

Agenda – Finance Committee

Meeting Venue:	For further information contact:
Video Conference via Zoom	Bethan Davies
Meeting date: 16 November 2020	Committee Clerk
Meeting time: 14.30	0300 200 6372
	SeneddFinance@senedd.wales

In accordance with Standing Order 34.19, the Chair has determined that the public are excluded from the Committee's meeting in order to protect public health. This meeting will be broadcast live on www.senedd.tv

- 1 **Introductions, apologies, substitutions and declarations of interest**

- 2 **Paper(s) to note**
(14:30) (Pages 1 – 3)
Minutes of the meeting held on 9 November 2020
- 2.1 **PTN 1 – Letter from the Minister for Housing and Local Government: Local Government and Elections (Wales) Bill – Revised Regulatory Impact Assessment – 5 November 2020**
(Pages 4 – 6)

- 3 **Inquiry into the implementation of the Wales Act 2014 and operation of the Fiscal Framework: Evidence session 7**
(14:30 – 15:30) (Pages 7 – 22)
David Phillips, Associate Director, Institute of Fiscal Studies

Supporting papers:

Research brief



BREAK (15:30 – 15:40)

4 Inquiry into the implementation of the Wales Act 2014 and operation of the Fiscal Framework: Evidence session 8

(15:40 – 16:25)

(Pages 23 – 33)

Dyfed Alsop, Chief Executive, Wales Revenue Authority

Rebecca Godfrey, Chief Strategy Officer, Wales Revenue Authority

Sam Cairns, Chief Operating Officer, Wales Revenue Authority

Supporting paper:

Research Brief

5 Motion to exclude the public from the remainder of the meeting; the meeting on 23 November 2020, and item 1 at the meeting on 30 November

(16:25)

6 Inquiry into the implementation of the Wales Act 2014 and operation of the Fiscal Framework: Consideration of evidence

(16:25–16:35)

7 Annual scrutiny of the Wales Audit Office and the Auditor General for Wales: Consideration of draft report

(16:35 – 16:50)

(Pages 34 – 103)

Supporting papers:

FIN(5)–22–20 P1 – Draft report

FIN(5)–22–20 P2 – Letter from Audit Wales – Audit Wales Estimate 2021–22 – Clarification – 11 November 2020

FIN(5)–22–20 P3 – Letter from the RSM UK Audit LLP and report – Wales Audit Office: Audit findings report year ended 31st March 2020 – 9 November 2020

8 Curriculum and Assessment (Wales) Bill: Consideration of draft report

(16:50 – 17:10)

(Pages 104 – 142)

Supporting papers:

FIN(5)-22-20 P4 – draft report

FIN(5)-22-20 P5 – Children, Young People and Education Committee –
Consultation on the Curriculum and Assessment (Wales) Bill: Audit Wales
response

9 Internal Market Bill: Consideration of draft report

(17:10 – 17:25)

(Pages 143 – 161)

Supporting papers:

FIN(5)-22-20 P6 – Draft report

Concise Minutes – Finance Committee

Meeting Venue:

This meeting can be viewed

Video Conference via Zoom

on [Senedd TV](#) at:

Meeting date: Monday, 9 November
2020

<http://senedd.tv/en/6558>

Meeting time: 14.31 – 17.35

Attendance

Category	Names
Assembly Members:	Llyr Gruffydd MS (Chair) Alun Davies MS Siân Gwenllïan MS Mike Hedges MS Rhianon Passmore MS Nick Ramsay MS
Witnesses:	Gerald Holtham, Cardiff Metropolitan University Ruth Stanier, HM Revenue & Customs Jackie McGeehan, HMRC Gareth Davies, The National Audit Office Darren Stewart, The National Audit Office Ben Rodin, The National Audit Office Lee Summerfield, National Audit Office
Committee Staff:	Bethan Davies (Clerk) Leanne Hatcher (Second Clerk)



	Georgina Owen (Second Clerk) Mike Lewis (Deputy Clerk)
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1 Introductions, apologies, substitutions and declarations of interest

1.1 The Chair welcomed Members to the virtual meeting of the Finance Committee.

1.2 The Chair welcomed Mark Reckless MS who was elected as a member of the Finance Committee.

1.3 Apologies were received from Mark Reckless MS.

2 Paper(s) to note

2.1 The papers were noted.

2.1 **PTN 1 – Letter from the Minister for Finance and Trefnydd: Update on the budget timetable for the Welsh Government's budget 2021–22 – 29 October 2020**

2.2 **PTN 2 – Commission's response to the Finance Committee's report on the Senedd Commission Draft Budget 2021–22 – 4 November 2020**

3 Inquiry into the implementation of the Wales Act 2014 and operation of the Fiscal Framework – Evidence session 4

3.1 The Committee took evidence from Professor Gerry Holtham, Hodge Professor of Regional Economy, Cardiff Metropolitan University on its inquiry into the implementation of the Wales Act 2014 and operation of the Fiscal Framework.

4 Inquiry into the implementation of the Wales Act 2014 and operation of the Fiscal Framework – Evidence session 5

4.1 The Committee took evidence from Ruth Stanier, Director General, Customer Strategy and Tax Design, HM Revenue & Customs; and Jackie McGeehan, Deputy

Director of Income Tax Policy, HM Revenue & Customs on its inquiry into the implementation of the Wales Act 2014 and operation of the Fiscal Framework.

5 Motion under Standing Order 17.42 to resolve to exclude the public from items 6, 7, 8 and 10.

5.1 The motion was agreed.

6 Inquiry into the implementation of the Wales Act 2014 and operation of the Fiscal Framework: Consideration of evidence

6.1 The Committee considered the evidence received.

7 Second Supplementary Budget 2020–21: Consideration of draft report

7.1 The Committee agreed the draft report with minor changes.

8 Public Services Ombudsman for Wales Estimate 2021–22: Consideration of draft report

8.1 The Committee agreed the draft report.

9 Inquiry into the implementation of the Wales Act 2014 and operation of the Fiscal Framework – Evidence session 6

9.1 The Committee took evidence from Gareth Davies, Comptroller and Auditor General, National Audit Office; Darren Stewart, Director, National Audit Office; Lee Summerfield, Director, National Audit Office; and Ben Rodin, Audit Manager, National Audit Office.

10 Inquiry into the implementation of the Wales Act 2014 and operation of the Fiscal Framework: Consideration of evidence

10.1 The Committee considered the evidence received.

Agenda Item 2.1

Y Gweinidog Tai a Llywodraeth Leol
Minister for Housing and Local Government



Llywodraeth Cymru
Welsh Government

Llyr Gruffydd, MS
Chair
Finance Committee
Senedd Cymru
Ty Hywel
Cardiff Bay
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05 November 2020

Dear Llyr

Local Government and Elections (Wales) Bill – Revised Regulatory Impact Assessment

Following the completion of the Stage 2 proceedings in respect of the Local Government and Elections (Wales) Bill, and in line with Standing Order 26.28, a revised Explanatory Memorandum has been laid and I would like to bring the changes which have been made to the Regulatory Impact Assessment to the Committee's attention.

Given the extension of the scrutiny timetable for the Bill the revised Regulatory Impact Assessment has been laid in a different financial year to the original. As a result the annual salary costs used as the basis of calculating staff costs in respect of the Welsh Government and local government have been updated to reflect pay scales at April 2020.

Despite the delay to the anticipated date of Royal Assent, implementation activities will still commence in 2020-21, as such the reference period of the Regulatory Impact Assessment remains 2020-21 to 2029-30.

The overall estimated cost has reduced from £17.17m to £16.09m, within this the estimated costs to the Welsh Government have increased by £306,000 (40%), whilst the estimated costs to local government have decreased by £1.32m (7.6%).

The forecast transitional costs falling to the Electoral Commission have also reduced, the basis of these revised costs is set out in table 3 of the RIA and the surrounding narrative.

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

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

Costs to the Welsh Government

Work has continued to refine the implementation plans in order to ensure the necessary arrangements, guidance and subordinate legislation is in place to support the implementation of the Bill, subject to it being passed by the Senedd. The majority of costs have remained, fundamentally, unchanged, however there have been changes to the costs in respect of Part 1 – elections and Part 2 – general power of competence.

In terms of Part 1, as the implementation plans have developed it has become apparent that more staff resource than originally anticipated is required in order to ensure all necessary activities are completed whilst maintaining ongoing engagement with the electoral community. The revised forecast of resource requirements means the opportunity costs to the Welsh Government have increased by £272,000 over the financial years 2020-21 and 2021-22 making a total cost of £872,000. This represents an increase of 45% (although this increase also reflects the revised, and increased, pay scales).

The estimated costs to the Welsh Government in respect of Part 2 have increased by £23,000 to £42,000 over the financial years 2020-21 and 2021-22. The increase is a result of the Stage 2 amendment in respect of guidance on the exercise of the general power for a commercial purpose. The estimated costs of making Regulations to prescribe the qualification a community council clerk must hold to meet the second eligibility condition relating to the general power has also been added to the Regulatory Impact Assessment.

Costs to local government

The transitional and recurrent costs to local government have reduced as follows:

- The forecast transitional costs have reduced by £535,000 to £2,415,000 and are now forecasted over three financial years from 2021-22 rather than 2020-21.
- The forecast recurrent costs have reduced by £782,000 to £12,567,000.

Whilst the reference period is unchanged there has been a shift in the profile of costs across the 10 year period. This is primarily due to the decision to postpone commencement of a number of provisions to May 2022, this will enable these provisions to be implemented by the incoming councils following the local government elections rather than subjecting councils to the new requirements within the 12 months preceding the elections. This has contributed to the decrease in recurrent costs for local government.

There has also been a reduction in the forecast costs, both transitional and recurrent, in relation to Part 1 of the Bill, as a consequence of the Senedd and Elections (Wales) Act 2020 (the 'Senedd Act'). At the point I introduced this Bill the Senedd Act was still progressing through the Senedd, with that Act now in force there are a number of costs which will fall, in full or in part, to that Act rather than this Bill. These primarily relate to awareness raising, the annual registration of the newly franchised electorate and the re-design of the standard invitation to register forms.

The Committee's recommendations

In my letter of 23 March, following the publication of the Committee's Stage 1 report, I set out my initial response to the Committee's recommendations, and can now provide further detail in respect of those recommendations in response to which the RIA has been revised:

In response to recommendation 8, the potential savings of abolishing community polls have been considered in more detail. It has not proven feasible to offset the costs of establishing

a new petitions scheme against these savings and the RIA has been revised at paragraph 11.44 to reflect this.

Under recommendation 9 the Committee recommended the RIA be revised to include a sensitivity analysis of the impact the number of petitions may have on staff time and the cost of monitoring and reviewing the petitions received. Further detail has been provided at paragraphs 11.39 – 11.40.

The costs set out in the Regulatory Impact Assessment in respect of the electronic broadcasting of principal council meetings have not been revised at this time (recommendation 10), although there have been changes made to the narrative as set out in paragraphs 11.76 to 11.78. Following further consideration of the matters raised by the Committees and stakeholders at Stage 1, I have tabled amendments to these provisions which remove the requirement for all meetings to be broadcast live, with principal councils instead only required to make arrangements for the broadcast of meetings of the full council as the meeting takes place.

The amendments will enable the Welsh Ministers, through the making of Regulations, to add other meetings to the list of those required to be broadcast. Regulations may also be made specifying conditions for broadcast, which could include matters such as specifying which meetings must be broadcast live and which may be recorded live and broadcast at a later date. These are subjected to the affirmative Senedd procedure.

I intend to publish a revised Regulatory Impact Assessment following Stage 3 and will, where relevant and necessary, revise the costs in respect of the electronic broadcasting provisions, together with any other provisions which may be subject to amendment at Stage 3.

Finally in relation to recommendations 19 and the costs which may fall to the Welsh Government as a consequence of our post implementation review strategy, I will consider this matter when revising the Regulatory Impact Assessment post Stage 3 and include details of these opportunity costs in the revised Regulatory Impact Assessment where appropriate. I would anticipate publishing the revised Regulatory Impact Assessment shortly after the Bill receives Royal Assent.

I would like to take the opportunity to again thank the Finance Committee for their scrutiny of the Bill.

This letter has been copied to the Chair of the Equality, Local Government and Communities Committee.

Yours sincerely



Julie James AS/MS

Y Gweinidog Tai a Llywodraeth Leol
Minister for Housing and Local Government

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Agenda Item 7

By virtue of paragraph(s) vi of Standing Order 17.42

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Llyr Gruffydd MS
Chair of the Finance Committee
Senedd

Via email

Reference: LF20001/AC/220/caf

Date issued: 11 November 2020

Dear Llyr

Audit Wales Estimate 2021-22 - Clarification

Further to last week's evidence session with the Committee, we promised to provide some additional clarification on one of the items raised.

Remote access to client systems

As explained to the Committee, we have already successfully arranged remote access to NHS financial systems for our auditors allowing audit work to be completed remotely despite the COVID-19 pandemic. This has been possible because all Welsh NHS bodies use a common finance system and once remote access was obtained this could be used for all NHS bodies.

For Local Government bodies, progress in arranging remote access for auditors to local government finance systems has been mixed; with access obtained for some, but not all, of these bodies.

Securing remote access to local government systems has been more challenging as the different authorities use several different systems and hence each authority will have developed different ways of securing remote access both for its own staff and our auditors. Providing this access securely can be costly and challenging and will be easier for some authorities to achieve than others. We continue to work with all our audited bodies to help achieve this.

ASCII

The committee asked whether the American Standard Code for Information Interchange (ASCII) could be helpful in setting up remote access for more authorities' finance systems.

ASCII is a standard, established in the 1960s for representing alphabetic and numerical characters inside a computer in digital form. Standards like this are fundamental to the way modern computers operate. Today's systems are more

likely to represent text using later, more elaborate standards such as Unicode. These build on the idea of ASCII but extend it to special characters for languages other than English, more symbols etc. However, ASCII itself is still in use in some situations, especially on “legacy” systems.

Overall, the way raw text or numeric data is represented inside different computers is now well standardised. Interoperation between machines at this basic level is rarely a problem.

Security issues

Remote access involves connecting to the target system across the Internet. The key challenge around setting up remote access arrangements today is to do so in a way which doesn't introduce cyber risk i.e. compromise security.

The essence of secure remote access is to enable access for those who are authorised. Typically, this would be the authority's own staff and partners such as our auditors.

However, a remote access solution must also keep out hackers and criminals who could be anywhere in the world, highly motivated to break in. Cyber criminals are often very technically proficient, ready to take advantage of subtle, newly discovered flaws in systems to gain access.

Setting up secure remote access, therefore, is a significant engineering challenge. National Cyber Security Centre (NCSC) have detailed guidance on how this should be done using purpose-made, “security hardened” products such as virtual private networks (VPNs) from Cisco, Microsoft, F5, Fortinet or Palo Alto, or thin client products such as Citrix. These products are complex, can be costly and require deep technical skills to set up and maintain.

The consequences for organisations which take short cuts with remote access solutions can be severe. Highly disruptive data breaches at Travelex in early 2020, and in some UK Universities throughout 2020 are believed to have started with criminals taking advantage of remote access solutions which were not properly set up or maintained or used an inappropriate technology.

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

Yours sincerely



LINDSAY FOYSTER
Chair, Wales Audit Office



ADRIAN CROMPTON
Auditor General for Wales



9 November 2020

Llyr Gruffydd, MS
Committee Chair
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Dear Mr.Gruffydd,

Enclosed is our final Audit Findings Report. We can confirm that there are two revisions since the draft version of our Report presented on 1 June 2020:

1. The word "draft" has been removed from the header
2. Our executive summary has been updated to confirm that "our audit work is complete and we have issued an unmodified opinion on the financial statements".
3. Our terms and conditions on page 16 have been updated to refer to both the Wales Audit Office and the National Assembly for Wales Commission.

There are no other revisions from the original Findings Report.

Yours sincerely,

RSM UK AUDIT LLP

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Wales Audit Office

Audit findings report year ended 31st March 2020

1 June 2020

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Executive Summary

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 31st March 2020.

The scope of our work was communicated to you via our Audit Plan document. We believe that the audit approach adopted will provide the Audit and Risk Assurance Committee with the required confidence that a thorough and robust audit has been carried out.

Our audit work is complete and we have issued an unmodified audit opinion on the financial statements in line with the agreed timetable.

Material materiality

Materiality was determined based on an effective rate of 2.1% of expenditure for the year. This benchmark and percentage are consistent with the calculations detailed in the Audit Plan.

Unadjusted audit differences

We have not identified any nontrivial audit adjustments, which is confirmed within the Appendix. We have not identified any material disclosure omissions that have not been updated in the draft statutory accounts.

Risks and approach

We have carried out testing as planned on the risks identified during planning and draw your attention to the following key points for discussion:

- Revenue and WIP recognition
- Management override of internal controls
- Reputational risk
- Brexit financial reporting considerations

We have also identified additional risks during the course of our audit which are discussed below:

- COVID-19 financial reporting considerations

Risks identified at the planning stage

Risk	Description	Response	Findings
Management override of internal controls	In any organisation there will be an extent to which management can bypass internal controls. By definition, there can be no controls over this risk and this is specifically stated in International Standards on Auditing: 240. Such override, if exercised, could give rise to material fraud or misstatement in the financial statements.	<p>We will discuss and consider segregation of duties within the established control environment.</p> <p>We will review controls over journal entries and, using data analytics and based our on risk assessment, test a sample of journals to ensure that they are valid and appropriately supported.</p> <p>We will obtain an understanding of the business rationale of significant transactions that we become aware of during the audit process that appear to be outside the normal course of business or that appear to be unusual, given our understanding of the entity's operating environment.</p> <p>We will consider estimates and judgements made by management in the preparation of the statutory accounts and conclude on their appropriateness.</p>	<p>The testing was completed as planned with no significant issues identified to report to management.</p> <p>We have tested a sample of the journal entries posted during the year, and this did not highlight any erroneous entries, or items indicative of undue management bias.</p> <p>We have reviewed the significant estimates adopted in the preparation of the financial statements, and we have not identified any areas where there appears to be indication of management bias. Our review of the estimates made in respect of the dilapidations provision and the bad debt provision indicated that these appear to have been derived on an appropriate and consistent basis.</p>
Reputational risk	Given the public interest in the financial statements, there is a risk that accounting judgements may be influenced by the desire to demonstrate good financial management and remain within the Estimate.	<p>We will undertake internal specialist technical reviews of both the accounts, and also our audit work, given the increased reputational risk associated with the audit.</p> <p>We will review the judgemental aspects of year-end balances, particularly focusing on any round sum provisions, estimates, recoverability of debtors, disclosure of remuneration and related party transactions.</p>	<p>During the course of the audit, we have not identified any areas from the WAO's operations that suggests there are any matters whereby the reputation could appear to be significantly damaged.</p> <p>As discussed previously, our review of judgemental areas has not noted any areas of inappropriate activity, or areas where the Office has been acting inappropriately.</p> <p>We are satisfied that there appears to be appropriate disclosure of the remuneration of directors and senior management.</p> <p>Our conclusions on our regularity reporting are discussed later in this report.</p>

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Risk	Description	Response	Findings
Revenue recognition – WIP and deferred income	The recognition of income, WIP and deferred income is considered to be a significant risk due to the level of judgement applied to the stage of completion of an audit assignment and any provisions required.	<p>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.</p> <p>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.</p> <p>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.</p>	<p>Our work indicated that the organisation has appropriate systems for assessing the stage of completion of its ongoing contracts, and hence for determining the amount of revenue that should be reported at the year end.</p> <p>Our review of the actual outturn on prior year contracts indicated that the estimates made at the prior year end proved materially accurate.</p> <p>We have selected a sample of contracts as planned. Based on our analysis of the cost to complete estimates, discussions with project managers, and post year end performance, we have not identified any misstatements with regards to revenue recognition. We have tested the reliability of the underlying time recording system and not noted any inaccurate or incomplete data.</p> <p>In the prior year, we noted that where onerous contracts were identified, the full loss was not initially recognised as a provision in the financial statements (instead being apportioned based on the stage of completion). While this was recorded as an audit adjustment in the prior year, no such adjustment is required in 2020 as the full loss provision has been recognised as expected.</p> <p>Where refunds are due because audits have been completed at a lower cost than budgeted, the balance of refunds were originally classified within deferred income. This would normally be reclassified to accruals however the reclassification would be a trivial adjustment at approximately £3,000 and has therefore not been made.</p> <p>We have noted that all cost to complete assessments made by project managers have had an additional 5% added to them by the finance team. This is to estimate the additional cost expected to be incurred resulting from COVID-19. While there are no detailed calculations to support this percentage, it represents managements best estimate of the additional cost – however management acknowledge there is a high level of estimation within this percentage. The total impact of adding 5% to costs to complete is approximately £55,000 on 2020 revenue and not considered a material amount, or necessarily an error.</p>

Risk	Description	Response	Findings
Brexit financial reporting considerations	<p>The longer-term effects of the UK's potential exit from the European Union remain unclear.</p> <p>Businesses face a period of political and economic uncertainty which may expose them to new opportunities and/or risks, or change the scale and likelihood of existing ones, that affect their business model and strategies.</p> <p>Identifying the significant effects, or possible significant effects, of Brexit and assessing their impact may prove challenging in the current political and economic environment. However, we expect management to provide us with their analysis of the potential Brexit effects they have identified, together with supporting evidence in relation to key assumptions and related disclosures.</p>	<p>As part of our audit we will consider management's analysis of the potential Brexit effects on the entity's operations and strategies (e.g. specific audits, staff costs, and reputational focus), and the forward-looking assumptions used by management in their assessment relating to future activity and decision making.</p> <p>We shall consider the appropriateness of the disclosures in the Annual Report in respect of Brexit related principal risks and uncertainties and future plans.</p> <p>We may seek written representations from management about their plans for mitigating potentially adverse effects of Brexit.</p>	<p>Our review of the Annual Report indicates there appears to be appropriate disclosure of the risks associated with the UK's potential departure from the European Union.</p>

Risks identified during the audit

Risk	Description	Response	Findings
COVID-19 financial reporting implications	Since our Audit Plan was issued on 26 February, COVID-19 has been declared a global pandemic by the World Health Organisation and has had a major impact on the world economy. All businesses are expected to be impacted by COVID-19 and we therefore consider the impact of COVID-19 on all of our audits.	We have discussed the impact of COVID-19 with management. Given COVID-19 was declared a global pandemic on 11 March, this was pre year end and therefore an adjusting event for the purposes of considering carrying values of assets and liabilities. We asked management to prepare a paper for us to assess the impact COVID-19 has on the financial statements, and also on the going concern assumption adopted in the financial statements.	<p>We have reviewed the paper prepared by management. We agree with the conclusion that there is no material impact on the carrying value of assets or liabilities from COVID-19.</p> <p>We have also considered the impact of COVID-19 on going concern.</p> <p>As laid out in the Public Audit (Wales) Act 2013, there is a requirement for the Wales Audit Office to be funded to continue to provide its services. We have reviewed recent estimates prepared by management which have identified substantial cost savings in the event of reduced fee income. We have noted the Chair and Auditor General have advised the Senedd's Finance Committee of the need for supplementary funding in 2020-21 which will allow the entity to continue its operations for the full financial year.</p> <p>In the event that the Committee does not approve additional resources in the autumn, immediate steps will be taken to contain expenditure within existing approved limits, which management believe can be done to ensure Wales Audit Office remains a going concern.</p> <p>Our audit report contains no modification in respect of this conclusion and the financial statements have appropriate disclosure relating to this matter.</p>

Regularity issues identified during the audit

Issue	Response
<p>Since the Wales Audit Office Board came fully into effect in 2014, expenses incurred by and on behalf of the Chair of the Board have been funded through the WAO's Estimate from the Welsh Consolidated Fund.</p> <p>From April 2019, HMRC required that the tax liability on the Chair's expenses to be directly recovered through the payroll. The WAO does not administer the Chair's salary through payroll, the Commission itself does.</p>	<p>An agreement has been reached with the Assembly Commission to amend the payment process. The Chair's expenses are now directly charged on the Welsh Consolidated Fund, rather than being indirectly recovered through the Estimate. It has been agreed with the Assembly that the 2021 estimate will be reduced by the value of the Chair's expenses, approximately £5,000, as part of the year end outturn. No adjusting corrections are needed in respect of previous years because there is no consequential misstatement in any accounts.</p>
<p>An internal audit report on financial controls identified that one item within the sample of 25 purchase orders was not correctly authorised by the budget holder. We have considered the impact of this on our regularity audit.</p>	<p>The purchase order system providers to Wales Audit Office were able to match all purchase orders to identify a total of 6 purchase orders totalling approximately £36,000 which were not sent to the budget holder for their approval. Retrospective approval was sought and obtained for all of these items. We do not believe this incident to have any impact on our regularity opinion, on the basis that the issue arose from unforeseen network performance issues with the server which have since been rectified, and these items were followed up when identified and subsequently approved. Managements have resolved that going forward, reports are ran on a monthly basis to match purchase orders to their subsequent approval to confirm no items remain unapproved.</p>
<p>We have noted that a lift maintenance contract was entered into during the period. However, on inspection of the retained procurement documentation, we have noted that two quotes were not sought for this contract in line with the procurement policy. When a purchase invoice was received for the service, it has been matched to an existing PO and subsequently approved.</p>	<p>This is not in line with the procurement policy. The amount is not considered material (at approximately £3,000) and all other items in our sample had sought the appropriate number of quotes. We have included a control deficiency in respect of this item below.</p>

Recommendations on controls

We have set out below recommendations on internal controls which came to our attention during the course of our audit work. This does not constitute a comprehensive statement of all internal control matters 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.

Assessment	Issue and risk	Recommendations
Pack Page 96	<ul style="list-style-type: none"> ● Review of payroll 	<p>Recommendations</p> <ul style="list-style-type: none"> ● We have noted that variance analysis is prepared on monthly payroll costs, however this analysis does not contain a set variance that would require investigation and is instead up to the preparer to determine what constitutes a difference worth investigating. Additionally, while the ultimate payment of the payroll is subject to a review, there is no line by line documented review of the payroll, other than this variance analysis. <p>Management Response</p> <ul style="list-style-type: none"> ● Changes to payroll are processed and checked by the HR team prior to being sent to our external payroll providers for processing. The resulting payroll is subject to a check by the Finance team prior to being approved for payment. Any unexpected month on month variances are checked back to source documents to ensure appropriate approvals are in place. Going forward we will formalise this to ensure that all variances of more than 2% are checked and documented.
	<ul style="list-style-type: none"> ● Procurement 	<p>Recommendations</p> <ul style="list-style-type: none"> ● As part of our regularity work, we have noted that one item in our procurement sample did not obtain the required number of quotes. We understand that there had been a change in the staff responsible for obtaining these quotes and managing the process. We would recommend that staff training in this area is revisited, and that there is a periodic review of the contracts schedule to ensure the correct number of quotes were sought, with supporting evidenced retained. <p>Management Response</p> <ul style="list-style-type: none"> ● Further training is planned for the team in relation to purchase orders and contracts. We will be further developing our contract management arrangements to automate review of the schedule for timely reminders and procurement. Work will also include periodic review of arrangements for compliance.

Assessment

- Significant control recommendation
- Other control recommendations

Going concern

We have reviewed the budget prepared. Based on our analysis we believe the company is a going concern and the financial statements have been prepared on this basis.

Significant difficulties encountered during the audit

No significant difficulties have been encountered during the audit. We would like to thank Steven O'Donoghue, Nicola Evans and the rest of the finance team for their hard work and cooperation during the audit.

Representations Requested

In addition to those representation which we request on all audit assignments (<http://www.rsmuk.com/standard-representations>) we will be seeking no specific representations from the Board.

Accounting estimates

As part of our audit, we review the significant accounting estimates contained within the financial statements of the WAO. We note the following:

Costs to complete/work in progress

Our work indicates that the historical estimates of costs to complete are materially accurate, and that estimates made by the Resource Managers are an appropriate basis to determine percentage completion.

Dilapidations provision

These continue to be derived using latest available third-party surveyor reports, and there is no evidence that these are not an appropriate source of evidence to derive such provisions. Previous surveyor reports provided have not identified any significant issues that would necessitate a material increase in the value of the reported provision.

Management judgements and accounting estimates

The following areas are considered to be the principal areas of management judgement or accounting estimates. The graphic below visually represents the impact (lower or higher) on the financial statements of a change in management's estimate. In overview, a reasonably possible change in estimate that has a low impact means that such a change will have limited impact on the financial statements. Conversely a reasonably possible change that has a higher impact, means that such a change can have a significant impact.

Judgments and estimates

	Low impact		High impact
Provision for bad debts	●		
Revenue recognition – stage of completion			●
Dilapidations provision		●	
Senior team restructuring	●		

Update on matters communicated at the planning stage

Matter communicated	Update
Fees	We confirm that the fees charged during the year in respect of services performed are consistent with those contained within our Audit Plan submitted to you
Independence	In accordance with International Standard on Auditing (UK) 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

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.

APPENDIX

Adjusted and unadjusted statements and disclosures

Accounting 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. Our level of triviality was set at £23,000.

Adjustment	Type of adjustment	Financial statements area	Value £'000	Description
1 Pack Page 100	Adjusted	Accrued income	21	Adjustment to correct prior year charge out rates used in costs to complete assessments
	Adjusted	Audit fee income	(21)	Adjustment to correct prior year charge out rates used in costs to complete assessments
	Unadjusted - judgemental	Accrued income	26	Being judgemental element added to costs to complete assessments for COVID-19 impact
	Unadjusted - judgemental	Deferred income	29	Being judgemental element added to costs to complete assessments for COVID-19 impact
	Unadjusted - judgemental	Audit fee income	(55)	Being judgemental element added to costs to complete assessments for COVID-19 impact

We have identified no unadjusted disclosure misstatements.

Communication of audit matters to those charged with governance

Our communication plan

	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	●	
Overview of the planned scope and timing of the audit, form, timing, materiality and expected general content of communications including significant risks and key audit matters	●	
Confirmation of independence and objectivity	●	●
Significant matters in relation to going concern (if any)		●
Views about the qualitative aspects of the Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		●
Significant findings from the audit		●
Significant matters and issues arising during the audit and written representations that have been sought		●
Significant difficulties encountered during the audit (if any)		●
Unadjusted misstatements and material disclosure omissions		●
Expected modifications to the auditor's report, or emphasis of matter		●

ISA (UK) 260, as well as other ISAs (UK), prescribes matters which we are required to communicate with those charged with governance, and which we set out in the table here.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while the Audit Findings presents key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Financial reporting updates

Important updates

A full list of financial reporting updates can be found by clicking the link below:



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Our Report is prepared solely for the confidential use of Wales Audit Office and the National Assembly for Wales Commission and solely for the purpose of explaining the scope of the audit, our proposed audit approach, and to highlight the key risks that we will be focusing our audit work upon, forming part of the ongoing communications we are required to make under International Standard on Auditing (UK and Ireland) 260 – Communication of audit matters with those charged with governance. Therefore, the report may not, without our express written permission, be relied upon by Wales Audit Office or the National Assembly for Wales Commission for any other purpose whatsoever, be referred to in whole or in part in any other external document or made available (in whole or in part) or communicated to any other party. RSM UK Audit LLP neither owes nor accepts any duty to any other party who may receive our Report and specifically disclaims any liability for any loss, damage or expense of whatsoever nature, which is caused by their reliance on our Report.

The UK group of companies and LLPs trading as RSM is a member of the RSM network. RSM is the trading name used by the members of the RSM network. Each member of the RSM network is an independent accounting and consulting firm each of which practises in its own right. The RSM network is not itself a separate legal entity of any description in any jurisdiction. The RSM network is administered by RSM International Limited, a company registered in England and Wales (company number 4040598) whose registered office is at 50 Cannon Street, London EC4N 6JJ. The brand and trademark RSM and other intellectual property rights used by members of the network are owned by RSM International Association, an association governed by article 60 et seq of the Civil Code of Switzerland whose seat is in Zug.

RSM Corporate Finance LLP, RSM Restructuring Advisory LLP, RSM Risk Assurance Services LLP, RSM Tax and Advisory Services LLP, RSM UK Audit LLP, RSM UK Consulting LLP, RSM Employer Services Limited, RSM Northern Ireland (UK) Limited and RSM UK Tax and Accounting Limited are not authorised under the Financial Services and Markets Act 2000 but we are able in certain circumstances to offer a limited range of investment services because we are members of the Institute of Chartered Accountants in England and Wales. We can provide these investment services if they are an incidental part of the professional services we have been engaged to provide. RSM Legal LLP is authorised and regulated by the Solicitors Regulation Authority, reference number 626317, to undertake reserved and non-reserved legal activities. It is not authorised under the Financial Services and Markets Act 2000 but is able in certain circumstances to offer a limited range of investment services because it is authorised and regulated by the Solicitors Regulation Authority and may provide investment services if they are an incidental part of the professional services that it has been engaged to provide. Baker Tilly Creditor Services LLP is authorised and regulated by the Financial Conduct Authority for credit-related regulated activities. RSM & Co (UK) Limited is authorised and regulated by the Financial Conduct Authority to conduct a range of investment business activities. Before accepting an engagement, contact with the existing accountant will be made to request information on any matters of which, in the existing accountant's opinion, the firm needs to be aware before deciding whether to accept the engagement.

Agenda Item 8

By virtue of paragraph(s) vi of Standing Order 17.42

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CAW205 Audit Wales

Consultation on the Curriculum and Assessment (Wales) Bill

Evidence submitted to the [Children, Young People and Education Committee](#) for Stage 1 scrutiny of the Curriculum and Assessment (Wales) Bill.

About you

Organisation: Audit Wales

1. The Bill's general principles

1.1 Do you support the principles of the [Curriculum and Assessment \(Wales\) Bill](#)?

Don't have a view

1.2 Please outline your reasons for your answer to question 1.1

(we would be grateful if you could keep your answer to around 1500 words)

We consider that it is currently difficult to assess the need for, or the value for money of, the Bill because the Explanatory Memorandum does not consider whether the Government's aims could be met by any other route or reform. The explanatory note considers two options: do nothing and continue with the current arrangements or implement the Government's proposals in the Bill. Without consideration of any other option for achieving all or some of the Government's stated aims for education reform, we cannot assess whether the proposals are likely to provide value for money.

We believe that understanding the financial implications of the Bill requires a fuller understanding of the cost of curriculum and assessment reform (including opportunity costs) than can be gained from the Explanatory Memorandum.

1.3 Do you think there is a need for legislation to deliver what this Bill is trying to achieve?

(we would be grateful if you could keep your answer to around 500 words)

-

2. The Bill's implementation

2.1 Do you have any comments about any potential barriers to implementing the Bill? If no, go to question 3.1

(we would be grateful if you could keep your answer to around 500 words)

Yes. Based on our reading of the Bill and Explanatory Memorandum and drawing on other audit work, early scoping work for auditing curriculum reform and some wider analysis, we have identified several potential barriers to implementing the Bill:

Availability of primary and secondary Welsh language teachers:

WG proposes to make significant changes to the teaching of Welsh with the aim that all learners will have a level of proficiency by the end of compulsory education. This will help to deliver its goals for its Cymraeg 2050 strategy. WG accepts that achieving these goals requires a lasting increase in the number of teachers able to teach Welsh and teachers able to teach other areas of the curriculum through the medium of Welsh.

The Cymraeg 2050 2017-21 work programme included targets to increase the number of people secondary and primary teachers for the Welsh medium sector. The Welsh Government has introduced incentives to train in Welsh-medium and a sabbatical scheme for teachers to improve their Welsh language skills. However, to date the number of applicants for both types of training has not increased sufficiently.

Availability of staff to cover teachers' absence for professional learning:

For 2020-21, the Explanatory Memorandum estimates that schools will incur direct costs of £10.76 million. This is the cost for supply teachers so that substantive staff can be released to do training and preparatory work related to the new curriculum. We estimate that this equates to 63,294 days of supply teachers or 325 full-time equivalent (FTE) supply teachers. This considerable requirement is in addition other demands for temporary staff in 2020-21:

- a. The 'Recruit, Recover, Raise standards' initiative to provide support for years 6, 7 11 and 13 whose education has been most disrupted by the coronavirus pandemic. WG believes that headteachers are best placed to decide how to provide staffing support but envisages that they will be drawn from the existing cohort of supply teachers, supply learning support workers as well as unemployed newly qualified teachers and youth workers;
- b. Cover required because staff are unable to work because of coronavirus or because they are self-isolating or shielding; and
- c. Schools' 'normal' requirements for supply teachers to cover sickness or other absence.

It is not clear to us whether there are enough supply teachers or learning supply workers available to meet the demand for cover related to the curriculum on top of other demands.

Pressure on budgets could restrict schools' ability to deliver the Welsh Government's ambitions for the curriculum:

Currently a sizeable proportion of head teachers and governors are reporting pressures on school budgets. In 2018-19 - the last year for which figures are currently available – 39% of secondary schools and 12% of primary schools had negative reserves. We note that innovation schools did not envisage savings from the new arrangements.

We therefore see a risk that schools already facing budget pressures may not be able to deliver arrangements that meet some of the requirements of the Bill without additional funding, especially as the cost of new requirements such as teaching skills development in modern foreign languages, computation and careers education in primary schools is unknown. The Committee considered this in its July 2019 report on school funding. The Welsh Government commissioned a review of school funding, led by Luke Sibieta, which is due to report later in 2020.

Staffing shortages in the Welsh Government:

The Committee has already questioned staffing gaps in within WG in relation to the curriculum reform programme. In January 2020, WG assured the Committee that key posts had been filled. Since then the WG's workforce has had to respond to significant

challenges from COVID-19. Key posts have been vacant for at least some of this period. Continued staffing shortages would risk the success of the programme.

2.2 Do you think the Bill takes account of these potential barriers?

(we would be grateful if you could keep your answer to around 500 words)

-

3. Unintended consequences

3.1 Do you think there are there any unintended consequences arising from the Bill? If no, go to question 4.1

(we would be grateful if you could keep your answer to around 500 words)

-

4. Financial implications

4.1 Do you have any comments on the financial implications of the Bill (as set out in Part 2 of the [Explanatory Memorandum](#))? If no, go to question 5.1

(we would be grateful if you could keep your answer to around 500 words)

More information is required to understand the full costs associated with the Bill

The Explanatory Memorandum acknowledges that it 'does not represent the costs and benefits of all the work being undertaken to support the new curriculum and assessment arrangements, or indeed the wider educational reforms, but only those that will arise from legislative requirements.' (It does, however, also identify sunk costs.)

In practice, it is not straightforward to separate costs and benefits that arise just from legislative requirements, as opposed to other aspects of the broader policy. For example, the WG excludes costs associated with changes to the teaching of Welsh as it considers these to be associated with Cymraeg 2050, the Government's Welsh language strategy.

In addition, other areas of likely cost attributable to the Bill are not identified because difficulty of estimation leads to large degrees of uncertainty. We believe that the summary tables in the Memorandum should show some amount for all reasonably likely

attributable costs (other than de minimis items) for transparency, even if the amount is only an indication of the expected order of magnitude. Where costs really cannot be estimated at all, we think that they should be explicitly identified within the summary tables as 'unknown'.

It is right that the Memorandum acknowledges the limitations and uncertainties of estimates, but not including any attempt at an estimate tends to distort the overall picture.

There is no allowance made for costs currently unknown:

In addition to costs it attributes to other policies, WG has not included costs for the period 2021-22 to 2030-31. In part we accept that it is difficult to know how individual schools will need to spend on new resources or training for example. But we believe that these omissions should be clearly recognised in the document so that reasonable allowance can be made for them.

A full reading of Explanatory Memorandum shows some areas where costs are currently unknown, for example:

- a. Resources to support the curriculum/assessment and Areas of Learning and Experience – Innovation schools stated that schools would need new materials and resources to support learners across the Areas of Learning and Experience. This is not known because it will depend on the choices of individual schools in designing their curriculum and their current position.
- b. Costs associated with new expectations for Welsh language - Experience from pioneer and innovation schools suggests there is additional work to accommodate the new expectations for teaching Welsh language. The cost is unknown, partly because it depends on each school's current Welsh language teaching and the language skills of existing staff. The Welsh Government has not included this cost because it believes this change is not directly attributable to curriculum reform (Para 8.292). We consider this should be included because the Bill is the legislative means of enabling this change and it is not included elsewhere.

Estimates of direct costs to schools seem likely to be under-estimated:

Estimates of direct costs to schools vary significantly. The Memorandum explains that they are based on data collected retrospectively from a small number of innovation schools, but it appears to us that the costs are likely to be underestimated because:

- a. Costs for schools that were not innovation or pioneer schools may be higher than for innovation schools because they have more work to do to reach the same state of readiness. Also, innovation schools had received additional funding over several years and so may have been more able to absorb costs than non-pioneer schools.
- b. Estimates of direct costs for schools do not allow for real-terms increases in the cost of supply teachers.

The Memorandum includes an assessment of opportunity costs. For schools, opportunity costs are based on estimates from innovation schools of the time spent by staff preparing for curriculum reform that the schools absorbed without external cover. In 2020-21 opportunity costs for schools are estimated at between £40.68 million and £122.04 million. We think that it is important to understand what this means in practice for schools in terms of the time they may need to absorb.

It appears to us that estimated opportunity costs mean that schools will be required to absorb almost 480,000 days of staff time in 2020-21 (estimates range from 239,294 to 717,882). There is a question of whether schools can absorb this amount of time without affecting the progress of current learners and/or staff, particularly in the light of the additional work that is planned to mitigate the impact of COVID-19 disruption on learners and the on-going additional learning needs transformation programme.

5. Powers to make subordinate legislation

5.1 Do you have any comments on the appropriateness of the powers in the Bill for Welsh Ministers to make subordinate legislation (as set out in Chapter 5 of Part 1 of the [Explanatory Memorandum](#)). If no, go to question 6.1.

(we would be grateful if you could keep your answer to around 500 words)

-

6. Other considerations

6.1 Do you have any other points you wish to raise about this Bill?

(we would be grateful if you could keep your answer to around 1000 words)

We provide more detail of our financial analysis of the bill in our email submission.

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