

Llyr Gruffydd MS  
Chair of the Finance Committee  
Senedd

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Dear Llyr

### Finance Committee Annual Scrutiny of the Wales Audit Office

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

#### Voluntary Exit Payback

On page 80 of our Annual Report and Accounts we state that our voluntary exit scheme cost £638,687 in 2019-20 and that this will deliver annual savings of £322,000 and achieve payback in 19 months. Note that the costs of the scheme included National Insurance contributions of 13.8% payable on all exits due to take place after 6 April 2020.

You requested additional clarification on how this payback was calculated.

Our payback calculations take into account the fact that any planned replacements for redundant posts will start at the bottom of our pay bands and hence deliver additional savings in early years. The annual savings figure quoted is the on-going savings once replacement staff reach the top of their pay band. Exhibit 1 sets out the calculations that support these amounts.

#### Exhibit 1: Voluntary Exit Payback 2019-20

	£	Balance	Payback
Cost of scheme 2019-20	638,687		
Savings Year 1	(426,311)	213,376	12 months
Savings Year 2	(355,900)	(143,524)	7 months
On-going savings	(322,167)		
			19 months

The savings shown in Exhibit 1 will be achieved across 9 members of staff who agreed exit terms in 2019-20. Savings and payback associated with exit payments to the 2 senior directors only are set out in Exhibit 2.

**Exhibit 2: Voluntary Exit Payback 2019-20 (Senior Directors)**

	£	Balance	Payback
Cost of scheme 2019-20	362,395		
Savings Year 1	(203,999)	158,396	12 months
Savings Year 2	(197,565)	(39,169)	10 months
On-going savings	(152,460)		
			22 months

The Committee asked whether the individuals should have been treated as compulsorily redundant and paid accordingly. We refer the Committee to the Civil Service Compensation Scheme applicable to employees in the Civil Service Pension Scheme, determined by the UK Government, which states that “all staff who may face compulsory redundancy must first have had the opportunity to exit under voluntary terms”. In both cases, therefore, the individuals were contractually entitled to leave under voluntary, rather than compulsory terms. In one case the individual accepted a payment significantly below the maximum sum to which they would have been entitled under voluntary exit terms. In the other case, the individual accepted a payment that was equivalent to the compulsory payment that they were entitled to and again this was less than the maximum sum to which they would have been entitled under voluntary exit terms.

Comparative Voluntary Exit costs

You asked how exit payments made to senior directors compared with those in the private sector. Unfortunately, unlike public bodies, private audit firms are not required to disclose any exit payments in their annual accounts and hence this information is not readily available.

In February 2015, the former Auditor General for Wales published a report on [managing early departures across Welsh public bodies](#) which does provide some comparative information across the Welsh public sector.

The ‘no more than full cost rule’

We said we would provide additional information to the Committee to aid its understanding of Note 1(a) in the financial statements for 2019-20 on page 107 of our Annual Report and Accounts.

The Committee's interest was in whether the "no more than full cost" rule in the Public Audit (Wales) Act 2013 had been complied with.

We ensure compliance with that aspect of the legislation through the methodology we follow in setting hourly fee rates for the year. These are set out within the fee scheme for the year and approved by the Finance Committee. Those rates include the apportionment of the Audit Wales cost base (excluding aspects funded by WCF) across estimated fee earning hours. This methodology has been audited by our external auditors, RSM, and found to be a reasonable basis for ensuring compliance with the legislation.

The note in the accounts is not prepared on the same basis, but is calculated as follows:

- The income figures are the summation of hours worked x approved fee rates then adjusted for the year-end 'cost to complete' accounting adjustment, to ensure we properly apportion income across the financial years to which the audit work relates.
- The expenditure figures represent the high-level summation of entries in the chart of accounts, **not adjusted** on the basis of the fee rate calculations, for the purposes of simplicity. Were costs to be adjusted on that basis, it would add a further complication to the already complicated year-end process, but without adding any value or assurance.

What the Committee has flagged to us is the potential confusion this presentation causes, so we will reflect on that presentation as part of our learning for next year's year-end process.

NHS Debtors

We were asked if we should be concerned about the increase in the amount of money owed to Audit Wales by NHS bodies as shown in Note 6 to our financial statements on page 115 of the Annual Report and Accounts. This increase was as a result of instalment invoices being sent out slightly later than had been the case the previous year. There is no cause for concern and all outstanding amounts have subsequently been received.

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

Yours sincerely



**ISOBEL EVERETT**  
Chair, Wales Audit Office



**ADRIAN CROMPTON**  
Auditor General for Wales