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Peredur Owen Griffiths MS
Chair of the Finance Committee
Senedd Cymru

Via email

Reference: LF22001/AC293/caf

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Dear Peredur

Finance Committee Annual Scrutiny of the Wales Audit Office

Further to your report - the *Annual scrutiny of the Wales Audit Office and the Auditor General for Wales* - we are writing to set out our responses to the Committee's recommendations.

We accept all of your recommendations and set out how we intend to address each one below:

Annual Report and Accounts 2020-21

Recommendation 1. The Committee recommends that Audit Wales shares further detail on the innovations and new ways of working that will continue to apply post-pandemic.

The impact of the pandemic continues to influence our thinking on innovation and new ways of working, in particular our use of technology and digital solutions. Our priority is to ensure that quality and impact are maintained as well as taking into account the circumstances for our Audited Bodies and their future ways of working. Significant areas of development that we anticipate will continue to apply post-pandemic include:

- Remote access to audited bodies' systems and secure file sharing to enable high quality audit work.
- Improvements in collaborative online work environments using Sharepoint and Teams channels.
- Development of a digital skills framework for staff to ensure they have the capabilities to fully utilise our Office 365 suite of tools.
- Use of online tools to support the drawing conclusions phase of the audit process.

- Redesign of our Audit Platforms to support consistency of practice, to streamline processes and to develop templates.
- Use of online collaboration and learning to increase knowledge sharing across Wales and beyond via our GPX programme of events.

Recommendation 2. The Committee recommends that Audit Wales provides updates as its strategic plans develop and shares its five-year strategic plan once finalised.

We will be engaging with some key external stakeholders during quarter 4 of 2021/22 as well as our own employees. When we have concluded the internal and external engagement, we will share more detail with the Committee.

Recommendation 3. The Committee recommends that Audit Wales clarifies how and the date by which it aspires to achieve its employee experience key performance indicator “Percent positive annual staff survey thematic employee experience scores” and provides further information on the actions it intends to take in this area.

The People Survey is an important tool for AW to gain insight into our employees’ experience. The results from the 2020-21 survey identify that whilst AW continues to perform well, there are areas where employees feel we could improve. Against a backdrop of nearly two years of remote working and some difficult internal changes, we saw a reduction in the thematic scores that underpin the KPI, making its achievement even more challenging.

The results tell us we have work to do to improve the clarity of our future direction, to ensure people feel valued and to develop the workforce for the future. This will be the focus of our attention and on the back of the 2021 survey, we will be briefing Board on our immediate, medium- and longer-term plans in January 2022. We plan to check in with staff during the summer of 2022 so we can measure the impact of our actions.

Through engagement with staff on our five-year strategy and roadmap, we will widen understanding of our future direction and encourage a deeper sense of team and individual contribution which is at the heart of great employee engagement.

The Board will consider the impact of this work, and the implications for the realistic achievability of the KPI through the course of the year.

Recommendation 4. The Committee recommends that Audit Wales closely monitors and takes targeted action to address excessive workload pressures, given the backlog of work and the need to sustain remote working, and provides an update to the Committee on measures it intends to take.

The majority of our audit work is driven by statutory duties placed on the Auditor General and internationally agreed auditing standards. The scope for direct workload management is, therefore, limited to those areas where we have greater discretion i.e. primarily in our value for money work programme.

Like all organisations, we continue to be affected by the pandemic both directly, in terms of staff absence, and through changed operational arrangements. The current wave of the virus is being reflected in higher levels of staff absence which add to the workload pressures that already exist.

Workforce planning and resource management is therefore a high priority for Audit Wales to ensure we deliver high quality audit work whilst also supporting staff wellbeing. We are developing a new resource management system that will provide increased transparency of the overall work programme and more flexible and adaptive resourcing, ensuring we have the right people, doing the right things at the right time.

This will be complemented by continuing to support remote working as effectively as we can. Though less efficient overall, it reduces time spent travelling and has driven us to exploit new ways of working to allow quick and easy access to information from our audited bodies.

As the Committee is aware, the employment market for high quality public audit staff is tight with fierce competition for talent from the private sector. As well as recruiting externally, therefore, we continue to invest in our apprentice and graduate trainee schemes to try to 'grow our own' both for Audit Wales and the wider public sector finance profession.

Recommendation 5. The Committee recommends that Audit Wales provides an updated cost benefit analysis of the senior management restructure.

The Auditor General set out his plans for the senior management restructure in February 2020. The restructure reduced the membership of the Executive Leadership Team from 4 to 3 delivering on-going annual savings of £92,500.

In line with our Restructure, Redeployment, Redundancy and Early Exit policies, staff who were impacted by this change were given the option of voluntary exit rather than competing for one of the new roles. In the event, 2 members of the previous leadership team chose this option, leaving the organisation at the end of September 2020 at a total cost of £354,100. Savings to date¹, including those from delayed recruitment, total £312,300 meaning that the net cost to date is some £41,800. The cost of the voluntary exits will have been paid back in full by March 2022 with ongoing savings thereafter.

¹ To end December 2021

Recommendation 6. The Committee recommends that the Auditor General provides further detail on the staff panel established to assist the Executive Leadership Team, such as its remit, aims and objectives, and any outputs.

The staff panel consists of 6 staff from across the organisation, from different levels and disciplines. The panel receives all ELT papers and two members (typically) attend ELT meetings to participate in discussion. The primary aim is to ensure ELT remains close to the front line and receives constructive challenge and staff perspective when making decisions. The panel also works to improve communication channels between staff and ELT and to be agents for change in shaping our organisational culture.

The staff panel has already contributed to the development of the emerging 5 year Strategy and have actively engaged with the wider staff group to encourage participation in the associated consultation arrangements.

Recommendation 7. The Committee recommends that Audit Wales shares the report of the external Wales Audit Office Board performance and effectiveness review once finalised and would welcome an update on any subsequent action points.

A copy of the external effectiveness report is attached from which the Committee will note the overall assessment that Audit Wales has an effective Board with a number of key strengths. A number of areas for continued development were identified and activity is in hand to address these. We will provide an update on subsequent action points in due course.

Audit Findings Report

Recommendation 8. The Committee recommends that measures are put in place to ensure that the requirement for a majority of non-executive members is complied with at all Wales Audit Office Board meetings, and that these are outlined to the Committee.

The Board's terms of reference make provision for a quorum to be met in accordance with the legislation.

A pre-meeting check on expected member attendance is made to establish whether the meeting is expected to be quorate. If this is not the case, arrangements are made for an employee board member to step down from that meeting as a Board member and attend in an executive / observer capacity only. The check is carried out in the 2-week period ahead of the meeting with open communication with the Board Chair to monitor attendance matters, and a final check immediately before the meeting.

The Chair receives a version of the agenda highlighting any potential quorum issues which are then planned for prior to the start of the meeting.

Estimate 2022-23

Recommendation 9. The Committee recommends that Audit Wales clearly demonstrates how it adheres to the statement of principles when formulating future budgets beyond 2022-23, and that, in particular, it should not assume an increase in funding from one year to the next.

The Wales Audit Office Board takes account of the Statement of Principles and the impact of the fees we charge to audited bodies when considering its Estimate for the following year alongside the medium-term financial plan.

It makes no assumption about any increased funding from one year to the next, however, staff costs make up over 80% of our total budget which makes the inflationary impact of staff costs difficult to absorb through savings in much smaller, non-staff budgets. Despite this, the Board strives to identify cost savings where possible to limit the impact of inflationary cost pressures on the public purse – notably the very difficult decision to reduce costs through the T&S review.

The fees element of our budget is driven by changes to our fee rates but also by any changes in the amount of work that we have to do – if more bodies are created or more audit work is required in order to deliver statutory duties then our costs and fees will increase accordingly. It is difficult to apply the Statement of Principles in this situation.

Recommendation 10. In line with the statement of principles, the Committee recommends that Audit Wales funds in-year pressures by making in-year savings and efficiencies, rather than through supplementary budgets.

Audit Wales always aims to manage in-year pressures through savings and efficiencies rather than through supplementary budgets. Since the establishment of the Wales Audit Office Board in 2014, supplementary estimates have been used for technical adjustment of our budget ambit so as to manage end-of year variation in fee income, and unforeseen external events such as the 2019-20 pension cost increase, but never to manage in-year funding pressures. Though the pandemic raises the risk of funding shortfall (if staff are simply unable to work and so deliver fee income), we have so far been successful in mitigating this risk without recourse to a supplementary budget.

Recommendation 11. The Committee recommends that Audit Wales provides an update bi-annually on the efficiency savings made in-year.

An update on efficiency savings will be provided in our Interim Report and Annual Report and Accounts each year.

Recommendation 12. The Committee recommends that future estimates include a breakdown of all National Fraud Initiative costs to enable the identification of one-off and annual increases.

A full breakdown of costs for the National Fraud Initiative will be included in future Estimates.

Recommendation 13. The Committee requests that Audit Wales reflects on the information it provides in its Estimate and considers how it can ensure it provides a detailed view of its funding requests going forward.

We will reflect on the information provided in the Estimate as the Committee recommends.

Recommendation 14. The Committee recommends that Audit Wales clarifies how it has estimated travel costs in 2022-23 and how those costs interact with the use of short-term contract staff.

The budget of £246,000 for travel and subsistence included within our Estimate is predicated on our future travel being at 50% of pre-pandemic levels. This budget is our best estimate for actual mileage and subsistence costs but will only be firmed up as our operational arrangements develop through the year in light of the wider environment.

The additional budget for short term contract staff has been allocated to allow for anticipated additional resource demand to compensate for staff travel time being allowed for during the working day. This is also predicated on future travel being at 50% of pre-pandemic levels and will be reviewed once actual travel patterns become clearer.

Recommendation 15. The Committee recommends that Audit Wales provides regular updates on its estate strategy and associated savings targets as ways of working are reviewed, and before the Estimate for 2023-24 is formulated.

On 26 September 2019, the WAO Board approved our estate strategy and decided to retain the lease on one of our three premises which was at a break point, so that it could undertake an options review for the total estate. At the time, it set a savings target of 20% per annum from 2023-24 based on an assumption that we would require smaller and more energy efficient premises in future. It agreed that it would make a decision on the totality of Audit Wales estate in July 2020 to enable a holistic approach to be taken.

The strategy was subsequently revised, taking account of the impacts of Covid, and the Board approved the updated estate strategy on 18 March 2021. A decision was then taken in June 2021 to extend all 3 of our leases reflecting uncertainties around how our ways of working may evolve over time, how this may impact on how and where we deliver our work, and consideration of other factors including space needs.

The Board has agreed that the strategy should be kept under review and that we maintain an agile approach in light of the pandemic. It has also agreed to revisit

the savings target at a later date, as a number of earlier assumptions around the size and nature of the estate need to be revisited in the light of Covid, for example, if we no longer have access to client sites.

We also have ongoing aims for improving our environmental performance and carbon reduction, which are set out in our annual plan, and performance is reported through our interim and annual reports.

We will continue to keep the Committee updated on our plans, including the rolling 5-year capital programme which is included in our annual Estimate, and on progress via the targets and KPIs included in our annual plan, interim and annual reports.

Recommendation 16. The Committee recommends that Audit Wales provides further information on overall staff turnover (and specifically for staff completing the graduate and trainees' programmes), including historic trends and any comparison with similar organisations.

Details of staff turnover since 2018/19 are provided below.

	<i>Audit Wales Total</i>	<i>Audit Wales Excluding Trainees</i>
18/19	11%	10%
19/20	11%	9%
20/21	10%	9%

As a comparison, total turnover for Audit Scotland was 11% in 2018-19 but reduced to 6% in 2019-20 and 5% in 2020-21. Similarly, total turnover for the Northern Ireland Audit Office was 14% in 2018-19 and 11% in 2019-20 but reduced to 3.5% in 2020-21. The sharp drops reported by Audit Scotland and the Northern Ireland Audit Office reflect a change in recording in that they no longer include voluntary exits in their figures and have just used data relating to resignations. We have included both to give a more accurate picture of turnover.

In 2021, we saw higher than normal early departure from our final year trainees, leaving their time-limited roles with Audit Wales for permanent positions elsewhere. The numbers are small and we cannot say if this was a one-off occurrence or the start of a more regular pattern. Nonetheless, we have taken steps to mitigate this risk by extending trainee contracts for those staff who are keen to split their final examinations, holding some vacancies at Senior Auditor level for trainees and invoking a financial claw-back for training costs if a trainee departs early. We are looking at establishing a new role for apprentices who obtain their AAT (Association of Accounting Technicians) qualification with us and who do not wish to study for a professional accountancy qualification and, working

collaboratively with other public bodies in Wales, have recently established the all Wales Public Finance Apprenticeship programme.

Recommendation 17. The Committee recommends that Audit Wales provides further information about the estimate of movements in working capital and be prepared to make the relevant adjustments should the change to Travel and Subsistence arrangements not go ahead in 2022-23.

A breakdown of the estimated movements in working capital along with a comparison to the equivalent estimate for 2021-22 is set out below. A Supplementary Estimate will be prepared for 2022-23 to reflect the outcome of the travel and subsistence review and this will include any necessary changes to the movements in working capital.

	2022-23 £'000	2021-22 £'000
Increase /(reduction) in receivables and work in progress	200	300
(Increase)/reduction in payables and deferred income	(200)	(100)
(Increase)/reduction in provisions	750	(750)
	750	500

Recommendation 18. The Committee recommends that Audit Wales provides further information on its decision to introduce a home working allowance and its justification for retaining the payment going forward.

Our Trade Union partners asked the Board to consider paying home working allowance (at the HMRC rate) to staff in Autumn 2020 in recognition of increased cost of utility bills as a result of working from home. Initially it was introduced on a temporary basis and has since been considered as part of the recent consultation on travel and subsistence. We believe it appropriate to continue to support our staff in this way when they are incurring costs working from home as we have asked them to do. Clearly, we will keep the situation under review to ensure it remains justifiable as our operational model evolves.

Recommendation 19. The Committee recommends that future estimates are accompanied by a draft fee scheme to ensure that the Committee is able to consider the complete funding position

We do not expect the specific circumstances that prevented this for 2021-22 and 2022-23 to be repeated. The intention is to carry out the necessary consultation in

the summer of 2022 to allow a draft fee scheme to be included with our Estimate for 2023-24.

Recommendation 20. In the absence of the draft fee scheme, the Committee recommends that Audit Wales provides further detail on the composition of its increase to fees in 2022-23 before a Final Fee Scheme is laid.

A [consultation](#) on proposed fee increases is now live which includes proposed changes to fee rates and fee scales for 2022-23. The proposed increase of 3.7% includes provision for a pay award in April 2022, the impact of the 1.25% National Insurance increase and necessary additional investment in audit quality as set out in our Estimate for 2022-23.

Recommendation 21. The Committee recommends that Audit Wales provides detailed feedback from its consultation on fees, particularly in relation to the proposed funding switch in 2023-24

Feedback from our consultation on fees will be included in the Fee Scheme which will be laid before Finance Committee in January 2022. Consultation on the proposed funding switch will be carried out in summer 2022 as part of our preparation for the 2023-24 Estimate and Fee Scheme.

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