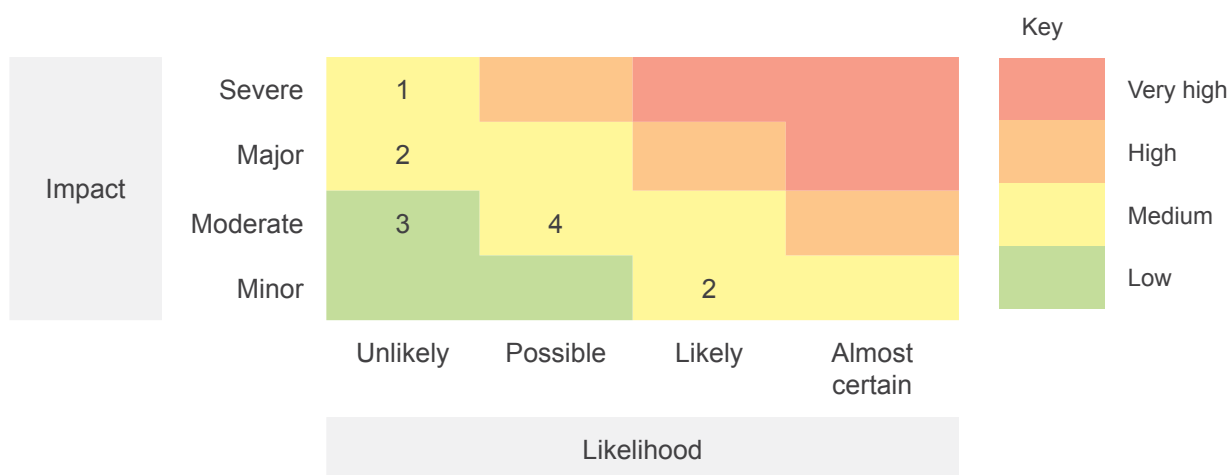
- failing to deliver on the opportunities presented by the introduction of the Well-being of Future Generations (Wales) Act 2015 to reshape and add further value to our audit approach in Wales;
- our Welsh-language skills being insufficient to meet the requirements of the new Welsh Language Standards; and
- ineffective planning for the potential implications of further public service and constitutional reform, including Brexit, which may result in changes to the volume and nature of audit work.

We have commissioned work 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.

The Wales Audit Office’s strategic risk profile

A summary of the Wales Audit Office’s strategic risk profile in March 2017 is provided in the following ‘heat map’, which highlights the number of strategic risks and the assessed levels of residual risk following the application of controls to mitigate their impact and likelihood.



Information governance

As Auditor General, I have wide-ranging access to information for the discharge of my audit functions. These powerful statutory access rights bring with them a responsibility to ensure that the information obtained by me and the Wales Audit Office is safeguarded properly.

The Wales Audit Office therefore has an [Information Security Policy](#) which sets out staff obligations and responsibilities, data processing requirements, monitoring and reporting arrangements, and explains how staff can obtain further support and guidance.

The Director of Corporate Services is accountable to the Board for information governance. 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 2016-17.

We are committed to openness and transparency in the way we operate as a business and 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 2016-17 financial year, we received 51 requests for information, and met the statutory deadlines for each of these requests.

We were not subject to any reviews in 2016-17 by the Information Commissioner.

Whistleblowing (internal)

All Wales Audit Office staff are encouraged to raise issues of concern about misconduct or wrongdoing that come to their attention while at work. The Wales Audit Office Board regards the internal identification of wrongdoing as an important contribution to managing corporate risk and ensuring good governance.

We have a well-established internal whistleblowing policy which reflects the provisions of the Public Interest Disclosure Act 1998, sets out the mechanism for raising such matters, and applies to staff of the Wales Audit Office and all contractors and others working for the Wales Audit Office in any capacity.

It is difficult to assess the effectiveness of our arrangements, as we have had no internal disclosures in the year, or in preceding years. We have specific arrangements for reporting information governance problems, such as potential threats to information security, which are operated by the same staff as the whistleblowing arrangements. While the volume of reporting is not high – a handful of concerns raised during the year – this does indicate that staff have some confidence in making reports where appropriate.

REMUNERATION AND STAFF REPORT

Remuneration report

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 directly from the Welsh Consolidated Fund (WCF) rather than being paid by the Wales Audit Office. For transparency, the remuneration of the Auditor General is disclosed in this Remuneration Report.

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 2016-17 was £153,000 (2015-16: £153,000).

Mr Huw Vaughan Thomas has opted for a partnership pension account (a form of personal stakeholder pension to which an employer contributes). Total employer contributions to this account during 2016-17 were £27,923 (no member contributions were made) (2015-16: £31,237 including employer contributions of £26,701 and member contributions of £4,536).

Wales Audit Office Board

The Wales Audit Office Board comprises five non-executive members appointed by the National Assembly, 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 directly, 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 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 set by the Board²³ and disclosed in this report. The Auditor General and the Director of Corporate Services receive no additional allowances for their Board related duties.

The information on pages 70 to 80 in the Remuneration and Staff report is subject to audit.

²³ Employee members do not participate in this decision.

Single total figure of remuneration for Wales Audit Office Board members

	Remuneration/ Allowance		Tax-inclusive expenses ²⁴		Single total figure of remuneration	
	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16
	£	£	£	£	£	£
Isobel Garner (Chair) ²⁵	25,000	25,000	5,741	6,419	30,741	31,419
Steven Burnett	12,500	12,500	3,068	1,687	15,568	14,187
David Corner ²⁶	12,500	12,500	9,176	9,720	21,676	22,220
Lindsay Foyster	12,500	12,500	488	602	12,988	13,102
Peter Price	12,500	12,500	454	557	12,954	13,057
Amanda Hughes ²⁷	4,167	4,167	1,194	866	5,361	5,033
Louise Fleet	4,167	4,167	276	667	4,443	4,834
Total	83,334	83,334	20,397	20,518	103,731	103,852

²⁴ In addition to the remuneration or allowance for their role, Board and 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.

²⁵ The Chair's remuneration is met directly from the WCF. The Chair's travel and expenses are met by the Wales Audit Office. The Chair's remuneration is disclosed here for transparency.

²⁶ David Corner is based in North East England hence his expenses reflect the longer travel distance to Wales Audit Office offices.

²⁷ 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. The allowances disclosed above relate solely to their board member duties.

Non-executive committee members

The Wales Audit Office Board has appointed an independent member of its Audit and Risk Assurance Committee (ARAC). Remuneration for this post was determined by the Board and is non-pensionable.

Single total figure of remuneration for ARAC members

	Remuneration		Tax-inclusive expenses		Single total figure of remuneration	
	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16
	£	£	£	£	£	£
Alison Gerrard ²⁸	5,000	5,000	142	184	5,142	5,184
Total	5,000	5,000	142	184	5,142	5,184

Wales Audit Office staff

The Wales Audit Office pay policy is available on our [website](#).

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 periodic review under strategies set by the Board and in consultation with trade unions under a collective agreement. Remuneration 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.

When determining pay strategies, the Board considers:

- the need to recruit, retain and motivate suitably able, qualified and high-calibre people;
- overall affordability;
- pay practices in the wider public sector and comparator organisations; and
- relevant legal obligations including equality and anti-discrimination requirements.

²⁸ Alison Gerrard's current term of office will end in September 2017.

Pay ranges for all staff are available on our [website](#). The Wales Audit Office does not pay performance-related bonuses to any members of staff, but does have performance appraisal arrangements that suspend salary increments if performance is less than satisfactory.

During 2016-17, no payments were made to past directors (2015-16: £15,265). Set out below are details of the remuneration and pension interests of members of the Management Committee. The Auditor General's performance appraisal summary of Management Committee members is subject to scrutiny by the Board's Remuneration Committee.

Single total figure of remuneration for senior managers

	Year to 31 March 2017					Year to 31 March 2016				
	Salary ²⁹	Benefits in kind	Taxable expenses ³⁰	Pension benefit	Total single figure of remuneration	Salary	Benefits in kind	Taxable expenses	Pension benefit	Total single figure of remuneration
	Bands of £5,000	To nearest £100	To nearest £100	To nearest £1,000	Bands of £5,000	Bands of £5,000	To nearest £100	To nearest £100	To nearest £1,000	Bands of £5,000
Anthony Barrett	120-125	300	15,100	37	170-175	115-120	4,600	11,800	57	185-190
Gillian Body	120-125			(1)	120-125	120-125	–	–	39	160-165
Jane Holownia ³¹	20-25			5	25-30	–	–	–	–	–
Alan Morris ³²	80-85	1,000		59	140-145	95-100	2,800	–	72	170-175
Steve O'Donoghue	80-85			64	145-150	80-85	–	–	67	145-150
Kevin Thomas	120-125		19,300	50	190-195	120-125	–	15,000	54	190-195
Mike Usher	105-110			33	135-140	105-110	–	–	41	145-150

29 Including Travel Allowance paid to Anthony Barrett (£4,816), Gillian Body (£5,160), Kevin Thomas (£5,160) and Jane Holownia (£754). Mike Usher is entitled to Travel Allowance but did not access this in 2016-17 or 2015-16. Steve O'Donoghue is not entitled to this allowance.

30 Being the tax-inclusive value of payments made to Anthony Barrett and Kevin Thomas for travel to a main place of work.

31 Jane Holownia joined the Management Committee in January 2017 following Alan Morris's retirement as Sector Lead for Local Government and Criminal Justice. The full-year equivalent remuneration for her role is within the band 85-90 (including Travel allowance of £4,315).

32 Alan Morris retired at the end of December 2016. The salary disclosed is for nine months of the year.

Salary

'Salary' includes gross salary and any other allowance (eg, 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 benefit. These benefits are in line with a standard entitlement for all mobile staff.

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 2016-17 was £18,679 (2015-16: £15,487). 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.

Expenses of senior staff

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

Civil Service pensions

Past and present employees of the Wales Audit Office are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS). The scheme is a defined benefit scheme and liability rests with the Scheme, and not the Wales Audit Office. The cost of benefits is met by monies voted by Parliament each year. The Wales Audit Office makes contributions as determined by the Cabinet Office to cover accruing pension entitlement for staff employed.

Further details about the Civil Service pension arrangements can be found on [PCSPS website](#).

Pension entitlements for senior managers

	Accrued pension at pension age as at 31 March 2017 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31 March 2017	CETV at 31 March 2016	Real increase in CETV	Employer contribution to partnership pension account
	£'000	£'000	£'000	£'000	£'000	Nearest £100
Anthony Barrett	45-50	0-2.5	720	671	15	—
Gillian Body	50-55 plus a lump sum of 155-160	0-2.5 plus a lump sum of 0-2.5	1,136	1,088	(1)	—
Jane Holownia	40-45	0-2.5	748	739	4	-
Alan Morris	60-65	2.5-5	1,172	1,120	58	-
Steve O'Donoghue	35-40	2.5-5	507	450	34	—
Kevin Thomas	50-55	2.5-5	797	738	24	—
Mike Usher	40-45 plus a lump sum of 105-110	0-2.5 plus a lump sum of 0	716	672	13	—

Cash equivalent transfer values (CETV)

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.

Compensation for loss of office

Gillian Body will leave under Voluntary Exit terms on 30 June 2017. She will receive a compensation payment of £177,000 in accordance with the Civil Service Compensation Scheme. During 2016-17, the Wales Audit Office invited expressions of interest from staff to exit under the scheme, as part of ongoing workforce planning arrangements. Gillian Body's application was considered by the Remuneration and HR Committee and approved by the Board. Savings associated with this exit will result in the cost of the compensation payment being recouped within 14 months.

Fair pay disclosure

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

	2016-17	2015-16
Band of highest-paid director's total remuneration ³³ excluding pension contributions (£'000)	140-145	135-140
Median total remuneration based on full-time-equivalent staff (excluding pension contributions)	£44,065	£43,850
Range of total remuneration excluding pension contributions	£16,300- £141,452	£18,219- £136,336
Remuneration ratio	3.21	3.11

In 2016-17, no employees received remuneration in excess of the highest-paid director (2015-16: none). Remuneration ranged from £16,300 to £141,452 (2015-16: £18,219 to £136,336). The lowest remuneration in 2016-17 reflected work-experience placements. The increased remuneration for the highest-paid director includes an increase in taxable expenses.

For transparency, the Auditor General's total remuneration of £153,000 (excluding pension contributions) represented 3.47 times the median total remuneration for the Wales Audit Office (2015-16: £153,000, ratio: 3.49).

Off Payroll Engagements

The Wales Audit Office had no contracts during 2016-17 which met the HM Treasury definition of off payroll arrangements.

³³ Total remuneration includes salary, travel 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 of pensions.

Redundancies, early retirements and severances

The Wales Audit Office operates voluntary-severance arrangements in accordance with the Civil Service Compensation Scheme. 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 2016-17 was £695,700 (2015-16: Nil). This will deliver savings estimated at £400,000 annually.

Sixteen employees entered into approved exit packages during 2016-17 as detailed below:

Exit package cost band	2016-17			2015-16		
	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	–	8	8	–	–	–
£25,001-£50,000	–	3	3	–	–	–
£50,001-£100,000	–	4	4	–	–	–
£150,001-£200,000	–	1	1	–	–	–
Total	–	16	16	–	–	–

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

Staff report

Senior leadership

The following table details the number of full-time equivalent senior staff by band at 31 March 2017

	2016-17	2015-16
Band A (£88,163 - £115,678)	3	3
Band B (£77,911 - £102,252)	3	3
Band C (£70,223 - £88,824)	8	8
Total	14	14

Posts in Band A and B form the Management Committee, chaired by the Auditor General. With posts in Band C, they collectively form the Senior Leadership Team.

Staff numbers

The average number of full-time equivalent staff employed increased by one during the year; the number of permanent staff fell by six with an increase of seven staff on fixed-term contracts. This reflects an increase in the number of audit trainees in line with our workforce planning principles and the [Finance Skills Development initiative](#).

	2016-17	2015-16 (Re-stated) ³⁴
Average number of full-time-equivalent, UK-based, permanent staff employed during the year	217	223
Average number of full-time-equivalent, UK-based, staff on fixed-term contracts employed during the year	27	20
Audit and inspection contractors (average number of full-time equivalents in year)	9	8

³⁴ Staff numbers for 2015-16 have been re-stated to adjust for new starters in the year.

Staff and associated costs

	2016-17	2015-16
	£'000	£'000
Staff salaries	10,992	10,826
Seconded-in staff	69	210
Short-term contract staff	301	285
Non-executive member remuneration	68	68
Social security costs ³⁵	1,294	1,095
Pension costs (PCPS)	2,379	2,335
Pension costs (stakeholder pensions)	4	4
	15,107	14,823
Transport allowance and leased cars	720	782
Car-scheme contractual changes	-	128
Subscriptions ³⁶	73	42
	15,900	15,775
Short-term contract staff	216	222
	16,116	15,997
Redundancy, early retirement and severance costs	702	31
Less monies received in respect of outward secondments	(45)	(45)
Net staff costs	16,773	15,983

³⁵ The increase in social security costs is a consequence of higher employer national insurance contributions from April 2016.

³⁶ Fees for the membership of professional bodies, eye tests and health screening.

Bought-in services

	2016-17	2015-16
	£'000	£'000
Payments to private accountancy firms	952	2,269
Research and other consultancy costs	199	101
	1,151	2,370

These costs relate to services bought in by the Auditor General that directly relate to audit, inspection, advice or research functions. The cost has reduced in line with a planned reduction in contracted-out work as part of a long-term savings plan and workforce planning.

The following information (pages 81 to 84) in the Remuneration and Staff report is not subject to audit.

Staff policies, equality and diversity

The Auditor General for Wales and Wales Audit Office are required to follow the framework of protection against discrimination, harassment and victimisation and the public sector equality duties brought in by the Equality Act 2010.

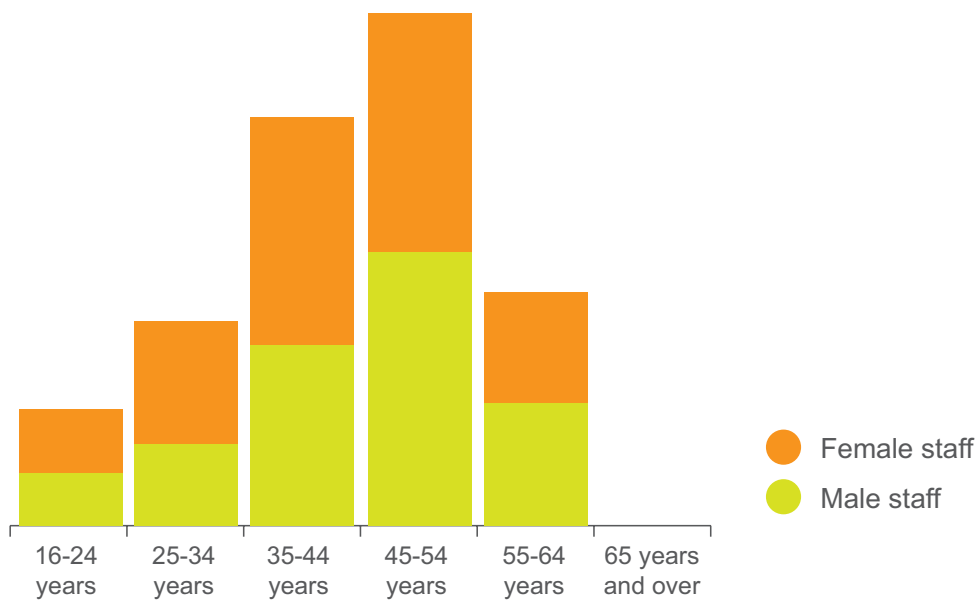
We also have a responsibility to uphold the conventions set out in the Human Rights Act 1998. We are committed to providing a work environment that values the diversity of all people, both our own staff and those with whom we come into contact during our work, and we fully support the rights of people to be treated with dignity and respect.

Our [Strategic Equality Plan](#) outlines our continued commitment to equality and our related objectives. Our annual reports on progress made towards delivering our equality objectives are available on our website. Our Equality and Diversity Policy outlines our commitment to ensuring fair and equal treatment for all staff with protected characteristics (including impairment) in all aspects of employment. The policy provides for parity in selection for employment, recruitment, promotion, learning and development and/or any other benefit, based solely on aptitude and ability in accordance with our duties under the Equality Act 2010 and associated legislation.

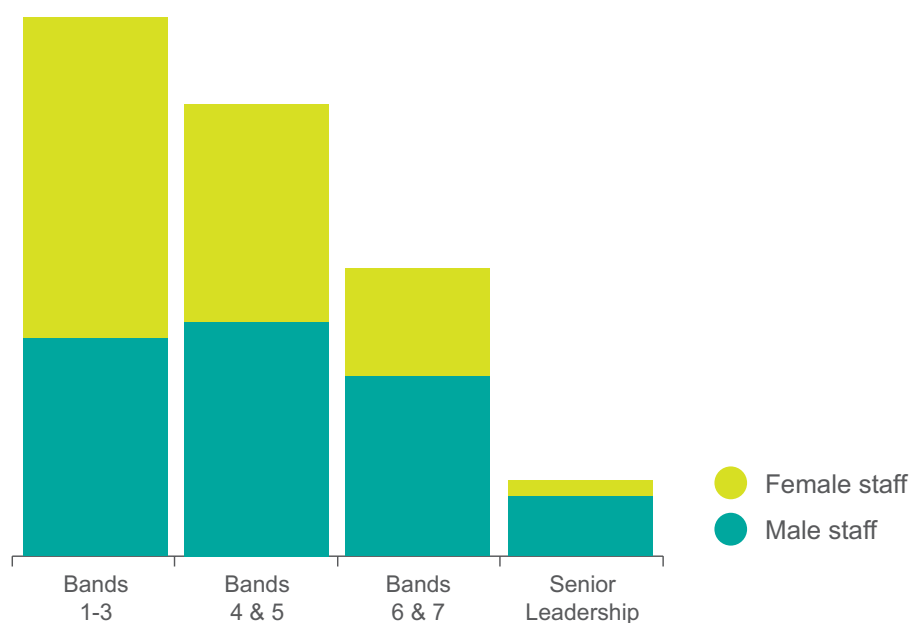
The Wales Audit Office monitors the impact of these policies using data collected from staff where they chose to disclose.

	2016-17	2015-16
Diversity	%	%
Female	51.8	49.6
Aged less than 35 years	21.7	20.6
Aged 35 to 54 years	62.5	62.6
Aged 55 years and over	15.8	16.8
Staff with a disability	8.7	8.0
Staff from an ethnic minority	3.2	2.7
LGBT+ staff	4.0	3.1

Staff age and gender analysis 2016-17 (headcount)



Staff grade and gender distribution 2016-17



Grade distribution	2016-17	2015-16
Staff in senior leadership team bands ³⁷ (A to C) percentage	5.7	5.6
Staff in management bands (6 and 7) percentage	19.9	21.6
Staff in supervisory pay bands (4 and 5) percentage	37.0	33.2
Staff in other pay bands (1 to 3) percentage	37.4	39.6
Percentage staff in senior leadership team that are female	20.3	20.3
Percentage staff in management that are female	37.2	37.9
Percentage staff in supervisory roles that are female	50.2	48.0
Percentage staff in other pay bands that are female	62.4	59.7

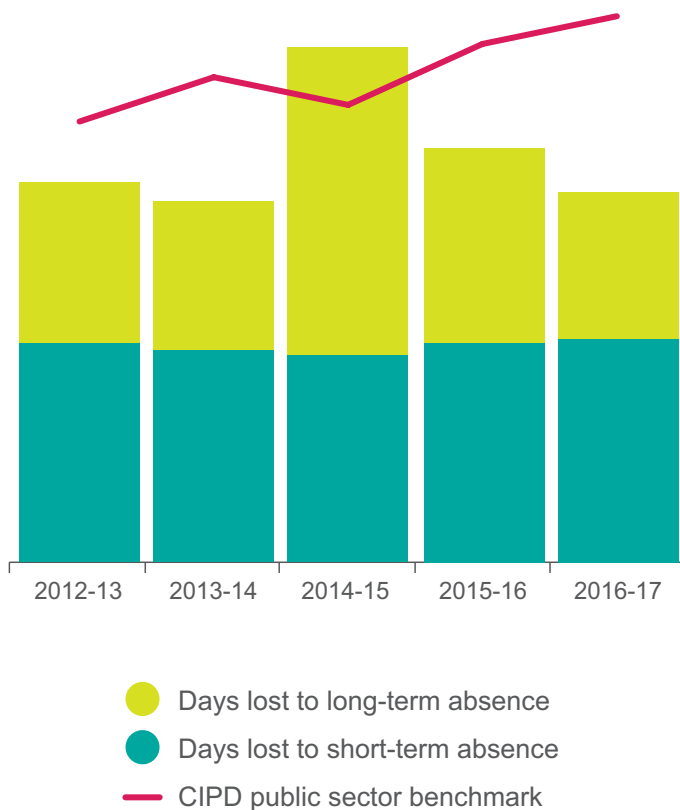
³⁷ Excluding Auditor General and Non-Executive Board Members.

Sickness absence

- Our staff sickness levels reduced by an average of one day per person due to a reduction in long-term sickness.
- The overall absence figure was over three days less than the Chartered Institute of Personnel and Development (CIPD) benchmark³⁸, and has met our corporate target of 6.5 days.

	2016-17	2015-16
Average working days lost per member of staff	6.5	7.3
Due to short-term absence	3.9	3.9
Due to long-term absence (periods of ≥21 days)	2.6	3.4

Staff sickness absence 2012-13 to 2016-17

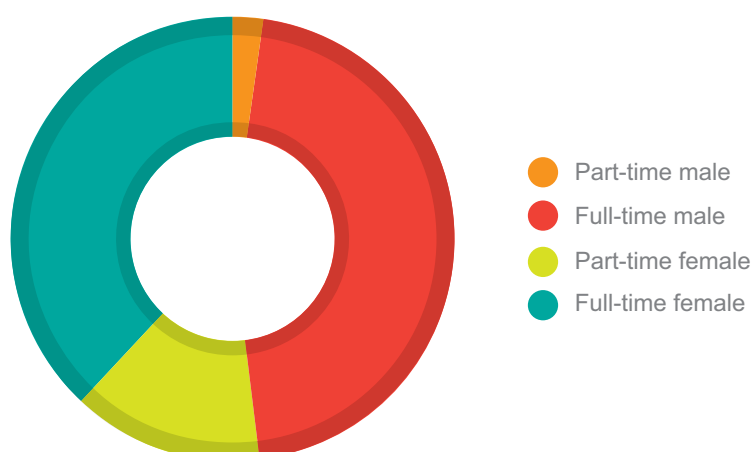


³⁸ Mean of 9.8 days per employee per year for those public service organisations that responded to the 2016 CIPD annual Absence Management Survey.

Our workforce

- The proportion of part-time employees increased by 1% in 2016-17. This increase included a reduction for men of 1% and a 2% increase for women.
- The percentage of staff on permanent employment contracts reduced reflecting an increase in audit trainees on four-year training contracts.
- Our annual staff turnover rate has increased to 10.5%. Whilst this is an increase as compared to 2015-16, it is in line with previous years.

	2016-17	2015-16
Working patterns		
Part-time employees as a percentage of total	16.2	15.3
For men	4.9	6.1
For women	26.7	24.6
Employment contract type		
Percentage of staff on permanent employment contracts	88.5	90.5
Turnover		
Annual staff turnover rate percentage	10.5	5.3



Huw Vaughan Thomas
Auditor General for Wales and Accounting Officer
8 June 2017

RESOURCE OUT-TURN AND AUDITORS' REPORT

Summary of Resource Out-turn 2016-17 and associated notes

The information on pages 85 to 88 is subject to audit.

This statement provides a comparison of the Estimate for 2016-17, as voted by the National Assembly with actual income and expenditure for the year.

NOTE	2016-17 Estimate			2016-17 Out-turn			Net total out-turn compared to estimate	2015-16 Out-turn	
	Gross expenditure	Income	NET TOTAL	Gross expenditure	Income	NET TOTAL		NET TOTAL	
	£'000	£'000	£'000	£'000	£'000	£'000		£'000	
SORO1	Revenue	23,393	(16,715)	6,678	21,747	(15,261)	6,486	(192)	5,807
SORO1	Capital	250	–	250	222	–	222	(28)	39
	Total Resources	23,643	(16,715)	6,928	21,969	(15,261)	6,708	(220)	5,846
SORO2	Net Cash Requirement			6,728			6,233	(495)	6,003

Arising from the operations of the Wales Audit Office for the financial year 2016-17:

- the net total out-turn on revenue resources was £192,000 within the approved net resources of £6,678,000;
- the out-turn on capital spend was £28,000 within the approved capital budget of £250,000;
- the sum of £495,000 is repayable to the WCF, being the unused sum of cash drawn down.

Notes to the Summary of Resource Out-turn

Note SORO1: Analysis of net resource out-turn 2016-17

2015-16 Out-turn		2016-17 Estimate	2016-17 Out-turn	Variance	Reason for significant variances against the Estimate
£'000		£'000	£'000	£'000	
Expenses					
14,388	Staff costs	16,183	15,204	(979)	Linked to reduced fee income and reduced WPI grant
507	Contractor staff	1,213	517	(696)	Linked to reduced fee income and reduced WPI grant
1,258	Travel and subsistence	1,414	1,232	(182)	Linked to lower staffing
2,582	Private sector firms (incl VAT)	953	1,099	146	Offset by higher than expected income from firms' work
969	Accommodation	986	912	(74)	Reduced energy and maintenance costs
427	ICT	459	455	(4)	
344	Balance of irrecoverable VAT	390	624	234	Increase in non-recoverable VAT
306	Wales Audit Office Governance Arrangements	300	332	32	
266	External training	275	295	20	
167	Legal and professional fees	214	139	(75)	Largely re-active expenditure
145	Translation of documents	120	115	(5)	
603	Other costs	886	823	(63)	
21,962	TOTAL EXPENSES	23,393	21,747	(1,646)	
Income					
(13,632)	Audit fees	(14,066)	(13,263)	803	A combination of the loss of some audit work and timing of when work is done – see link to reduced staff costs.
(1,560)	Grant certification fees	(1,663)	(1,540)	123	In line with previously identified reductions
(951)	WPI Grant	(986)	(433)	553	Subsequent to the approval of the Estimate for 2016-17, Welsh Government announced a reduction in this grant
(12)	Other income	-	(25)	(25)	
(16,155)	TOTAL INCOME	(16,715)	(15,261)	1,454	
5,807	NET REVENUE RESOURCE	6,678	6,486	(192)	
39	CAPITAL EXPENDITURE	250	222	(28)	

Income from fees and WPI grant was £1.5 million less in 2016-17 than that anticipated when the 2016-17 Estimate was agreed. As a consequence, our staffing and other costs were reduced accordingly through vacancy management and lower than planned use of short-term contractors. Despite these challenges, the net cost of the Wales Audit Office was £192,000 less than anticipated when the Estimate was agreed.

The financial management summary on page 35 provides further explanation of cost efficiency at the Wales Audit Office.

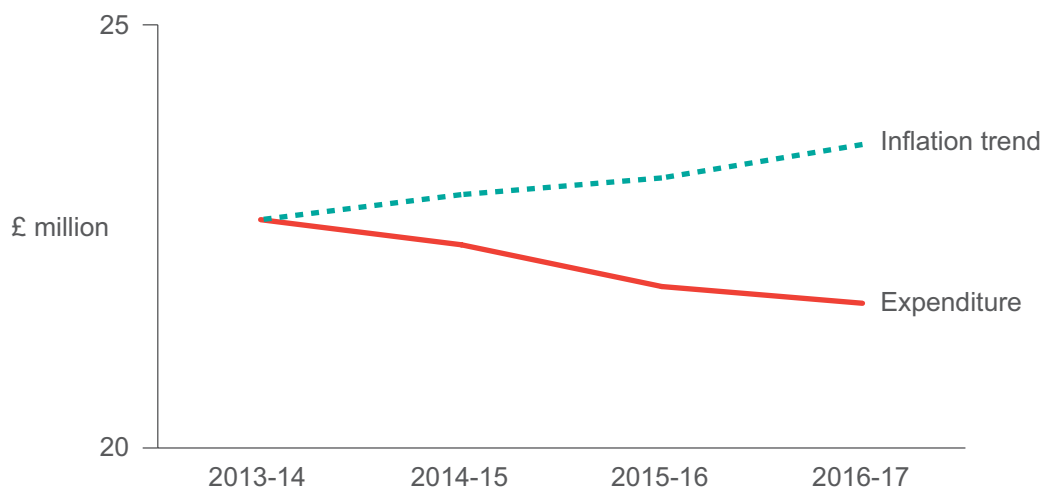
Audit fee income is governed by the Fee Scheme approved by the Finance Committee of the National Assembly. A breakdown of this income is included in Note 1 to the Financial Statements.

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

	2016-17		2015-16	
	Estimate	Out-turn	Variance	Out-turn
	£'000	£'000	£'000	£'000
Revenue resources	6,678	6,486	(192)	5,807
Capital resources	250	222	(28)	39
Adjustments:				
Non-cash items (depreciation)	(200)	(204)	(4)	(193)
Movements in working capital other than cash:	–			
- (Increase)/reduction in receivables and work in progress	–	(504)	(504)	550
- Increase/(reduction) in payables and deferred income		98	98	(14)
- Increase/(reduction) in current provisions		135	135	(186)
Total net cash requirement	6,728	6,233	(495)	6,003

Long-term expenditure trends

Since 2013-14, the Wales Audit Office has reduced its expenditure by 8% in real terms³⁹, as represented below. The cumulative saving generated across those years amounts to £3.7 million, reducing both the call on the WCF, other than for new responsibilities, and the amount required to be raised from charging fees to audited bodies.



Future budgeted expenditure and income of the Wales Audit Office is voted annually by the National Assembly.

The Auditor General is not aware of any remote contingent liabilities that will impact long-term expenditure plans.

As disclosed in Note 14 to the Financial Statement, there were no special payments or disclosable losses in 2016-17.

³⁹ Based on GDP deflators published by ONS June 2016

Independent Auditors' 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 2017 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. We have also audited the information in the Remuneration and Staff Report that is described in the report as having been audited.

The financial reporting framework that has been applied in their preparation is HM Treasury directions issued under the 2013 Act.

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 2017 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

We have undertaken work, as required under Schedule 1 of the Public Audit (Wales) Act 2013, 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.

In our opinion, in all material respects:

- the expenditure to which the statement relates has been incurred lawfully and in accordance with the authority that governs it; and
- 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.

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](#).

Scope of the audit of regularity

We are 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 other matters

In our opinion:

- the part of the Remuneration and Staff Report to be audited has been properly prepared in accordance with 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.

Responsibilities of the Wales Audit Office and the Auditor General for Wales

As explained more fully in the Statement of the Accounting Officer's responsibilities set out on page 53, 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.

Auditor's responsibilities for the audit of the financial statements

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.

Auditor's responsibilities for regularity opinion on financial statements

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.

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.

RSM UK Audit LLP
9 June 2017

Registered Auditors
Davidson House
Forbury Square
Reading
RG1 3EU

FINANCIAL STATEMENTS

THE FINANCIAL STATEMENTS FOR THE WALES AUDIT OFFICE,
ALONGSIDE SUPPORTING AND EXPLANATORY NOTES

Statement of Comprehensive Net Expenditure for the year ended 31 March 2017

		2016-17	2015-16
	Note	£'000	£'000
Expenditure			
Staff and associated costs	Staff report ⁴⁰	16,773	15,983
Bought-in services	Staff report	1,151	2,370
Other operating costs	3	3,823	3,609
		21,747	21,962
Income			
Audit fee income	1	(14,803)	(15,192)
Inspection grant	1	(433)	(951)
Other operating income	2	(25)	(10)
		(15,261)	(16,153)
Net (expenditure)		6,486	5,809
Interest receivable		-	(2)
Net expenditure after tax and interest		6,486	5,807
Total comprehensive net expenditure for the year		6,486	5,807

The notes that follow on pages 98 to 113 form part of these financial statements.

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


⁴⁰ Staff costs note on page 79 of the Remuneration and Staff Report

Statement of Financial Position at 31 March 2017

	Note	31 March 2017 £'000	31 March 2016 £'000
Non-current assets			
Property, plant and equipment	4	590	533
Intangible assets	5	149	188
Total non-current assets		739	721
Current assets			
Trade receivables and work in progress	6	2,136	1,633
Other receivables	7	550	549
Cash and cash equivalents	8	2,789	2,950
Total current assets		5,475	5,132
Total assets		6,214	5,853
Current liabilities			
Trade and other payables	9	(2,253)	(2,225)
Deferred income	10	(2,290)	(2,220)
Provisions for other liabilities and charges	11	(485)	(350)
WCF (see Summary of Resource Out-turn)		(495)	(143)
Total current liabilities		(5,523)	(4,938)
Total assets less current liabilities		691	915
Non-current liabilities			
Provisions for other liabilities and charges	11	(765)	(736)
Total non-current liabilities		(765)	(736)
Total assets less liabilities		(74)	179
Taxpayers' equity			
General fund		(74)	179
		(74)	179

The notes that follow on pages 97 to 113 form part of these financial statements.

The financial statements on pages 94 to 113 were approved by the Wales Audit Office Board and authorised for issue on 8 June 2017 and are signed on its behalf by:



Huw Vaughan Thomas
Auditor General for Wales and Accounting Officer
8 June 2017

Statement of Cash Flows for the year ended 31 March 2017

		2016-17	2015-16
	Note	£'000	£'000
Cash flows from operating activities			
Comprehensive net expenditure		6,486	5,807
Adjustments for non-cash transactions: depreciation and amortisation	3	(204)	(193)
(Increase)/decrease in provisions	11	(164)	220
Changes in working capital			
Increase/(decrease) in trade and other receivables	6, 7	504	(550)
(Increase)/decrease in trade and other payables	9,10	(98)	14
Decrease in distribution of reserves to local-government bodies	9,10	-	2
Net cash outflow used from operating activities		6,524	5,300
Cash flows used from investing activities			
Purchases of property, plant and equipment	4	190	35
Purchases of intangible assets	5	32	4
Net cash outflow from investing activities		222	39
Cash flows from financing activities			
WCF		(6,728)	(6,146)
WCF repaid		143	698
Net financing		(6,585)	(5,448)
Movements in cash and cash equivalents	8	161	(109)

The notes that follow on pages 97 to 113 form part of these financial statements.

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2017

	£'000
Balance at 31 March 2015	(17)
Changes in taxpayers' equity in 2015-16	
Total comprehensive expenditure	(5,807)
WCF finance	6,146
	<hr/> 322
Payable to WCF	(143)
Balance at 31 March 2016	179
Changes in taxpayers' equity in 2016-17	
Total comprehensive expenditure	(6,486)
WCF finance	6,728
	<hr/> 421
Payable to WCF ⁴¹	(495)
Balance at 31 March 2017	(74)

The notes that follow on pages 97 to 113 form part of these financial statements.

⁴¹ As reported in the Summary of Resource Out-turn for 2016-17 (page 85).

Notes to Financial Statements

These financial statements have been prepared in accordance with the 2016-17 Financial Reporting Manual (FReM), issued by the relevant authorities. The financial statements have been prepared on a going concern basis as set out in Note 17: 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. Significant policies adopted by the Wales Audit Office are described alongside the note to which they refer. They have been applied consistently in dealing with items considered material in relation to the accounts.

These financial statements have been prepared under the historical cost convention. Figures are presented in pounds sterling, which is the functional currency of the Wales Audit Office, and are rounded to the nearest £1,000.

The potential impact of IFRS 16 (Leases) issued in January 2016 but not effective until 1 January 2019 is discussed in Note 12.

There are no other 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.

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 2018-19 financial year will be presented to the Finance Committee of the National Assembly in the autumn of 2017-18 and there is no reason to believe that funding will not be approved for that financial year.

Critical accounting estimates and areas of judgement

- Revenue recognition is based on time charged to projects adjusted where applicable to reflect stage completion of work done. An assessment is undertaken at the year-end to consider the reasonableness of income recognised taking into account the cost to complete audit projects. Income recognised in advance of invoices being raised is treated as Work in Progress (See Note 6). Invoices raised in advance of work being done is treated as Deferred Income (See Note 10).
- Provisions have been made where, in the opinion of the accounting officer, it is more likely than not that a financial liability exists which cannot be accurately estimated at present (See Note 11).

Note 1 (a): Wales Audit Office operating segments

2016-17

	Financial audit	Performance audit	Activities funded by WCF	Total
	£'000	£'000	£'000	£'000
Audit fees	(11,161)	(3,642)		(14,803)
Grant		(433)		(433)
Other income			(25)	(25)
Total	(11,161)	(4,075)	(25)	(15,261)
Expenditure	11,118	4,118	6,511	21,747
	(43)	43	6,486	6,486

2015-16

	Financial audit	Performance audit	Activities funded by WCF	Total
	£'000	£'000	£'000	£'000
Audit fees	(11,585)	(3,607)	–	(15,192)
Grant	–	(951)	–	(951)
Other income	–	–	(10)	(10)
Total	(11,585)	(4,558)	(10)	(16,153)
Expenditure	11,924	4,221	5,817	21,962
	339	(337)	5,807	5,809

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).

Reconciliation to Statement of Comprehensive Net Expenditure

	2016-17	2015-16
	£'000	£'000
Net expenditure per above analysis	6,486	5,809
Interest receivable ⁴²	–	(2)
Per Statement of Comprehensive Net Expenditure	6,486	5,807

Note 1 (b): Analysis of audit fee income

	2016-17			2015-16		
	Financial Audit	Performance Audit	Total	Financial Audit	Performance Audit	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Local Government Audit	(5,772)	(2,381)	(8,153)	(5,841)	(2,217)	(8,058)
Local Government Grant Certification	(1,540)		(1,540)	(1,560)	-	(1,560)
NHS	(2,009)	(1,261)	(3,270)	(2,090)	(1,389)	(3,479)
Central Government Audit	(1,840)		(1,840)	(2,094)	(1)	(2,095)
	(11,161)	(3,642)	(14,803)	(11,585)	(3,607)	(15,192)

Fees charged for audit work are set in accordance with a Fee Scheme agreed by the Finance Committee of the National Assembly.

⁴² As all cash balances are now held within the Government Banking Service, the Wales Audit Office no longer receives interest on these balances.

Note 2: Other operating income

	2016-17	2015-16
	£'000	£'000
Sundry income ⁴³	(25)	(10)
	<u>(25)</u>	<u>(10)</u>

Gross fee income and other operating income are recognised on the value of chargeable work exclusive of VAT. This value is assessed by reference to time charges and stage of completion of projects.

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 Note 10). Work done in advance of income received is classed as work in progress (see Note 6). Funding drawn from the WCF is not direct government grant and is credited directly to taxpayers' equity.

Note 3: Other operating costs

	2016-17	2015-16
	£'000	£'000
Accommodation		
Rent lease costs	453	482
Other accommodation costs	384	407
Supplies and services	1,805	1,598
Recruitment	69	61
Depreciation and amortisation	204	193
Professional fees		
Internal audit services	39	49
External audit fees	36	40
Other professional fees	64	78
Staff travel and subsistence	512	476
Staff learning and development	257	225
	<u>3,823</u>	<u>3,609</u>

No non-audit services were provided by our external auditors in 2016-17.

⁴³ Sundry income includes charges for training provided, personal use of mobile phones and recharges for refreshments.

Note 4: Property, plant and equipment

	Furniture and fittings	Information technology	Office equipment	Total
2016-17	£'000	£'000	£'000	£'000
Cost				
At 31 March 2016	1,296	306	132	1,734
Additions	68	86	36	190
Disposals ⁴⁴	(35)	(15)	(8)	(58)
At 31 March 2017	1,329	377	160	1,866
Depreciation				
At 31 March 2016	907	186	108	1,201
Provided in period	79	43	13	135
Disposals	(37)	(15)	(8)	(60)
At 31 March 2017	949	214	113	1,276
Net book value				
At 31 March 2017	380	163	47	590
At 31 March 2016	389	120	24	533
Asset financing				
Owned	380	163	47	590

⁴⁴ Asset disposals in 2016-17 are in respect of fully depreciated fittings, IT infrastructure and equipment at the Ewloe office.

	Furniture and fittings	Information technology	Office equipment	Total
2015-16	£'000	£'000	£'000	£'000
Cost				
At 31 March 2015	1,377	272	138	1,787
Additions	–	35	–	35
Disposals	(81)	(1)	(6)	(88)
At 31 March 2016	1,296	306	132	1,734
Depreciation				
At 31 March 2015	907	152	105	1,164
Provided in period	79	35	9	123
Disposals	(79)	(1)	(6)	(86)
At 31 March 2016	907	186	108	1,201
Net book value				
At 31 March 2016	389	120	24	533
At 31 March 2015	470	120	33	623
Asset financing				
Owned	389	120	24	533

Fixed assets are held at depreciated cost.

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.

Subsequent expenditure on assets which meets these capitalisation criteria would be further capitalised. Items not meeting these criteria would be treated as revenue expenditure in the year.

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	Three years
Office equipment	Five years

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 depreciated replacement cost.

Note 5: Intangible assets

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 (five years). Amortisation is calculated from the date the intangible asset commences its useful life.

	Total
2016-17	£'000
Cost	
At 31 March 2016	479
Additions	32
Disposals ⁴⁵	(8)
At 31 March 2017	<u>503</u>
Amortisation	
At 31 March 2016	291
Provided in period	71
Disposals	(8)
At 31 March 2017	<u>354</u>
Net book value	
At 31 March 2017	<u>149</u>
At 31 March 2016	<u>188</u>
Asset financing	
Owned	<u>149</u>

⁴⁵ Being the fully depreciated cost of connection to the Welsh Public Sector Broadband Aggregation (PSBA) network at the Ewloe office.

2015-16	Total
	£'000
Cost	
At 31 March 2015	829
Additions	4
Disposals	(354)
At 31 March 2016	<u>479</u>
Amortisation	
At 31 March 2015	577
Provided in period	68
Disposals	(354)
At 31 March 2016	<u>291</u>
Net book value	
At 31 March 2016	<u>188</u>
At 31 March 2015	<u>252</u>
Asset financing	
Owned	<u>188</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 6: Trade receivables and work in progress

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 would be established when there is evidence that the Wales Audit Office will not be able to recover all amounts due in accordance with contracts.

	31 March 2017	31 March 2016
	£'000	£'000
Trade receivables		
Central government	161	41
Local government	449	257
NHS	178	52
External to government	25	26
Work in progress		
Central government	609	553
Local government	704	703
NHS	10	1
	<hr/> 2,136	<hr/> 1,633

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 2016-17 (2015-16: not required).

Note 7: Other receivables

	31 March 2017	31 March 2016
	£'000	£'000
Prepayments and accrued income ⁴⁶	546	548
Loans to employees ⁴⁷	4	1
	<hr/> 550	<hr/> 549

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

Note 8: Cash and cash equivalents

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.

During 2016-17, the Wales Audit Office completed the process of transferring all funds to the Government Banking Service in line with the recommendations in Managing Welsh Public Money. Commercial accounts were subsequently closed as a result.

	31 March 2017	31 March 2016
	£'000	£'000
Balance at 1 April	2,950	2,841
Net change in cash and cash equivalents	(161)	109
Balance at 31 March	<hr/> 2,789	<hr/> 2,950

	31 March 2017	31 March 2016
	£'000	£'000
Current account (Government Banking Service)	2,789	1,748
Current account (Commercial Accounts)	–	1,202
	<hr/> 2,789	<hr/> 2,950

⁴⁶ Mainly advance payments for rent and other property-related costs.

⁴⁷ Cycle to work scheme and prepayments for salary sacrifice car leases.

Note 9: Trade payables and other current liabilities

	31 March 2017	31 March 2016
	£'000	£'000
Trade payables (due within one year)	431	410
VAT	62	61
Taxation and social security costs	352	340
Accrual for holiday entitlement not yet taken	509	519
Other accruals ⁴⁸	899	895
	<hr/> 2,253	<hr/> 2,225

The Wales Audit Office aims to pay 95% of all undisputed supplier invoices within 30 days of receipt and 84% within 10 days. In 2016-17, 98.6% were paid within 30 days and 77.2% within 10 days.

Note 10: Deferred income

Audit fee income recognised in our accounts is assessed by reference to time charges and a review of work in progress. We invoice for most of our work on an instalment basis through the year. Deferred income represents income that has been billed but not yet recognised.

	31 March 2017	31 March 2016
	£'000	£'000
Deferred income	2,290	2,220
	<hr/> 2,290	<hr/> 2,220

⁴⁸ The majority of the other accruals (£646,000) relates to trade payable invoices received post year-end. £253,000 is in respect of pension contributions for March 2017, paid in April 2017.

Note 11: Provisions for liabilities and charges

Provisions are recognised when an obligation at the reporting date as a result of a past event which it is probable will result in the transfer of economic benefits and the obligation can be estimated reliably.

Provisions are measured at the best estimate of the amounts required to settle the obligation. Where the effect of the time value of money is material, the provision is based on the present value of those amounts, discounted at the pre-tax discount rate that reflects the risks specific to the liability. The unwinding of the discount is recognised within interest payable and similar charges.

	Dilapidations⁴⁹	Early retirement and severance⁵⁰	HMRC	Car scheme buy-out	Totals
	£'000	£'000	£'000	£'000	£'000
At 31 March 2016	625	221	62	178	1,086
Provided in year	36	433	–	–	469
Provisions utilised in year	(21)	(42)	–	(171)	(234)
Provisions released in year	(9)	–	(62)	–	(71)
At 31 March 2017	631	612	–	7	1250

Analysis of expected timing:

	Dilapidations	Early retirement and severance	HMRC	Car scheme buy-out	Totals
	£'000	£'000	£'000	£'000	£'000
Not later than one year	–	479	–	6	485
Later than one year and not later than five years	–	133	–	1	134
Later than five years	631	–	–	–	631
	631	612	–	7	1,250

49 The Wales Audit Office uses HM Treasury's discount rate as set out in PES (2016) 10 for balances of 0-5 years of -2.7% and for 5 to 10 years of -1.95% to calculate this balance.

50 The Wales Audit Office uses HM Treasury's discount rate as set out in PES (2016) 10 of 0.24% to calculate this balance.

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.

This has been 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.

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 at the start of the year related to potential underpayment of PAYE tax and national insurance contributions in respect of the Employee Death in Service benefit. Agreement has now been reached with HMRC that this does not constitute a taxable benefit and hence no amounts are due.

The car scheme provision reflects a commitment to compensate staff who have agreed to a buy-out of terms and conditions relating to the provision of leased cars and transport allowance. This provision was established in 2015-16 and the large majority of qualifying employees received payments in 2016-17. The remaining balance is in respect of employees whose leased car arrangements have not yet ended.

Note 12: Operating leases

The Wales Audit Office holds operating leases for cars and its operational offices. 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.

There were aggregate minimum lease payments at 31 March 2017 in respect of non-cancellable car leases:

	31 March 2017	31 March 2016
	£'000	£'000
Within one year	34	21
Between two and five years	184	204
	<hr/>	<hr/>
	218	225

There were aggregate minimum lease payments at 31 March 2017 in respect of three office accommodation leases. The Wales Audit Office has three operational offices at Cardiff, Swansea and Abergele. A new lease was signed in March 2016 for an office at Abergele which replaced the Ewloe base in June 2016.

	31 March 2017	31 March 2017	31 March 2016	31 March 2016
	£'000	Number of properties	£'000	Number of properties
Within one year	443	3	452	4
Between two and five years	1,774	3	1,634	2
Over five years	385	3	792	2
	<hr/>		<hr/>	
	2,602		2,878	

Office accommodation leases are subject to periodic rent reviews.

IFRS16 issued in January 2016 but not effective until 1 January 2019, requires that all leases with a lease term of more than 12 months be recognised as assets and liabilities in financial statements. It is not yet known if this standard will be adopted within the FReM; if it had been adopted for 2016-17 there would have been an increase to both assets and liabilities of £2.34 million.

Note 13: Capital commitments

There were no capital commitments for items ordered but not yet received at 31 March 2017 (31 March 2016: £10,000).

Note 14: Losses and special payments

There were no special payments or disclosable losses in 2016-17 (2015-16: none).

Note 15: 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 for short-term financing purposes, the office has not been required to do so in this financial year. The Wales Audit Office can also invest surplus funds, which has been done through an overnight interest-bearing account during the year. 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 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 converted 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 charges fees under legislation in accordance with an approved Fee Scheme and 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 2017 (31 March 2016: nil).

Note 16: Related party transactions

The Wales Audit Office is a body corporate established under statute and has had material transactions with the WCF and with bodies audited by the Auditor General as disclosed in the Remuneration Report.

Isobel Garner (Non-Executive Chair of the Wales Audit Office Board) is married to the Chief Executive of a local council which is audited by the Wales Audit Office. This is disclosed for transparency although it does not meet the definition of a related-party transaction.

During the year, no other 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 (page 69).

Note 17: 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 2018-19 financial year will be presented to the Finance Committee of the National Assembly in the autumn of 2017-18 and there is no reason to believe that funding will not be approved for that financial year.

Glossary of Terms

Accruals basis	The effects of transactions and other events are recognised when they occur (and not as cash or its equivalent, is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate.
Amortisation	The apportionment of the cost of an intangible fixed asset over its useful life.
Assets	Something that the organisation owns or uses eg, equipment or software rights.
Capital expenditure	Spending on non-current (fixed) assets.
Current assets	An asset that is expected to be converted to cash within the next 12 months.
Current liability	A liability that is expected to be settled within the next 12 months.
Deferred income	Represents income that has been billed but not yet recognised in the Statement of Comprehensive Net Expenditure.
Depreciation	The apportionment of the cost of a tangible fixed asset over its useful life.
Estimate	For the Wales Audit Office the annual Estimate of Income and Expenses approved in plenary by the Budget Motion. The National Assembly Finance Committee provides a report to support this. Also referred to as the approved budget.
Fixed assets	An asset that is held by an organisation for use in the production or supply of goods or services, for rental to others, or for administrative purposes on a continuing basis in the reporting entity's activities. Examples are equipment, vehicles, land and buildings.
Going concern basis	Financial statements are prepared on this basis assuming that the organisation will continue operating into the foreseeable future.
Intangible fixed asset	An asset, such as a right, that cannot be touched.
Leasing	Acquiring the use of an asset through a rental agreement.
Prepayments	An amount paid for in advance such as insurance premiums or rent in advance. Initially recognised as an asset, then transferred to expense in the period when the benefit is enjoyed.

Provision	Liability of uncertain timing or amount.
Taxpayers' equity	The net assets of the organisation.
Trade payables	Amounts due for payment to suppliers of goods and services
Trade receivables	Amounts due from clients.
Tangible fixed asset	A fixed asset (also called a non-current asset) which has a physical existence. Used to differentiate it from an intangible fixed asset.
Welsh Consolidated Fund	The fund used by the National Assembly to hold sums voted by Parliament which are then allocated via a Budget Motion to the Welsh Government, Auditor General for Wales, National Assembly Commission and Public Service Ombudsman for Wales.
Work in progress	Work done and recognised as income in the accounts which has yet to be invoiced to clients.

APPENDICES

APPENDIX 1: PROGRAMMES OF WORK DELIVERED IN 2016-17

Audit work carried out at local government bodies

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

CERTIFICATION OF GRANT CLAIMS AND RETURNS

21 schemes worth approaching £3 billion and involving around 360 individual claims

IMPROVEMENT AUDITS AND ASSESSMENTS

22 unitary authorities (including themed reviews of financial resilience and governance)
3 fire and rescue authorities
3 national park authorities

STUDIES COMPLETED OR SUBSTANTIALLY COMPLETED

Local government financial statements 2015-16
Financial management and governance in community councils 2015-16
Local authority funding of third-sector services
Savings planning in local authorities in Wales 2016-17
Charging for services and generating income by local authorities
Community safety in Wales

ONGOING STUDIES

Strategic commissioning of learning disability services by local authorities
Improving wellbeing through housing adaptations
How local government manages demand (homelessness services)

Audit work carried out at NHS bodies

AUDITS OF ACCOUNTS

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

STUDIES COMPLETED OR SUBSTANTIALLY COMPLETED

NHS Consultant Contract (follow-up study)
Emergency ambulance services commissioning arrangements
Radiology services

LOCAL PERFORMANCE AUDIT WORK

7 local health boards
3 NHS trusts

ONGOING STUDIES

GP Out-of-hours services
Discharge planning
Primary care services

STRUCTURED ASSESSMENTS

7 local health boards
3 NHS trusts
All-Wales summary of performance reporting to local health boards

Audit work carried out at central government bodies

WELSH GOVERNMENT ACCOUNTS

Welsh Government consolidated accounts
Non-domestic rating account
Welsh Consolidated Fund 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
Social Care 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
Qualifications 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
Education Workforce Council
Future Generations Commissioner

WELSH GOVERNMENT COMPANIES

Hybu Cig Cymru
Careers Choice
Life Sciences Hub
Sector Development Wales

Audit work undertaken for consideration by the Public Accounts Committee

VALUE FOR MONEY STUDIES, SUMMARY REPORTS OR REACTIVE EXAMINATIONS COMPLETED

Follow-up outpatient appointments - briefing for the NHS Planned Care Programme Board

Welsh Government funding for Kancoat Ltd

Coastal flood and erosion risk management

National Fraud Initiative 2014-15

Welsh Government investment in rail services and infrastructure

Hospital catering and patient nutrition, a review of progress - memorandum for the Public Accounts Committee

Achieving improvement in support to schools through regional education consortia (follow-up) – memorandum for the Public Accounts Committee

Preparations for the implementation of fiscal devolution in Wales

Governance review of the National Library of Wales

Managing medicines in primary and secondary care

Governance challenges posed by indirectly provided publicly funded services in Wales - discussion paper

Welsh Government oversight of further education colleges' finances and delivery

ONGOING VALUE-FOR-MONEY STUDIES

21st century schools and education programme

Public procurement landscape review

Waste management (waste prevention)

Waste management (municipal recycling)

Implementation of the NHS Finances (Wales) Act 2014 (integrated medium-term planning)

Supporting People programme

NHS Informatics

Access to public services with the support of specialist interpretation and translation

Business finance

Waste management (procurement of waste treatment infrastructure)

ONGOING REACTIVE EXAMINATIONS

The Welsh Government's initial funding of the Circuit of Wales project

Welsh Government financial support for Carmarthenshire Energy Ltd

SUMMARY REPORTS IN PROGRESS

Emergency ambulance commissioning arrangements

Good practice work

SHARED LEARNING SEMINARS DELIVERED

Future wellbeing of internal audit
Embracing complaints: opportunities to improve your organisation
The future of governance: effective decision making for current and future generations
Redesigning public services: the strategic importance of digital
Making a reality of early closure
Public services working in partnership for better health and wellbeing
Designing effective services for frequent users
Making services more accessible to people who do not speak English or Welsh

GOOD PRACTICE GUIDES DELIVERED

Checklist for local authorities on effectively engaging and working with the third sector
Leaflet for NHS board members to support their ongoing scrutiny of orthopaedic services

SHARED LEARNING WEBINARS DELIVERED

Financial management and governance in community councils
Benefits realisation
Record keeping: setting the record straight
Open data

EXTERNAL FACILITATION OF SHARED LEARNING AND COMMUNITY SUPPORT

Academi Wales summer school
Cardiff University
Centre for Public Scrutiny (Wales)
Effective Services for Vulnerable Groups programme
Future Generations Commissioner
Good Practice Wales
Nesta
NHS Wales Shared Services Partnership
Office for National Statistics
Open Data Institute
Public Health Wales
Public Services Ombudsman for Wales
Sport Wales
Wales Centre for Behaviour Change, Bangor University
Wales Council for Voluntary Action
Welsh Local Government Association

Engagement and joint working activity

JOINED-UP DELIVERY

National Fraud Initiative with other UK audit agencies

Working with Estyn to undertake follow-up inspections of Regional Education Improvement Consortia

Annual certification of the accounts of the European Agricultural Funds

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

Development of a memorandum of understanding with the Future Generations Commissioner

MEMBERSHIP OF EXTERNAL WORKING GROUPS

EURORAI

International Integrated Reporting Council's Public Sector Integrated Reporting Network

Public Audit Forum

CIPFA/LASAAC Local Authority Code Board

ICAEW Public Sector Audit Committee

CIPFA Audit and Accounting Standards and Police and Fire Panels

Inspection Wales initiative

DWP Housing Benefit and Welfare Reform UK Inspectorates liaison group

Financial Reporting Council Public Sector Advisory Group

Participation in NHS Escalation and Intervention Protocol with Welsh Government and Healthcare Inspectorate Wales

COMMISSIONED AUDIT WORK

A range of charity audits

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

Welsh Revenue Authority Implementation Programme Board

Finance Minister's Welsh Tax Forum

CSSIW Local Authority Inspection Framework Board

Local Government Data Unit Board

NHS Wales Efficiency, Healthcare Value and Improvement Group

Public Appointments Working Group

APPENDIX 2: PROGRESS MADE DURING THE YEAR TOWARDS ACHIEVING OUR THREE-YEAR PRIORITIES

Local government audit work

Three-year priorities	When	Progress	Commentary
Undertake local assessments and provide all-Wales overviews of the corporate capacity of local-government bodies to deliver transformation and change programmes	2016-2019	On track	Our 2016-17 programme of local-government performance audit included three thematic reviews which will inform all-Wales reports scheduled for delivery in spring and autumn 2017. The three reviews covered governance arrangements, financial planning and change programmes.
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	2016-2018	On track	We are in the early stages of developing and testing our approach to audit and assessment in response to the Auditor General's new duty under the Well-being of Future Generations Act. This work is likely to lead to new approaches to examining the effectiveness of governance arrangements and to a more integrated approach to audit. We will consider the implications for planning and reporting local audit work as we develop our approach.
Prepare, including through working with relevant stakeholders, for the introduction of faster closure of local-government accounts	2016-2018	On track	2015-16 accounts opinions for three unitary authorities were delivered much earlier than in previous years. Post-project learning from this work will serve to inform the planning and delivery of 2016-17 audits.
Develop and pilot an outcome-based approach to grant certification for local government accounts	2016-2019	On track	Development work on our new approach is complete and the approach was piloted at Wrexham and Neath Port Talbot Councils during the autumn of 2016. An evaluation of the pilot has now been concluded, and actions are in hand to roll-out the new approach at all councils over the next two financial years.
Provide more informative reporting on the effectiveness of governance arrangements through our modified framework for the audit of town and community councils	2016	Complete	We applied our modified framework to the audit of 2015-16 accounts, and published our first summary report on the effectiveness of governance arrangements in January 2017.

NHS audit work

Three-year priorities	When	Progress	Commentary
Undertake comparative assessments of governance arrangements in NHS bodies with a view to identifying and sharing good practice in specific areas that NHS bodies have found difficult and problematic	2016-2017	Complete	Through our 2016 Structured Assessment work at NHS bodies we undertook comparative assessments of Board Assurance Frameworks, IMTP approval/ monitoring arrangements, and Finance Report contents. The areas selected for comparative examination were chosen following engagement with the all-Wales Board Secretary group and individual NHS bodies.
Participate fully in the escalation intervention protocol to identify and respond to serious issues affecting service delivery, quality and safety of care and organisational effectiveness across NHS Wales	2016-2019	Complete	Wales Audit Office staff continue to participate fully in the escalation and intervention meetings involving ourselves, HIW and Welsh Government officials. These arrangements are now well established and part of our routine engagement with the Welsh Government and Healthcare Inspectorate Wales.
Publish an audit review of the initial operation of three-year NHS integrated delivery plans	2016-2017	On track	Fieldwork is complete on this review and the Auditor General's report will be published before the 2017 summer recess. We focused primarily on the financial benefits of integrated medium-term planning identified in the Explanatory Memorandum to the NHS Finances (Wales) Act 2014, and also took account of the wider planning issues involved in linking financial and service plans.

Central-government audit work

Three-year priorities	When	Progress	Commentary
Publish an annual overview report on the results of audit work undertaken within the central government sector	2016 and each year thereafter	Complete	We published our first annual overview report on the results of audit work undertaken within the central-government sector in early spring 2017.
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	2016-2018	On track	Work on this priority is being undertaken in conjunction with our development of the Auditor General's approach to the discharge of his responsibilities under the Well-Being of Future Generations (Wales) Act 2015.
Provide the National Assembly's Finance Committee with an audit commentary on preparedness for the introduction of fiscal powers and on progress made throughout the planning and implementation stages	2016-2019	On track	The Auditor General published his initial preparedness review in autumn 2016, and we gave oral evidence to the Finance Committee on our findings in March 2017. A further review is intended for publication in September 2017, prior to the introduction of fiscal powers in April 2018.
Evaluate and prepare for the accounting and audit implications of the implementation of Welsh fiscal powers	2016-2019	On track	We are liaising closely with Welsh Government and National Audit Office officials on all aspects of fiscal devolution to Wales, and are developing our responses to the implications of Ministerial policy decisions and associated UK/Welsh legislation as these emerge.

Audit work for consideration by the Public Accounts Committee

Three-year priorities	When	Progress	Commentary
Increase the impact of, and engagement with, our public reporting through enhancing the design of our reports and broadening our communication channels	2016-2017	Complete	We have made efforts in 2016-17 to raise awareness and provide training to staff on the importance of conveying audit findings more concisely and with greater visual impact. In particular, this has served to help ensure that our design content can be adapted for social media channels. In the last few months we have secured accreditation for the accessibility of our website, and are increasingly seeing the media placing infographics from our reports on their online channels.
Enhance our work that examines whole systems and the linkages between service providers, including in particular the interface between health and social care provision	2016-2018	On track	We have adopted a more co-ordinated approach to reviews of the delivery of housing adaptations and discharge planning by aligning the timetables for information and data requests and undertaking joint fieldwork interviews to identify issues at the interface between housing and health and ensure that we feed back consistent messages to NHS bodies, local authorities and registered social landlords. We are currently consulting on future topics that examine whole systems across service providers.
Following the 2016 Assembly elections, develop a constructive relationship with the new Public Accounts Committee and identify ways to further enhance support for their scrutiny work	2016-2018	Complete	The new Public Accounts Committee is now well established. During the course of 2016-17, the Auditor General and Wales Audit Office staff: <ul style="list-style-type: none"> • participated in the Committee's stakeholder engagement event; • delivered induction training for Committee members; • provided extensive briefing on our work programme; and • provided advice to the Committee as part of its ongoing review of its working methods, including different ways in which our staff could support the scrutiny work of the Committee.

Three-year priorities	When	Progress	Commentary
<p>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</p>	<p>2016-2017</p>	<p>Complete</p>	<p>Wales Audit Office staff contributed to the preparation of an Inspection Wales briefing for Assembly Members and their advisors on the role and remit of the four partners. The memorandum that we prepared for the Public Accounts Committee in July 2016 has been shared with the wider committee support teams, and Wales Audit Office staff have taken forward personal contact with clerks and researchers to develop relationships following the establishment of the new committee structure and as the committees determine their own work programmes.</p>

Good practice work

Three-year priorities	When	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	2016 and each year thereafter	On track	We captured pledges to action at the end of each of the shared learning events held in 2016-17. We also extended our piloting of the 'Randomised Coffee Trials' approach, through which we facilitate follow-up conversations between delegates on how they are implementing their pledges.
Develop programmes of good practice work on key challenges facing public services including governance, planning for the long term, public service transformation, making more effective use of data and information technology, and austerity	2016-17	Complete	Through our good practice work in 2016-17, we paid particular attention to raising awareness and understanding of the principles and implications of the Well-being of Future Generations (Wales) Act 2015, while ensuring other key challenges facing public services were also reflected.
Invest in developing and supporting self-sustaining 'communities of interest' amongst public bodies to build upon the momentum generated by our good practice and shared learning activity	2016 and each year thereafter	On track	Through our work on Behaviour Change Festivals, held in partnership with Bangor, Swansea and Aberystwyth Universities, we were successful in promoting the establishment of new networks, particularly involving the academic sector. We were also involved in 2016-17 in establishing new digital communities, working in partnership with the Office of National Statistics.
Provide opportunities for staff from across the organisation to share and develop skills through participation in good practice work and shared learning activities	2016 and each year thereafter	On track	During the year, staff from our financial audit, performance audit and corporate enabler teams were involved in the delivery of shared learning activities, including in relation to internal audit, faster closure of local-government accounts, digital complaints handling and behaviour change.

Engagement and joint working activity

Three-year priorities	When	Progress	Commentary
Embed arrangements for more effective management of correspondence received from the public or other interested parties about matters relevant to the Auditor General's functions	2016	Complete	We have now embedded improved arrangements for managing correspondence. In particular, we have recently enhanced our internal reporting arrangements to ensure senior management are fully sighted of progress made on live correspondence and on the timeliness of our responses. We have reported on how we performed in this area in 2016-17 in the Governance Statement .
Make use of the results of our stakeholder feedback to further 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	2016 and each year thereafter	On track	The Auditor General met with a number of individuals to explore and discuss in more detail issues raised in their responses to our stakeholder survey in early 2016-17. Our Shaping Accountability for Future Generations event held in November also generated large volumes of feedback from senior delegates across the public sector on the Well-being of Future Generations Act. This feedback is now being considered by our audit teams as we continue to work on our new audit approach over the next few months.
Further enhance our engagement with the public, their representatives and other stakeholders to gauge the impact of our work, assess our performance and measure our success	2016 and each year thereafter	On track	Following on from the success of our presence at last year's Royal Welsh Show, we exhibited again at this year's Show in July 2016. We jointly exhibited with our Inspection Wales partners to raise awareness of and increase engagement with our work. In November 2016, the Auditor General and the Board also jointly hosted a reception in Abergele for North Wales stakeholders.

Three-year priorities	When	Progress	Commentary
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	2016	Complete	The latest NFI exercise commenced in October 2016. In advance of that exercise, we wrote to 34 other bodies in receipt of public funding (sponsored bodies, registered social landlords and universities) inviting them to participate, with a positive response from eight of those bodies. The information to be used in the data matching exercise has now been expanded to include housing waiting list and Companies House data.
Further enhance the efficiency and effectiveness of audit, inspection and regulation in Wales through working closely with Inspection Wales partners to realise more efficient working practices and achieve greater impact through joint working and the sharing of intelligence and resources	2016 and each year thereafter	On track	Through the course of the year, Inspection Wales partners have collaborated in briefing new Assembly Members and in showcasing the role and work of the four organisations under an Inspection Wales banner at the Royal Welsh Show. We have also undertaken scoping work on a first national thematic review to be undertaken in collaboration with Inspection Wales partners.

Our governance and leadership

Three-year priorities	When	Progress	Commentary
Implement a programme of work to facilitate strategic transformation of audit with an initial focus on making more effective use of data and information technology	2016	On track	A strategic transformation project team was established during summer 2016. The team started work in September 2016 and provided an interim report to the Board in February 2017. The team is due to produce its final report in June 2017.
Strengthen leadership capability, through a leadership development programme and the continued use of 360° performance reviews for senior staff and supporting reviews of Board effectiveness	2016-2019	On track	Following a tender exercise, the Civil Service College was selected to work with the Wales Audit Office Senior Leadership Team on strengthening leadership capability, with the first session held in October 2016 and further sessions scheduled in 2017-18. Continued focus on simplifying decision making and articulating expected values/ behaviours for all. Towards the end of 2016, staff focus groups were used to develop a set of agreed behaviours and values.
Strengthen our workforce planning arrangements, including through more effective succession planning and more detailed modelling of future demand scenarios	2016-2019	On track	During the reporting period, we have undertaken extensive modelling of the workforce planning implications of the factors we consider will have the greatest influence over the way we deliver our work in the next three to five years. In addition, the Board approved principles which now underpin our workforce planning processes, in June 2016.
Monitor the development of our unique governance arrangements working collaboratively with other UK audit bodies, with a view to sharing knowledge, learning and experience	2016-2019	On track	The Wales Audit Office is implementing the action plan developed from an independent evaluation of its effectiveness completed in September 2016. As part of that work, the Board will be considering how it can best measure its impact on an ongoing basis. The Board is working with management to develop the story of its progress to date, sharing lessons learned, highlighting the challenges and describing future ambitions.

Three-year priorities	When	Progress	Commentary
<p>More effectively use external benchmarking and comparison, working collaboratively with other UK audit bodies, to assess our performance and measure our success, and improve our impact</p>	<p>2016-2019</p>	<p>On track</p>	<p>Throughout 2016-17 we worked with the other UK audit agencies to further develop our use of benchmarking to assess the performance of our corporate services. In addition, we awarded a contract to an external consultant to undertake an assessment of our approach to measuring and reporting on the impact of our work, and of how we might further increase our impact.</p>

Our use of resources

Three-year priorities	When	Progress	Commentary
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	2016-2019	On track	Early in the year we revisited and updated our three-year ICT plan; a summary of the revised plan was published in our Estimate for 2017-18 , which was subsequently approved by the National Assembly's Finance Committee. The approved funding will support a range of work, including extending our use of the cloud and laptop and desktop videoconferencing, and replacing our telephone and switchboard system.
Expand and enhance our existing graduate trainee programme including through establishing a collective programme under which our trainees will spend time working in the wider public sector in Wales	2016-2018	On track	Our first secondments under our new expanded arrangements commenced in late 2016-17.
Keep a tight grip on costs, seek further efficiencies and keep fees as low as possible	2016-2019	On track	A new travel scheme was implemented from 1 April 2016, which will realise savings of around £125,000 per annum following a period of transition. Our approved Fee scheme for 2017-18 incorporates a widely-supported cash-terms freeze in our fee rates. Savings from staff vacancies in 2016-17 are currently being used to fund a voluntary severance scheme which will reduce future staff costs in line with workforce planning principles.
Develop proposals for simplifying and improving the cost-effectiveness of the funding arrangements of the Wales Audit Office, for consideration by the Assembly's Finance Committee	2016-2017	On track	We undertook work in 2016-17 on quantifying the impact of the current regime, both in terms of the cost of the necessary administrative processes, and the knock-on behavioural impacts, and are now in the process of finalising our draft proposals. We will shortly be consulting with stakeholders on our proposals and will present the outcomes of that consultation to the Finance Committee.

Three-year priorities	When	Progress	Commentary
<p>Make better use of our estate to minimise cost and assist flexible audit delivery</p>	2016-2019	On track	<p>We completed the relocation of our North Wales office in June 2016. This move will lead to cost savings, alongside improved environmental performance, and more efficient use of office space. We are continuing to explore other options to make the best use of the remainder of our estate.</p>
<p>Demonstrate our corporate social responsibility through our work on:</p> <ul style="list-style-type: none"> • improving environmental stewardship; • promoting the wellbeing of our staff; • advancing equality of opportunity, eliminating discrimination, and fostering good relations; and • promoting the use of the Welsh language and meeting the new Welsh-language standards 	2016-2019	On track	<p>Commentary on the progress we have made in these areas is provided in the Performance analysis section of this report.</p>

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WALES AUDIT OFFICE

Final Audit Findings Report

Year ended 31 March 2017

Presented to the Directors
By RSM UK Audit LLP

on 6 June 2017



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This report has been prepared for the sole use of Wales Audit Office and must not be disclosed to any third party, or quoted or referred to, without our written consent. No responsibility is assumed to any other person in respect of this report.

1 INTRODUCTION AND COVERAGE

This report summarises our key findings in connection with the audit of the financial statements of Wales Audit Office in respect of the year ended 31 March 2017.

The scope of our work has already been communicated to you via our Audit Plan document dated 22 February 2017.

A summary of adjusted and unadjusted misstatements identified during the audits has been prepared and is included in Section 5.

We consider that the audit approach adopted will provide the Directors with the required confidence that a thorough and robust audit has been carried out and can confirm that, at the date of this report, we anticipate no modifications from our pro-forma audit report provided in the Audit Plan previously communicated to you.

2 AUDIT AND ACCOUNTING ISSUES IDENTIFIED AT PLANNING STAGE

Income recognition, WIP and deferred income

Key area of audit focus

The recognition of income, WIP and deferred income is considered to be a high risk due to the level of judgement applied to the stage of completion of an audit assignment and any provisions required.

Our approach

We will select a sample of projects that have commenced throughout the year and test the revenue recognised with reference to the stage of completion of the assignment in order to determine that the revenue recognition is appropriate and consequently whether the WIP and deferred income are appropriately stated.

We will review correspondence with audit managers to establish the estimated costs to complete and any required provisions at the year end, considering the impact of any time spent after the year end on these estimations.

We will also review time postings after the year end for any time posted by employees relating to work done before the year end that may not have been factored into the above calculations.

Response

In the prior year we recommended that the Office should consider actual out-turn on projects overall and factor this in when calculating stage completion for revenue recognition. This has been done by way of a cost to complete exercise involving the Resource Managers for the 2016-17 year end. This has resulted in management reducing revenue recognised for projects where costs are expected to exceed the quoted fees.

An adjustment has been calculated by management of £64k to decrease the work in progress provision on open jobs at year end in line with a cost to complete exercise that has been undertaken on a project basis.

We have reviewed costs on a sample of closed projects in the year and on average costs exceed the budgeted fees by approximately 3%.

If this was applied to the remaining open projects at year end, work in progress would be reduced by a further £141k. This amount has been included as a potential adjustment in section 5 below.

As in prior years we have estimated the potential amount of refund that would be due on open projects which are currently in a deferred income position. A potential reclassification has been included in section 5 below.

Management override of internal controls

Key area of audit focus	Systems of internal control are designed to mitigate inherent risks of error within the core control systems to an acceptable level. By nature, a management override or by-pass of controls cannot be eliminated by the implementation of controls and therefore as part of our audit we will perform additional tests of detail to address this risk.
Our approach	<p>We will test the appropriateness of a sample of journal entries recorded in the general ledger and other adjustments made in the preparation of financial statements, tracing selected entries back to source documentation.</p> <p>We will review significant accounting estimates and policies which could involve bias resulting in a material misstatement.</p> <p>We will discuss the basis and business rationale for any significant non-routine or contentious transactions which come to our attention during the course of our audit and will fully report the outcomes of our testing in our audit findings report.</p>
Response	<p>The testing was completed as planned with no significant issues identified to report to management.</p> <p>We have tested the journal entries made as part of the preparation of the financial statements, with no significant issues to note.</p> <p>We have reviewed estimates in operation within the WAO and we have not identified any areas whereby there are any indicators of bias.</p>

Reputation

Key area of audit focus	Due to public interest in the financial statements there is a desire to maintain reputation and demonstrate exemplary financial management. Accounting judgements may be influenced by the desire to demonstrate good financial management and remain within the Estimate.
Our approach	<p>Independent technical review of the accounts and key judgement areas. Review of judgemental aspects in year-end balances particularly focusing on any;</p> <ul style="list-style-type: none"> • Round sum provisions • Estimates • Recoverability of debtors • Disclosure of remuneration
Response	<p>During the course of the audit, we have not identified any areas from the Office's operations that suggests as though there are any areas whereby the reputation could appear to be damaged.</p> <p>We have reviewed judgemental areas, aside of the WIP provisioning, and not noted any areas of subjectivity; including provisions, recoverability of debtors as well as disclosure of remuneration.</p>

3 AUDIT AND ACCOUNTING ISSUES IDENTIFIED DURING THE AUDIT

HMRC death in service provision

Issue

It was noted during the fieldwork that correspondence was received from HMRC confirming that the Death in Service costs are not taxable. We have reviewed available documentation that confirms there are no further amounts required to be paid by the Office. As a result, the death in service provision has subsequently been released.

There is the potential that some amounts may be recoverable, however, as a result of the uncertainty of these amounts and timing, these cannot be recognised as a contingent asset.

Resolution

An adjusted journal has been agreed and raised within Section 5 below.

Firms income and costs matching

Issue

It was identified that there was one Firm's project that was still subject to the old billing methodology whereby only the contribution should be recognised and thus the income and costs should be offset against each other. A balance sheet reclassifying journal was raised to remove £134k between WIP and Accruals relating to this project.

Resolution

An adjusted journal has been agreed and raised within Section 5 below.

WIP recoverability

Issue

As part of our testing over the work in progress balance, we identified one small project whereby amounts owed from the Government of Anguilla had not been billed. The project had been started back in 2014. Although trivial, we had recommended that action be taken to raise the invoice and chase the amounts owing. The value of this project was £5k.

Resolution

It was resolved that the finance team would chase these amounts and to ensure that the regular process is adhered to for chasing projects not invoiced. This would safeguard against any smaller amounts not being recovered. Management agreed that there was no reason to believe that these amounts would not be paid and that there was no need for a provision to be made against these amounts.

4 REGULARITY ISSUES IDENTIFIED DURING THE AUDIT

Procurement

Issue	<p>Three issues were identified during the testing of the procurement policy on a sample basis.</p> <p>Firstly, it was noted that one contract was renewed by way of the renewal date passing, rather than the purchase being made in line with normal tendering process. For the level of purchase, two written quotations were required. The value of the contract renewed was £7k. Whilst two quotes were obtained, the renewal date notice period had passed before notice was served.</p> <p>Secondly, it was noted that for one purchase made the expected supporting documentation as required per the procurement policy was incomplete. For the size of purchase, two written quotations were required. One written quotation was obtained and evidenced, however from discussions it was confirmed that the other quotation was a verbal quote but this was not documented. As such, we could not gain evidence that the policy was being followed on this particular item. The value of this particular item was less than £1k.</p> <p>Thirdly, we noted for one purchase that three quotations were required to be obtained. The Wales Audit Office had used the "Sell-2-Wales" portal to obtain quotations however only two responses were received. Currently, the financial management handbook does not reference the Sell-2-Wales portal as a means for obtaining quotations, however we are aware that the portal does advertise the tender as widely as possible to all approved suppliers.</p>
Resolution	<p>Whilst the above are not material in terms of regularity, A process should be put in place to ensure renewals are examined on a timely basis as there is a risk that contracts could be renewed when they may no longer represent value for money and the best possible value.</p> <p>We are aware that for the above specific item, there has been a diarised review stage to prepare for the upcoming renewal date. We are aware that a process is currently in place where renewals are reviewed monthly and quotes are requested and obtained, however we understand that the review and reminders for February was undertaken in March due to staff absence.</p> <p>For verbal quotations received, there should be a follow up communication made to confirm that the amounts quoted are confirmed. These should be documented alongside any normal quotations received.</p> <p>We recommend that the financial management handbook is updated to reflect the Sell-2-Wales portal as an approved method of obtaining quotations.</p>

Contractors

Issue

The Office has taken the view to place all contractors on the payroll to mitigate any employment status questions. The Office believes that the majority of these workers would be deemed to be employees however there may be some that could be considered contractors. As a result the Office pays employers national insurance at 13.8% over and above the contractor standard rates. These additional costs are not material to our regularity opinion.

The Office has applied this methodology to ensure that they remain compliant with the relevant tax legislation should any questions arise regarding the status of these individuals as contractors, of which had previously been experienced. This is seen by the Office as an appropriate treatment .

Resolution

Whilst the above is not material, The Office should continuously review contractors to ensure that they continue to comply with legislation.

5 UNADJUSTED/ADJUSTED MISSTATEMENTS

A summary of the unadjusted/adjusted errors identified during the course of our work is set out below, analysed between errors of fact and differences in judgement.

We have not disclosed below those items that we consider to be "clearly trivial" in the context of our audit. For this purpose we consider "clearly trivial" to be any matter less than £5,000 individually and £10,000 in aggregate.

We advised management of all these misstatements and requested management to correct them.

	Profit (£'000)	Net assets (£'000)	
Adjusted misstatements	Dr/(Cr)	Dr/(Cr)	
HMRC DIS provision		79	To derecognise the HMRC provision no longer required.
Expenditure release – I&E	(79)		
Work in progress provision		64	Being management's adjustment of the WIP provision based on the cost to complete exercise.
Audit Income	(64)		
Accruals		286	To reclassify pre year end invoices included as accruals at the year end.
Trade payables		(286)	
Trade payables		(130)	To recognise a rates invoice which was received pre year end.
Prepayments		130	
Other accruals		134	Being the reclassification of ongoing firms work on old billing method.
Work in progress		(134)	
Total	(143)	143	
Unadjusted misstatements Judgemental	Dr/(Cr)	Dr/(Cr)	
Work in progress provision		(140)	Being the judgemental assessment of projects open at year end expected to exceed budget.
Audit Income	140		
Deferred income		132	Being the judgemental reclassification of refunds payable based on open projects at and historic refund rate.
Other payables		(132)	
Underlying total	140	(140)	

6 SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL

We have set out below significant deficiencies in internal control which came to our attention during the course of our audit work. This does not constitute a comprehensive statement of all deficiencies that may exist in internal controls or of all improvements which may be made and has addressed only those matters which have come to our attention as a result of the audit procedures performed. An audit is not designed to identify all matters that may be relevant to you and accordingly the audit does not ordinarily identify all such matters.

Refunds – de Minimis level

Fact and potential consequence	It was noted during our audit, that the decision to either pay or not pay a refund was being assessed taking account of a de Minimis level of £200, but that this had not been agreed with the board.
Possible action	A de Minimis level should be agreed with the Board and then the financial handbook updated to reflect this.
Management response	Agreed – the Financial Management Handbook has been updated to include the process for fee setting and the proposed de-minimis level of £200 for making refunds. This will be considered by ARAC in June 2017.
Timing of implementation and responsibility	June 2017. Nicola Evans

WIP cost to complete exercise

Fact and potential consequence	<p>It was noted during our review of the costs to complete exercise that the assumptions made in the Resource Managers assessment of open projects at year end appeared to be under resourced in some instances. Consideration for average historical performance as well as the probability of realistic small overspends of general audit practice could have been built in to the cost to complete exercise with more detail.</p> <p>It was noted that an adjustment for these elements was later made by the finance team.</p>
Possible action	The cost to complete exercise completed by the Resources Managers should factor in acknowledgement to the appropriateness of historical actual performance. We appreciate that there are few periods for comparison, being a new process, though these should remain under review.
Management response	Agreed. The cost to complete of open projects will be reviewed at least quarterly by Resource Managers in the first instance with oversight by the finance team. There has been a notable improvement in project management within budget in the last year and this is reflected in the year end cost to complete assessments.

WIP cost to complete exercise

Timing of implementation and responsibility	Immediate. Resource Managers and Finance Team.
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Firms actual outturn positions

Fact and potential consequence	<p>The costing structure, of direct plus overhead costs, is used in setting the fee rates and fee scales that are approved by the National Assembly as part of the WAO Fee Scheme, which are laid annually. The Fee Scheme is directly linked to annual Estimate which the Assembly also approves. Legislation states that The WAO charge must be in accordance with the approved Fee Scheme, but it does not require any retrospective review of it.</p>
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It was noted that, for audits undertaken by Firms, the WAO allocate overhead costs in a manner consistent with its costing model, however excluding functions that are not applicable to the Firms

Possible action	<p>We acknowledge that the current fee regime as set out in legislation causes additional complexity in relation to “the full cost of audit” for audits contracted out to the firms. We recommend that this be further considered as part of ongoing discussions about reviewing the fee regime.</p>
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Management response	<p>The contribution towards overheads received under Firms contracts is allocated across our overhead base to reflect the services available to them.</p> <p>A retrospective review of this allocation would be administratively complex – requiring significant input from internal support services and placing additional reporting requirements on the Firms. There would be a significant additional cost associated with this exercise.</p> <p>A consultation on proposals to simplify our fee regime is due to be issued in June 2017. We will reconsider the overall costing model should changes to the fee regime be progressed thereafter.</p>
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Timing of implementation and responsibility	Post-consultation. Steve O'Donoghue.
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7 SIGNIFICANT ACCOUNTING POLICIES, DISCLOSURES AND ESTIMATES

Accounting policies and estimates

Accounting disclosures

During the course of our audit, we reviewed the adequacy of the disclosures contained within the financial statements and their compliance with both relevant accounting standards and the requirements of the Companies Act 2006. The following disclosure matters were brought to your attention and subsequently reflected in the revised financial statements:

-It was noted that in the first draft of accounts, timings associated with the release of dilapidations provisions were allocated incorrectly.

-Within the Remuneration Report, the exit payment associated with a member of the Senior Leadership team had not been disclosed. This has now been reflected within the final accounts

-The disclosure of non-audit services provided by the external auditor had not been disclosed in the first draft of accounts. This has now been included as nil.

-Upon review of the FReM checklist it was noted that the first draft of the financial statements could have included more disclosure with regards to which sections of the Accountability Report are subject to opinion.

Significant difficulties identified during the audit

No significant difficulties were encountered during the course of our audit and we would like to take this opportunity thank the finance team for their assistance during the audit.

8 UNCERTAINTIES, RISKS, EXPOSURES, JUDGEMENTAL ISSUES AND GOING CONCERN

There are no further matters that we wish to bring to the attention of the committee.

9 FEES

We confirm that the fees charged during the year in respect of services performed for Wales Audit Office are consistent with those contained within our Audit Plan submitted to you and dated 22 February 2017.

10 INDEPENDENCE

In accordance with International Standard on Auditing (UK and Ireland) 260 "Communication with those charged with governance", there are no changes to the details of relationships between RSM UK Audit LLP and its related entities and Wales Audit Office and its related entities and directors that may reasonably be thought to bear on RSM UK Audit LLP's independence and the objectivity of the audit principal, Jonathan Da Costa and the audit staff and the related safeguards from those disclosed in the Audit Plan dated 22 February 2017.

APPENDIX A - DRAFT LETTER OF REPRESENTATION

RSM UK Audit LLP
Davidson House
Forbury square
Reading
RG1 3EU

Dear Sirs

Audit of Financial Statements– Year ended 31 March 2017

We confirm to the best of my knowledge and belief, and having made appropriate enquiries of other senior executives of the Wales Audit Office, the following representations given to you in connection with your audit of the financial statements for the period ended 31 March 2017.

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

Responsibility for financial statements

We acknowledge our responsibilities under the Public Audit (Wales) Act 2013 and Treasury Directions made in accordance with that Act for maintaining adequate accounting records and for preparing financial statements in accordance with the applicable accounting framework that give a true and fair view and for making accurate representations to you.

We confirm that we have taken all the steps we ought to have taken in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to the auditors. We confirm that, as far as we are aware, there is no relevant audit information of which the auditors were unaware.

Availability of information

All the accounting records have been made available to you for the purpose of your audit and all transactions undertaken by the Wales Audit Office have been properly reflected and recorded in the accounting records. All other records and related information have been made available to you, including the minutes of all committee meetings, which are a complete and authentic record of the proceedings at those meetings. I have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud

Related party transactions

We have disclosed to you the identity of the related parties and all related party relationships and transactions of which I am aware. There were no transactions with the WCF and with the audited bodies other than those in the ordinary course of business (fees) requiring disclosure in the financial statements. There were no other transactions with related parties requiring disclosure during the year.

Use of funds and regularity

- We acknowledge our responsibility, as specified by the Public Accounts Committee of the National Assembly under the Public Audit (Wales) Act 2013, for ensuring that expenditure disbursed and income received is applied for the purposes intended by Parliament and the National Assembly for Wales and that the financial transactions conform to the authorities which govern them.
- To the best of our knowledge and belief we confirm that, in all material respects, the expenditure disbursed and income received during the year ended 31 March 2017 have been applied to purposes intended by Parliament and the National Assembly for Wales and the financial transactions conform to the authorities which govern them.
- Neither the board nor the senior management team have knowingly authorised a course of action, the financial impact of which was that transactions infringe the requirements of regularity.
- All transactions undertaken by the Wales Audit Office have been properly reflected and recorded in the accounting records.
- There were no events of which we are aware which involve suspected non-compliance with the framework of authorities which govern the running of the Office.

Assets

1. General

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

2. Impairment of non-current assets

Each non-current asset is worth to the Wales Audit Office at least the amount at which it is included in the Statement of Financial Position, either through continued use by the Wales Audit Office or through the opportunity for sale on the open market.

Liabilities

1. General

All known liabilities of the Wales Audit Office at 31 March 2017 have been included in the balance sheet. All secured liabilities are disclosed.

2. Contingent liabilities

There were no contingent liabilities at the balance sheet date. All guarantees or warranties or other financial commitments have been fully disclosed in the financial statements. There were no known actual or possible litigation and claims whose effect should be considered when preparing the financial statements.

We confirm we have disclosed to you all banking and financing arrangements including related contracts and hedging products. We confirm that no tax avoidance schemes were used by the Wales Audit Office.

Accounting estimates

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

We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Commitments

All commitments of the Wales Audit Office of a material amount, whether of a capital or revenue nature, have either been provided for or noted in the financial statements as appropriate. An adequate provision has been made for any losses, which may be expected to result there from, or from events which had occurred before 31 March 2017.

Remuneration report

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

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

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

No member of the Management committee or their connected persons had any indebtedness (or agreement concerning indebtedness) to the Wales Audit Office at 31 March 2017 or at any time during the year.

Governance Statement

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

Fraud and regulation

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

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

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

Events subsequent to the date of the Statement on Financial Position

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

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

Yours faithfully

Signed on behalf of the board of Wales Audit Office

AGW

Chair of the Board

APPENDIX B - UPDATED FINANCIAL REPORTING DEVELOPMENTS

Off-payroll engagements update

HMRC has recently published draft legislation following the 2016 Autumn Statement, which provides clarification on a number of areas.

The new rules relating to off-payroll engagements of workers supplied via an intermediary are still on-track for implementation in April 2017. For the purposes of these rules, the intermediary can be a limited company (personal service company), but can also be a partnership (where the worker has at least a 60 per cent share) or even another individual. All public sector bodies that engage workers supplied through an intermediary will need to consider all necessary employment status factors (control, substitution, mutuality, etc) in order to determine whether a 'deemed employment' exists.

Where the new rules apply, the engager must operate PAYE to pay over to HMRC the income tax national insurance contributions (NICs) (and apprenticeship levy) on the payments made, as the fee paid to the intermediary is treated as a payment of the worker's employment income. It is important to note that other employment rights will not apply, such as stakeholder pensions, statutory payments, etc.

Where a public authority engages a worker, who provides his personal services via an intermediary, the authority must inform the worker of the decision as to whether PAYE deductions will be made or not. It is therefore vital that thorough procedures are introduced to identify all such workers who may be caught by these new rules. We are currently working with a number of clients specifically in these areas. It is important to remember that failure to correctly analyse and process such payments from April 2017 may give rise to penalties based on the deductions that should have been made.

The online HMRC digital tool for public sector organisations to use should be available ahead of 6 April 2017. HMRC is currently in private testing with invited stakeholders and anticipates public testing will start in February.

Apprenticeship levy

HMRC has published draft legislation for the apprenticeship levy. Further guidance on certain aspects of the levy has also been published.

As an employer, you'll have to pay the apprenticeship levy each month from 6 April 2017 if you:

have an annual pay bill of more than £3m (based on pay subject to NICs); or

are connected to other employers (companies or charities) for employment allowance purposes, where the total annual pay bill of the connected employers is more than £3m.

Employers that are not connected to other employers will have an apprenticeship levy allowance of £15,000 each year. Employers that are connected to other employers can decide how to split the allowance between the connected organisations, but this allocation must be applied the first time that the levy is paid in a tax year and cannot then be changed during the year.

You'll still need to pay apprenticeship levy even if you already contribute to an industry-wide training levy arrangement, for example the Construction Industry Training Board (CITB) levy.

The technical consultation on the draft apprenticeship levy regulations continues and anyone wishing to respond to HMRC must do so by 3 February.

The Department of Education has produced guidance on how employers in England can access the funds in their digital accounts and the Scottish Government has also published a report setting out how it intends to use the funds generated for it by the UK-wide levy.

Salary sacrifice arrangements from April 2017

The Government will legislate in Finance Bill 2017 to remove the income tax and NICs advantages of benefits provided through salary sacrifice arrangements. The legislation will apply from 6 April 2017. The draft legislation is now in a period of consultation, which runs until 1 February 2017 and the final details will be confirmed in the Spring Budget 2017.

Therefore, with effect from April 2017, certain benefits provided through salary sacrifice will be chargeable to income tax and class 1A employer NICs on the higher of the value of the benefit provided or the amount of salary foregone. The benefits that will not be affected by the changes are pensions, cycle to work, ultra-low emission (ULEVs) cars, employer-supported childcare (childcare vouchers, directly-contracted childcare and workplace nurseries) and intangible benefits such as annual leave purchase.

Salary sacrifice arrangements in existence before April 2017 that remain in place and are not 'renewed' will be protected until April 2018, with an extended protection period until April 2021 for cars, accommodation and school fees. However, the protections are subject to certain conditions.

It is therefore essential that employers consider the implications and plan accordingly for the changes to ensure existing and new benefits provided through salary sacrifice arrangements are dealt with correctly.

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Annual Plan 2017-18

Including additional information on our
three-year strategy and priorities



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



This Annual Plan for 2017-18 builds on the feedback we received from a wide range of stakeholders to the recent [Consultation on our draft three-year strategy for 2017-2020](#).

Alongside a number of key revisions to our work programmes, we have provided a description of the factors that we and our stakeholders believe will have greatest influence over the way we deliver our work over the next three years, and have redefined the strategic themes that underpin how we will respond to that environment and achieve our aim and objectives.

One of our key priorities will be developing an approach to effectively deliver the Auditor General's duties under the Well-being of Future Generations (Wales) Act 2015. Another will be adapting our model for the deployment of audit resources in preparation for the introduction of faster closure of local government accounts.

In times of ongoing austerity, we will continue to take steps to support strong public sector financial management, and will be developing proposals for simplifying and improving the cost-effectiveness of our own funding arrangements.

We have also placed particular emphasis in the Plan on the importance of the work we do in supporting effective scrutiny and accountability, both in terms of the work of Assembly committees and the audit and scrutiny committees of public bodies, and when responding to issues of public concern raised through correspondence.

When developing the Plan, our focus has been firmly fixed on ensuring that the Auditor General's work delivers even greater impact, and the Board remains ambitious in its determination that the Wales Audit Office be a well-run and respected organisation that is a great place to work.

Huw Vaughan Thomas
Auditor General for Wales

Isobel Garner
Chair, on behalf of the Wales Audit Office

This Annual Plan of the Auditor General for Wales and the Wales Audit Office for the year ending 31 March 2018, which includes additional information on our three-year strategy and priorities, has been jointly prepared by the Auditor General for Wales and the Wales Audit Office under section 25(1) of the Public Audit (Wales) Act 2013.

It is laid before the National Assembly for Wales by the Auditor General for Wales and the Chair of the Wales Audit Office under section 26 of the Public Audit (Wales) Act 2013.

We have consulted with a broad range of stakeholders in the preparation of this document, including the people of Wales and their representatives, Welsh public bodies and their representatives, and the staff of the Wales Audit Office.

The National Assembly has made provision through Standing Order 18.11(i) for its Finance Committee to be responsible for considering and reporting to the Assembly on the Annual Plan.

If you require this publication in an alternative format and/or language, or have any questions about its content, please contact us using the details below. We welcome correspondence in Welsh and English and we will respond in the language you have used. Corresponding in Welsh will not lead to a delay.

Wales Audit Office
24 Cathedral Road
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CF11 9LJ

Telephone 02920 320 500

Email info@audit.wales

This document is also available in Welsh

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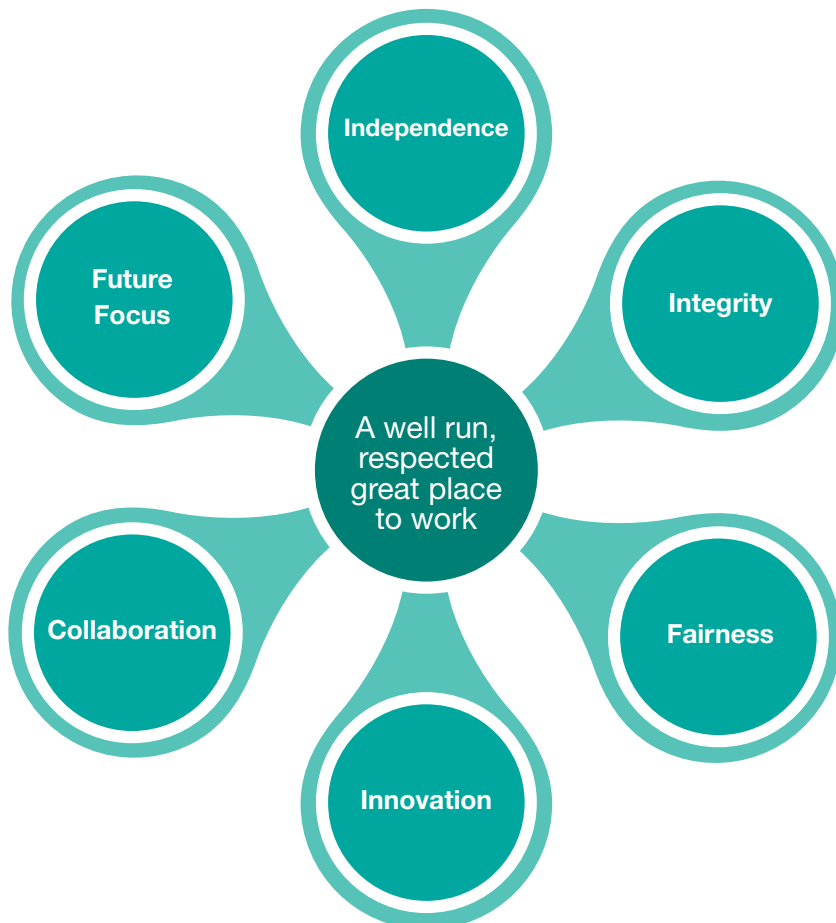
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Who we are and how we operate

- 1 The Auditor General for Wales is the statutory external auditor of most of the Welsh public sector.
- 2 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.
- 3 The Wales Audit Office 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 currently employs around 250 staff.
- 4 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.

Our values



What we do

Public sector audit involves:

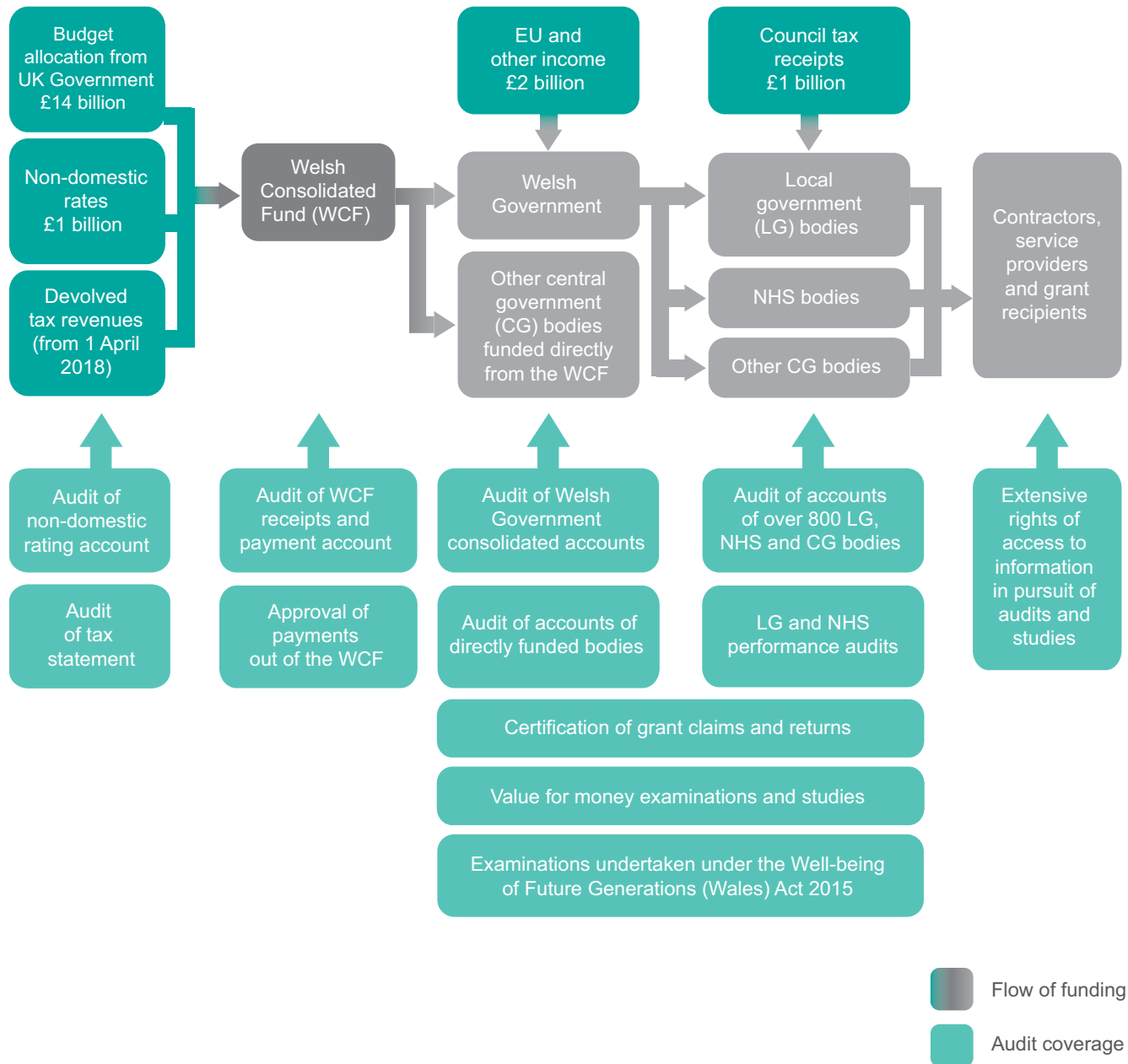
- **Providing an opinion on the accounts**
- **Considering whether public money is being used for approved purposes (regularity)**
- **Considering how public business is being conducted (propriety)**
- **Examining whether proper arrangements are in place to secure value for money**

- 5 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.
- 6 The Auditor General's functions apply across different types of bodies, to examine public spending irrespective of who delivers the services.
- 7 We undertake our work in accordance with the Auditor General's **Code of Audit Practice**. The Code prescribes the way in which the Auditor General's audit and certain other functions are to be carried out, and embodies what appears to the Auditor General to be best professional practice.
- 8 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.

The aspects of value for money – economy, efficiency and effectiveness



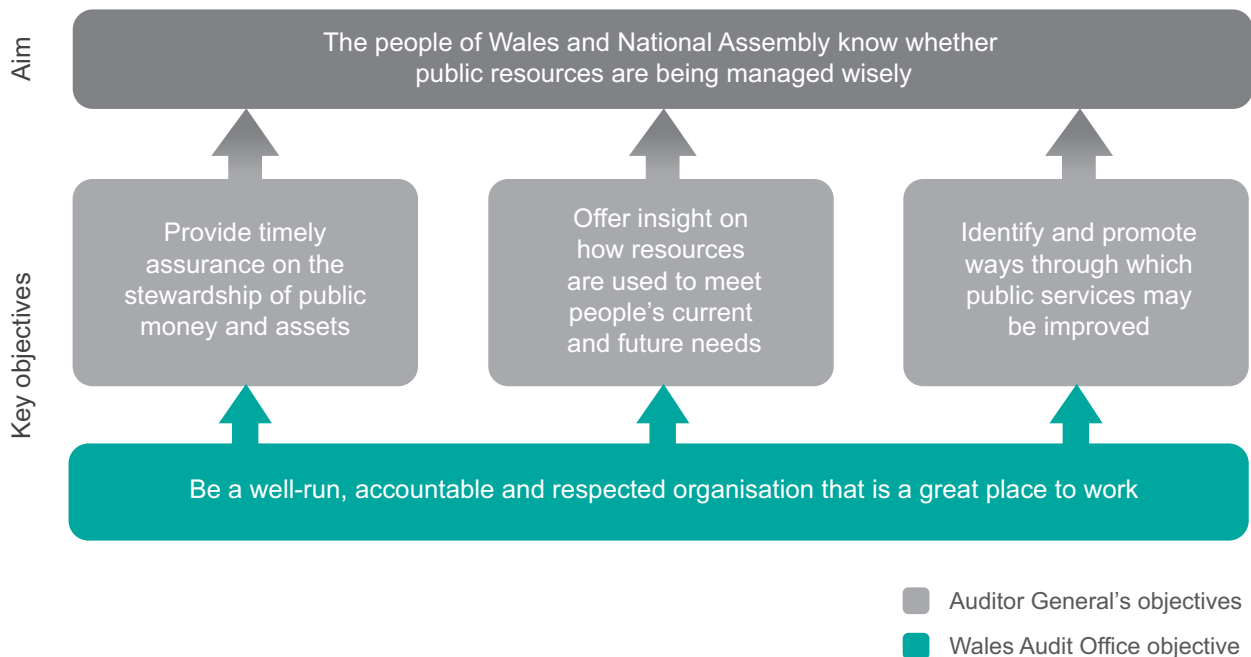
How we follow the public pound in Wales



Our aim and objectives

- 9 Our aim is that the people of Wales and National Assembly know whether public resources are being managed wisely. It is expressed as an outcome to which we are a key contributor due to our wholly independent status, professional expertise and extensive rights of access to information through the Auditor General’s statutory audit powers and functions.
- 10 Our first three objectives focus on effectively achieving what we consider to be the threefold purpose of audit – providing assurance, offering insight and promoting improvement.
- 11 Our fourth objective underpins the first three; in order for the Auditor General to deliver a high-quality audit service, the Wales Audit Office must be an accountable, well-run and respected organisation that delivers value for money and provides a stimulating and rewarding environment in which to work.

Making public money count



Our operating environment

- 12 Taking account of responses to the **Consultation on our draft strategy for 2017-2020**, we consider the following factors to be those that will have greatest influence over the way we deliver our work and achieve our aim and objectives over the next three years.

We remain in a period of financial constraint

- 13 Those charged with delivering public services continue to face real-terms reductions in annual budgets, while seeking to meet rising public expectations and changing demographic demands, and maintain and improve service provision.
- 14 As outlined in our report **A Picture of Public Services 2015**, the financial pressures that public services have faced since 2010-11 are likely to continue over the medium term. Almost all respondents to a survey of public sector leaders carried out as part of that study cited financial pressures as one of their three biggest challenges in the future.
- 15 Public services will need to make radical changes to the way they provide services and engage with service users if they are to build effectively on the increasingly collaborative approach being adopted in Wales. With many public service leaders expecting to make deeper cuts to services, a more holistic and long-term approach is needed to mitigate impacts on the public.

The political and policy landscape continues to evolve

- 16 A broad range of policy and political factors are likely to influence how we deliver and resource our work over the next few years. These include:

Implications of the EU referendum result

While it is difficult at this stage to fully assess the effect that 'Brexit' will have on the Welsh public finances and our work, we can be fairly sure that there will be a cessation of the current EU agricultural funding and associated audit work.

Changes to the devolution landscape

The Wales Act 2017 changes the form of devolution from a conferred to a reserved powers model, with potential for new public bodies to be created.

Fiscal devolution

Some tax raising and borrowing powers will be transferred from Westminster to Wales by 2018, and the Auditor General will be required to undertake appropriate new audit work.

Establishment of Public Services Boards and proposals for regional working in local government

Alongside the statutory Public Services Boards recently established under the Well-being of Future Generations (Wales) Act 2015, an enhanced level of regional planning has been proposed for local government services in Wales, with associated reforms to funding mechanisms and an increase in the complexity of governance models.

Requirement for earlier closure of local government accounts

The Welsh Ministers intend to bring forward the deadlines for preparing, auditing and publishing the accounts of local government bodies in Wales by 2020-21.

Amendments to grant funding and certification arrangements

Following a recent review of the process for auditing grants made to local authorities in Wales, the Welsh Government and the Auditor General have committed to refocus the audit rationale through placing greater emphasis on the outcomes achieved.

Changes to employment law and policy

Key scheduled developments include the introduction of an apprenticeship levy, gender pay gap reporting regulations, increases to the National Living and Minimum Wages, and new European data protection standards.

Governance arrangements are now required to have a wider scope

- 17 The National Assembly has placed further legal requirements on the public sector in Wales to strengthen governance arrangements in accordance with a defined sustainable development principle. Each public body listed in the Well-being of Future Generations (Wales) Act 2015 must work to improve the economic, social, environmental and cultural well-being of Wales. To do this they must set and publish well-being objectives that are designed to maximise their contribution to achieving each of the well-being goals, and then take action to make sure they meet those objectives.
- 18 The well-being duties on the 44 listed public bodies, including the Welsh Government, commenced on 1 April 2016. The first well-being objectives of those bodies must be set and published by 1 April 2017. Listed bodies are then required to report annually on progress made towards meeting their objectives.
- 19 Under Section 15 of the Act, the Auditor General must examine the extent to which the listed public bodies have acted in accordance with the Act's sustainable development principle when setting well-being objectives, and when taking steps to meet those objectives.

We live in an increasingly networked society

- 20 Over recent years, advances in information technology have led to increased digitisation of service delivery, increased public access to data, and new opportunities and ways to interact through social media and other forms of digital communication.
- 21 Digital transformation and inclusion form a central part of the Welsh Government's plans to make public services more accessible and meaningful to their users, and to achieve better outcomes.
- 22 An increasingly networked society does not just have implications for the public bodies that we audit. It also impacts quite profoundly on audit agencies and other external review bodies. We too need to stay abreast of technological developments and the associated opportunities and risks they present, and take advantage of new ways to gather intelligence, report on findings and maximise awareness of and engagement with our work.

Our strategy

23 In response to our operating environment, our Plan for delivering our programmes of work during 2017-18 and for the three year period 2017 to 2020 is underpinned by five high-level strategic themes.

Report authoritatively on whether public bodies are acting in accordance with the sustainable development principle



Increasingly, our consideration of financial resources, and the way in which public bodies are held to account for their use, will be integrated with a consideration of their stewardship of human and natural resources.

Support strong public sector financial management at a time of austerity



We will place increasing emphasis on the importance of strengthening financial management across the Welsh public sector and improving the effectiveness and efficiency of the use of public resources and assets.

Make more effective use of data and embrace cutting edge technology



We will challenge our existing use of data and technology, through questioning what we normally take for granted and developing solutions for how we might use new technology to transform our audit and communication processes.

Streamline our business processes and strengthen our governance arrangements



Cost efficiency will be a key area of focus, alongside undertaking further work on applying the sustainable development principle to the way we run our business, and on optimising our workforce, ICT, procurement and contracting strategies.

Review and adapt our audit approach



We will review and adapt our audit approach to ensure we can respond effectively to future changes in the public service environment, including through placing greater emphasis on applying an outcomes-focused perspective.

Our three-year priorities

24 To help ensure we achieve our overall aim and objectives, the Auditor General and Wales Audit Office Board have identified ten priority areas of improvement that we intend to focus on over the next three years alongside, or as part of, the Auditor General's programme of statutory audit work.

Priorities	
1	Develop an approach, through working in collaboration with key stakeholders, to deliver the Auditor General's duties under the Well-being of Future Generations (Wales) Act 2015.
2	Focus on work that examines regional and other partnership working arrangements, including the interface between health and social care provision.
3	Strengthen engagement with our work among Assembly committees, and identify ways to further enhance our work on supporting effective scrutiny and accountability.
4	Enhance the collective impact of external audit, inspection and review in Wales through working more closely with Inspection Wales and other partners and by making better shared use of intelligence and resources.
5	Facilitate strategic transformation of audit, through improving our use of data and technology, and our methods of communication.
6	Revise our model for the deployment of audit resources in preparation for upcoming changes to our operating environment, including in particular the introduction of faster closure of local government accounts.
7	Refresh our people strategy and stimulate culture change within the Wales Audit Office by embedding a new framework of agreed values and behaviours.
8	Formulate and apply action plans aimed at narrowing our overall gender, age and ethnicity pay gaps and ensuring our compliance with the new Welsh language standards.
9	Develop proposals for simplifying and improving the cost-effectiveness of the funding arrangements for the Wales Audit Office, for consideration by the National Assembly.
10	Increase our engagement with stakeholders and our use of external benchmarking to help enhance the impact of our work.

Our planned programmes of work

25 Our planned programmes of work for 2017-18 can be divided into six sections, which are aligned with our objectives as illustrated below, and are underpinned by our five high-level strategic themes.



26 The first four sections of the Plan relate to the Auditor General's work programme. The Auditor General's priorities for 2017-18 in exercising his functions are outlined in the following appendices:

Appendix 1 - Audit projects

Appendix 2 - Supporting effective scrutiny and accountability

Appendix 3 - Good practice work

Appendix 4 - Engagement and joint working activity

27 The remaining two sections of the Plan relate to the Wales Audit Office Board's work programme. The Board's priorities for 2017-18 in exercising its functions are outlined in the following appendices:

Appendix 5 – Our governance and leadership

Appendix 6 – Our use of resources

28 The resources available, and which may become available to the Wales Audit Office, as per the approved **Estimate of Income and Expenses for the Year Ended 31 March 2018**, are to be used in delivering these work programmes.

Measuring and reporting on our performance

- 29 In 2017-18 and over the next three years, we will use a combination of quantitative and qualitative methods to measure, report and reflect on our performance and risks. This will include regular reporting to our Management Committee and Board on progress being made in delivering our priorities and achieving our key performance indicator targets. It will also include internal audit reports to our Management Committee and Audit and Risk Assurance Committee. We will place particular emphasis on evaluating our direction of travel and pace of improvement, alongside comparison with appropriate benchmarking.
- 30 We will report on our performance externally through our **Annual Report and Accounts** and **Interim Report(s)**, and by providing evidence at meetings of the National Assembly's Finance Committee.
- 31 Our framework of key performance indicators is centred on the following themes and questions about our activities. Our suite of targets has been developed with reference to current levels of performance, appropriate external benchmarks and our own improvement aspirations. The targets will be subject to further scrutiny and refinement during 2017-18 to ensure they are suitably challenging but achievable within the specified timescales. Over the course of the year, we will also be giving further consideration to the way we gauge the impact of our work.

Impact

To what extent is our work informing the people of Wales and National Assembly, 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?

Appendix 7 - Key performance indicators and targets

Appendix 1 - Audit projects

Audit work to be 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. The programme includes audits of accounts, certification of grant claims and returns, improvement audits and assessments, local government studies and well-being of future generations audit work.

Audit 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
- Audits of over 740 town and community councils on a limited assurance basis

Local government studies

- Strategic commissioning of learning disability services by local authorities
- Improving well-being through housing adaptations
- How local government manages demand (homelessness services)

Improvement audits and assessments

- 22 unitary authorities (including themed reviews of scrutiny and service user perspective)
- 3 fire and rescue authorities
- 3 national park authorities

Well-being of future generations audit work

- 22 unitary authorities
- 3 fire and rescue authorities
- 3 national park authorities

Certification of grant claims and returns

- Up to 20 schemes worth approaching £3 billion and involving around 300 individual claims
- Outcomes-focused reports

Audit work to be 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. 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, and on whether listed bodies are acting in accordance with the sustainable development principle.

Audit of accounts

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

Structured assessments

7 local health boards
3 NHS trusts
All Wales comparison of aspects of governance

Local performance audit work

7 local health boards
3 NHS trusts

Health studies

GP Out-of-Hours services
Discharge planning
Primary care services

Well-being of future generations audit work

7 local health boards
Velindre NHS Trust
Public Health Wales NHS Trust

Audit work to be 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.

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 and, for listed bodies, undertakes well-being of future generations audit work.

Performance audit work conducted within this sector currently sits within his programme of value for money studies.

Welsh Government accounts

- Welsh Government consolidated accounts
- Non-domestic rating account
- Welsh Consolidated Fund 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
- Social Care 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
- Qualifications 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
- Education Workforce Council
- Future Generations Commissioner

Welsh Government companies

- Hybu Cig Cymru
- Careers Choice
- Life Sciences Hub
- Sector Development Wales

Well-being of future generations audit work

- Welsh Ministers
- Natural Resources Wales
- Higher Education Funding Council for Wales
- Arts Council of Wales
- Sports Council for Wales
- National Library of Wales
- National Museums and Galleries of Wales

Audit work to be 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 much of this programme support the work of the National Assembly's Public Accounts Committee and potentially other Assembly committees.

Some, but not all, of the work listed below is already in progress and is due to be reported on in 2017-18. The programme of work retains a degree of flexibility to respond to changing circumstances, priorities and risks, and we are currently engaging with the Public Accounts Committee on priorities for future work with a view to commencing a number of further value for money studies in the second half of 2017-18. There may also be additional outputs in 2017-18 arising from examinations undertaken in response to issues of public concern or from local programmes of audit work where there are issues or learning of wider relevance.

Value for money studies

- 21st century schools and education programme
- Public procurement landscape review
- Waste management (waste prevention)
- Waste management (municipal recycling)
- Implementation of the NHS Finances (Wales) Act 2014 (integrated medium term planning)
- Supporting People programme
- NHS Wales Informatics Services (NWIS)
- Access to public services with the support of specialist interpretation and translation
- Business finance
- Youth services
- Primary care services
- Waste management (procurement of waste treatment infrastructure)
- Preparations for the implementation of fiscal devolution in Wales (follow-on report for consideration by the Finance Committee)

Summary reports

- Radiology (linked as appropriate to NWIS reporting)
- Emergency ambulance commissioning arrangements

Reactive examinations

- Circuit of Wales
- Welsh Government financial support for Carmarthenshire Energy Ltd

Appendix 2 - Supporting effective scrutiny and accountability

Supporting the work of the Public Accounts Committee and other Assembly Committees

Our work plays a key role in supporting the work of the Public Accounts Committee in its consideration of matters relating to the use of resources in the discharge of public functions in Wales. Our work can also, where applicable, inform the work of other National Assembly committees whose wider remit includes scrutinising the expenditure and policies of the Welsh Government, holding Ministers to account, and examining proposed legislation.

In 2017-18, we will continue to provide regular briefings to the Public Accounts Committee on the content of the Auditor General's published reports, which will help the Committee determine its subsequent course of action. We will also provide further advice and support to the Committee as required, particularly in relation to:

- a the development of members' briefings for evidence sessions with witnesses from the Welsh Government and other organisations;
- b the development of the Committee's reports; and
- c providing advice on the adequacy of the Welsh Government's formal responses to recommendations in the Committee's reports.

Supporting the work of the audit and scrutiny committees of public bodies

Throughout the year, we will attend most meetings of the audit committees of the principal bodies that we audit to provide regular briefings and report on our audit work.

We will also provide further advice and support to audit and scrutiny committees, where applicable, particularly in relation to:

- a providing support and guidance to committee chairs to support them in being more effective in their role; and
- b providing good practice seminar opportunities and awareness raising sessions for committee members on particularly relevant issues.

Supporting the public and their local elected representatives

We regularly receive **correspondence** from the public, their local and national elected representatives and others that raises potential concerns about the stewardship of public money and assets. The Auditor General is also a 'prescribed person' for raising **whistleblowing** concerns about the proper conduct of public business and fraud, value for money, and corruption in relation to the provision of public services.

In 2017-18, we will continue to ensure that we:

- a respond to public concern promptly, and in a fair, objective and professional manner;
- b appreciate the importance of the issues to those who have taken the time to highlight them;
- c issue audit reports where we consider these are merited; and
- d make sure that we do not use public money looking at issues that are not relevant to our audit work, or spend too much time on minor issues.

Appendix 3 - Good practice work

Our approach to knowledge exchange has been developed and applied with increasing success over recent 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 between service providers and users 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 Good Practice Exchange programme of seminars and webinars is flexible and further topics will be added during the course of the year. More information on our [Programme of good practice work](#), including our case studies library, can be accessed on our website.

Shared learning seminars

- Well managed risks
- Improving digital leadership and ownership
- Involving the citizen using social media
- Early closure of local government accounts
- Alternative delivery models
- Public Service Boards - the role of scrutiny
- Hospital discharge planning
- Embedding a Well-being of Future Generations culture

Shared learning webinars

- Arms length governance
- Open standards
- Measuring outcomes: who's doing it and how
- Workforce planning
- Getting better outcomes from public service procurement

Good practice guides

- Early closure of local government accounts

External facilitation of shared learning and community support

- Academi Wales summer school
- Community Housing Cymru
- Future Generations Commissioner
- Good Practice Wales
- Institute of Chartered Accountants in England and Wales
- NHS Wales Finance Directors Network
- Older People's Commissioner for Wales
- One Voice Wales
- Public Health Wales
- Wales Centre for Behaviour Change, Bangor University
- Welsh Language Commissioner
- Welsh NHS Confederation
- Working With Not To co-production practitioner groups

Appendix 4 - Engagement and joint working activity

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, 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 are also proud to represent Wales on occasion 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, both in the UK and overseas. 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.

Joined up delivery

National Fraud Initiative with other UK audit agencies
Working with Estyn to undertake follow-up inspections of Regional Education Improvement Consortia and support their delivery of improvement conferences
Annual certification of the accounts of the European Agricultural Funds
Follow-up joint review with Healthcare Inspectorate Wales of governance arrangements at Betsi Cadwaladr University Health Board
Development of a memorandum of understanding with the Future Generations Commissioner

Participation with observer status on external working groups

These include:
Partnership Council for Wales
Welsh Revenue Authority Implementation Programme Board
Finance Minister's Welsh Tax Forum
CSSIW Local Authority Inspection Framework Board
Local Government Data Unit Board
NHS Wales Efficiency, Healthcare Value and Improvement Group
Public Appointments Working Group

Membership of external working groups

These include:
EURORAI
International Integrated Reporting Council's Public Sector Integrated Reporting Network
Public Audit Forum
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
Financial Reporting Council Public Sector Advisory Group
Participation in NHS Escalation and Intervention Protocol with Welsh Government and Healthcare Inspectorate Wales

Commissioned audit work

A range of charity audits
Chief Auditor to and audit of the accounts of the Government of Anguilla
Waste management and trade refuse benchmarking groups

Appendix 5 - Our governance and leadership

As prescribed by the Public Audit (Wales) Act 2013, we are in the position of having not only non-executive and executive members of the Wales Audit Office Board, but also two employee-elected members who provide an extra dimension of insight and experience.

The Wales Audit Office Board



David Corner
Non-executive Member



Amanda Hughes
Elected Employee Member



Kevin Thomas
Appointed Employee Member



Steve Burnett
Non-executive Member and Senior Independent Director



Isobel Garner
Non-executive Chair



Huw Vaughan Thomas
Auditor General for Wales and Chief Executive



Lindsay Foyster
Non-executive Member



Peter Price
Non-executive Member



Louise Fleet
Elected Employee Member

The Board is responsible for:

- Monitoring the exercise of the Auditor General's functions
- Providing the Auditor General with advice
- 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 and estimate of income and expenses

The Wales Audit Office also has a Management Committee 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.

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



Jane Holownia

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
and HR

The key aspects of the Wales Audit Office's programme of work for 2017-18 are to:

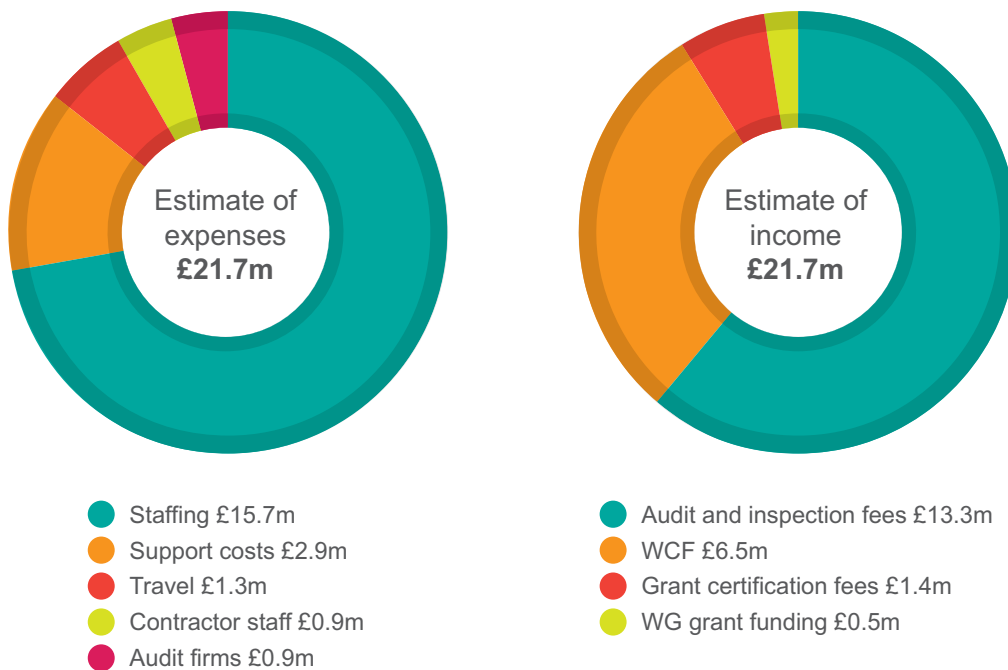
- a provide the Auditor General with the resources needed for delivering the Auditor General's 2017-18 programme of work;
- b make sure that the Wales Audit Office is a well-run, accountable and respected organisation that is a great place to work;
- c ensure that our governance arrangements continue to be embedded within the organisation, and that we respond effectively to the findings and recommendations of an external review of Board effectiveness; and
- d monitor the delivery of this Plan.

Appendix 6 - Our use of resources

The National Assembly’s Finance Committee scrutinises our use of resources, including through consideration of this Plan, our Estimate, **Fee Scheme**, **Interim Report(s)** and **Annual Report and Accounts**.

Approximately two thirds of Wales Audit Office funding comes from fees charged to audited bodies in accordance with a scheme of fees approved by the National Assembly. Most of the remainder comprises approved financing from the Welsh Consolidated Fund, our use of which is subject to scrutiny from the Board at regular intervals during the year.

The key priorities for our use of resources in 2017-18 are laid out in our most recent **Estimate**, which was considered and approved by the National Assembly’s Finance Committee in November 2016. £15.6 million of planned expenditure relates to resources to be made available to the Auditor General to carry out his work programme¹. A further £6.1 million provides a range of corporate enabling services, including accommodation and other support services, such as legal advice, ICT and HR².



As outlined in our recent Estimate and Interim Report, we are in the process of developing proposals for simplifying and improving the cost effectiveness of the funding arrangements of the Wales Audit Office. We will shortly be consulting with stakeholders on our draft proposals and will present the outcomes of that consultation to the Finance Committee.

¹ This is the maximum amount of the resources available, and which may become available, that it is anticipated will be allocated by the Wales Audit Office to the Auditor General for the purpose of undertaking his work programme.

² This is deemed as the resources required to support the Wales Audit Office’s work programme.

Appendix 7 - Key performance indicators and targets

Impact

No.	Indicator	Description	Target
I1	Accepted recommendations	Proportion of recommendations or proposals for improvement that are fully accepted for implementation by audited bodies	90 per cent
I2	Savings identified	Value of potential savings identified through our work	At least £8 million in 2017-18 and £24 million during 2017-2020
I3	Credibility	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
I4	Insight	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
I5	Improvement	Proportion of stakeholders who believe our work has led to improvements in the provision of public services	At least 80 per cent

Delivery

No.	Indicator	Description	Target
D1	On time	Proportion of key ³ audit products delivered on time	95 per cent
D2	National reports	Number of national reports published	14 per annum
D3	Good practice	Number of good practice products delivered, including seminars and webinars	20 per annum
D4	Quality	Proportion of audits that are delivered in accordance with required quality standards	100 per cent of annual sample
D5	Approval of payments	Proportion of requests to draw from the Welsh Consolidated Fund that are processed within 24 hours of receipt of required information	100 per cent

³ For financial audit our key audit products are opinions on the accounts of all principal public authorities. For performance audit, our key products exclude only a small number of local audit reports that are not part of wider thematic reviews

Leadership

No.	Indicator	Description	Target
L1	Confidence	Proportion of stakeholders that said they have confidence in our work	At least 90 per cent
L2	Engagement	Proportion of staff that feel they have a clear understanding of the organisation's purpose	At least 85 per cent
L3	Trust and motivation	Proportion of staff that feel trusted to carry out their job effectively	At least 85 per cent
L4	Continuous improvement	Proportion of staff that feel that the people in their team are encouraged to come up with new and better ways of doing things	At least 80 per cent by 2019-20
L5	Performance management	Proportion of staff that agree their performance is evaluated fairly	At least 95 per cent

Financial

No.	Indicator	Description	Target
F1	Financial Balance	Level of surplus at year end	Within two per cent of budget
F2	Supplier payments	Proportion of suppliers paid within 10 working days of receipt of invoice	At least 85 per cent
F3	Debt recovery	Value of aged debts aged over 60 days	Less than £300,000
F4	Cost savings and efficiencies	Value of cost savings and efficiencies identified throughout the business	£1 million in 2017-18
F5	Efficiency of estate	Costs including for rent and rates per whole-time equivalent	Less than £3,300 in 2017-18

Social

No.	Indicator	Description	Target
S1	Sickness absence	Average working days lost per member of staff per annum	Less than 6.5 days
S2	Learning and development	Proportion of staff that feel they are able to access the right learning and development opportunities when they need to	At least 80 per cent
S3	Fair treatment	Proportion of staff that feel they are treated fairly at work	At least 80 per cent by 2019-20
S4	Work-life balance	Proportion of staff that feel they are able to achieve a good balance between their work life and their private life	At least 80 per cent by 2019-20
S5	Welsh language provision	Number of complaints received regarding our Welsh language provision	Nil

Environmental

No.	Indicator	Description	Target
E1	Environmental management	Level of Groundwork Wales Green Dragon Environmental Standard accreditation	Level 5 (highest level)
E2	Greenhouse gas emissions	Total CO ₂ 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 500 tonnes in 2017-18
E3	Waste	Total waste produced	Less than 33 tonnes in 2017-18
E4	Reused, recycled or composted	Proportion of our total waste produced that is reused, recycled or composted	70 per cent in 2017-18
E5	Paper	Paper consumption	Less than 2,200 reams in 2017-18

Communication

No.	Indicator	Description	Target
C1	Website	Number of page views	210,000 per annum
C2	Press coverage	Proportion of media articles published about our work that have positive or neutral sentiment	At least 90 per cent
C3	Social media	Klout score – a measure of our social media influence by analysing our Twitter account activity	Score of at least 53 out of 100 in 2017-18
C4	Shared learning seminars	Number of attendees at our shared learning seminars	1,000 per annum
C5	Correspondence handling	Number of instances where a full or interim response to concerns about public spending raised through correspondence is not issued within 30 working days of receipt	Nil

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Interim Report

An assessment of progress made against
our 2017-18 Annual Plan during the period
1 April to 30 September 2017



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

This Interim Report covers the period from 1 April to 30 September 2017 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 2017-18 under section 25 of the Public Audit (Wales) Act 2013;
- progress has been made toward achieving the priorities set out in the Plan; and
- progress has been made towards achieving our key performance indicator targets.

If you require this publication in an alternative format and/or language, or have any questions about its content, please contact us using the details below. We welcome correspondence in Welsh and English and we will respond in the language you have used. Corresponding in Welsh will not lead to a delay.

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This document is also available in Welsh.

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Foreword

This Interim Report describes the progress we have made to date towards delivering our **Annual Plan for 2017-18**.

Over the last six months, there has been no need to deviate significantly from the work programmes laid out in our Plan, which are underpinned by five high-level strategic themes:

- Report authoritatively on whether public bodies are acting in accordance with the sustainable development principle
- Support strong public sector financial management at a time of austerity
- Make more effective use of data and embrace cutting-edge technology
- Streamline our business processes and strengthen our governance arrangements
- Review and adapt our audit approach

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 and the co-operation that we receive from the bodies that we audit.

As outlined in this Report, we have also made good progress since publishing our **Annual Report and Accounts for 2016-17** towards achieving our three-year priorities and key performance indicators, which are aimed at enhancing the effectiveness of public sector audit in Wales.



Isobel Garner
Chair, Wales Audit Office

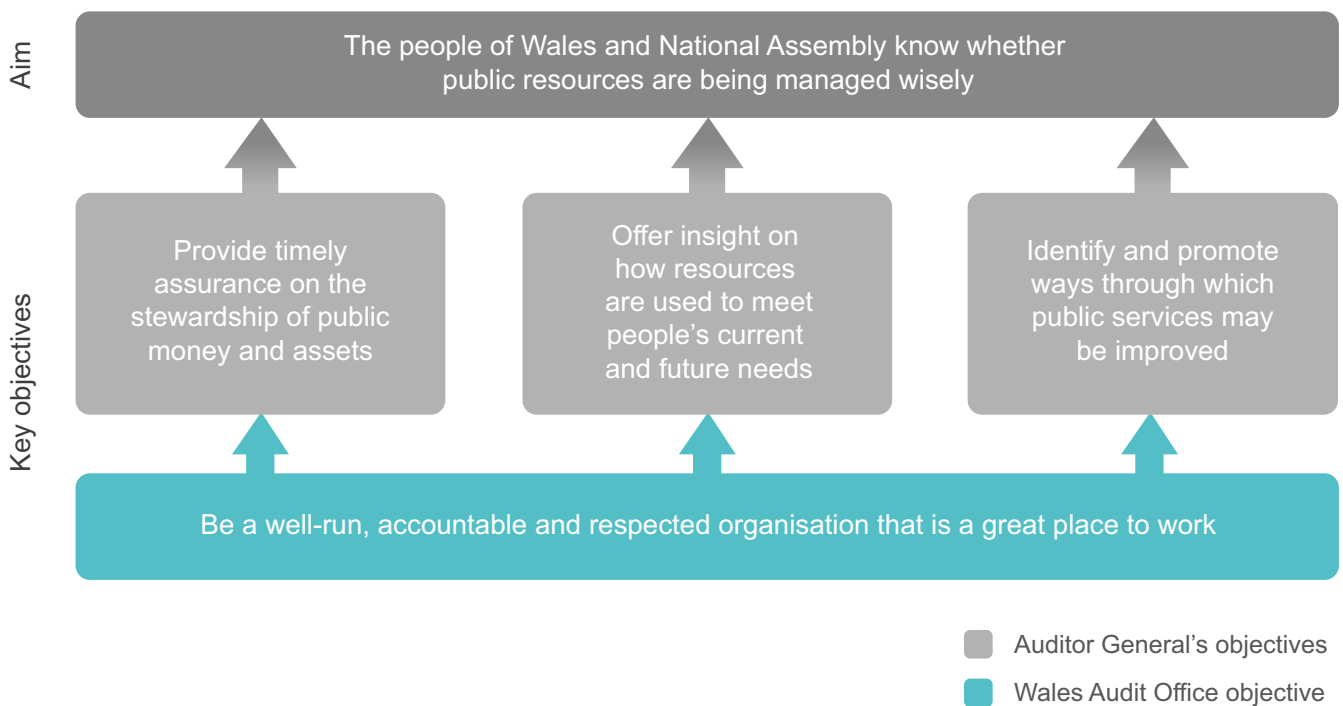


Huw Vaughan Thomas
Auditor General for Wales

Overview

During the period 1 April to 30 September 2017, the exercise of the functions of the Auditor General for Wales and the Wales Audit Office has been consistent with the strategy laid out in our 2017-18 Annual Plan

Making public money count



Taking account of the factors that we consider will have the greatest influence over the way we achieve our aim and objectives over the next three years, our **2017-18 Annual Plan** is underpinned by five high-level strategic themes.

In the following section, we provide some examples of how, during the period 1 April to 30 September 2017, the exercise of the respective functions of the Auditor General for Wales and of the Wales Audit Office has been consistent with those themes.

Report authoritatively on whether public bodies are acting in accordance with the sustainable development principle



So far in 2017-18, we have:

- started preparing commentary on the arrangements put in place by all 44 listed public bodies since the wellbeing duties commenced on 1 April 2016;
- undertaken further pilot work at a selection of public bodies;
- run a series of workshops with stakeholders to inform the future audit approach;
- been working to ensure the principles of the Act, in particular the Five Ways of Working are incorporated into the activities of our Good Practice Team; and
- developed a memorandum of understanding with the Future Generation Commissioner's Office outlining how we intend to work together in the future.

Support strong public sector financial management at a time of austerity



So far in 2017-18, we have:

- worked in partnership with the Welsh Government and Institute of Chartered Accountants in England and Wales to run a series of webinars to support public services in **improving their approaches to governance**, and to facilitate the sharing of new approaches to **building financial resilience**.
- undertaken studies and examinations of: the **Implementation of the NHS Finances (Wales) Act 2014**; the **Welsh Government's financial support for Carmarthenshire Energy Ltd**; **Savings planning in councils in Wales**; and the **Welsh Government's initial funding of the Circuit of Wales Project**.
- audited the accounts of 800 public bodies including health boards and trusts, central government bodies, unitary authorities and town and community councils. We have issued 'qualified' audit opinions for four local health boards due to breaches of approved financial resource limits, and published a **Public Interest Report** drawing attention to significant weaknesses in the way Cardiff and Vale University Health Board has procured HR consultancy services.

Make more effective use of data and embrace cutting edge technology



So far in 2017-18, we have:

- completed an initial programme of work aimed at transforming the way we use data and technology as part of our audit work, and commenced a similar programme aimed at improving the way we communicate with the public and other stakeholders;
- purchased a range of essential technology upgrades, including hybrid laptops which reduce the need for printing and reduces paper use, and commenced the process of developing our data analytics capability; and
- held two related shared learning events: a webinar on **understanding how 'open standards' can support better integration of public services**; and a seminar on **improving digital leadership and ownership**.

Streamline our business processes and strengthen our governance arrangements



So far in 2017-18, we have:

- strengthened our workforce strategy and workforce planning arrangements to help ensure we can better meet current demand and respond to future developments in our operating environment;
- allocated additional corporate lead roles to all members of our Senior Management Team to provide senior drive and accountability across a range of agreed themes, including staff engagement, people development, data analytics and compliance with the Welsh-language standards; and
- continued to seek to maximise our contribution to achieving the seven Welsh wellbeing goals, with particular focus on improving our environmental stewardship and on delivering our savings and efficiency programme, which has realised £1.269 million savings in the year to date.

Review and adapt our audit approach



So far in 2017-18, we have:

- made good progress towards adapting our audit approach and model for the deployment of audit resources, in preparation for the introduction of earlier closure of local government accounts by 2020-21.
- built on progress made towards piloting a new outcomes-based approach to grant certification. The second year of the pilot was extended to include Pembrokeshire and Cardiff councils (in addition to Neath Port Talbot and Wrexham). We are currently working with the Welsh Government and other stakeholders to determine when this pilot approach to grants work should be rolled out in full across the local government sector in Wales.

There has been no need to deviate significantly from the planned work programmes of the Auditor General and Wales Audit Office

All of our planned work for 2017-18, as laid out in our [Annual Plan](#), has either been delivered, or is progressing to plan.

Appendix – Detailed information on the programmes of work carried out by the Auditor General and the Wales Audit Office from 1 April to 30 September 2017

In the Plan, we indicated that the programme of audit 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.

Since publishing our Plan, we have changed the title of some studies as the scope of the work has become more clearly defined.

In June 2017, the Auditor General confirmed with the Public Accounts Committee plans for some new value-for-money studies to start during this year. Those pieces of work are reflected in the overview of work in progress set out in the Appendix to this Report. In some cases, the new studies will build on other parts of the Auditor General's work programme.

We are continuing to make good progress towards achieving our three-year priorities

As of 30 September 2017, we are on track to achieve each of the ten priorities set out in our [Annual Plan for 2017-18](#).

Priority	When	Commentary
1 Develop an approach through working in collaboration with key stakeholders, to deliver the Auditor General's duties under the Well-being of Future Generations (Wales) Act 2015.	2017-18	<p>A project plan has now been developed and is overseen by a Programme Board comprising four members of our Management Committee and chaired by the Auditor General for Wales.</p> <p>Year-one commentary work is underway at all 44 bodies and a memorandum of understanding is being developed with the Future Generations Commissioner's Office.</p>
2 Focus on work that examines regional and other partnership working arrangements, including the interface between health and social care provision.	2017-19	<p>We are currently in the stages of completing a local government study on improving wellbeing through housing adaptations, with a particular focus on related partnership and collaboration arrangements.</p> <p>We are also finalising a review of the strategic commissioning of learning disability services which considers the effectiveness of commissioning by social care services.</p> <p>In addition, during the last six months we have undertaken a call for evidence to inform a future examination of the collaborative and regional working arrangements established to deliver the requirements of the Social Services and Well Being (Wales) Act 2014.</p>

Priority	When	Commentary
<p>3 Strengthen engagement with our work among Assembly committees, and identify ways to further enhance our work on supporting effective scrutiny and accountability</p>	<p>2017-20</p>	<p>In addition to our usual extensive engagement with the Public Accounts Committee, we have recently given evidence on budgetary and fiscal matters to the National Assembly's Finance Committee. Our audit work has also served to inform a recent report by the Economy, Infrastructure and Skills Committee on the Rail franchise and South Wales metro, and we have engaged with researchers and clerks supporting the Health, Social Care and Sport Committee to discuss our review of the Implementation of the NHS Finances (Wales) Act 2014.</p> <p>In September 2017, Wales Audit Office staff participated in a network event, hosted by the National Assembly's Public Accounts Committee, to share experience about the way in which equivalent committees work across the UK and beyond.</p>
<p>4 Enhance the collective impact of external audit, inspection and review in Wales through working more closely with Inspection Wales and other partners and by making better shared use of intelligence and resources.</p>	<p>2017-20</p>	<p>We contribute to an agreed programme of work as part of the Inspection Wales forum, and for the second year shared a stand with our partners at the Royal Welsh Show to raise awareness of, and engagement with, our work.</p> <p>As a separate initiative, we also attend quarterly meetings held between the Public Services Ombudsman for Wales and a range of other appointed Commissioners.</p> <p>Over the last six months we have continued to liaise with Healthcare Inspectorate Wales especially in relation to our joint review of governance arrangements at Betsi Cadwaladr University Health Board.</p>
<p>5 Facilitate strategic transformation of audit, through improving our use of data and technology, and our methods of communication.</p>	<p>2017-20</p>	<p>Following on from our work on transforming the way we use data and technology as part of our audit work, we have recently established an internal data analytics group with a lead director. We aim to secure additional resources through the Estimate process to invest in a three-year project to support our work in this area, and have made arrangements to learn from the arrangements and experiences of the other UK audit agencies.</p>

Priority	When	Commentary
<p>6 Revise our model for the deployment of audit resources in preparation for upcoming changes to our operating environment, including in particular the introduction of faster closure of local government accounts.</p>	<p>2017</p>	<p>Our local audit teams have continued to work with the three pilot Councils (Torfaen, Wrexham and Pembrokeshire) in the first half of 2017-18 to make further improvements to the accounts preparation and audit processes.</p> <p>We have also delivered a number of the audits of 2016-17 accounts of other councils earlier than in previous years. Work in this area is now well progressed.</p>
<p>7 Refresh our people strategy and stimulate culture change within the Wales Audit Office by embedding a new framework of agreed values and behaviours.</p>	<p>2017-18</p>	<p>We are currently consulting with our staff and trade unions on a draft People Strategy, including three-year priorities.</p> <p>Our staff culture group has recently established a new suite of Wales Audit Office desired values and behaviours, linked to our objective of being an organisation that is a great place to work. Work streams are now in hand to embed these values and behaviours across the organisation, including through revising our competency framework which defines the knowledge, skills and attributes needed for people within our organisation.</p>

Priority	When	Commentary
<p>8 Formulate and apply action plans aimed at narrowing our overall gender, age and ethnicity pay gaps and ensuring our compliance with the new Welsh-language standards.</p>	<p>2017-18</p>	<p>Our annual Equality progress report for 2016-17 was published in September 2017, and includes a commitment to address, through the culture change project and the development of a new People Strategy, the feedback received from a staff focus group which looked at ways through which we can narrow our overall pay gaps.</p> <p>Work is also well underway to ensure our compliance with the new Welsh-language standards. A key area of focus is the Work Welsh Scheme which provides accelerated learning for staff in key roles identified in our recent role analysis. Since April 2017, we have mandated the 'Croeso' welcome course for all new starters, and offer it to all existing staff with no Welsh language skills.</p>
<p>9 Develop proposals for simplifying and improving the cost-effectiveness of the funding arrangements for the Wales Audit Office, for consideration by the National Assembly.</p>	<p>2017-18</p>	<p>We published our Discussion paper: Simplifying a Complex Fee Regime on 6 June 2017, which was shared with all audited bodies and other key stakeholders. We received a range of responses from across the sectors we audit. We will shortly publish a report outlining our case for change, building on our original discussion paper and making recommendations to the National Assembly for Wales.</p>
<p>10 Increase our engagement with stakeholders and our use of external benchmarking to help enhance the impact of our work.</p>	<p>2017-18</p>	<p>The newly established Assistant Auditor General has reviewed and reinvigorated the role of audit Engagement Directors, with the particular aim of generating and acting on high-quality feedback about our work from stakeholders.</p> <p>We also recently commissioned a team of external consultants to review our arrangements for measuring and reporting on the impact of our work. Work is now underway to implement the key recommendations from the review, a number of which will be used to inform the development of our Annual Plan for 2018-19.</p>

Performance analysis

We have made good progress towards achieving our key performance indicator targets

A framework of key performance indicators, centred on seven themes and questions about our activities, was included in our Annual Plan for 2017-18. We also developed a suite of targets with reference to levels of performance at the end of 2016-17 and appropriate benchmarks.

The overall position as of 30 September 2017 in terms of achieving our 35 key performance indicator targets is summarised in the remainder of this section.

Where appropriate, we assess our level of performance on a rolling annual basis. For performance measures where this applies, the figures describe our performance for the period 1 October 2016 to 30 September 2017.

We will be undertaking our 2017-18 staff survey during the third quarter of the year. Consequently, our performance in terms of staff survey related targets is based on our performance in 2016-17.

Impact

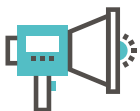
To what extent is our work informing the people of Wales and the National Assembly, helping public bodies in Wales to succeed, and valued by our stakeholders?



98%
of our **recommendations** were **fully accepted** for implementation



80%
of stakeholders gained **useful insight** through our work



98%
of stakeholders considered the Auditor General to be an **authoritative commentator**



£9.35m
of **potential savings** were identified through our work



79%
of stakeholders believe our work has led to **improvements in public services**



Achieved our target



Close to achieving our target



Improvement required



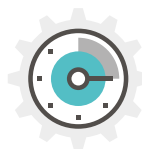
Significant improvement required

Delivery

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



100%
of requests to draw funds from the WCF were **processed within 24 hours**



90%
of key audit products were **delivered on time**



100%
of audits were delivered in accordance with **quality standards**



19
good practice products were **delivered**



21
National reports were published



Leadership

Are our governance and leadership arrangements operating effectively?



97%
of stakeholders said they have **confidence in our work**



99%
of staff agree their **performance is evaluated fairly**



68%
of staff feel that their team are encouraged to come up with **new ways of doing things**



80%
of staff feel **trusted** to carry out their job **effectively**



Proportion of staff that feel they have a clear understanding of the organisation's purpose (yet to be measured)

Achieved our target
 Close to achieving our target
 Improvement required
 Significant improvement required

Financial

How well are we managing our finances and assets?



£3,231
estate cost per
full-time equivalent
member of staff



87%
of suppliers paid
within 10 days of
receipt of invoice



£1.27m
of cost savings and
efficiencies identified
throughout the business



Level of surplus at
year end forecast to
be within
0.7% of budget



£128k
of aged debts
aged over 60 days



Social

How well are we promoting and supporting equality, wellbeing and learning?



76%
of staff feel that they are
able to **access appropriate
learning opportunities**



70%
of staff feel they
are **treated fairly
at work**



71%
of staff feel that they are able
to strike a **good balance
between work and private life**



5.9
days, on average,
were **lost through
sickness** per member of staff



1
complaint was received
and upheld regarding our
Welsh language provision



Achieved our target



Close to achieving our target



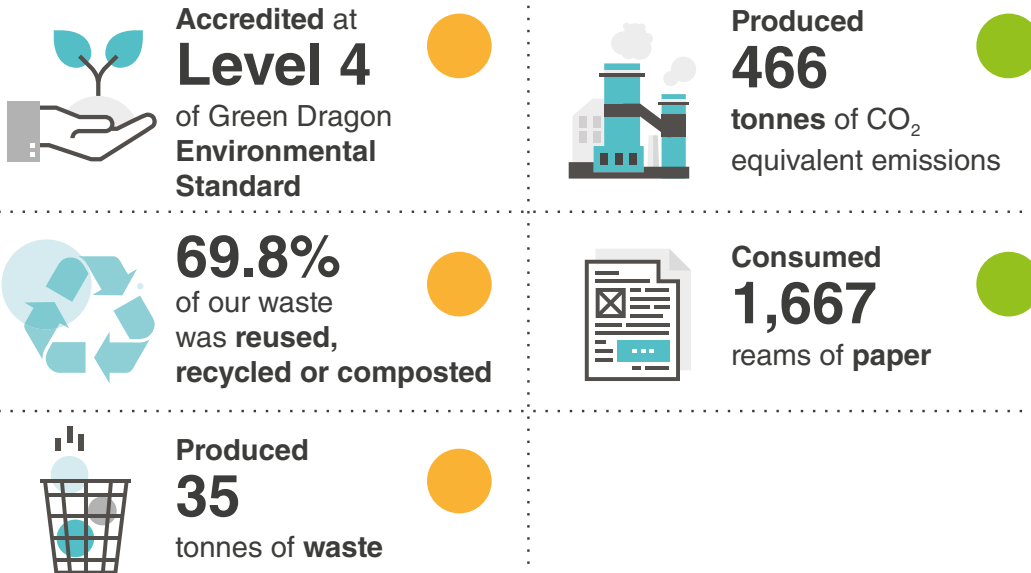
Improvement required



Significant improvement required

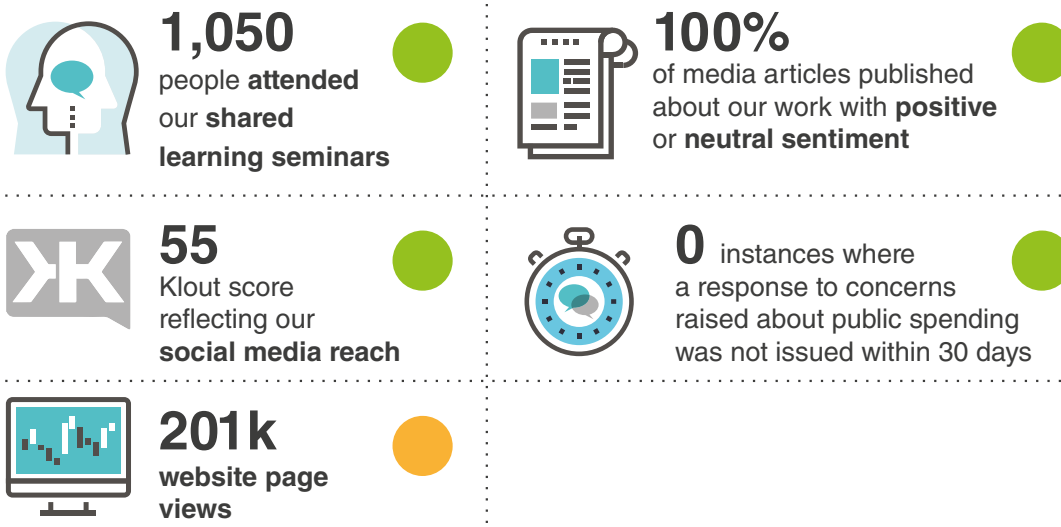
Environmental

How well are we managing our impact on the environment?



Communication

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



● Achieved our target ● Close to achieving our target ● Improvement required ● Significant improvement required

Appendix

Detailed information on the programmes of work carried out by the Auditor General and the Wales Audit Office from 1 April to 30 September 2017

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. The programme includes audit of accounts, certification of grant claims and returns, improvement audits and assessments, local government studies and wellbeing of future generations audit work.

Audit 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
Audits of over 735 town and community councils on a limited assurance basis

Studies completed or substantially completed

Strategic commissioning of learning disability services by local authorities
Improving well-being through housing adaptations
How local government manages demand (homelessness services)

Improvement audits and assessments

22 unitary authorities (including themed reviews of scrutiny and service user perspective)
3 fire and rescue authorities
3 national park authorities

Well-being of future generations audit work

22 unitary authorities
3 fire and rescue authorities
3 national park authorities

Certification of grant claims and returns

Up to 20 schemes worth approaching £3 billion and involving around 300 individual claims
Outcomes-focused reports

Ongoing studies

Services to rural communities
Use of data
Cross-cutting review of the Integrated Care Fund

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 Services Department. The Auditor General audits the annual accounts of each NHS body, and reports on the arrangements in place to secure economy, efficiency and effectiveness in their use of resources, and on whether listed bodies are acting in accordance with the sustainable development principle.

Audit of accounts

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

Structured assessments

7 local health boards
3 NHS trusts
All Wales comparison of aspects of governance

Local performance audit work

7 local health boards
3 NHS trusts
Betsi Cadwaladr University Health Board governance review
Cardiff and Vale University Health Board public interest report

Ongoing studies

GP Out-of-Hours services
Discharge planning
Primary care services
Cross-cutting review of the Integrated Care Fund

Well-being of future generations audit work

7 local health boards
Velindre NHS Trust
Public Health Wales NHS Trust

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.

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, and instead only provides an annual opinion on their accounts and, for listed bodies, undertakes wellbeing of future generations audit work. Performance audit work conducted within this sector currently sits within the Auditor General's programme of value-for-money studies.

In May 2017 we published a [Summary report of the 2015-16 central government accounts](#); this was the first annual report on the audits of financial statements of central government bodies in Wales.

The Auditor General is also required by the Government of Wales Act 2006 to provide approvals for the Welsh Ministers to draw funds from the Welsh Consolidated Fund (WCF). Under the 2006 Act, an approval to draw may only be granted if, in the Auditor General's opinion, the proposed payment is authorised by a budget resolution of the Assembly or directly by legislation. These arrangements are intended to provide democratic control by the Assembly over the use of resources by the Welsh Government. This work has, however, recently been made disproportionately time consuming by complex provisions in the Public Audit (Wales) Act 2013, which require ongoing review of the Assembly's agreements for the payments of office holders' remuneration from the WCF. Nevertheless, so far in 2017-18, we have provided approvals for all valid requests within 24 hours of receipt.

Welsh Government accounts

Welsh Government consolidated accounts
Non-domestic rating account
Welsh Consolidated Fund account
Whole of Government Accounts

Accounts of Welsh Government sponsored bodies

Arts Council of Wales
Arts Council of Wales Lottery Fund
Social Care 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
Qualifications Wales

National Assembly for Wales accounts

National Assembly for Wales Commission
Assembly Members Pension Fund

Welsh Government companies

Hybu Cig Cymru
Careers Choice
Life Sciences Hub
Sector Development Wales

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
Education Workforce Council
Future Generations Commissioner

Well-being of future generations audit work

Welsh Government
Natural Resources Wales
Higher Education Funding Council for Wales
Arts Council of Wales
Sports Council for Wales
National Library of Wales
National Museums and Galleries of Wales

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 much of this programme support the work of the National Assembly's Public Accounts Committee and potentially other Assembly committees.

The Auditor General has also recently indicated that he will undertake work to support the Public Accounts Committee's planned inquiry into public services for care experienced children and young people. The scope and timing of any work to be undertaken by the Auditor General in this regard will be determined later in 2017-18 following completion of the first stage of the Committee's inquiry.

Ongoing value-for-money studies

- Waste management (waste prevention)
- Waste management (municipal recycling)
- NHS Wales Informatics Systems (NWIS)
- Access to public services with the support of specialist interpretation and translation
- Business finance
- Youth services
- Primary care services
- Public procurement landscape review
- Waste management (procurement of waste treatment infrastructure)
- Preparations for the implementation of fiscal devolution in Wales (follow-on report for consideration by the Finance Committee)
- The development of the National Procurement Service
- The 2014-2020 Rural Development Programme
- The 2014-2020 European Structural Funds programmes
- The cross-cutting review of the Integrated Care Fund

Summary reports in progress

- Radiology (linked as appropriate to NWIS reporting)

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

- 21st century schools and education programme
- Implementation of the NHS Finances (Wales) Act 2014
- Supporting People programme
- Emergency ambulance commissioning arrangements
- The Welsh Government's Initial Funding of the Circuit of Wales Project
- Welsh Government financial support for Carmarthenshire Energy Ltd
- Cardiff and Vale University Health Board Public Interest Report

Good Practice Exchange

Our approach to knowledge exchange has been developed and applied with increasing success over recent 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 between service providers and users 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 Good Practice Exchange programme of seminars and webinars is flexible and further topics are added during the course of the year. More information on our [Programme of good practice work](#), can be accessed on our website.



Engagement and joint working activity

Over the reporting period, the Auditor General and the 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.

We have also worked closely with other UK audit agencies and with the other main external review bodies in Wales to enhance the efficiency and effectiveness of public audit and the collective impact of our work. We are able to make arrangements with certain types of bodies for it or the Auditor General to provide services to, or exercise the functions of those bodies, both in the UK and overseas. 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.

Joined up delivery

National Fraud Initiative with other UK audit agencies

Working with Estyn to undertake follow-up inspections of Regional Education Improvement Consortia and support their delivery of improvement conferences

Annual certification of the accounts of the European Agricultural Funds

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

Development of a memorandum of understanding with the Future Generations Commissioner

Working with other Inspection Wales partners on joint work on support for young people

Participation with observer status on external working groups

These include:

Partnership Council for Wales

Welsh Revenue Authority Implementation Programme Board

Finance Minister's Welsh Tax Forum

Local Government Data Unit Board

NHS Wales Efficiency, Healthcare Value and Improvement Group

Public Appointments Working Group

Health Education and Improvement Wales Establishment Programme Board

Membership of external working groups

These include:

EURORAI

International Integrated Reporting Council's Public Sector Integrated Reporting Network

Public Audit Forum

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

Financial Reporting Council Public Sector Advisory Group

Participation in NHS Escalation and Intervention Protocol with Welsh Government and Healthcare Inspectorate Wales

Commissioned audit work

A range of charity audits

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

Waste management and trade refuse benchmarking groups

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Archwilydd Cyffredinol Cymru
Auditor General for Wales

Explanatory memorandum



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Explanatory memorandum to the Finance Committee regarding the variation of the estimate of the Wales Audit Office for the year ending 31 March 2018

Submitted to the Finance Committee of the National
Assembly for Wales for consideration under Standing
Order 20.35.

Isobel Garner
Chair, Wales Audit Office

Huw Vaughan Thomas
Auditor General for Wales

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Overview

- 1 For each financial year, the Wales Audit Office must submit an annual estimate of its income and expenditure to the Finance Committee of the National Assembly. The responsible committee must examine that estimate and lay it before the National Assembly after making any amendments that it considers appropriate.
- 2 The Estimate for the Wales Audit Office for 2017-18 was included in the Welsh Government Annual Budget Motion under Standing Order 20.26 and was approved in Plenary on 10 January 2017 following scrutiny by the Finance Committee.
- 3 Further to evidence provided to the Finance Committee on 3 November 2016, the Wales Audit Office now seeks to amend the approved Estimate for the year ending 31 March 2018.

Purpose of this Explanatory Memorandum

Introduction

- 4 The budget motion authorised the Wales Audit Office to retain £15.154 million of accruing resources, generated through fees charged to audited bodies and a grant from Welsh Government, and supplied a further £6.906 million of other resources in support of our expenditure plans for the year. Together, this £22.060 million is used to fund the costs of the Wales Audit Office in delivering its duties under the Public Audit (Wales) Act 2013.
- 5 The Estimate for 2017-18 was predicated on the receipt of £460,000 Wales Programme for Improvement (WPI) grant from the Welsh Government to part fund the research and development and programme management associated with our performance audit work in Local Government. Paragraph 25 of our Estimate raised the potential that if this grant was reduced or removed we would need to return to Finance Committee to replace this funding. Given that during 2017-18 it became apparent that the Welsh Government proposals for the use of the grant are at odds with the Auditor General's independence, as set out in section 8(1) of the Public Audit (Wales) Act 2013, we have mutually agreed with Welsh Government that they will no longer provide us with this grant.
- 6 However, we do still need to undertake the research and development work for the Auditor General's all-Wales performance audit work, including the development of audit methods, risk assessment tools and benchmarking of performance information across Wales. Without replacing at least part of the Welsh Government's funding, we will be unable to sufficiently resource the Auditor General's programme. The grant also funded the preparation of summary national reports, but the Auditor General will no longer produce those. Having reassessed resourcing needs for the current year in light of the discussions with the Welsh Government and adjusting the quantum of work undertaken, we now seek an increase in resource from the Welsh Consolidated Fund of £325,000 for 2017-18.
- 7 In the absence of additional funding from the Welsh Consolidated Fund, we would need to pass on the costs to our audited bodies which will necessitate a revision to the Fee Scheme 2017-18, approved by Finance Committee in February 2017, and result in unplanned increases to fee charges for the current year.
- 8 Our Estimate for 2018-19 includes £280,000 to fund this work from the Welsh Consolidated Fund for future years.
- 9 We continue to have regular dialogue with the Welsh Government which may lead to specific pieces of commissioned work by agreement, but there is currently no certainty around that. Should it arise we would resource it through securing additional contractor capacity.

- 10 This Explanatory Memorandum sets out the adjustments required to the Wales Audit Office Estimate for 2017-18.

Adjustments to revenue and capital budgets

- 11 As explained above, the Wales Audit Office is seeking to increase its requirement for revenue resources by £325,000 for 2017-18 to fund the research and development and programme management associated with our performance audit work in Local Government. Further detail is provided in [Appendix 1](#).

Table 1 – The budget changes required are set out in Table 1.

	Approved Estimate 2017-18 £'000	Supplementary Estimate 2017-18 £'000	Revised Estimate 2017-18 £'000
Revenue resource	6,526	325	6,851
Capital resource	380	-	380
Accruing resources	15,154	(460)	14,694
Total expenditure	22,060	-	21,925

Net cash requirement

Table 2 – The changes to our net cash requirement are set out in Table 2.

	Approved Estimate 2017-18 £'000	Supplementary Estimate 2017-18 £'000	Revised Estimate 2017-18 £'000
Net request for resources – revenue and capital	6,906	325	7,231
Non-cash adjustment - depreciation and accruals	(200)	-	(200)
Net cash requirement from the WCF	6,706	325	7,031

Summary

12 **Table 3** provides a summary of the revised capital and revenue resources and net cash requirement on approval of this supplementary estimate.

Table 3 – Summary of resource and cash requests

	Resource request £'000	Net cash requirement £'000
Revenue resource	6,851	6,651
Capital resource	380	380
Total	7,231	7,031

Appendix 1

Wales Audit Office Income and Expenses 2017-18 (revised)

Budget Heading	Year to 31 March 2018 (Revised) £'000	Year to 31 March 2018 (Estimate) £'000
Expenses		
Staff costs	15,411	15,411
Contractor staff	735	870
Travel and subsistence	1,299	1,299
Private sector firms (including VAT)	874	874
Accommodation	938	938
ICT	399	399
Balance of irrecoverable VAT	390	390
Wales Audit Office Governance Arrangements	300	300
External training	255	255
Legal and professional fees	201	201
Translation of documents	145	145
Other costs	598	598
EXPENSES TOTAL	21,545	21,680
Income		
Audit fees	13,288	13,288
Grant certification fees	1,406	1,406
WPI grant from the Welsh Government	0	460
INCOME TOTAL	14,694	15,154
Total revenue budget to be funded by WCF	6,851	6,526

Appendix 2

Summary of the 2017-18 budget requirements for inclusion in the Welsh Ministers' Supplementary Budget Motion under section 126 of the Government of Wales Act 2006

Under section 126 of the Government of Wales Act 2006 ('the 2006 Act'), Ministers may move a Supplementary Budget Motion in the National Assembly to authorise the use of resources, retention of income and drawings of cash from the Consolidated Fund for certain relevant persons, including the Wales Audit Office.

In respect of the services and purposes of the Wales Audit Office in the year ending

31 March 2018, the Budget Motion will authorise:

- the amount of resources to be used by the Wales Audit Office;
- the amount of resources accruing to the Wales Audit Office which may be retained (rather than paid into the Consolidated Fund); and
- the amount which may be paid out of the Consolidated Fund to the Wales Audit Office.

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

Table 1 – Summary of the estimated 2017-18 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, the Auditor General and local government appointed auditors, and on the administration of the Wales Audit Office:	
• Revenue	6,851
• Capital	380
Accruing resources from fees and charges for audit and related services (excluding for local government audit, assessment and inspection work); other recoveries of costs associated with the functions of the Auditor General; miscellaneous income from publications, conferences, provision of administrative and professional and technical services; recoveries of costs of seconded staff; repayments of staff loans; recoveries of car leasing payments; and interest received on working balances for use by the Wales Audit Office on related services and the administration of the Wales Audit Office.	14,694
Net cash requirement from the Consolidated Fund to meet the net amounts falling due for payment in the year by the Wales Audit Office.	7,031

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 2018.

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

	£'000
Net request for resources – revenue and capital	7,231
Net working capital adjustments	(200)
Net cash requirement	7,031

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Reference: IG17013/HVT2757/caf

Date issued: 30 October 2017

Dear Simon

The complex public audit fee regime in Wales – a case for change

We have very much welcomed the willingness of the Finance Committee to discuss and explore potential for the simplification of the public audit fee regime in Wales. We are now pleased to provide the Committee with proposals that we consider would lead to its simplification.

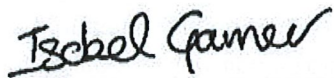
You will recall that the Committee's report of March 2016 recommended that the Public Audit (Wales) Act 2013 be amended to clarify the audit fee charging requirements for the Wales Audit Office, following representations we made to the Committee about the operational complexities of working to the Act. The legislation governing audit fees in Wales is complex and differs markedly from the much simpler arrangements in place for the other UK audit bodies. It means that the processes underpinning how we operate the fee regime are complicated, time consuming and confusing to many. We do not believe that this was the intention underlying the legislation.

In June 2017, we issued a discussion paper '[Simplifying a Complex Fee Regime](#)' which explained the operating complexities and unintended consequences of legislation and our proposed solutions to those complexities. This discussion paper was shared with audited bodies and other relevant parties, and we very much welcomed their responses. We have changed some of our recommendations in light of their feedback, as explained in the attached Case for Change paper, which we look forward to discussing with the Committee.

The Case for Change paper does not explore the other complexities arising from the 2013 Act, such as the requirement for interim reports and the very restrictive quorum requirements. The paper also does not address problems in relation to other legislation that we consider important, as set out in the Auditor General's letter of 5 April (copy attached for ease of reference).

We look forward to attending Committee on 9 November to discuss the above.

Yours sincerely



ISOBEL GARNER
CHAIR, WALES AUDIT OFFICE



HUW VAUGHAN THOMAS
AUDITOR GENERAL FOR WALES

Enc: Case for Change paper

Auditor General's letter HVT2702 dated 5 April 2017

Date: 5 April 2017
Our ref: HVT/2702/fgb
Page: 1 of 7

Mr Simon Thomas AM
Chair of the Finance Committee
National Assembly for Wales
Cardiff Bay
Cardiff CF99 1NA

Annwyl Simon

UPDATING ACCOUNTS AND AUDIT LEGISLATION

During the Committee's session on 15 March 2017 on issues relating to the audit of Natural Resources Wales, I undertook to write to you with further details of the need for some updating of Welsh accounts and audit legislation.

The main overall problem

As I mentioned on 15 March, the main overall problem with the audit provisions for Welsh public bodies is their inconsistency across the various bodies. Within that overall issue, the most serious problems are as follows.

a) The lack of a duty to be satisfied as to arrangements for securing vfm in central government bodies

The lack of a requirement for the Auditor General to satisfy himself as to arrangements for securing value for money in central government bodies (the Welsh Government, Welsh Government Sponsored Bodies and certain other bodies such as the Assembly Commission) is in contrast to the requirement in respect of local government bodies and health bodies (under sections 17(2)(d) and 61(3)(b) of the Public Audit (Wales) Act 2004 respectively).

The absence of a duty to be satisfied as to arrangements for securing vfm in central government means that the work to support scrutiny of central government bodies is permitted by statute to be less extensive and thorough than that done in the NHS and local government. In practice, my central government audit teams work on a discretionary basis to overcome this weakness, by, among other things, considering whether deficiencies that they encounter during the audit of accounts

are matters that should be taken into account in the design of vfm examinations and studies. They also raise issues that they encounter in management letters. Similarly, my vfm examination and study teams will look to take account of corporate governance issues in planning and executing their work.

Even given these work-arounds, the situation is less than satisfactory, as discretionary consideration is more open to challenge than consideration done in the course of a statutory duty. A further practical issue is that the absence of specific statutory consideration of arrangements for securing vfm means that more additional work now needs to be done in central government than in local government and the NHS in order to undertake the sustainable development principle examinations required by section 15 of the Well-being of Future Generations (Wales) Act 2015. This is because consideration of arrangements for securing vfm requires significant amounts of review of corporate governance arrangements, and much of that governance review work may be used to meet both the requirements of sections 17 and 61 of the 2004 Act and the requirements of section 15 of the 2015 Act.

b) The absence of explicit provision in statute for regularity opinions among many central government bodies

An absence of explicit provision for a regularity opinion means that a fundamental element of Assembly control of central government expenditure is missing from statute in respect of the relevant body. The Committee will be well aware that one of the key functions of the National Assembly is the approval, following scrutiny, of budget motions so as to authorise government's use of resources. In order to complete the cycle of control, it is necessary that the National Assembly receives reports on whether the resources it has voted have been used in accordance with its intentions.

The bodies affected by the omission of relevant provisions are:

- the Care Council for Wales;
- the Education Workforce Council;
- the Higher Education Funding Council for Wales;
- the Local Democracy & Boundary Commission for Wales;
- the National Library for Wales;
- the National Museums & Galleries for Wales;
- Natural Resources Wales;
- Qualifications Wales.

The Arts Council and the Sports Council are also affected because of the omission of relevant provisions from their Royal Charters. Indeed, the Sports Council's Charter omits audit provisions completely.

I have continued the Comptroller & Auditor General's practice of providing regularity opinions in respect of all sponsored bodies despite the omissions because it is clearly required for the reasons set out above. It is also regarded as necessary to comply with professional standards (the Financial Reporting Council's Practice Note 10).

c) Inflexibility of deadlines

As the case of NRW has illustrated, accounts and audit deadlines are sometimes not sufficiently flexible when significant problems arise. For Welsh public bodies, there is no agile variation provision in legislation as there is for UK resources accounts under the Government Resources and Accounts Act 2000.

d) Overlapping laying requirements

There has been a recent tendency for legislation to include provision for bodies to prepare annual reports on the exercise of functions and for those bodies (not the Auditor General) to lay such reports (see, for example, paragraphs 28 and 29 of Schedule 1 to the Qualifications Wales Act 2015). These requirements sit alongside requirements for the Auditor General to lay the audited accounts with his certificate and report (for example, paragraph 33 of Schedule 1 to the Qualifications Wales Act 2015). At the same time, the Financial Reporting Manual (FReM) set by HM Treasury places a requirement on bodies to provide an annual report alongside the accounts. (Indeed, it is normal for bodies in both the public and private sectors to publish "annual reports and accounts".) These multiple requirements can lead to confusion as to who is required to lay the "annual report".

Potential solutions

The absence of a duty to be satisfied as to arrangements for securing vfm in central government bodies could be remedied by the insertion of such provision in relevant legislation. For the Welsh Ministers and the Assembly Commission this would mean amending the Government of Wales Act 2006 (or any restatement of audit provisions following the Wales Act 2017). These would be small amendments rather than extensive changes. For Welsh Government Sponsored Bodies, similar small amendments would be needed for a range of legislation, including:

- The Care Standards Act 2000
- The Commissioner for Older People (Wales) Act 2006
- The Government of Wales Act 1998 (for Estyn)
- The Well-being of Future Generations (Wales) Act 2015
- The Further & Higher Education Act 1992
- The Local Government (Democracy) (Wales) Act 2013
- The Museums and Galleries Act 1992
- The Natural Resources Body for Wales (Establishment) Order 2012
- The Public Services Ombudsman (Wales) Act 2005
- The Qualifications Wales Act 2015
- The Welsh Language (Wales) Measure 2011
- The Royal Charters of the Arts Council and the Sports Council

Similarly, regularity opinion provisions could be inserted in relevant legislation where these are missing. Likewise, provisions for the laying of annual reports could be aligned so as to provide for the Auditor General to lay such reports (preferably combined annual reports that meet both statutory and FReM requirements).

As regards improving the flexibility of deadlines, again, specific provisions to allow variations by Order, along the lines of those provided by the Government Resources & Accounts Act 2000, could be inserted in the full range of relevant legislation. Such provisions would need to explicitly provide for accelerated procedure so as to enable variations to be made in a worthwhile realistic (short) timescale. However, as I previously mentioned in my letter of 22 December 2016, an alternative and more efficient approach might be to include provision with the effect that the deadline applies only to the extent that it does not prejudice compliance with the Code of Audit Practice. This could dispense with Order-making processes altogether.

With all four of the issues set out above, piecemeal amendment of individual pieces of legislation would not be the most efficient approach. A more sensible approach would be to codify the provisions, for example, along the lines of the provisions of Chapter 2 of Part 2 of the draft Public Audit (Wales) Bill, which was consulted on by the Welsh Government in March 2012. However, some changes to the draft Bill provisions would be needed, as, among other things, it should cover recently created bodies, such as the Future Generations Commissioner.

Data matching

While it is not strictly a matter of audit in itself, I should also take this opportunity to raise the issue of how my data matching powers are now lagging behind those of counterparts in Scotland, England and Northern Ireland.

Currently, data matching exercises are undertaken for the purposes of preventing and detecting fraud. The exercises are done in collaboration with other UK audit agencies, and are known as the National Fraud Initiative (NFI). To date, the NFI has prevented and detected fraud and error of over £1.1 billion across the UK, with some £26 million being prevented and detected in Wales. Most of these amounts relate to fraud perpetrated against public bodies.

Under section 64A of the Public Audit (Wales) Act 2004, I currently have a power to undertake data matching for the “purpose of assisting in the prevention and detection of fraud in or with respect to Wales”. The Auditor General for Scotland, the Secretary of State and the Comptroller & Auditor General Northern Ireland have similar powers under the following legislation:

- Scotland—the Public Finance and Accountability (Scotland) Act 2000;
- England—the Local Audit and Accountability Act 2014;
- Northern Ireland—the Audit and Accountability (Northern Ireland) Order 2003.

The Scottish legislation, however, also provides for data matching to be undertaken for the purposes of assisting in the prevention and detection of crime other than fraud, and for assisting in the apprehension and prosecution of offenders. Furthermore, the Scottish Parliament’s Post Legislative Scrutiny Committee has recently consulted on strengthening and extending the coverage of the Scottish legislation.

The legislation in respect of English bodies contains provision for the purposes of data matching exercises to be extended by regulations so as to cover assisting:

- (a) the prevention and detection of crime other than fraud;
- (b) the apprehension and prosecution of offenders;
- (c) the prevention and detection of errors and inaccuracies, and
- (d) the recovery of debt owing to public bodies.

The Northern Ireland legislation is similar to that applying to English bodies but does not include the prevention and detection of errors and inaccuracies. It is, however, the strongest in the UK in terms of requiring bodies to participate in data matching exercises, as it enables the Comptroller & Auditor General Northern Ireland to require any body audited by him (other than designated “North/South co-operation implementation” bodies) or a local government auditor to provide information for matching rather than that power applying just to a defined list of bodies. For Wales, the list of such mandatory participants is inadequate, as it is limited to local government and health bodies.

My counterparts and I are continually developing the NFI so as to provide further support to public bodies. There is, however, a significant risk that if Welsh data matching legislation does not keep pace with that in other UK jurisdictions, then:

- (a) it may not be possible to run complete UK-wide data matching exercises in Wales;
- (b) the potential financial benefits of data matching to identify errors and inaccuracies, and assist debt recovery will not be available to Wales, and
- (c) the potential to achieve additional savings through the inclusion of new mandatory participants will not be realised.

I would therefore ask the Committee to consider seeking change to the Welsh legislation so as to extend the permitted purposes of data matching to those listed above in respect of English bodies. I would also ask the Committee to consider seeking change to the legislation so as to change the provisions for potential mandatory participants so that all bodies audited by the Auditor General are covered.

Other audit related matters

I know that the Committee is already aware of my concerns about the complexity and difficulties caused by the fee provisions of the Public Audit (Wales) Act 2013 (and related legislation amended by that Act). However, I will not go into detail again now, as the WAO Board and I intend to provide more material setting out how the provisions are not fit for purpose and suggesting possible solutions, in a forthcoming consultation document.

Finally, I should perhaps mention that I am in the process of developing my response to the Welsh Government’s “Reforming Local Government” White Paper. The main focus of that White Paper is the structure of Welsh local government, which has some implications for my audit functions. In addition, there is also a small amount of coverage concerning my functions, with among things, a commitment to repeal Part 1 of the Local Government (Wales) Measure 2009. I will copy my response to the Welsh Government’s White Paper consultation to the Committee. However, I can say now that I welcome repeal of Part 1 of the 2009 Measure, as it is unnecessarily prescriptive and lacks the

flexibility needed to provide proportionate reporting. Repeal of the 2009 Measure will allow resources to be used in pursuit of the more proportionate arrangements of Part 2 of the Public Audit (Wales) Act 2004.

Yn gywir

A handwritten signature in blue ink, appearing to read 'Huw Vaughan Thomas'.

HUW VAUGHAN THOMAS
AUDITOR GENERAL FOR WALES

Archwilydd Cyffredinol Cymru
Auditor General for Wales

The complex public audit fee regime in Wales – a case for change



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000.

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Mae'r ddogfen hon hefyd ar gael yn Gymraeg.
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Foreword

Funding for the Wales Audit Office comes from two main sources – from the fees we charge for the audit work we do (circa 70% of our funding), and from the Welsh Consolidated Fund which finances specific areas of our spending (circa 30%).

In March 2016, the National Assembly’s Finance Committee recommended that the Public Audit (Wales) Act 2013 (the Act) be amended to clarify the audit fee charging requirements for the Wales Audit Office, following representations we made to the Committee about the operational complexities of working to the Act.

The Act set new arrangements under which the Wales Audit Office may or must charge fees for certain audit-related work undertaken by the Auditor General for Wales. The legislation governing audit fees in Wales is complex and differs markedly from the much simpler arrangements in place for the other UK audit bodies. It means that the processes underpinning how we operate the fee regime are complicated, time consuming and confusing to many.

We do not believe that the Welsh Government intended to create the level of complexity that we have experienced in practice when it introduced the legislation. Nor do we believe that this was the Assembly’s intention, when it enacted the legislation.

In June 2017, we issued a discussion paper [Simplifying a Complex Fee Regime](#) which explained the operating complexities and unintended consequences of legislation and our proposed solutions to those complexities. This discussion paper was shared with all of our stakeholders.

We now set out our proposed recommendations which take account of what our stakeholders told us in response. We thank our stakeholders for sharing their views with us.

We conclude by proposing that we further explore interim measures which could improve our operating efficiency and overcome some of the complexities, pending a longer-term, fit-for-purpose fix which can only be brought about by legislative change through the National Assembly. We have very much welcomed the willingness of the National Assembly’s Finance Committee to discuss and explore potential for the simplification of the fee regime. We look forward to continued discussions with the Finance Committee in light of this paper.

Isobel Garner
Chair, Wales Audit Office

Huw Vaughan Thomas
Auditor General for Wales

Executive summary

- 1 The Public Audit (Wales) Act 2013 sets out the arrangements under which the Wales Audit Office may or must charge fees for certain audit-related work. Other legislation, such as the Public Audit (Wales) Act 2004, sets out where fee scales must be set and who must be consulted on the setting of those scales.
- 2 We cannot charge fees without a Fee Scheme approved by the Assembly. This provision within the 2013 Act ensures an important, further level of independent scrutiny of our plans, along with Assembly scrutiny of other key documents including our annual Estimate of Income and Expenses and Annual Plan.
- 3 Where we charge a fee, we set hourly fee rates at a level only to recover the costs we incur, as legislation precludes us from charging any more than that. We then set our fees based on the estimated staff time for each auditor role required to complete the work. This is done on an annual basis for each audited body. Legislation requires that any fee we charge “may not exceed the full cost of exercising the function to which the fee relates”. In order to meet this requirement, we have established methods to quantify full cost and use timesheets to record time spent on audits.
- 4 The fee regime in Wales is markedly different to those in place in the other parts of the UK, and is much more complex. This paper argues for the aligning of the arrangements in Wales more closely with those in place elsewhere in the UK.
- 5 Three particular provisions from fee related legislation elsewhere in the UK have the potential to simplify the fee regime in Wales:
 - the ability to charge fees with a view to breaking even on fee-related work ‘taking one year with another’;
 - setting notional fees for accounts prepared by government departments or other bodies that are funded directly from the relevant Consolidated Fund; and
 - greater latitude so that the full extent of the terms and conditions of agreement work¹ are a matter for the relevant auditing body.

1 Non-statutory audit work that we undertake on a commissioned basis

- 6 We see the advantages of such simplification as:
- providing greater certainty to audited bodies of the fee to be charged and overcoming the lack of incentive to drive efficiency in audit delivery at ground level;
 - ending the circulation of fee money across central government bodies; and
 - enabling the Wales Audit Office to make better use of agreement work as part of our financial strategy, which could help reduce the net cost of public audit in Wales.
- 7 We consulted with our stakeholders on options for change in those areas.
- 8 Consultees were broadly supportive of our proposal to amend the 'may not exceed the full cost' constraint and replace it with a provision along the following lines in section 24 of the 2013 Act. This would provide sufficient flexibility to improve the cost effectiveness of our management and processing arrangements:
- 'In setting fee scales, amounts to be charged and means by which the Wales Audit Office is to calculate fees included in a scheme under this section, the Wales Audit Office must aim to ensure that fees charged to a person do not exceed the full cost of the work undertaken, taking one year with another.'**
- 9 On the basis of the general support from stakeholders to simplify this aspect of the fee regime, we will further explore interim measures which could improve our operating efficiency and overcome some of the complexities, alongside recommending a longer-term, fit-for-purpose solution, which can only be brought about by legislative change.
- 10 We took stakeholder views on our proposal to move to notional fees being set for bodies funded from the Welsh Consolidated Fund directly along with the NHS in Wales and the Welsh Government Sponsored Bodies.
- 11 Responses identified a concern amongst stakeholders that notional fees would reduce transparency and accountability. This has not been found to be the case in the other audit agencies of the UK, which have long operated in this way, such as in the National Audit Office. Even under a notional fee regime, we would still expect Audit & Risk Assurance Committees to hold us to account in proposing our audit plan and notional fee for the year.

- 12 However, both the Welsh Government and Natural Resources Wales raised objections to this proposal, leading us to revise our thinking. Our proposal for notional fees is now constrained to just those bodies funded directly from the Welsh Consolidated Fund², being comparable with the arrangements in place in England, Scotland and Northern Ireland.
- 13 Finally, we took stakeholder views on empowering the Wales Audit Office to determine fee rates for agreement work and for it not to be constrained by the “no more than cost of function” restriction in the Act. Such a change would provide a greater incentive for the Wales Audit Office to undertake such work, providing development opportunities for our staff as well as allowing us to retain any surplus over the cost of delivery and use it to reduce our call on the Welsh Consolidated Fund.
- 14 The majority of responses were broadly supportive of simplification in this area. Cautions raised around the risk of cross-subsidisation are already part of our risk management arrangements when considering agreement work.
- 15 The remainder of this paper gives further detail on all the above aspects.

² Welsh Government (Welsh Ministers), National Assembly for Wales Commission and Public Services Ombudsman for Wales

The case for change

The fee regime for the Wales Audit Office

- 16 The Public Audit (Wales) Act 2013 sets out the arrangements under which the Wales Audit Office may or must charge fees for certain audit-related work. Other legislation, such as the Public Audit (Wales) Act 2004, sets out where fee scales must be set and who must be consulted on the setting of those scales. We choose to consult more widely than legislation requires as we consider it enhances transparency and gives all our stakeholders the opportunity to comment on our fee-charging plans.
- 17 **Appendix 1** provides the relevant extract of the 2013 Act, along with an overview of the equivalent legislation applying to the other UK audit bodies. **Appendix 2** provides a full list of enactments under which the Wales Audit Office may or must charge fees. It is a complex picture.
- 18 Our Annual **Estimate** (budget) sets out the detail of our expected income and expenditure for each financial year. Aligned with the Estimate, we publish a **Fee Scheme**, which sets out our charging structure for audit work and fee scales as required by legislation. Both the Estimate and Fee Scheme, along with our Annual Plan, Interim Report and Annual Report and Accounts, are subject to scrutiny by the Assembly's Finance Committee. We cannot charge fees without a Fee Scheme approved by the Assembly, which ensures an important further level of independent scrutiny of our plans.
- 19 We are not able to charge fees for all aspects of our work – for example, audited bodies do not pay for the Auditor General's programme of economy, efficiency and effectiveness examinations. Such work is financed from the Welsh Consolidated Fund, as set out in our Estimate, under the authority of the Assembly's annual budget motion.
- 20 Where we charge a fee, we set hourly fee rates at a level intended only to recover the costs we incur, as legislation precludes us from charging any more than that. We then set our estimated audit fees based on the estimated staff time for each auditor role required to complete the work. This is done on an annual basis for each audited body.

Comparison with other UK audit bodies

- 21 **Exhibit 1** compares fee-related legislative requirements in Wales with those in place for the other UK audit bodies (narrative provided in **Appendix 1**).

Exhibit 1 – Comparison of fee-related legislation across UK audit bodies

Fee-related requirements	Wales Audit Office	National Audit Office	Audit Scotland	Northern Ireland Audit Office
Set fees to broadly break even on fee work taking one year with another.	No	Not specified but is established practice	Yes	Not specified but is established practice
No fee charged for accounts prepared by central government bodies (bodies financed directly by the relevant Consolidated Fund).	No	Yes	Yes	Yes
Must have a fee scheme setting out arrangements for charging fees.	Yes	Yes	No	No
Terms and conditions for agreement work are a matter for the audit body.	Yes but with restrictions	Yes	Yes	Yes

- 22 Three particular provisions stand out from **Exhibit 1** that have the potential to simplify the fee regime in Wales:
- the ability to charge fees with a view to breaking even on fee-related work ‘taking one year with another’;
 - not charging a fee for accounts prepared by government departments or other bodies that are funded directly from the relevant Consolidated Fund; and
 - greater latitude so that the terms and conditions of agreement work are a matter for the relevant auditing body (in our case the Wales Audit Office Board).

The bases for our consultation with stakeholders

- 23 We published a discussion paper on 6 June 2017 and invited stakeholder views by 28 July. We were pleased to receive 24 responses from across the sectors we audit.
- 24 Our discussion paper set out in detail the complexities arising from the current arrangements and their implications. We set out in the discussion paper that we saw the opportunity for simplification in Wales by bringing aspects of the fee regime more in line with those governing other parts of the UK. In particular, we set out potential advantages in:
- providing greater certainty to audited bodies of the fee to be charged and overcoming the lack of incentive to drive efficiency in audit delivery at ground level;
 - ending the circulation of fee money across central government bodies and the NHS; and
 - enabling the Wales Audit Office to make better use of agreement work as part of our financial strategy.
- 25 Set out below are the 3 solutions suggested in the discussion paper, along with a summary of the responses received from stakeholders and our recommendations taking into account those consultation responses.

Solution 1: To amend legislation to require that fees charged to an audited body do not exceed the full cost of the work undertaken, taking one year with another

- 26 We do not believe that the 2013 Act was intended to cause the level of complexity now experienced nor risk compromising the overall financial position of the Wales Audit Office. Nor do we believe the ‘may not exceed the full cost’ constraint was intended to be a disincentive to be more efficient in delivering audits. This disincentive occurs because the ‘may not exceed the full cost’ constraint has been included in section 23 of the Act (provisions relating to fees, and in certain places in other legislation) rather than section 24 (provisions for a scheme relating to the charging of fees). The positioning in section 23 results in a strict liability in relation to individual payments for specific aspects of our work, rather than requiring fee scales and fee amounts to be set at an appropriate level in the Fee Scheme for the overall amount of audit work we undertake.
- 27 To address this problem, we suggested that the Act is amended so that the ‘may not exceed the full cost’ constraint applies to the setting of fee scales and fee amounts in the section 24 Scheme for charging fees, rather than the fees actually charged under section 23 (and relevant provisions in other legislation). We also suggested removing the reference to cost ‘of a function’³ and including provision for ‘taking one year with another’. Making these changes would retain the discipline of requiring fee scales and fee amounts to be set with a view to recovering no more than the full cost of the work undertaken, but in a less prescriptive and inflexible way than is currently the case. A provision along the following lines in section 24 of the Act should provide sufficient flexibility to improve the cost effectiveness of our management and processing arrangements:

‘ In setting fee scales, amounts to be charged and means by which the Wales Audit Office is to calculate fees included in a scheme under this section, the Wales Audit Office must aim to ensure that fees charged to a person do not exceed the full cost of the work undertaken, taking one year with another.’

3 By omission of subsection 23(5)(b) of the 2013 Act, together with omission of subsection 20(5A) of the Public Audit (Wales) Act 2004 and subsection 27(4A) of the Local Government (Wales) Measure 2009.

Consultation responses

- 28 The majority of stakeholders were supportive of our preferred solution for simplification of the regime, with the assurance that audited bodies would not be charged more than the audit has cost taking one year with another. A range of narrative responses were provided; other than comments that simply agreed, a summary of the key points raised by individual responses is provided below:
- 1 Supportive in order to minimise the cost of the service provided by the Wales Audit Office through maximising efficiencies.
 - 2 Fee rates must be as transparent as possible and efficiency savings must be made wherever possible.
 - 3 Recognition that the current regime creates a disincentive to be more efficient in delivering audit work; changes must benefit audited bodies as well as the Wales Audit Office.
 - 4 Process should not allow the auditor to be inefficient in what they do. The cost of changes in audit teams should not be passed on to audited bodies.
 - 5 Would reduce the risk of unwanted year end surprises in terms of additional fees being charged.
 - 6 In reducing complexity, it is important that the Wales Audit Office does not end up with a simplistic generic system that also has unintended consequences.
 - 7 Happy with the current method of charging, just want a greater breakdown of costs so auditees can get a feel for its value for money.
 - 8 Encouraging a continued focus on cost reduction and lower fees wherever possible.
 - 9 Seek to change the approach but without the need for legislative change – support from Welsh Government to accommodate such a move going forward.
 - 10 The legislation should be simplified further, along the lines of ‘Wales Audit Office must charge fees in accordance with a Fee Scheme to be approved by the National Assembly annually’. Then use management policies to implement in greater detail.

Wales Audit Office recommendation having considered stakeholder views

- 29 We welcomed the responses received and broad support for simplifying this aspect of the legislation. There is evidently a shared desire for the Wales Audit Office to work as efficiently and effectively as possible, with a view to containing or lowering fees where possible. We will continue to ensure the fee setting process is transparent and that audited bodies understand how their fee is calculated. We will also continue to strive to improve the overall value for money in how we operate as the Wales Audit Office, reporting annually on this through our Estimate and Annual Report & Accounts.
- 30 **On the basis of the general support from stakeholders to simplify this aspect of the fee regime, we recommend that the legislation is amended so as to replace the existing 'no more than full cost requirement' with a duty on the Wales Audit Office to devise fee scales and calculate fees so as to seek to achieve no more than full cost recovery, taking one year with another.**
- 31 In the meantime, we will take further legal advice to re-test the scope to streamline our fee charging arrangements, while ensuring compliance with the 2013 Act. If we are able to operate such streamlining, we would re-lay the Fee Scheme to reflect and explain those arrangements.

Solution 2: Central government and NHS audit work to be cash funded from the Welsh Consolidated Fund (following approval of the Estimate of the Wales Audit Office) instead of through fees

- 32 The charging of fees for central government bodies and the NHS represents a circulation of funds within the same sector amounting to some £4.9 million annually.
- 33 Looking at our counterparts in the other UK audit bodies, we see that such circular cash funding is avoided for government departments – no cash fee is charged (although a notional charge is included in the accounts of those bodies) and the cash funding for that work is provided to the audit office concerned direct from the relevant Consolidated Fund.
- 34 In considering whether to move to this approach for Wales, we saw scope to extend the approach to cover the NHS, Welsh Government Sponsored Bodies and the Commissioner bodies. For all these bodies, the Auditor General undertakes their work for the Assembly rather than for the audited body. It is therefore arguably also appropriate for the cost of the audits to be funded directly by the Assembly through the Wales Audit Office's budget scrutiny and approval process rather than by the audited body. To some extent, this approach bolsters audit independence from the body being audited.
- 35 The Auditor General would still be subject to the monitoring and advice of the Wales Audit Office and the legal requirement to exercise functions cost effectively. Furthermore, the Wales Audit Office would still be subject to the Assembly's scrutiny through the Finance Committee.
- 36 The estimated total cost of the audit work across these bodies (in the order of £4.9 million) would be included in the annual Estimate of the Wales Audit Office, to be funded from the Welsh Consolidated Fund. It would be balanced by a one-off adjustment to the Welsh Government's budget and other relevant bodies.
- 37 We would provide relevant audited bodies with a notional fee cost, for inclusion in their Resource Budget and Annual Accounts, per Financial Reporting Manual requirements. The key change is that we would no longer physically raise invoices for that work nor have transfers between bank accounts for the sums invoiced.

Consultation responses

- 38 Although the majority of stakeholders were supportive of our preferred solution, importantly two of the larger stakeholder organisations, the Welsh Government and Natural Resources Wales, were not. The Welsh Government's response said that without maintaining a clear link between audit work and audit costs incurred, there is less of an incentive for the public sector to pursue change.
- 39 A range of narrative responses were provided by stakeholders; other than comments that simply agreed, a summary of the key points raised by individual responses is provided below:
- 1 Concern of increased complication from this proposal.
 - 2 Need to ensure it is a cost neutral adjustment.
 - 3 Implication to audited bodies, their boards and Audit Committees in terms of seeking a quality service at a reasonable price. Where does the challenge to the audit fee come from under the new proposal?
 - 4 Savings would be minimal in terms of processing transactions and could be offset by increased administrative issues relating to changing grant-in-aid allocations.
 - 5 Concern that adjustments may be made by the Welsh Government to Grant in Aid beyond the adjustment for the fee, based on previous experiences of Welsh Government Sponsored Bodies. Also, some bodies use a mix of Grant in Aid and other income to fund the fee. Others have no Grant in Aid at all.
 - 6 Creates perception that the audited body does not pay for its audit.
 - 7 Discussions during the audit planning stage may well lead to changes in the hours needed to complete the work and hence the costs incurred.
 - 8 This approach would take the burden away from the public body and allows the Wales Audit Office the autonomy to undertake a full audit without pressure of costs.
 - 9 Of significant note, the Welsh Government is opposed to switching to notional charges as proposed by this question.

Wales Audit Office recommendation having considered stakeholder views

- 40 We have listened carefully to the areas of concern raised by stakeholders in relation to moving to notional fees. Some stakeholders were concerned that notional fees might reduce transparency and accountability. This has not been found to be the case in the other areas of the UK that have long operated in this way, such as in the National Audit Office. Even under a notional fee regime, we would still expect Audit & Risk Assurance Committees to hold us to account in proposing our audit plan and notional fee for the year.
- 41 However, we have revised our thinking in light of feedback and would find it difficult to continue to argue for change that goes beyond what is in place in other parts of the UK. Our proposal for notional fees is therefore now constrained to just those bodies funded directly from the Welsh Consolidated Fund, being comparable with the arrangements in place in England, Scotland and Northern Ireland. These bodies in Wales are the Welsh Government (Welsh Ministers), the National Assembly for Wales Commission and the Public Services Ombudsman for Wales.
- 42 **We recommend that notional audit fees be set for bodies funded directly from the Welsh Consolidated Fund, bringing Wales into line with the arrangements in place across the rest of the UK.**

Solution 3: Legislative change to enable the Wales Audit Office to fully determine payment terms for agreement work

- 43 Our fee regime is such that we may not charge more than the full cost of the work that we do – whether done under statute or by agreement. This is unfortunate. If we were allowed to charge for agreement work on a competitive basis, we believe we could secure a better overall financial position and one which could actually reduce our call on public funds by reducing our net operating costs.
- 44 Agreement work is the audit of accounts, certification of grants or other audit work which is commissioned by the audited body rather than required by statute. Examples of such work include our audits for the Government of Anguilla which were won through a competitive tendering exercise.
- 45 We believe that adopting a model where the payment terms of agreement work can be fully determined by the Wales Audit Office, rather than being constrained in legislation, would enable greater economy in the overall cost of public audit in Wales. We have faced the position of having to part-refund fees because the final cost of the work came out less than the figure agreed through a competitive tender process; this seems nonsensical.
- 46 Such a change would enable us to retain any surpluses made rather than have to refund the difference. We see potential to use this greater discretion as part of our financial strategy in the long-term to help contain the cost of public audit in Wales. In effect, it could lead to us drawing less from the Welsh Consolidated Fund than we otherwise might.

Consultation responses

- 47 The majority of responses were broadly supportive of simplification in this area. Other than the comments that simply agreed, a summary of the key points raised by individual responses from stakeholders is provided below:
- 1 If having secured work through a competitive process, or by agreement, the Wales Audit Office is able to achieve a surplus, it seems logical that the net overall surplus in any year from such activities should be retained and effectively used to reduce the amount required from the Welsh Consolidated Fund.
 - 2 The proposal is reasonable as long as it is for work outside of Wales in order to avoid cross-subsidisation of charges. There must be a genuinely competitive environment for this proposal to work.
 - 3 There is the risk that competitive advantage could be unfairly gained from cross-subsidisation from the Welsh Consolidated Fund.
 - 4 Any profits should be used to lower the cost of statutory audit work.
 - 5 Having the ability to increase commercial acumen will allow Wales Audit Office to increase commercial revenues to offset the costs to the public sector. The price of commercial risks should be factored into costings.
 - 6 By realising other market opportunities it is possible to sell additional services to public bodies such as training and best practice guides which could result in lower fees due to enhanced practices and less auditing time.

Wales Audit Office recommendation having considered stakeholder views

- 48 In light of stakeholder feedback, we do want to be clear that it is not our intention to risk any form of cross-subsidisation of public sector funds. We see the key benefit of simplification in this area as being to reduce the overall cost of public audit and hence our call on the Welsh Consolidated Fund. (albeit probably marginally) and further improve value for money in our use of resources and development opportunities for our staff.
- 49 Cautions raised around the risk of cross-subsidisation are already part of our risk management arrangements when considering agreement work.
- 50 **We recommend that the legislation is amended so as to enable, for commissioned work, the Wales Audit Office through its Fee Scheme to determine appropriate levels of charging which are not subject to the 'charge no more than cost of function' stipulation.**

Final recommendations

51 The recommendations set out in this paper are presented in [Exhibit 2](#) for completeness:

Exhibit 2 – Recommendations to simplify the public audit fee regime in Wales

The exhibit sets out the recommendations presented through this case for change paper.

Recommendations	
R1	We recommend that the legislative is amended so as to replace the existing “no more than full cost requirement” with a duty on the Wales Audit Office to devise fee scales and calculate fees so as to seek to achieve no more than full cost of the work recovery, taking one year with another.
R2	We recommend that notional audit fees be set for bodies funded directly from the Welsh Consolidated Fund, bringing Wales into line with the arrangements in place across the rest of the UK.
R3	We recommend that the legislation is amended so as to enable, for commissioned work, the Wales Audit Office through its Fee Scheme to determine appropriate levels of charging which are not subject to the “charge no more than cost of function” stipulation.

52 Our thanks to all stakeholders who took the time to share their views with us. We now look forward to discussing these recommendations and our case for change with the Finance Committee of the National Assembly.

Appendices

Appendix 1 – Extracts of legislation governing the fee regime amongst UK audit bodies

Wales Audit Office:

Section 20 of the Public Audit (Wales) Act 2004

20 Fees in respect of functions exercised by the Auditor General for Wales

- A1 The Wales Audit Office must, in accordance with a scheme for charging fees prepared under section 24 of the Public Audit (Wales) Act 2013, charge a fee in respect of functions exercised by the Auditor General for Wales—
- a in auditing the accounts of local government bodies in Wales under this Chapter, and
 - b in undertaking studies at the request of a local government body under section 44.
- 1 The Wales Audit Office must prescribe a scale or scales of fees payable for one or more financial years in respect of the audit of accounts of local government bodies in Wales under this Chapter.
 - 2 Before prescribing a scale of fees under subsection (1) the Wales Audit Office must consult -
 - a any associations of local government bodies in Wales which appear to the Wales Audit Office to be concerned, and
 - b such other persons as the Wales Audit Office thinks fit.
 - 3 [repealed]
 - 4 A local government body in Wales must, subject to subsection (5), pay to the Wales Audit Office the fee payable in respect of the audit in accordance with the appropriate scale.
 - 5 If it appears to the Wales Audit Office that the work involved in a particular audit differed substantially from that envisaged by the appropriate scale, the Wales Audit Office may charge a fee which differs from that referred to in subsection (4).
 - 5A But a fee charged under this section may not exceed the full cost of exercising the function to which it relates.
 - 6 [repealed]

Sections 23 and 24 of the Public Audit (Wales) Act 2013

23 General provision relating to fees

- 1 Fees and other sums received by the Auditor General must be paid to the Wales Audit Office.
- 2 The Wales Audit Office may charge a fee in relation to the audit of a person's accounts or statement of accounts by the Auditor General.
- 3 The Wales Audit Office may charge a fee in relation to -
 - a an examination, certification or report under paragraph 18(3) of Schedule 8 to the Government of Wales Act 2006 (certain examinations into the economy etc with which a person has used resources);
 - b an examination under section 145 of the Government of Wales Act 1998 (examinations into the use of resources) or a study under section 145A of that Act (studies for improving economy etc in services), where undertaken at a person's request;
 - c an examination or study undertaken by the Auditor General at a person's request under section 46(4) of the Environment Act 1995;
 - d any services provided or functions exercised under section 19.
- 4 The Wales Audit Office must charge a fee in relation to -
 - a the provision of services to a body under paragraph 20 of Schedule 8 to the Government of Wales Act 2006 (certification of claims, returns etc at the request of a body);
 - b a study at the request of an educational body under section 145B of the Government of Wales Act 1998.
- 5 Fees under this section -
 - a may only be charged in accordance with a scheme prepared by the Wales Audit Office under section 24;
 - b may not exceed the full cost of exercising the function to which the fee relates;
 - c are payable to the Wales Audit Office by the person to whom the function being exercised relates.

24 Scheme for charging fees

- 1 The Wales Audit Office must prepare a scheme relating to the charging of fees by the Wales Audit Office.
- 2 The scheme must include the following -
 - a a list of the enactments under which the Wales Audit Office may charge a fee;
 - b where those enactments make provision for the Wales Audit Office to prescribe a scale or scales of fees, that scale or those scales;
 - c where those enactments make provision for the Wales Audit Office to prescribe an amount to be charged, that amount;
 - d where no provision is made for a scale or scales of fees or for an amount to be prescribed, the means by which the Wales Audit Office is to calculate the fee.
- 3 The scheme may, amongst other things -
 - a include different provision for different cases or classes of case, and
 - a 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 Assembly.
- 8 The Wales Audit Office must publish the scheme (and any revision to it) as soon as reasonably practicable after it takes effect.

**National Audit Office:
Paragraph 8 of schedule 3 to the Budget Responsibility
and National Audit Act 2011**

8 Audit fees etc

- 1 NAO may charge fees for audits carried out by the Comptroller and Auditor General.
- 2 Any fees must be charged in accordance with a scheme prepared by NAO.
- 3 The scheme (including any revision) must be approved by the Public Accounts Commission.
- 4 The agreement of a Minister of the Crown is required for the charging of a fee if the accounts to be audited are the accounts of a body or other person who acts on behalf of the Crown.
- 5 Sub-paragraphs (1) to (4) do not apply in relation to an audit carried out as part of any NAO-approved services.
- 6 The Comptroller and Auditor General may charge fees and other amounts in relation to NAO-approved services, but only in accordance with the agreement or other arrangements under which the services are provided.
- 7 Fees and other amounts received by the Comptroller and Auditor General must be paid to NAO.
- 8 Fees and other amounts received by NAO under this paragraph must be paid into the Consolidated Fund.

Northern Ireland Audit Office: Article 7 of the Audit (Northern Ireland) Order 1987

7 Audit fees

- 1 Subject to paragraph (2), the Comptroller and Auditor General may charge a fee for auditing the accounts of any person or body.
- 2 The Comptroller and Auditor General shall not without the consent of a Northern Ireland department charge a fee for auditing the accounts of a person or body whose functions are discharged on behalf of the Crown; and this Article shall not be construed as authorising the charging of a fee for the audit by agreement of the accounts of any other person or body unless the agreement so provides.
- 3 Any fee received by the Comptroller and Auditor General by virtue of this Article shall be paid by him into the Consolidated Fund.

Article 8 of the Local Government (Northern Ireland) Order 2005

8 Audit fees

There shall be paid to the Comptroller and Auditor General for Northern Ireland by every body whose accounts are audited by the local government auditor such fees as the local government auditor may determine.

Audit Scotland: Section 11 of the Public Finance and Accountability (Scotland) Act 2000

11 Audit Scotland: financial provisions

- 1 Audit Scotland may impose reasonable charges in respect of the exercise of its functions in connection with—
 - a the provision of services under arrangements made in pursuance of section 10(5),
 - b the audit under sections 21 and 22 of an account, other than one prepared in pursuance of section 19(1) to (3) or 20(1),
 - c the carrying out under section 23 of an examination, other than one in respect of an office-holder in the Scottish Administration or a body or other office-holder to whom sums are paid out of the Fund,
- ca carrying out a data matching exercise under section 26A,

- d the audit of an account in pursuance of Part VII of the Local Government (Scotland) Act 1973 (c.65),
 - e the undertaking or promotion of any study under section 97A or 105A of that Act,
 - f the giving of directions under section 1 of the Local Government Act 1992 (c.19).
- 2 Charges under subsection (1) may be determined by reference to particular cases or classes of case.
 - 3 In determining the amounts of those charges Audit Scotland must seek to ensure that the total sum received in respect of the charges is, taking one year with another, broadly equivalent to its expenditure in connection with the matters mentioned in subsection (1)(a) to (f).
 - 4 Charges under subsection (1)(b) to (f) are payable by the body or office-holder whose account is audited or, as the case may be, in respect of whom the examination is carried out, the study undertaken or promoted or the direction given.
 - 5 Where a charge under subsection (1)(c), (e) or (f) relates to an examination, study or direction in respect of more than one body or office-holder, each body or office-holder is to pay such proportion of the charge as is determined by Audit Scotland.
- 5A Charges under subsection (1)(ca) may be imposed on (either or both) -
- a persons who disclose data for a data matching exercise,
 - b persons who receive the results of such an exercise.
- 6 Sums received by Audit Scotland in respect of charges under subsection (1) are to be retained by it and applied to meet the expenditure mentioned in subsection (3).
 - 7 Any other sums received by Audit Scotland are to be paid into the Fund, subject to any provision made by any enactment for such sums to be applied for any purpose instead of being paid into the Fund.
 - 8 Any expenditure of Audit Scotland, so far as not met out of sums received and applied in accordance with subsection (6), is payable out of the Fund.
 - 9 Audit Scotland must, for each financial year, prepare proposals for its use of resources and expenditure and send the proposals to the Scottish Commission for Public Audit (constituted under section 12), which is to examine the proposals and report to the Parliament on them.

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

Exhibit 3 – List of enactments under which the Wales Audit Office may and must charge fees

Nature of work	Enactments
The Wales Audit Office may charge fees for the following activities:	
<ul style="list-style-type: none"> audit of accounts by the Auditor General (other than local government accounts). 	<ul style="list-style-type: none"> section 23(2) Public Audit (Wales) Act 2013
<ul style="list-style-type: none"> value-for-money studies undertaken by agreement. 	<ul style="list-style-type: none"> section 23(3)(a)-(c) Public Audit (Wales) Act 2013
<ul style="list-style-type: none"> an examination, certification or report under section 31 of the Tax Collection and Management (Wales) Act 2016 in respect of the Welsh Revenue Authority's Tax Statement. 	<ul style="list-style-type: none"> section 23(3)(ba) Public Audit (Wales) Act 2013 (Not yet commenced. Date to be appointed.)
<ul style="list-style-type: none"> an examination under section 15 of the Well-being of Future Generations (Wales) Act 2015 (anaw 2) (examinations of public bodies for the purposes of assessing the extent to which a body has acted in accordance with the sustainable development principle). 	<ul style="list-style-type: none"> section 23(3)(ca) Public Audit (Wales) Act 2013
<ul style="list-style-type: none"> any functions of a relevant authority exercised by the Wales Audit Office or the Auditor General and undertaken by agreement, and any administrative, professional or technical services to be provided by the Wales Audit Office or the Auditor General by arrangement under section 19 of the Public Audit (Wales) Act 2013. 	<ul style="list-style-type: none"> section 23(3)(d) Public Audit (Wales) Act 2013
<ul style="list-style-type: none"> an extraordinary audit of the accounts of a local government body. 	<ul style="list-style-type: none"> section 37(8) of the Public Audit (Wales) Act 2004
<ul style="list-style-type: none"> data-matching exercises. 	<ul style="list-style-type: none"> section 64F(A1) of the Public Audit (Wales) Act 2004 a fee scale must be prescribed for this work

Nature of work	Enactments
The Wales Audit Office may charge fees for the following activities:	
<ul style="list-style-type: none"> advice and assistance provided by the Auditor General for registered social landlords. 	<ul style="list-style-type: none"> section 145D(2) of the Government of Wales Act 1998
<ul style="list-style-type: none"> work under the Local Government (Wales) Measure 2009. 	<ul style="list-style-type: none"> section 27 of the Local Government (Wales) Measure 2009 a fee scale must be prescribed for this work
<ul style="list-style-type: none"> grant certification services. 	<ul style="list-style-type: none"> section 23(4)(a) Public Audit (Wales) Act 2013
<ul style="list-style-type: none"> studies at the request of educational bodies under section 145B of the Government of Wales Act 1998. 	<ul style="list-style-type: none"> section 23(4)(b) Public Audit (Wales) Act 2013
<ul style="list-style-type: none"> auditing the accounts of a local government body and undertaking studies by agreement with a local government body. 	<ul style="list-style-type: none"> 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
<ul style="list-style-type: none"> benefit administration studies for the Secretary of State. The Auditor General may conduct or assist the Secretary of State in conducting a benefit administration study only if the Secretary of State has made arrangements for the payment to the Wales Audit Office of a fee in respect of the study. The amount of the fee must be a reasonable amount agreed between the Secretary of State and the Wales Audit Office. 	<ul style="list-style-type: none"> section 45 of the Public Audit (Wales) Act 2004
<ul style="list-style-type: none"> assisting Her Majesty's Chief Inspector of Education and Training in Wales with inspections of local authorities. The Auditor General shall not provide such assistance unless, before he does so, the Chief Inspector has agreed to pay the Wales Audit Office a fee. 	<ul style="list-style-type: none"> section 41A of the Education Act 1997

Nature of work	Enactments
The Wales Audit Office may charge fees for the following activities:	
<ul style="list-style-type: none"> programmes of studies relating to registered social landlords undertaken by agreement between the Welsh Ministers and the Auditor General. It shall be a term of every such programme that the Welsh Ministers must pay to the Wales Audit Office a sum in respect of the costs incurred. 	<ul style="list-style-type: none"> section 145C(3) of the Government of Wales Act 1998

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Agenda Item 9

By virtue of paragraph(s) vi of Standing Order 17.42

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Simon Thomas AM
Chair of Finance Committee
National Assembly for Wales
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7 November 2017

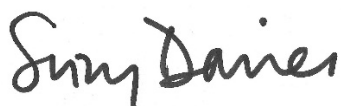
Dear Simon

Thank you for your committee's **Report on the Scrutiny of the Assembly Commission Draft Budget 2018–2019**, published on 20 October 2017. The Commission's response to the Finance Committee recommendations is detailed in the annex attached.

The Commission wishes to place on record that this Draft Budget for 2018–19 has been proposed in the context of the five-year budget strategy that had been previously presented, scrutinised and recommended.

I would like to thank the Committee for its scrutiny and I look forward to the debate on the Commission's budget motion next week. The Commission's approach is always to try to operate with openness, transparency and clarity, if there is any further information your Committee would like to have, please let me know.

Yours sincerely



Suzy Davies

cc Manon Antoniazzi, Nia Morgan

Croesewir gohebiaeth yn Gymraeg neu Saesneg / We welcome correspondence in Welsh or English



Finance Committee Recommendations

Recommendation 1. The budget requested for Assembly Commission Services for 2018–19 is 3.1 per cent, which is above both inflation and increases in the Welsh Block Grant. Given the continued and expected cuts across the public service in Wales and based on the indicative figures provided in the draft Budget documentation, the Committee recommends that in the remaining years of this Assembly, the Commission’s budget should not be in excess of any changes to the Welsh Block Grant.

Agreed in principle.

The Commission will continue to consider the proportion of the Welsh Block Grant, or more specifically the total amount voted on by the Assembly, when preparing future operational budgets. In doing so we will need to be mindful of potential variation in the Welsh Block Grant as a result of new tax varying powers.

The Commission is required, under legislation, to ensure that sufficient funds are available to give effect to the Determination set by the independent Remuneration Board.

The Commission’s budget also contains an accounting provision for the Members’ Pension Scheme under the HM Treasury’s Annually Managed Expenditure (AME) Heading. This is set by the actuary, the Government Actuary’s Department (GAD).

Recommendation 2. The Committee recommends that the final budget is amended to remove the ring- fenced £700,000 requested to progress a planning application for a new building. It believes that should there be a need to progress this application, the Commission should request the funding via a supplementary budget, or budget for future years.

Agreed.

The Commission has a statutory responsibility to provide the necessary property, facilities and services required for the Assembly to effectively deliver its role in representing the interests of Wales and its people, making laws for Wales, agreeing Welsh taxes and holding the Welsh Government to account. The



Commission is also obliged by Order¹ to provide office accommodation in TŷHywel to the Welsh Government.

Therefore, the Commission's purpose has been to execute its statutory responsibility for these matters, by identifying the need for additional accommodation to ensure both the Assembly and the Welsh Government needs can be met over the long term.

Recommendation 3. Should the Commission choose to utilise the supplementary budget route to commence planning on a possible new building, the Committee recommends that prior to a supplementary budget motion being tabled, the Commission should submit the Explanatory Memorandum required by Standing Order 20.32 to the Committee for consideration prior to being laid. The Committee would expect to see detailed information as to why the new building is required in terms of the needs of the Commission and the Welsh Government, including statutory obligations, and how it would accommodate a possible increase in the number of Assembly Members.

Agreed.

In December 2017, the Commission will review proposals for submitting a planning application for a potential new building to meet the long term Assembly and Welsh Government accommodation needs. If the Commission agrees to progress with a planning application, then a Supplementary Budget would be required as soon as possible in order to minimise commercial risks.

The Commission would, as requested, submit an Explanatory Memorandum required by SO 20.32, to the Committee at the earliest opportunity. This Memorandum would provide details of the case for a new building and the work to be undertaken to prepare the planning application.

¹ National Assembly for Wales (Transfer of Property, Rights and Liabilities) Order 2007 (SI 2007/1269)



Recommendation 4. The Committee recommends that the Assembly Commission takes steps to ensure that its spending decisions are properly discussed with, and conveyed to, party groups.

Agreed.

A communication note is prepared after each Commission meeting for the purposes of feeding back to party groups. Commissioners would welcome suggestions from party groups about how to improve communication.

Recommendation 5. The Committee recommends that the Commission provides an in-year update (before the end of each calendar year) on likely Remuneration Board underspend along with any significant changes to planned projects to be funded using these underspends.

Agreed.

In March 2017 we wrote to the Committee, providing information on the projected underspend in relation to money drawn down to fund the Remuneration Board Determination and to show how this underspend was to be utilised by the Assembly Commission. We subsequently appeared before Finance Committee in June 2017, to discuss further the utilization of the Remuneration Board underspend.

However, we will be happy to provide the Committee with an update in December. Our 2017-18 Annual Report and Accounts document will also provide full details of our expenditure during this financial year.

Recommendation 6. The Committee recommends that the Commission gives consideration to the priorities associated with the Remuneration Board underspend to ensure that the priorities directly reflect services which provide support to Members.

Agreed.



It has always been and remains the case that the core purpose of the Commission is to prioritize the resourcing of services, staff and facilities in support of Assembly Members. The Commission's first strategic goal is to provide outstanding parliamentary support.

The priorities associated with the Remuneration Board underspend are shown on page 30 of the draft 2018–19 budget document. The Remuneration Board underspend contributes, but is not the sole source, of investment funds available to the Commission.

The priorities are items that, as with all Commission expenditure, provide support and services to Members. These include physical security, cyber security, essential maintenance of the Estate and improving engagement.

Recommendation 7. The Committee remains concerned as to the transparency associated with budgeting for forecasted underspends, however, it is recognised that there is a new Chief Executive and Clerk to the Assembly and the 2018/19 budget will be her first as Accounting Officer, as such the Committee recommends that serious consideration is given to how the budget is determined.

Agreed.

The Committee will be aware that, for the 2016–17 financial year, the Auditor General Wales issued an unqualified opinion on the Assembly Commission's financial statements and there were no issues raised in the Audit of Financial Statements Report or Management Letter completed by the WAO. The key financial systems, controls and procedures supporting the production of accounts were all found to be robust and accounting policies appropriately followed and applied.

The new Chief Executive, as Accounting Officer and IRB chair, has considered a number of alternative budget models and will continue to keep this matter under review. These were also considered in detail by the Commission and the current model was considered to be the most transparent, providing best use of public funds. We understand that the Committee has also taken advice from the Wales Audit Office on the budget model used by the Commission.



The draft 2018–19 budget document details the anticipated:

- operational underspends (including staffing vacancies)
- unutilised funds associated with the Determination of the Remuneration Board

The budget document also sets out the Commission's current expenditure priorities, if budget becomes available. (Page 30 of the 2018–19 draft budget document).

We will, of course, continue to review our budget setting process to ensure that it sets out clearly and transparently the funding needs of the Commission in order to deliver its statutory obligations as well as its strategic goals and priorities.

If subsequently there is a recommendation to change the current budget model, we would be happy to consider this and would wish to discuss the significant implications of doing so, with the Finance Committee.

Recommendation 8. The Committee recommends that the outcome of the Capacity Review currently being undertaken is provided as a paper to the Committee. At this stage the Committee would like to see details on the increase in staff numbers over the past 10 years, including details as to which services has an increased head count and the reasoning behind these increases.

Agreed.

The outcome of the Capacity Review will be communicated to the Committee once it has been completed.

The Capacity Review will include detail on which services have experienced an increase in FTE and the reasoning behind these increases

Recommendation 9. The Committee recommends that the Capacity Review is considered alongside a benchmarking exercise with other parliaments, including parliaments with a bilingual function.

Agreed.



The Capacity Review will include the results of our initial benchmarking discussions and it is likely that we will need a further period of time to analyse the results of this work to develop any detailed insight.

The outcome of the Capacity Review will be communicated to the Committee once it has been completed.

Recommendation 10. The Committee recommends that the number of full-time equivalent posts in the Assembly should remain static for the financial year 2018–19, to prevent additional increases in staffing resources and to allow the new Chief Executive and Clerk the opportunity to consider the outcome of the Capacity Review and how existing staff can be effectively utilised to meet the priorities of the Assembly and the Commission.

Noted.

In the present financial year, the agreed staffing establishment includes 460 filled posts, 27 currently vacant posts and 4 apprentice posts; thus the total number of established posts is 491.

Going forward, within this establishment ceiling, the Commission will endeavour to maintain effective levels of service in support of Members and public engagement.

The Full Time Equivalent (FTE) number, which is presented in the Annual Report and Accounts to conform to accounting requirements, is a different calculation, based on the actual number of staff employed, including part time staff, reduced working hours, maternity and secondment cover and job share. Thus, the FTE figure can change regularly through the year. At the end of September 2017 the FTE count was 457.1



The Commission is reviewing the staff establishment as part of the Capacity Review. This will inform discussions around the appropriate level of staffing required to meet the challenges being faced by the Assembly. The outcome of the Capacity Review will be communicated to the Committee once it has been completed.

Conclusion 1. The Committee intends to undertake a short inquiry to firmly establish how other parliaments, within the UK and more widely, budget for expenditure related to Members pay and allowances.

Noted.

