

Llyr Gruffydd MS
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Dear Llyr

Finance Committee Annual Scrutiny of the Wales Audit Office

Further to your report on your annual scrutiny of the Wales Audit Office we are writing to set out our responses to the Committee's recommendations on our statutory reports.

We address each of your recommendations in turn, below:

R1. The Committee recommends that Audit Wales reviews its approach to measuring performance, ensuring that measures are capable of comparison with previous years and avoiding any potential ambiguity in reporting its performance results publicly.

The Board have discussed our proposed performance measures for 2020-21 and 2021-22 and have agreed not to change them but to review the targets set.

The Board has committed to a more fundamental review during 2021. The outcomes of that review will be included in the Annual Plan for 2022-23 to ensure we are measuring and reporting the most appropriate performance indicators.

R2. The Committee recommends that the Annual Report for 2020-21 includes details on the impact of the senior leadership team restructure and the activities undertaken to improve the employee experience at Audit Wales.

Any impact of the restructure will be incorporated into the Annual Report & Accounts for 2020-21 although it will likely be too early to identify any major impacts as the new Executive Directors will only just have been appointed.

The Annual Report will also cover the major activities in the year affecting employee experience.

R3. The Committee welcomes the Auditor General's decision to establish an Audit Quality Committee and recommends that an update on the Committee's work is included in next year's Annual Report.

The Auditor General established a formal Audit Quality Committee in July 2020. Its primary purposes are to help ensure that:

- the arrangements we have in place to manage and monitor audit quality are effective and in line with professional standards, including that adequate resource is dedicated to audit quality;
- the work of the Auditor General is of an appropriate quality standard; and
- audit quality continues to improve in line with best professional practice.

The Committee is comprised of relevant Audit Wales staff and an Independent Professional Member, who is a senior and experienced Chief Operating Officer within the UK public sector. The Committee will meet annually with our external quality reviewer (Quality Assurance Department (QAD) of the Institute of Chartered Accountants in England and Wales (ICAEW)) and with a nominated link from the Board.

As requested, an update on the work of the Audit Quality Committee will be included in the Annual Report and Accounts for 2020-21.

R4. The Committee recommends that the Auditor General outlines what steps have been taken to mitigate the loss of institutional knowledge and provides an update on the implications of the leadership changes on staffing structures, objectives and any change in focus of Audit Wales once the new structure is in place.

The senior leadership restructure has resulted in a net reduction of one senior role, from four roles to three. The Assistant Auditor General and the Sector Lead for Health & Central Government left in September 2020 and the Director of Finance & HR will leave in February 2021.

The new role of Executive Director (ED) for Audit Services will carry many of the professional audit responsibilities previously held by the two senior audit roles with other elements having been delegated to the seven senior Audit Directors who remain in the organisation. While the departure of any senior member of staff can bring some temporary reduction in institutional experience and expertise, Audit Wales has strength in depth meaning that our performance and professional capability will be undiminished. The responsibilities of the former Director of Finance & HR are now carried by the ED for Corporate Services (who was formerly our Director of Corporate Services) and the new ED for Communications & Change (who joins in February 2021).

The new structure does not signal any change in focus for Audit Wales. Our purpose remains to assure the people of Wales that public money is well managed; explain how public money is being used to meet people's needs; and inspire and empower the Welsh public sector to improve. The new structure means that our senior leadership is better aligned and equipped to achieve our four strategic ambitions to:

- fully exploit our unique perspective, expertise and depth of insight;
- strengthen our position as an authoritative, trusted and independent voice;
- increase our visibility, influence and relevance; and
- be a model organisation for the public sector in Wales and beyond.

R5. The Committee recommends that RSM UK Audit LLP puts measures in place to ensure that the final version of its Audit Findings report is laid before the Senedd in future, and keeps the Committee informed of any issues in meeting its statutory obligations under paragraph 35(2), Schedule 1 of the Public Audit (Wales) Act 2013.

We have discussed with RSM UK Audit LLP and they have confirmed that the version of the Audit Findings Report laid before the Senedd in June 2020 was the final version as presented to the Wales Audit Office Audit & Risk Assurance Committee. In November 2020, Senedd Commission officials requested that they amend this version to remove reference to outstanding items which is a standard clause in their reports as, at the point that the final report is considered by the Audit & Risk Assurance Committee, there will be outstanding items such as the Letter of Representation and the final signing of the approved accounts, subject to Board approval. We will make a note to remove this clause prior to laying the report before the Senedd in future years.

R6. The Committee recommends that RSM UK Audit LLP updates references in future audit findings reports from “National Assembly for Wales Commission” to “Senedd Commission”. The National Assembly for Wales Commission was renamed “Senedd Commission” by virtue of section 6 of the Senedd and Elections (Wales) Act 2020, effective 6 May 2020, and formal documentation should recognise this.

We have drawn the Committee's recommendation to the attention of RSM UK Audit LLP so that they use the correct terminology in future.

R7. The Committee recommends that an update is provided as the project to review the travel scheme progresses, including the outcome of discussions with staff and Trade Unions on the changes proposed, as well as the timelines for implementation and projected savings.

We will update the Committee following the Board's consideration of the Task & Finish Group's report. At that time, whilst we still wouldn't be able to be specific about implementation dates, we could give an indication of the planned timeline and be clear it is subject to securing union support for the changes.

R8. Recognising that it is not traditional audit work, the Committee welcomes more information on the work of the COVID-learning project.

The COVID learning project involves real-time capture and sharing of learning and experience across our audited bodies. This involves our staff gathering novel and other practice as it emerges and analysing it rapidly to draw out relevant points of learning.

We are sharing the resulting insights swiftly with our key contacts across the Welsh public service. The methods of sharing are a significant departure from traditional audit reports with the use of blogs, Tweets and digests emerging as the favoured methods by our audited bodies who wanted information in 'bite size' chunks and formats that were easily digestible by busy people.

To date we have collected over 1000 examples and have published 17 learning blogs, over 100 bilingual tweets, and 10 fortnightly learning digests. We will provide further information on this project in the Annual Report and Accounts for 2020-21.

R9. The Committee recommends that an update on savings and efficiencies is provided following the review of non-pay budgets in Spring 2021.

Detailed budget setting for 2021-22 will take place in the first quarter of 2021. Some of the areas where we expect savings to be delivered include a reduction in translation costs as we deliver shorter, sharper audit reports; further savings on travel and accommodation as we embed new ways of working established in 2020 as well as process savings such as those expected from our re-procurement of outsourced payroll.

R10. The Committee recommends that further information is provided on the level of savings Audit Wales is seeking to achieve in outsourcing its payroll function in a different way.

Audit Wales outsourced its payroll function to CGI in 2014 – achieving annual savings in excess of £25,000. We have now identified further savings of £12,000 per annum by re-procuring this service alongside a re-procurement of the HR system. In addition, we anticipate that process efficiencies from this change will give the HR team more time to focus on organisation development, team well-being and other areas that are value adding.

R11. The Committee requests an update on the development of Audit Wales' work programme for 2021-22, including any impact this will have on the Estimate.

While we are keeping the situation under review, at this stage we are confident that we will be able to deliver a full programme of local audit work in 2021-22 in line with the fee income generation assumptions that informed our Estimate. We expect to continue to be able to work remotely, if necessary, to complete our audit of accounts work in the same way as has proved possible over the past year. We will be looking to develop our local and national performance audit programmes taking account of the wider COVID recovery landscape alongside the wider challenges facing public services.

We will be developing our thinking on the content of those work programmes through the period January to March 2021 to inform our 2021-22 Annual Plan. Some of our current work in progress will flow into 2021-22 and we will be looking to retain some flexibility to respond to possible areas of interest for the new Public Accounts Committee, and other Senedd Committees, following the Senedd elections in May 2021.

Should the Committee consider that there are specific topics that merit inclusion in our work programme then, as ever, we would welcome that feedback

R12. The Committee recommends that further detail is provided on how the £180,000 resource, switched in 2020-21 from fees to Welsh Consolidated Fund funding, will be used in 2021-22.

We are currently working through the options for this stream of work in 2021-22 and the outcome of these considerations will be included in our Annual Plan for that year. We will be taking on board feedback from stakeholders, carrying out post project learning sessions and considering how we prioritise this work given the full extent of all our commitments.

We are planning to undertake similar work in 2021-22 to that seen in the current year, specifically aiming to communicate findings arising from our audits of accounts. We are looking to expand our infographics work to cover more audited bodies and sectors and to expand the information they highlight. Alongside this will be developing the Accounts Commentary for the Welsh Government that we produced in 2020-21. We are also considering developed more themed outputs from our accounts work, either as standalone products or to support our wider work programme.

R13. The Committee recommends that Audit Wales provides a note on the efficiencies associated with bringing audit work in-house and how this has impacted on staff costs at Audit Wales.

The Board, in January 2019, considered an options appraisal for the future delivery of our audit of accounts work currently undertaken by three private sector audit firms. Having considered:

- the historical context for the audit supply contracts and the approaches of other UK public audit institutions;
- the changing nature and scope of the Auditor General's work leading to a much-reduced level of outsourcing compared to historical levels;
- our experience of the audit supply contracts, particularly in terms of the quality of service and their added value;
- evidence of significant increases in audit fees charged by the private sector in the context of our imperative to control fees at a time of financial constraint;
- broader value for money considerations;
- uncertainties in the market pending the conclusion of the EU withdrawal agreement; and
- the ongoing need for us to contract in specialist expertise to meet specific demands.

The Board approved the recommendation that the WAO should not invite tenders for any further framework contract and that all audits of principal and town and community councils should be carried out in-house following completion of the 2019-20 audit round. This decision was subject to the inclusion of an annual review in the Board's work programme.

In terms of staff costs, the original report assumed that overall staff costs would remain largely unchanged as the in-sourcing of audit work would coincide with the loss of EU agricultural funds work from 2021-22. In the event, the agricultural funds audit work has been extended for a further three years. This necessitated an increase in staff cost of £400,000 a year to deliver the work, which is more than offset by the £650,000 of annual fee income generated.

Recent events have provided further assurance for this decision.

- The Redmond Review of local government audit and financial reporting in England was published on 8 September 2020. Overall, Redmond concluded that the audit market in England was fragile, with a significant risk of firms leaving that market. Redmond identified that audit fees paid by English local authorities are at least 25% lower than is required to fulfil current local audit requirements effectively. In addition, according to the oversight body for England, Public Sector Audit Appointments, more than half of local authority audit opinions for 2019-20 missed the extended 30 November deadline. Whilst this hasn't been a problem with the audit contracts in Wales, bringing work back in house gives us more control over the delivery of our audit work.
- As previously reported, in recent years we have experienced some contract management issues associated with our own audit contracts. These included

a need to bring grants certification work from one contractor back in-house early due to problems experienced with that contractor and the fact that a significant element of the 2019-20 Town and Community Council audit work has not been completed.

R14. The Committee recommends that Audit Wales confirms its budget for Data Analytics in 2021-22, including a breakdown of funding from fee income and the Welsh Consolidated Fund.

In June 2020 the Board approved an on-going annual budget of £485,000 for Data Analytics to include staffing and technology. This is to be funded £185,000 from WCF and £300,000 from the contribution to our overheads built into our fee rates. This split (between WCF and fees) reflects the overall funding breakdown for Audit Wales.

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