

1 Cwr y Ddinas / 1 Capital Quarter
Caerdydd / Cardiff
CF10 4BZ

Peredur Owen Griffiths MS
Chair of the Finance Committee
Senedd Cymru

Tel / Ffôn: 029 2032 0500
Fax / Ffacs: 029 2032 0600
Textphone / Ffôn testun: 029 2032 0660
info@audit.wales / post@archwilio.cymru
www.audit.wales / www.archwilio.cymru

Via email

Reference: KC24001/AC404/caf

Date issued: 1 February 2024

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, all of which we accept.

Annual Report & Accounts 2022-23

Recommendation 1. The Committee recommends that Audit Wales provides details of how it is evaluating the steps taken to improve performance in relation to employee engagement and employee experience.

We have taken a variety of steps to improve employee engagement and experience, including a monthly communication note from the senior leadership team; a staff newsletter; six-monthly in-person roadshows by the senior leadership team and Board members; and significant investment in a People Manager Development Programme.

Following the results of the 2022 People Survey, the Executive Leadership Team (ELT) committed to increase its visibility and that of the Board. During 2023 two rounds of Leadership Roadshows were completed at each of the AW office sites and a third is planned for Spring 2024 as well as an all-staff event. An evaluation of impact was assessed in September 2023, using the core engagement questions from the People Survey, and improvement was seen.

In addition, in response to staff feedback the ELT now circulates a monthly briefing note to all staff. Considerable work has been undertaken by the Communications team to improve other internal communication arrangements with a full review and refresh of the intranet. This has been received positively with high levels of satisfaction from staff. A large part of the refresh has been to increase visibility of the Board and access to papers. This was a direct request

from staff and supports our ambition to work in an open and transparent manner. As detailed in our response to Recommendation 9, we have invested significantly in the development of people manager skills across the organisation.

The principal way in which we assess the impact of these steps on employee engagement and experience is through our annual Employee Engagement Survey. Until 2022 we used the Civil Service People Survey (CSPS). A shorter, more focused and accessible Employee Engagement Survey was introduced in 2023. It saw its participation rate in 2023 rise to 82% from 70% in the previous year. Using the same questions as in the CSPS, our overall employee engagement index rose to 63% from 60% in 2022.

Recommendation 2. The Committee recommends that Audit Wales provides information on the feedback received from staff on its Cardiff office relocation and how that change was managed.

The relocation of our Cardiff office to Capital Quarter was successful. A staff survey at the end of May was extremely positive regarding the modern, flexible space which supports both business need and staff wellbeing. Staff are regularly using the new office, and occupancy levels indicate that the size and design of the office meets staff needs.

The principal learning from the move was the importance of staff engagement throughout. This was taken forward into the relocation of our office in North Wales, on which feedback has also been extremely positive. The approach will be replicated for any changes to our West Wales office.

Recommendation 3. The Committee recommends that Audit Wales provides details on the outcomes of its staff wellbeing strategy, including when it expects the impact of the strategy to be reflected in the staff survey results.

Our well-being strategy has been in place for 18 months and has recently been reviewed. We have 17 Well-Being champions across Audit Wales who are distributed amongst teams and locations. Initial findings from the review of the strategy show that 75% of those who responded knew who their Well-Being Champion was and their role. We also found that 86% knew about our EAP and how to access it and 88% believed that Audit Wales prioritised their well-being. As detailed in our response to Recommendation 9, positive results in respect of wellbeing are already being seen in responses to our annual Employee Engagement Survey.

Recommendation 4. The Committee recommends that Audit Wales provides details of how it intends to capture stakeholder feedback to ensure meaningful year-on-year comparison. The Committee recommends that Audit Wales provides more information on:

- **how it is reprioritising resources internally to meet its statutory deadlines in the short-term;**
- **what it is doing in the long-term to overcome the strategic risks of missing statutory deadlines that are posed by resourcing and staffing concerns; and**
- **progress in implementing new auditing quality standards and how it is being assessed.**

Prior to 2023, the stakeholder feedback that informs our KPIs was gathered annually through direct engagement between senior Audit Wales staff and those at audited bodies. In 2023, stakeholder research was undertaken, for the first time, by an independent third-party organisation. Unlike the previous approach, this allowed respondents to remain anonymous if they wished, so addressing any concern that some stakeholders might not speak as openly face to face with their auditors. It is our intention to repeat the independently gathered research exercise in 2025. In 2024, we will gather feedback using our previous approach. This will provide us with annual feedback against our KPI questions and directly comparable measures every other year, balanced against cost.

We have re-prioritised resources internally to help us meet statutory deadlines for our accounts audit work in the short term. In some cases, this has meant pushing back deadlines for other audit work. We have also taken action to reduce non-chargeable time where appropriate and to offer staff paid overtime where they have expressed an interest in doing this. Colleagues from both our corporate service and performance audit areas have provided support where possible. We have also carried out work to establish detailed supply and demand data for all of our audit work. The resulting workforce plan will help ensure that we have the right number of people in place and the skills needed to deliver a sustainable public audit service into the medium term. As detailed in our response to Recommendation 6, we have reviewed our trainee schemes, in large part to help address immediate and longer-term resourcing needs.

In terms of our progress in implementing the revised auditing standard 315 for our accounts work, this response should be read in conjunction with our response to Recommendation 20. Following completion of the 2022-23 audits over the next couple of months, we will be undertaking a review of our implementation of the revised standard to establish if there are areas of efficiency in the audit approach going forward. We are also awaiting the outcome of our external quality reviews which will comment on our implementation of the new auditing standard. With regard to our performance audit work, the adoption of INTOSAI standards has been supported by the development of new auditor guidance and associated staff training. Our annual external quality reviews later this year will assess progress with implementation of the new standards. Our [Audit Quality Report 2023, 'Enhancing Trust in Audit'](#), sets out our arrangements and latest initiatives

to respond to the changing audit quality agenda along with information about our quality monitoring results.

Recommendation 5. The Committee recommends that Audit Wales provides details of staff turnover rates and how they compare year-on-year.

This information is available in our Annual Report and Accounts. Rates since 2019-20 are set out below:

- 2019-20 - 9.2%
- 2020-21 - 14.3%
- 2021-22 - 10.1%
- 2022-23 - 10.6%
- 2023-24 to date - 17.7%

These figures include all departures, including those ending fixed-term contracts.

Recommendation 6. The Committee recommends that further information is provided on the review of Audit Wales's trainee scheme and its impact on workforce planning.

The review of our trainee scheme is ongoing; however, we are already implementing some changes to the scheme that have been identified at an early stage. These primarily relate to the scheduling of recruitment activities, professional exam sittings and external secondments. The changes are intended to maximise the number and strength of applicants to the scheme and to provide the best experience for trainees during their contracts. We recently offered permanent roles to many of our final year trainees, prior to their final examinations but conditional on their passing them. This is the first time we have taken this approach, which we hope will mitigate the impact of the aggressive recruitment of newly qualified staff used by other employers.

Further work is ongoing to review our provision of experience to trainees across our financial audit and performance audit work. The aim is to develop cohorts of trainees able to advance their careers within Audit Wales across our range of audit work and build a flexible workforce with the ability to respond swiftly to potential future changes in demand.

Recommendation 7. The Committee recommends that Audit Wales explains why it has returned funds allocated for the National Fraud Initiative to the Welsh Consolidated Fund.

Our Annual Report and Accounts reported an underspend of £102,000 on funding provided for the National Fraud Initiative (NFI) in 2023-24. This was returned to WCF at the end of that year along with other unspent resources. This included £22,000 lower than anticipated charges from the Cabinet Office for our regular NFI work. The other £80,000 was not utilised as we did not receive any interest from

local authorities in taking up additional data matching products in respect of COVID-19 business support funding, and our planned project on GP registration did not proceed as quickly as anticipated. The GP registration project is the focus for our use of the reduced sum of £45k for additional data matching included in our 2023-24 Estimate.

Recommendation 8. The Committee recommends that Audit Wales provides updates on the impact that high levels of staff turnover is having on its ability to meet statutory deadlines for audit work and what it is doing to mitigate these challenges.

The high levels of turnover experienced across Audit Wales have had a significant impact on our ability to meet statutory audit deadlines. During the 2022-23 financial year, turnover of CCAB qualified staff was 23.1% compared to 10.8% in the previous year. In agreement with Welsh Government, for 2022-23 accounts, we are working to slightly later deadlines than was historically the case although we are planning to revert to pre covid timelines over the next couple of years.

Our statutory reporting KPI at the end of December 2023 shows that 92.5% of 2022-23 accounts certified up to that point achieved these revised targets. With a further 18 accounts to be reported upon in the quarter ending 31 March 2024, however, the overall completion rate for the year as a whole is likely to be lower.

Recommendation 9. The Committee recommends that Audit Wales provides updates on:

- **the activities it is undertaking to improve staff wellbeing and how this is reflected in the staff survey;**
- **how it is providing staff with training and continued professional development; and**
- **how its new staff survey compares to the previous approach, which used the Civil Service People Survey.**

Staff wellbeing

- We are providing training to managers on managing well-being with their teams, have introduced well-being check-ins to the sickness absence policy, identified and trained 17 well-being champions who provide regular updates to their teams, communications to staff on well-being events and initiatives, communicating and promoting the Smarter Working policy and preparing for a pilot of compressed hours working. The recent Employee Engagement Survey (Nov 23) found that 89% staff believe that their line manager genuinely cares about their well-being, 87% believe that they are able to arrange time out from work when they need to and 78% believe that they are genuinely supported if they choose to make use of flexible working arrangements.

Training and CPD

- Training and professional development needs are identified through 1-2-1 development discussions with managers as well as mandatory training for all, or groups of Audit Wales staff. Our Audit Development and Guidance team regularly assess and provide training and development on the technical aspects of audit, whilst the HR team support core skills training, manager and leadership development. Over the past year nearly all managers have attended a People Manager Development programme and work is underway, in collaboration with Audit Scotland, to put in place a leadership development programme. Other training is provided through external training providers who support the organisation with the trainee programme and specific training such as coaching, recruitment etc. In addition, the HR team provide bespoke sessions to teams and short 'lunch and learns' on specific topics as well as 1-2-1 specific development and guidance if requested.

Staff survey

- Our new approach to delivering our staff survey incorporates the key employee engagement questions used in the Civil Service People Survey however it is a much more focussed, shorter, sharper and quicker survey to complete. As it is provided on a hosted platform, we have immediate access to the data and can track progress during the running of the survey. This means we can analyse the data more quickly, share the findings immediately the survey is closed and therefore get to action in a much more responsive manner. The platform provides much greater data granularity so that Directors and Heads of Service have their own personalised reports for their teams, enabling much more local and specific actions to be identified and actioned.

Estimate 2024-25

Recommendation 10. The Committee recommends that Audit Wales alters the presentation of future Estimates to make clear the total value of WCF funding and the value of changes to that funding by:

- **detailing both increases and decreases in budget lines separately;**
- **specifying the budget area to which changes relate and reasons for the change; and**
- **making clear the split between the work funded from the WCF and work funded from fees.**

Our Estimate for 2024-25 attempted to respond to previous Committee recommendations on the level of detail required in the document.

We will further review the format of the 2025-26 Estimate, in consultation with the Committee's secretariat, to address these recommendations.

Recommendation 11. The Committee recommends that Audit Wales provides information on the £522,000 for non-cash movements in Exhibit 1 of its supporting information and includes a breakdown of this figure into constituent elements of its Estimate.

The £522,000 reduction in non-cash movements between 2023-24 and 2024-25 is made up as follows:

Depreciation and interest	£4k (Accommodation IFRS16)
Lease rental payments	(£176k) (Accommodation IFRS16)
Movements in working capital	(£350k) (Balance sheet)
Total	(£522k)

Recommendation 12. The Committee recommends that Audit Wales confirms that funding for dilapidations in 2023-24 was a one-off charge and provides further information on the interaction of the year-on-year change in movements in working capital and the overall change in the year-on-year change for total funding to be provided from the WCF, with specific reference to the table “Revenue budget 2024-25” in the appendices to its supporting information.

The £350,000 reduction in the allowance for movements in working capital for 2024-25 is associated with the increase in the allowance for 2023-24 due to the expected utilisation of the provision set aside in prior years for dilapidations on the Cathedral Road office. Whilst this was a ‘one-off’ adjustment specific to those circumstances, there will potentially be future such adjustments in the event that significant provisions need to be utilised. This is as a result of our specific funding regime where cash balances cannot be retained to support provisions and instead have to be returned to WCF at year end.

Recommendation 13. The Committee recommends that Audit Wales includes more information on movements in working capital in future Estimates, including detailing their purpose and to what each movement relates to.

Movements in working capital include year on year changes in the value of debtors, creditors and provisions. It is not possible to estimate these changes at the point that the Estimate is prepared i.e., 17 months in advance of the following year end. In addition to the kind of external contractual obligations typical of any public organisation, Audit Wales routinely receives payments from, and potentially makes reimbursements to, over 850 audited bodies. A significant element of the working capital adjustment will reflect the balance of these debtor/creditor relationships at a single point in time at year-end.

Where significant provisions are due to be released or utilised during the year, such as those in respect of estate dilapidations, it may be possible to estimate this

element but for reasons of commercial sensitivity it may not be advisable to do so. More detailed information on these movements will be included in future Annual Reports and Accounts.

Recommendation 14. The Committee recommends that Audit Wales provides further detail and a breakdown of how specific elements of its capital funding will be spent in 2024-25 and also includes the same level of detail in all future Estimates.

Our capital budget is relatively small (£310,000 in 2024-25). Next year, £110,000 is planned for rolling IT replacement, with most of the remainder earmarked for improvements and maintenance on our physical estate and investment in digital development for our audit and corporate systems. From 2024-25 we have confirmed with the Committee that separate revenue/capital control totals are not applicable for Audit Wales – but we will continue to show the planned breakdown separately in our Estimates.

Recommendation 15. The Committee recommends that further information is provided to explain how cash associated with the rent-free period at its new Cardiff Offices is being utilised in 2024-25, and to provide assurances that there will not be a request for an increase in cash associated with the rent-free period ending.

As set out in the Estimate, we have reduced our cash requirement for 2024-25 to reflect the rent-free period agreed in the lease. There will therefore be an associated increase in cash requirement when this rent-free period comes to an end.

Recommendation 16. The Committee recommends that Audit Wales provides information on the final costs and benefits of the changes to its Travel Allowance, including the total costs of implementing the changes; the costs/savings associated with replacement arrangements; and the costs/savings associated with any other related changes such as the uplift in staff salaries.

As set out in our letter to the Committee in November 2021, we estimated annual savings of between £219,000 and £329,000 dependent on annual mileage undertaken with an upfront cost of £1.48m in 2021-22 being repaid from savings in 2022-23 and 2023-24.

In the event, the upfront cost was £1.086m (as set out in our Annual Report & Accounts for 2021-22), with £378,000 of this cost being met by Audit Wales and the balance of £708,000 from additional WCF resource – repaid via a reduction in our call on WCF of £354,000 in 2022-23 and 2023-24.

For 2024-25 we estimate that actual annual savings will be in the region of £300,000 on a like for like basis. This is due to an increase in the number of

operational staff who would have been entitled to receive travel allowance had it not been removed. A breakdown of savings and costs is set out below.

Savings on Travel Allowance	(£873k)
Increased trainee and apprentice pay	£140k
Pay uplift for other staff	£293k
Increased mileage costs	£146k
Net saving	(£294k)

Recommendation 17. The Committee recommends that Audit Wales continues to seek ways to manage the pay increases it proposes awarding to staff within its existing budget.

Our ongoing financial sustainability review mechanism is designed to ensure that we maximise savings and efficiencies, whilst maintaining audit quality and supporting staff wellbeing.

Recommendation 18. The Committee recommends that Audit Wales provides regular updates on:

- **how the funding associated with staff pay awards will be applied across grades;**
- **the budgetary impact of any decisions taken in relation to staff pay;**
- **consultations taking place with Trade Unions and specialist pay review bodies; and**
- **the intended impact of the pay awards on staff turnover.**

We will update the Committee on our 2024-25 pay arrangements once we have received a claim from the Trade Unions and this has been settled.

Recommendation 19. The Committee recommends that Audit Wales provides an update on the expanded trainee scheme, including its associated costs, and information on the proportion of newly qualified staff remaining in the organisation.

Audit Wales will provide further updates on the expanded scheme as the additional funding comes into place in 2024-25; including the outcome of the 2024 recruitment round which will reflect the additional trainee numbers and the ongoing development of the scheme management arrangements.

Information on the number of trainees who secured permanent employment with us on qualification in each year and the percentage of these staff who remain in employment with us now, are set out in the table below.

Trainee cohort	Number of Trainees in cohort	Number offered a permanent role	% offered a permanent role	Still in post	% of those offered posts still in post
2024	13	12	92%	12	100%
2023	11	8	73%	7	88%
2022	11	8	73%	5	63%
2021	10	9	90%	3	33%

Recommendation 19. The Committee recommends that Audit Wales provides regular updates on how it is evaluating the impact of its fee increases associated with its new auditing standards.

The revised audit approach applied in 22-23 required us to employ more experienced, professionally qualified staff on the audits, resulting in the larger than usual increase in audit fees. Reflecting on the results of the completed NHS and central government 22-23 audits, it is clear that this richer skill mix, and consequently the higher audit fee, was necessary in order to comply with the revised auditing standard. As noted above, we will be undertaking a review of the revised approach following completion of our 2022-23 Local Government work over the next couple of months. Where efficiencies in the audit approach are identified, our legislation requires that we reimburse Audited Bodies for any excess fee charged.

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

Yours sincerely



KATE CHAMBERLAIN
Chair, Wales Audit Office



ADRIAN CROMPTON
Auditor General for Wales