

Finance Committee
FIN(4)-20-13 (paper 1)
13 November 2013

Auditor General's Annual Report and Accounts 2012-13



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

This annual report and accounts has been prepared in accordance with paragraph 13 of Schedule 8 of the Government of Wales Act 2006 in a form directed by the Treasury.

If you require this publication in an alternative format and/or language please contact us using the details below.

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July 2013

Highlights

Issued reports on
the accounts of over **800**
public bodies in Wales

**14 NATIONAL
REPORTS**

Looking at value for money in
key areas of public spending

Delivered annual improvement
assessments at all
**28 LOCAL
GOVERNMENT**
improvement authorities, and
structured assessments at all
10 NHS bodies

32 Local government grant
schemes certified worth
over £3 billion, involving
over **750** individual claims, and
resulting in adjustments of
£3 MILLION

Progressed to
LEVEL 4
of the **Green Dragon**
Environmental Standard

Reduced our production of
waste by **17%**
and increased the proportion
of waste reused or recycled

Reduced rates of
sickness absence to a
LEVEL LOWER
than the public sector benchmark

2012-13 at the Wales Audit Office

Issued reports on the accounts of most NHS bodies in Wales

Published a study of public engagement by councils



Set out the things we will do to eliminate discrimination, promote equality and foster good relations



Hosted a conference aimed at driving public service success



Published our conclusions on whether the actions taken across public services are enough to significantly improve educational outcomes for looked after children



Gave our views on legislation aimed at strengthening our governance and accountability

Presented the results of the National Fraud Initiative, including the identification of £6 million of fraud and overpayment



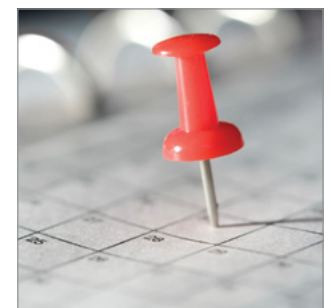
Progressed to level 4 of the Green Dragon Environmental Management Standard

Provided an assessment of the financial position across NHS bodies



Outlined in our annual report and accounts for 2011-12 the £1 million of cost reductions and efficiencies we had achieved

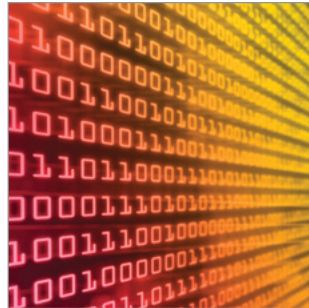
Issued reports on the accounts of most major local government bodies in Wales





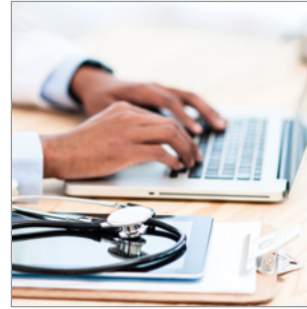
Reported on the Welsh Government's relationship with the All Wales Ethnic Minority Association

Issued a report in the public interest on failures at Caldicott and Wentlooge Levels Drainage Board



Brought together the findings of our reviews on the use of technology by Councils

Published our conclusions on arrangements for emergency planning and resilience



Reported on whether the intended benefits of the new contract for NHS consultants are being achieved

Concluded that public bodies in Wales cannot yet demonstrate value for money in their use of consultancy services



Police Authority audits replaced by audits of Police and Crime Commissioners and Chief Constables



Consulted with our staff, Welsh public bodies and the people of Wales on our strategy and priorities for 2013-2016

Consulted on our proposed fee scales for 2013-14, which should result in a decrease in audit fees of between two and three per cent

Published a report on the operations of the Forestry Commission



Published our forward programme of studies

Public Audit (Wales) Bill approved by the National Assembly

Completed the second phase of our *Ignite* leadership and management development programme



Issued a public interest report on the process used by Caerphilly Council to set the pay of chief officers

Foreword by the Auditor General for Wales



This was a year in which the Wales Audit Office extended the beneficial impact of public audit – working even more closely with Welsh public bodies and particularly, the Public Accounts Committee. In 2012-13, we maintained a strong focus on helping public bodies deal with the financial pressures they are increasingly facing. We delivered an extensive range of audit and improvement work with that imperative ever in mind. In April, we published a Strategy for the period 2013-2016 focusing on public service governance, financial management and innovation to overlay on our core purpose of providing assurance and promoting improvement. I believe it will help us support public bodies to spend wisely and further the best interests of people in Wales.

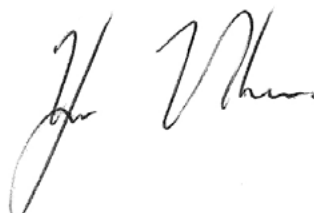
Internally, our business planning and our management arrangements are developing to best support that Strategy and I am delighted with the way in which staff at all levels are engaging with the task. I am grateful for the support and hard work of non-executive directors, my own staff and those who have supplied contracted support to our work.

We are bringing together our performance and financial audit expertise to help improve governance and financial management in Wales – issues that rightly continue to cause public concern. We are also creating stronger links between the Wales Audit Office and the various public service sectors so that we can provide timely audit information at the point of policy and decision making. This is critically important in a fast-moving environment of collaboration, transformative change and potential public service reorganisation.

The organisation has been preparing for changes to our own governance, which the Public Audit (Wales) Act 2013 has confirmed and which we welcome. Our emphasis on effective financial management, innovation and strengthened governance has been as strong internally as it has in our audits. Internal systems are improving, producing clearer and earlier financial management information. With a strengthened focus on leadership and clearer accountabilities,

the Wales Audit Office is in good shape to welcome its new Board and make an increasingly positive impact on Welsh public services.

Huw Vaughan Thomas
Auditor General for Wales

A handwritten signature in black ink, appearing to read 'Huw Vaughan Thomas', written in a cursive style.



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About us

The Auditor General and the auditors he appoints in local government are the statutory external auditors of most of the Welsh public sector¹. They are responsible for the annual audit of the majority of public money spent in Wales, including the £15 billion of funds that are voted on annually by the National Assembly. Elements of this funding are passed by the Welsh Government to the NHS in Wales (over £5 billion) and to local government (over £4 billion).

Currently, the Auditor General and his staff together form the Wales Audit Office, which was established in April 2005. The Auditor General is the Accounting Officer for the Wales Audit Office and is personally responsible for its overall organisation, management and staffing as well as its procedures in relation to financial and other matters.

¹ For further information please see the Government of Wales Act 2006, the Public Audit (Wales) Act 2004 and related legislation.

What we do

As external auditors, we independently examine whether public money is being managed wisely and is properly accounted for. We carry out this work on behalf of the public and in the public interest. Audit adds value to society by:

- providing assurance on the governance and stewardship of public money and assets;
- offering insight on the extent to which resources are used wisely in meeting people's needs; and
- identifying and promoting ways by which the provision of public services may be improved.

Each year we deliver an extensive but proportionate programme of external audit work. The overall programme includes audits of accounts, value for money examinations and studies, local government assessments, certification of grant claims, and facilitation of the National Fraud Initiative.

The staff of the Wales Audit Office deliver approximately two-thirds of the annual audit work. The Auditor General contracts out the remainder to private sector accountancy firms, and contracts in specialist skills and services to support delivery.

Good practice is identified from across the full breadth of audit work and is disseminated through our Good Practice Exchange (a web-based resource, freely available to anyone) and other media including shared learning seminars.

Who we work with

The people of Wales

The National Assembly, chiefly through its Public Accounts Committee

The Welsh Government

Public service providers in Wales and their representative bodies

Other relevant external review bodies



Business Services team in our Cardiff office:
Laurie Davies, Gill Greer, Anthea Ellis, Sally Li,
Kevin Dawson and Peter Woolcock.

Financial, environmental and social summaries

Financial summary

Results for the 2012-13 financial year

During 2012-13, we received income of £17.2 million and financing from the Welsh Consolidated Fund (WCF) of £4.7 million, which in total exceeded our expenditure by £2 million and thereby increased taxpayers' equity (excluding the £268,000 repayable to the WCF) by £2.4 million. The reason for the underspend relates almost entirely to the release of the £2.4 million provision included in the 2011-12 accounts, and follows confirmation from Her Majesty's Revenue and Customs in December 2012 that there is no historical liability arising from a change in the Auditor General's VAT status, which took effect from 1 April 2013.

Exhibit 1 provides a comparison between total comprehensive net expenditure and changes in taxpayers' equity for 2012-13 and 2011-12.

Income

Exhibit 2 provides an analysis of income received by the Wales Audit Office since 2009-10, as well as the financing received from the WCF. Income received in 2012-13 from fees charged to audited bodies totalled £15.9 million, and represented a nine per cent decrease from similar income received in 2011-12 (£17.6 million). This decrease was due to a reduction in the level of additional, unplanned work undertaken in 2012-13 and also a number of staff vacancies which have since been filled. In addition, in 2012-13 we received £1.3 million Wales Improvement Grant from the Welsh Government (£1.3 million in 2011-12) and financing of £4.7 million from the WCF (£4.8 million in 2011-12).

Expenditure

Excluding the impact of the inclusion of the VAT provision in the 2011-12 accounts and the release of that provision in 2012-13, operating expenditure increased by just under £300,000 which included over £200,000 one-off costs in respect of depreciation on dilapidations. Staff costs and the level of bought-in services increased by less than £0.1 million between the two years.

Going forward, we anticipate our cost base rising significantly as a result of the change in our VAT status, such that we are no longer able to charge VAT on audit fees charged to NHS and local government bodies.

Exhibit 3 provides an analysis of expenditure between 2009-10 and 2012-13.

Exhibit 1: Total comprehensive net expenditure and changes in taxpayers' equity

£'000	2012-13	2011-12
Income and resources		
Audit and inspection fees:		
Local government ²	12,366	13,213
NHS	3,239	4,029
Central government	1,588	1,669
Other income	23	27
Total income	17,216	18,938
Expenditure		
Staff costs	(14,981)	(14,855)
Bought-in services ³	(3,451)	(3,507)
Other operating costs	(829)	(5,354)
Corporation tax	0	23
Total expenditure	(19,261)	(23,693)
Total comprehensive net expenditure	(2,045)	(4,755)
WCF finance	4,740	5,303
Repayable to WCF	(268)	(1,945)
Change in taxpayers' equity	2,427	(1,397)
Taxpayers' equity at 1 April	(1,235)	162
Taxpayers' equity at 31 March	1,192	(1,235)

Exhibit 2: Income and financing

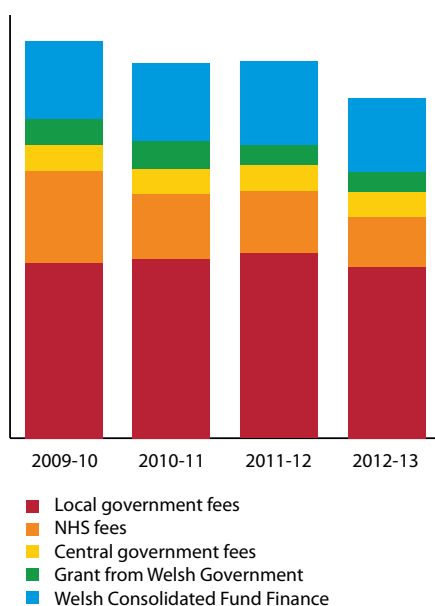
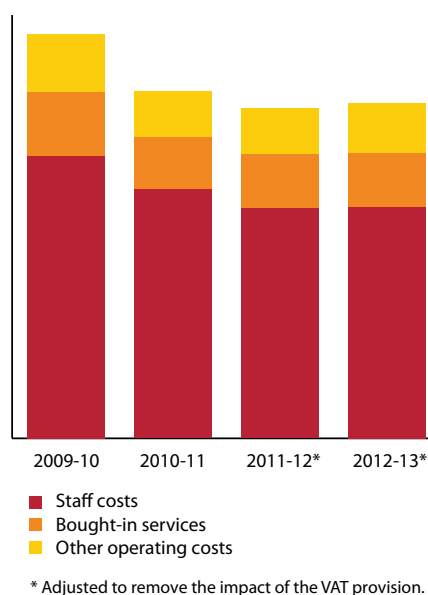


Exhibit 3: Expenditure



* Adjusted to remove the impact of the VAT provision.

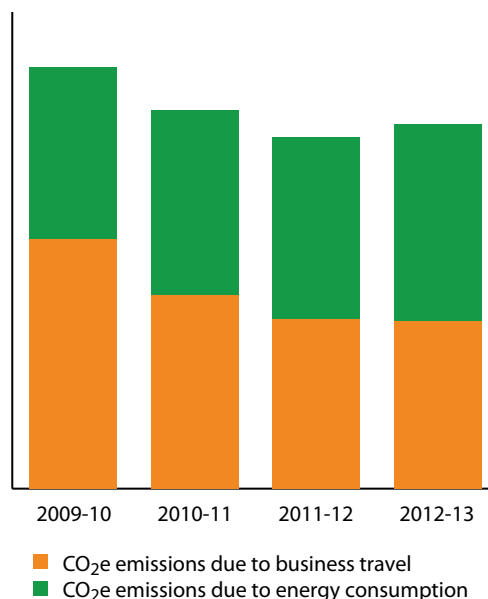
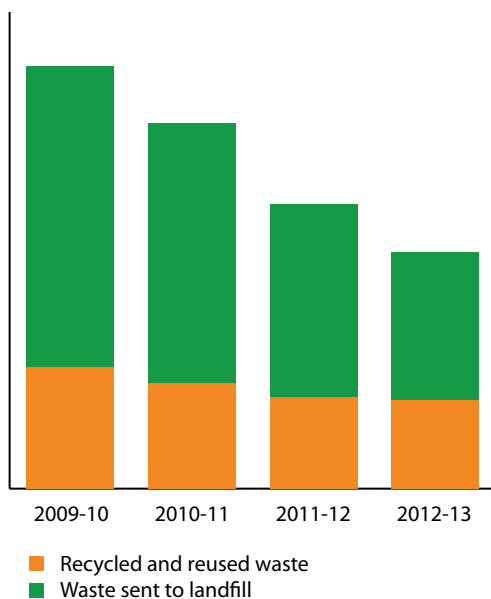
2 Includes fees for audit of accounts, grants certification and improvement assessment work, alongside annual grant funding from the Welsh Government to support our improvement assessment work.

3 Mainly audit work contracted out to private sector accountancy firms.

Environmental summary

In 2012-13, we:

- > Achieved our aim of progression to Level 4 of the Groundwork Wales Green Dragon Environmental Standard at all our primary offices
- > Reduced our production of waste by 17 per cent from last year (44 per cent over three years), and increased the proportion of our waste recycled or reused
- > Increased our CO₂e emissions by 3.6 per cent from the previous year (due to increased energy consumption), but this still represents a reduction of 8.7 per cent over three years
- > Published our first *Refresh* internal electronic newsletter on sustainability
- > Improved the efficiency of our use of office space by seven per cent, following closure of two offices and relocation to smaller premises



£'000	2012-13	2011-12	2010-11
Environmental management			
Level of Green Dragon accreditation	4	3	3
Water consumption			
Water consumption m ³	1,911 ⁴	1,684	1,606
Water consumption m ³ per WTE ⁵	8.1	7.5	7.2
Water supply costs £	3,336	2,763	2,608
Paper consumption			
Paper consumption in reams	2,385	2,465	2,445
Paper supply costs £	6,112	5,989	5,627
Waste			
Total waste kg	89,967	108,387	139,207
Recycled paper and cardboard	7,703	13,455	15,820
Recycled cans, glass, plastics	25,859	21,170	22,792
Reusables eg, mobile phones	68	84	1,385
Landfill	56,340	73,678	99,210
Recycled and reused as % of total waste ⁶	37.4	32.0	28.7
Total disposal costs £	8,586	9,447	13,934
Greenhouse gas emissions⁷			
Total emissions kg CO ₂ e	554,482	535,304	576,484
Attributable to business travel	254,597	257,330	295,133
By car	241,726	242,742	281,085
By rail and air	12,871	14,588	14,048
Attributable to energy consumption	299,885	277,974	281,351
Electricity	293,505	271,908	273,685
Gas	6,380	6,066	7,666
Total expenditure on business travel £	197,284	213,394	223,606
Total energy expenditure £	69,874	56,828	52,011
Efficiency of estate			
Cost per WTE £ ⁸	3,186	3,365	-
Cost efficiency ⁹ £ per m ²	265	260	-
Space efficiency m ² per WTE	12.0	12.9	-

4 Estimate due to billing period.

5 Typical and best practice for water usage within an office is 9.3 m³ and 6.4 m³ respectively per Whole-Time-Equivalent (WTE) per annum (Environment Agency guidelines).

6 66 per cent for the Welsh Government in 2011-12 (*State of the Estate Report 2011-12*, Welsh Government).

7 Calculated using DEFRA/DECC 2012 guidelines for company reporting on greenhouse gas emissions.

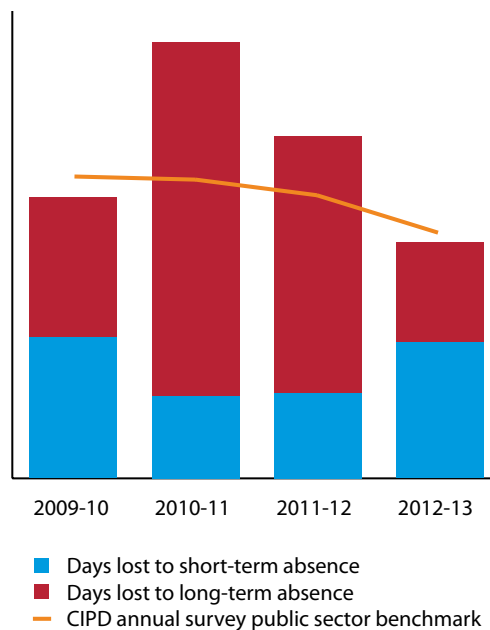
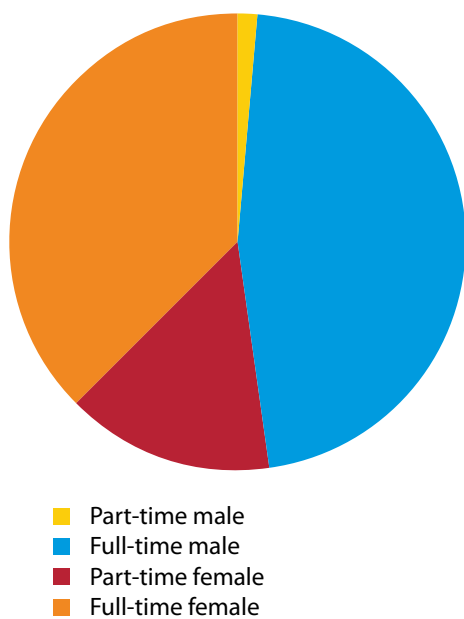
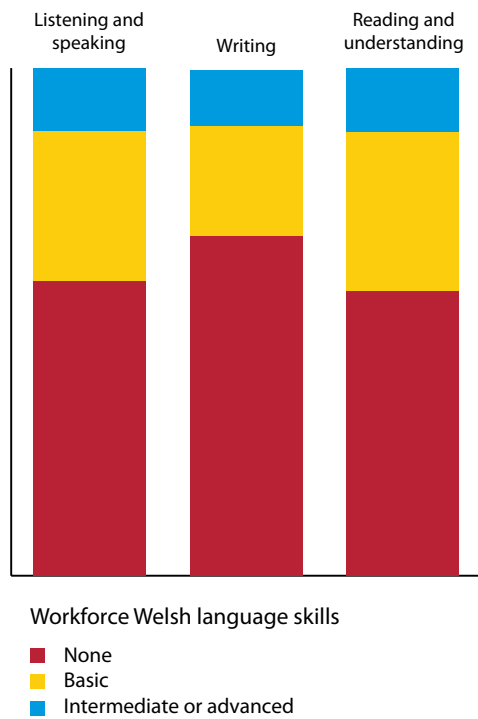
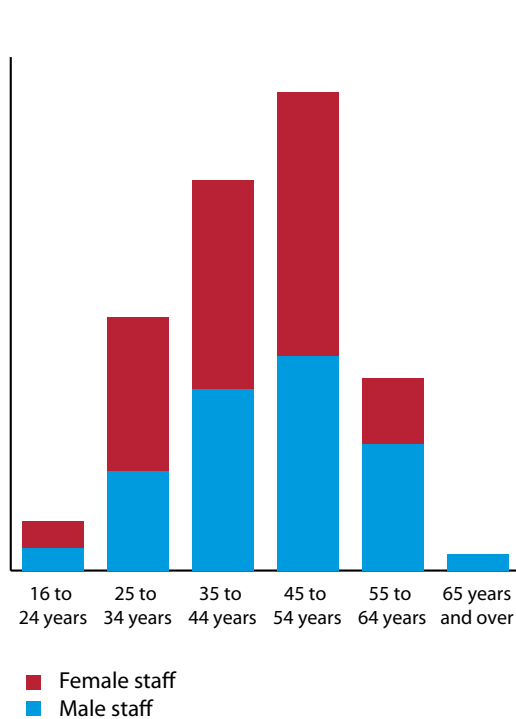
8 Compared to £3,418 for the Welsh Government as of 31 March 2012.

9 Including rent, rates and other costs, but excluding one month of other costs from previous premises.

Social summary

In this financial year:

- > Our workforce age and gender profile was similar to that of the Civil Service, but with a lower proportion of part-time employees
- > Around 12 per cent of staff assessed themselves as having intermediate or advanced Welsh language skills
- > We achieved a 30 per cent reduction in rates of sickness absence, including a substantial reduction in the number of days lost to long-term absence
- > Our annual labour turnover rate was comparable with the CIPD benchmark
- > Around one quarter of staff in senior leadership team pay bands and one third of staff in management pay bands were female



£'000	2012-13	2011-12	2010-11
Number of staff and remuneration			
Number of directly employed staff at year end	251	254	253
Number of whole-time equivalents at year end	234.5	225.6	222.4
Median staff annual gross salary and benefits in kind ¹⁰ £	46,347	45,964	45,270
Turnover			
Annual labour turnover rate ¹¹ %	10.8	8.3	12.4
Attendance management			
Average working days lost per member of staff ¹²	6.7	9.7	12.4
Due to short-term absence	3.9	2.4	2.3
Due to long-term absence (periods of ≥21 days)	2.8	7.3	10.1
Diversity			
Female %	52.2	50.0	47.4
Aged less than 30 years ¹³ %	10.0	5.9	7.1
Aged 30 to 59 years %	85.2	87.0	85.0
Aged 60 years and over %	4.8	7.1	7.9
Working patterns			
Part-time employees as % of total ¹⁴	16.3	18.6	19.4
For men	3.3	11.1	15.8
For women	28.2	26.0	23.3
Employment contract type			
% of staff on permanent employment contracts ¹⁵	87.7	86.6	96.4
Grade distribution			
Staff in senior leadership team bands (9 to 11) %	5.2	5.1	5.1
Staff in management bands (6 to 8) %	21.5	22.5	22.9
Staff in other pay bands %	73.3	72.3	71.9
% staff in senior leadership team that are female	23.2	23.2	23.2
% staff in management that are female	35.2	35.1	32.8

10 £45,331 for the National Audit Office and £41,050 for Audit Scotland (as per 2012-13 published annual accounts).

11 10.1 per cent median for public service organisations that responded to the 2012 CIPD *Resourcing and Talent Planning Survey*.

12 7.9 days per employee per year for those public service organisations that responded to the 2012 CIPD annual *Absence Management Survey*.

13 *Annual Civil Service Employment Survey 2012* figures: 10.5 per cent aged less than 30 years, 82.1 per cent aged 30 to 59 years, and 7.4 per cent aged 60 years and over.

14 23.6 per cent for the Civil Service in 2012 (8.5 per cent for men only, 37.0 per cent for women only).

15 89 per cent for those public sector employees included in CIPD's *Employee Outlook – a representative survey of 2,000 people in employment, Labour Market Outlook Winter 2012-13*, CIPD, February 2013.



Providing assurance

In this section we have included some case study illustrations of how we provided timely assurance in 2012-13 on the governance and stewardship of public money and assets in Wales.

Audit of accounts

Public bodies must account for the money entrusted to them. The principal way they achieve this is through the production of timely and accurate annual accounts. The focus of our financial audit work is auditing these accounts and providing assurance to the public about the stewardship of public money.

In 2012-13, we issued reports on the accounts of over 800 public bodies in Wales. These included the Welsh Government and its sponsored bodies, NHS trusts and health boards, unitary authorities, fire and rescue authorities, national park authorities, police and probation authorities and trusts, pension funds, and town and community councils.

Auditors often suggested significant amendments to bodies' draft accounts to ensure they were presented correctly, and made many recommendations for improvement to those responsible for the management and oversight of the accounts.



Cardiff audit team: David Phillips, Roy Blake, Nadeem Ashraf, Simon Howells, Joanne McCarthy, Daxa Varsani, Rosemarie Khan, Janet McNicholas, Diane Auton and Mair Evans.

Examination of the Welsh Government's acquisition and action to dispose of the former River Lodge Hotel

The former River Lodge Hotel, Llangollen, was purchased by the Welsh Government for £1.6 million in March 2007. It was intended that a local not-for-profit organisation would develop a community enterprise by means of a lease or conditional purchase of the property. However, the organisation was unable to fulfil the terms of an agreement to lease the property, and since June 2010 the Welsh Government has been looking at alternative uses for the property.

In October 2011, in light of much public speculation about the purpose of the acquisition and whether government officials had followed proper process, the Auditor General announced his intention to conduct an examination of the Welsh Government's acquisition and action to dispose of the property.

At the time of our audit, the property remained vacant and its market value had halved to around £800,000. The further costs associated with its repair and refurbishment were estimated to exceed £1 million. Our team published its report on 14 June 2012. We concluded that the Welsh Government's decision to purchase the hotel for £1.6 million was flawed and represented poor value for money.

In light of our recommendations, the Welsh Government has since taken a number of actions to strengthen its governance arrangements, and to modernise its financial systems and procedures to reflect best practice.



Summary report of local authority accounts 2011-12

In December 2012, we published a second report which brought together the results of audit of accounts work across all local government bodies for the previous financial year.

Authorities had generally prepared timely accounts and supporting papers. However, we identified a number of common areas where authorities needed to improve to ensure accurate and well-supported accounts were made available for audit.

We also outlined that there remains scope to clarify accounting treatment in a number of areas, including accounting for schools, valuation methodologies for council houses (where different valuation techniques are applied from council to council) and restoration costs for old landfill sites.

The majority of authorities did not prepare their draft Whole of Government Accounts returns on time. We expect this position to improve in the coming year.

In 2013-14, we intend to extend this summary report of our audit of accounts work to cover all sectors.

Special inspection of Pembrokeshire County Council

We carried out a further inspection of corporate governance arrangements at Pembrokeshire County Council in the summer of 2012. Again, particular attention was paid to the implementation by the Council of safeguarding arrangements for children and young people.

While we found that, in response to the recommendations of external review bodies¹⁶, the Council had introduced policies and procedures that had heightened awareness of safeguarding, it had not addressed the underlying causes of failings. The Council was acting too slowly to address serious issues such as the use of timeout rooms and was not implementing new policies and procedures effectively. The Council had also made little progress since January 2012 in strengthening the challenge and assurance role of its elected members.

Since the completion of this further inspection, the Council has made a number of significant changes at senior management level in education and social services. Recent observations of scrutiny also indicate an increased appetite for challenge, and Members are beginning to hold officers more closely to account. These changes, if sustained, have the potential to support improvement.

Our work has also had a wider impact as other councils check their arrangements against our inspection findings and recommendations. We are currently considering carrying out an all-Wales study on safeguarding to test the effectiveness of arrangements at all councils.

¹⁶ Including Care and Social Services Inspectorate Wales, Her Majesty's Inspectorate for Education and Training in Wales (Estyn), Her Majesty's Inspectorate of Constabulary, and the Wales Audit Office.



Certification of grant claims and returns

Grants are a key source of funding in Wales. When making grant awards, funders set conditions requiring recipients to use the money only for the agreed purposes and under strict controls. If requested to do so, the Auditor General must make arrangements for certifying claims and returns in respect of grants paid or subsidies made.

In 2012-13, we certified 32 local government schemes, worth over £3 billion and involving over 750 individual claims. As a result of our work, one in five of those claims had to be adjusted (to correct an error) or qualified (to report a disagreement or an uncertainty over part of the expenditure claimed). The gross value of adjustments was £3 million and the potential value of qualifications was £25 million. We also certified European structural fund claims from the Welsh Government and its sponsored bodies with a total value of around £300 million for the year.

Scrutiny of requests to draw from the Welsh Consolidated Fund

The Welsh Consolidated Fund (WCF) is the main conduit for the receipt and distribution of money for the Welsh public sector. The majority of the money paid into the fund is provided by the UK Government, as authorised by the UK Parliament. The Auditor General's approval is needed for all payments out of the fund, following checks that proposed payments are in accordance with legislation and, where applicable, National Assembly budget motion authority.

The sums of money involved are large – around £1 billion a month during 2012-13. We completed the processing of most WCF requests on the same day that we received them, and dealt with any discrepancies in requests as a priority.

Responding to issues that have been brought to our attention

Correspondence from the public, elected representatives and others that raises concerns about public business can inform our work programme by identifying issues for further investigation. It is our policy to respond to public concern promptly and in a fair, objective and professional manner.

Under the Public Interest Disclosure Act, the Auditor General and the auditors he appoints in local government are recognised as 'prescribed persons' who can receive disclosures from individuals employed or formerly employed by audited bodies via 'whistle-blowing' arrangements. The Auditor General also reports to the Serious Organised Crime Agency any instance of dealings in the proceeds of crime (money laundering) that he or his staff encounter during the course of their work.

Caerphilly County Borough Council – public interest report

In March 2013, we issued a report in the public interest on the process used by Caerphilly County Borough Council to set the pay of chief officers. This was partly in response to issues raised by members of the public.

The report identified that the decision on chief officer pay, taken in September 2012, was unlawful on several grounds.

The report generated a great deal of media interest and was formally considered by the Council in April 2013. The Council unanimously accepted the report, the recommendations contained in the report and the action plan presented by the Acting Chief Executive.

There are lessons for all public bodies to ensure that proper decision-making processes are followed, particularly around sensitive issues such as senior pay.

Caldicott and Wentlooge Levels Drainage Board – public interest report

During 2011, a number of concerns relating to the operation of the Board were raised with us by former officers and a former member of the Board. We determined that several of the issues raised should be investigated.

In October 2012, the results of our investigation were published in a report in the public interest. We concluded that the Drainage Board had not operated to the standards that the public has the right to expect from a public body and had lost sight of the fact that it was a public body. We also concluded that the Board had not been governed and managed effectively for a number of years.

Our report highlights the need for all public bodies to have, and to operate within, a robust governance framework.



Offering insight

In this section we provide some examples of where, in 2012-13, we offered useful insight on the extent to which resources are used well in meeting the needs of the people of Wales.

Civil emergencies study

Civil emergencies can be devastating events that result in loss of life and cause serious disruption and cost to the economy. Over recent years Wales has faced a number of significant emergencies, including flooding and severe weather, disease and fuel shortages. It is inevitable that civil emergencies will occur in the future, and the nature and frequency of some types of civil emergencies is changing.

In December 2012, we published the results of a study on the effectiveness of arrangements in Wales for planning for, and responding to, civil emergencies. We found examples where the emergency services and other organisations have led a very professional and effective response. However, we also identified instances where the arrangements to plan and respond were inconsistent or unreliable, out of date and inefficient, and highlighted the need to secure more effective organisation across Wales.

We drew attention in our report to the need for greater clarity on the role and responsibility of the Welsh Government in relation to civil emergencies. Legal powers have yet to be devolved from the UK Government in this area. During the work leading to the publication of our report, productive discussions were held between the UK Cabinet Office and the Welsh Government, which have served to clarify the current role of the Welsh Government in civil emergencies and to provide further assurance that emergency arrangements will work when called upon.

The Welsh Government has subsequently submitted evidence to the Commission on Devolution in Wales and recommended, with reference to our report, that Welsh Ministers receive executive powers for civil emergencies.



Review of the educational attainment of looked after children and young people



Educational attainment review team:
Huw Lloyd Jones, Claire Flood-Page,
Carol Moseley and Alan Morris.

Many children and young people in the care of local authorities achieve very low educational attainment and this hinders their life chances. We undertook a review to consider whether the actions being taken across the Welsh public sector are enough to improve significantly the educational outcomes for this group of young people. We worked with a group of local authorities, alongside regulators and other organisations to consider present arrangements and to identify good practice.

We found that the Welsh Government and local authorities have contributed to some improvement but have not set out the outcomes they hope to achieve for looked after children. They lack a shared plan for improvement and whilst attainment is slowly improving, there is too much regional variation and monitoring is hampered by weaknesses in data.

The report on our findings was published in August 2012 and highlighted good practice in some areas of Wales as well as in Scotland. We made recommendations for the Welsh Government and local authorities to work together to develop clearer plans and build understanding of the effectiveness of their work.

We also set out ways in which the different parties involved could work together more effectively to improve the life chances of the children and young people for whom local authorities act as parents.

Our report received significant press coverage and was welcomed by the Children's Commissioner for Wales, who said it will bring 'focus' to the issue and 'it's an area that continues to be a cause for concern'. The Welsh Government is preparing a response to the report and our recommendations, and the Auditor General is considering undertaking some follow-up work.

Health finances

In July 2012, we published a report on *Health Finances*, which highlighted the unprecedented financial pressures faced by the NHS in Wales. The report focused on how NHS bodies had managed within their allocated budgets in the past, and on the financial challenges they are likely to face in the future.

Our work on health finances has helped to inform public debate about the challenges facing the NHS in Wales, at both a national and local level, and the options available to meet those challenges. Assembly Members frequently cite our work in national debates about putting the NHS on a more sustainable financial footing and reshaping NHS services. Some health boards in the South Wales area have put on their websites video footage of the Auditor General talking about our *Health Finances* report as a means of engaging staff and the public in the challenges the health boards are facing and the need for change.

As well as providing insight to support public debate, our report has acted as a catalyst for improving the financial regime for health bodies. Following publication of our report, there has been a growing recognition that the legal requirement for health boards to break even every year may have encouraged an unhelpful short-term focus. In line with our recommendations, the Welsh Government is in the process of amending the financial regime to enable greater flexibility for health boards, and is considering introducing new legislation to provide a long-term solution.

We will be producing another report on health finances in the summer of 2013, as financial management continues to be a very significant challenge and driver for the NHS. We will look in-depth at what happened with health spending during 2012-13, and at the consequences of the actions taken by NHS bodies in their efforts to break even financially on the delivery of services for patients.



Participation in waste recycling

In February 2012, we published the results of a national study on public participation in waste recycling. As part of our study we gave consideration to methods for the kerbside collection of recyclable wastes from residents, including co-mingled and segregated collection. In our report we recommended that local authorities continue to have freedom to collect recyclables using any method that is effective, sustainable and provides value for money in terms of service efficiency and in the use of waste resources.

When we published our national study, a group of pro-kerbside sort recycling organisations were seeking a judicial review, claiming that in drafting legislation both England and Wales had incorrectly transposed the EU Waste Framework Directive. If the judicial review had found this interpretation to be correct, it would have meant that the many local authorities currently using co-mingled collections to produce high recycling rates, would have had to change to kerbside-sorted collections by 2015. These changes were likely to have cost implications and could have reduced public participation.

The court passed judgement on 6 March 2013, where the case was dismissed. The court's judgement closely reflected the conclusions of our study and, subject to meeting guidelines due from the Welsh Government on the quality of recyclable wastes, clears the way for local authorities in Wales to press ahead to achieve increased levels of recycling.

Support for National Assembly committees

In addition to our ongoing support to the National Assembly's Public Accounts Committee, during 2012-13 our staff provided input to support the work of other National Assembly committees including in relation to:

- Finance Committee inquiries on the Welsh Government Invest to Save Fund and on asset management;
- the scoping of an Environment and Sustainability Committee inquiry on waste management; and
- the Communities, Equality and Local Government Committee's scrutiny of the Local Government (Democracy) (Wales) Bill and its inquiry on home adaptations.



Promoting improvement

In this section we highlight instances in 2012-13 where we have identified and promoted ways by which the provision of public services in Wales may be improved.

Grants management

Grants are very important in Wales. The public sector makes great use of grant schemes to try to bring benefits to people and communities in need. Our *Grants Management in Wales* report, published in November 2011, highlighted that many grant schemes are poorly managed, lessons are rarely learned and funders frequently fail to tackle recipients' poor performance.

Following on from the publication of our report, we ran two shared learning seminars in June 2012 for local government community development and regeneration officers and their voluntary sector counterparts from the county voluntary councils. The seminars used expert trainers to provide advice on good grants governance, effective monitoring and evaluation, and on reporting the impact of grant-funded activities.

Feedback quotes from delegates:

'Helped us develop a more streamlined approach to grants.'

'Made new connections to help us work together and improve grant applications.'

We also produced a range of outputs to accompany the seminars, which we have shared through our Good Practice Exchange. These included:

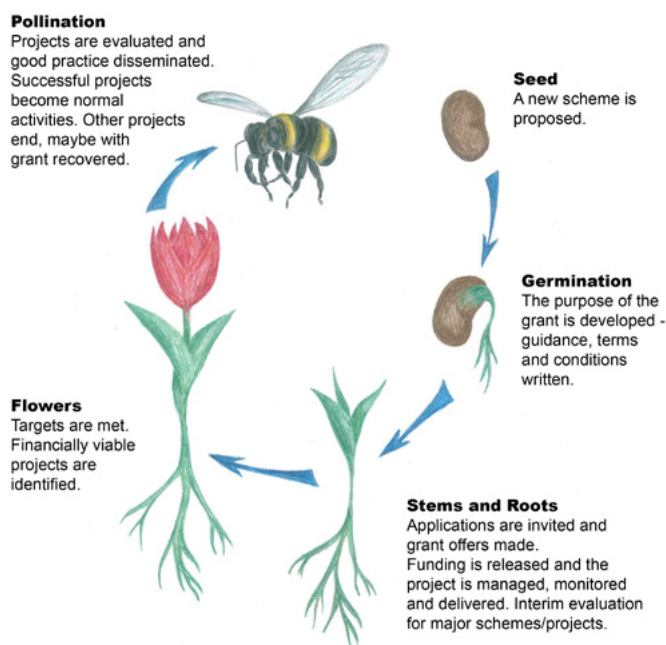
- the 'grants lifecycle' – an illustration of the key stages of managing a grant;
- case study good practice examples; and
- a wide range of links to guidance and toolkits.

Many delegates wanted advice on a range of grants management issues. We were able to match up enquirers with fellow practitioners having relevant knowledge, skills and experience.

We contacted everyone who attended the seminars a few months later to review the impact on their organisations and working practices. Most were currently using, or planning to use in the near future, the resources that we provided, and were keen to attend further shared learning events.

Following the seminars we held a special briefing for 40 senior managers at the Welsh Government to make them aware of the issues raised, and also presented our findings at their autumn 2012 Grants Summit. We continue to attend the Welsh Government's project board for grants management and to exchange information on good practice with its 'Centre of Excellence Team'.

What is the Life Cycle of a Grant?



The All Wales Ethnic Minority Association (AWEMA), a registered charity, received over £7 million of grants from the Welsh Government and other public bodies between 2000 and 2011. A further £3 million of funding had been earmarked for activity through to mid-2014.

In late 2011, concerns emerged relating to AWEMA's governance, financial management, staffing and human resources, and potential criminal activities. Following a joint investigation by the Welsh Government's Internal Audit Service and the Big Lottery Fund, which identified significant and fundamental weaknesses, we undertook a study to determine whether the Welsh Government had managed its relationship with AWEMA appropriately to protect and make good use of public funds.

We found that the Welsh Government's management and co-ordination of that funding had often been weak, and that its response to previous concerns had been too narrowly focused. However, we concluded that the Welsh Government responded robustly to the concerns that emerged about AWEMA in late 2011.

Police and Charity Commission inquiries relating to the situation at AWEMA are ongoing.



AWEMA study team: Emma Giles, Phil Pugh, Mark Jones, Mark Jeffs and Mike Usher.

Transparency and openness to challenge in local government

During 2012-13, we undertook a study to explore the extent to which challenge and scrutiny are operating effectively in local government, and reviewed approaches to the preparation of annual governance statements by local authorities.

Scrutiny and challenge have a key role to play in promoting improvement, efficiencies, and collaboration across public services. In our 2012-13 study, we worked with the local government sector to further improve scrutiny via a programme of audit activity.

The programme differed from a traditional audit approach in that it focused on real-time shared learning using a variety of mechanisms, including interactive workshops, self-evaluation and peer observations.

We also worked with the Welsh Local Government Association and partners to finalise an agreed set of key characteristics of effective overview and scrutiny that can be used consistently by all practitioners, stakeholders and external review bodies.

A national summary report of our findings will be published later in 2013. Shared learning events are also planned, alongside a national conference supported by the Welsh Government and the Centre for Public Scrutiny.

Since the 2010-11 financial year, local authorities have been required to prepare an annual governance statement based on a review of their governance framework. Our 2012-13 review looked at the effectiveness of authorities' reviews of governance.

We focused on identifying learning points for authorities to consider during their reviews of governance for the next financial year, particularly in relation to:

- determining the level of assurance required;
- ensuring that the required level of assurance is provided; and
- raising awareness amongst those charged with governance of their responsibilities.

In 2013, we will publish our findings in the form of a practice note. The note will summarise the key learning points and identify the steps that authorities will need to take to ensure governance reviews are as effective as they could be. A series of shared learning seminars is also planned.



The procurement and management of consultancy services

Consultancy services is an area of high expenditure by the Welsh public sector; in 2010-11, public bodies in Wales spent a total of £133 million on consultancy services. In February 2013, we reported on how well public sector bodies in Wales have procured and managed consultancy services.

Our audit criteria were based on established good practice from the Chartered Institute of Public Finance and Accountancy, the National Audit Office and the former Office of Government Commerce. We examined how well public bodies across different sectors exercise good practice in procuring and managing consultancy services across a typical project.

We concluded that although public bodies have reduced their expenditure on consultants, from £173 million in 2007-08 to £133 million in 2010-11, they are unable to demonstrate good value for money in the planning, procurement and management of consultancy services.

This is because the extent to which public bodies exercised generally accepted standards of good practice in the various stages of procuring and managing consultants varied considerably. We estimate that efficiency savings of more than £23 million are possible if all public bodies were to follow good practice, particularly with regard to assessing needs, specifying requirements and exploring alternatives to the use of consultants.

While our report was centred on the procurement and management of consultancy services, the good practice principles promoted in the report apply equally to managing the procurement of all goods and services.

Agile working shared learning seminars

Agile working is about bringing people, processes, connectivity and technology, time and place together to find the most appropriate and effective way of working. It is working within guidelines (of the task) but without boundaries (of how you achieve it).¹⁷

We ran two shared learning seminars on agile working in collaboration with the Welsh Local Government Association and Chwarae Teg in January 2013. The aims of the seminars were to increase awareness of the benefits of agile working and the importance of demonstrating trust in employees, and to share the notion that agile working extends beyond the traditional flexible working for individuals.

In total, 53 people attended the seminars, including representatives from local government, the NHS, central government and the third sector. The seminars provided a basis for building a strong network of Welsh public sector practitioners and outputs were put on the Good Practice Exchange website.

Joint working and international work

We are committed to working with, and building on, the existing co-operation between the UK national audit agencies to enhance the efficiency and effectiveness of public audit. We regularly work with colleagues at Audit Scotland, the Northern Ireland Audit Office, the Audit Commission and the National Audit Office on joint projects, and to share information and knowledge.

Over the last year, we continued to work closely with the three other main inspection, audit and regulation bodies in Wales – Estyn, the Care and Social Services Inspectorate Wales and Healthcare Inspectorate Wales – and also with Her Majesty’s Inspectorate of Constabulary to provide assurance on the new police structures.

From time to time, we represent Wales on the international stage in relation to our work. Our international work provides the opportunity to further develop our knowledge of accountancy and audit techniques, and acquire skills that are necessary to deliver our work. But, we are mindful that all such activities should support our business strategy, should be self-financing and should not be undertaken to the detriment of our core audit work in Wales.

Two of our staff worked with the National Audit Office in 2012-13 on the audit of United Nations organisations. The two staff members worked on a number of assignments in various countries as part of a longer-term agreement to support this work.

¹⁷ Source: The Agile Organisation website



Financial Audit Technical Group: Mike Usher, Hefin Davies, Terry Jones, Jayne Elms, Iolo Llewelyn, Deryck Evans, Clare Stevens, Chris Pugh, Kate Harvard and Nick Davies.

The Wales Audit Office is also established as a public sector audit agency with skills that are transferable to other countries. In March 2013, delegations from a number of overseas public sector entities, including from Bulgaria, Egypt, Ghana, Liberia, Philippines, Russia and Swaziland, visited our offices to learn about governance arrangements in Wales and our approach to public audit.

In addition, we:

- provided training on financial reporting to the Government and Auditor General of the Cayman Islands;
- gave a presentation on our approach to quality assurance at the European Organisation of Regional External Public Finance Audit Institutions (EURORAI) annual conference; and

- gave a presentation to Irish local government on aspects of our audit approach.

Accounting and auditing standards are organised increasingly on a global basis. During 2012-13, we responded to two international consultations on those standards, helping to shape the future development of both accountancy and public audit on the wider stage.

The background of the page is a dense field of 3D-rendered numbers in a light orange or tan color. The numbers are scattered across the page, with some appearing larger and more prominent than others, creating a textured, mathematical aesthetic. The lighting is soft, giving the numbers a slight shadow and a sense of depth.

Running the business

In this section we outline what we have done in 2012-13 to build on our work on being an accountable, well-run and efficient organisation that provides a stimulating and rewarding environment in which to work.

We are committed to embedding sustainable development as a central organising principle in the way we run our business (and in all our audit work). Sustainable development is about meeting the needs of the present without compromising the ability of future generations to meet their own needs.

Over the past year, we have worked hard to further embed sustainable development in the way we run our business in a wide range of ways.

Financial management and efficiencies

Our work is funded from a variety of sources, including fees charged to audited bodies, financing from the National Assembly via the Welsh Consolidated Fund, and contributions from contractor firms. We use these funds to pay staff and to provide the necessary support to enable them to undertake their work effectively.

Significant improvements in our financial management arrangements have been made over the last two years. During 2012-13, financial management training has been delivered across the organisation and improvements have been made in the management information provided to budget holders and senior management. We have also developed a medium-term financial strategy.

We have reported previously¹⁸ that discussions with Her Majesty's Revenue and Customs (HMRC) have been ongoing for a number of years regarding the Auditor General's VAT status. In 2011-12 we set aside a provision of £2.4 million, based on external financial advice, in respect of potential historical VAT liabilities. In December 2012, we received a ruling from HMRC which has confirmed the VAT regime that will operate from 1 April 2013 and that there will be no historical liability. On this basis, it has been possible to release the provision set aside in 2011-12 into the 2012-13 accounts. As a result of the ruling we will not charge VAT on fees for local government or NHS audit work from 1 April 2013 onwards, and there will be an increase in the irrecoverable VAT charged to us on goods and services of around £600,000 per annum.

We aim to pay 95 per cent of supplier invoices within 30 days of receipt, based on continuous monitoring of payments. In the 2012-13 financial year 97 per cent of payments were made within 30 days of receipt of the invoice (compared to 98 per cent in 2011-12).

Public sector bodies are required to demonstrate efficiency and value for money, and the Wales Audit Office is no exception. We are committed to leading by example and to ongoing review and challenge of our expenditure and working practices to ensure we deliver our work efficiently and cost-effectively.

¹⁸ In our published annual estimates of the income and expenses of the office of Auditor General.



Equality, diversity and dignity at work

Our *Strategic Equality Plan* outlines our continued commitment to equality. The Plan sets out how we seek to eliminate discrimination, advance equality of opportunity, and foster good relations in our work and our day-to-day activities¹⁹. We are committed to providing a work environment that values the diversity of all people (both our own staff and those with whom we come into contact during our work), and we fully support the rights of people to be treated with dignity and respect.

In 2012-13, we jointly developed an e-learning package with our inspectorate partners – Estyn, Healthcare Inspectorate Wales and Care and Social Service Inspectorate Wales – to promote knowledge and understanding of equality duties amongst our staff. The multimedia format of delivery was creative and engaging, and provided staff with flexibility as to when and how they completed the course.

'Lunch and learn' sessions were also held on a regular basis to increase awareness of equality and diversity matters, with guest speakers including representatives from Stonewall Cymru, Disability Wales and Age Cymru. The Wales Audit Office is represented on the all-Wales Equality Exchange Network Group – a forum for sharing knowledge and good practice.

A full report on our progress on diversity and equality for 2011-12 is available on our website; a similar report for 2012-13 will be published shortly.

¹⁹ For further information, please see our *Strategic Equality Plan* on our website.

Environmental stewardship

In 2012-13, we progressed to accreditation at Level 4 of the Green Dragon Environmental Standard, following further development of our environmental management processes and procedures and providing a programme of training and awareness sessions for staff.

In addition, we:

- now apply a travel hierarchy, which means we consider all possible ways of carrying out our business, with travel as the last resort;
- reduced the CO₂ emissions limit for new cars in our car scheme to 135 g/km, with the aim of reducing this limit by at least a further 5 g/km in the next year;
- invested in further videoconferencing units and increased its use by 25 per cent to support agile working and reduce travel; and
- increased recycling facilities at our primary office sites.

Promoting use of the Welsh language

The Wales Audit Office treats the English and Welsh languages on the basis of equality²⁰. Our public documents are available in both English and Welsh, we have a fully bilingual website, and we deal with audited bodies and the media in both languages.

In 2012-13, we conducted two surveys in relation to the Welsh language. One survey established the language preferences of our audited bodies. The majority of bodies said they would prefer us to communicate with them bilingually.

Another survey was carried out amongst our staff, where individuals were invited to assess their level of confidence in using the Welsh language in the workplace. We received an 85 per cent response rate to this survey, with over half the responders expressing an interest in further improving their Welsh language skills.

In 2013-14, we will use the information from these surveys to ensure we have enough staff with the necessary skills to meet the language preferences of audited bodies, and to support Welsh language skills development amongst our staff.

²⁰ For further information, please see our *Welsh Language Scheme* on our website.

Recruitment and work experience

This year has seen the development of a strategic workforce plan focused on ensuring we have a flexible workforce which is able to respond to changes within the public sector in Wales. In support of this plan, we undertook a number of internal and external recruitment campaigns in 2012-13, including for professionally qualified staff to support the delivery of our work.

As a professional audit body and accredited training provider with three professional accountancy bodies, the Wales Audit Office is also committed to a rolling programme of trainee and technician recruitment. Through our annual recruitment campaigns we aim to attract the highest possible calibre candidates.

We appointed two audit trainees and four audit technicians in 2012-13, who have

now commenced their studies. All trainees and technicians recruited in 2011-12 have successfully passed their first stage examinations and continue to progress through the training scheme.

In addition to their professional studies, we provide the trainees and technicians with bespoke training and relevant work experience. During their training, they spend time working with various audit teams, making a key contribution to our overall success.

We have also recently forged links with Careers Wales and local schools and universities to offer work experience opportunities and to promote careers in the Wales Audit Office. During 2012-13, two students undertook work placements with us.



Audit trainees and technicians appointed in 2012-13: Rhian Phipps, Olivia Hodgson, Thomas Stuttaford, Adam Marshall and Katie Adams.

Employee well-being and attendance management

We are committed to encouraging a healthy lifestyle and a good work-life balance amongst our staff. We also closely monitor rates of sickness absence, and, over the last three years have established a range of mechanisms for supporting successful return to work. An average of 6.7 days per employee were lost to sickness absence during the reporting year ending 31 March 2013; a 30 per cent reduction from the previous year and a figure which compares favourably with the average of 7.9 days per employee per year for those public service organisations that responded to the 2012 CIPD annual *Absence Management Survey*.

A free over-the-phone employee assistance programme is also available, to provide staff with professional advice and emotional support on a range of matters.

Learning and development

We continue to invest heavily in staff learning and development to support our staff in the delivery of their work. In 2012-13, we increased the number of training courses delivered and an average of seven training days were provided per employee during the year. Some of the training was designed and delivered in-house, but where appropriate and cost-effective, external training support was also commissioned to deliver training to our bespoke requirements.

During 2012-13, we continued with the second phase of our *Ignite* leadership and management development programme. The programme focuses on achieving results through effectively managing and motivating teams, and combines seminars with case study fieldwork. We continue to receive very positive feedback from *Ignite* participants, and during 2013-14 we will be developing the third and final phase of the programme for roll-out in 2014.

The Wales Audit Office also continued to actively encourage and support applications from staff to participate in the Public Services Management Wales annual summer schools.

Following completion of a review of our previous performance appraisal system, a revised scheme has been rolled out in the early part of 2013-14, as part of a broader people management framework.

Community and charity work

The Wales Audit Office recognises the benefits that community and charity work by staff can bring to the wider community and applauds its staff for their individual efforts. Staff can apply the skills they have developed in the workplace and can develop new skills, whilst improving their morale, physical health and work-life balance.

Subject to operational requirements we support employees who wish to undertake community or charity activities such as community care work, environment work and conservation projects, fundraising for community projects and charities, and the administration of public events. Staff are also able to participate in a 'give as you earn' scheme. In 2012-13, our staff held a number of internal events to raise cash for charity. Two of our staff contributed to the highly successful London Olympic and Paralympic Games in the summer of 2012.



Group Director, Alan Morris, was an athletics official at the Olympic Games and the Paralympics. Alan wrote a daily blog for staff on his experiences.



Financial Auditor, Emma Moorhouse, was a member of the transport team at the Paralympics, ensuring athletes and officials got to their venues safely and on time.

Working with the third sector

Ignite, our leadership and management development programme, includes a live case study exercise, working with a charity or other third sector organisation. The case study typically includes intensive service review and developing solutions to real problems.

During the 2012-13 financial year, our staff worked on case studies with Groundwork Merthyr and Rhondda Cynon Taff, the WRVS and the Prince's Trust.

The following feedback was received from the Head of Operations – Wales, WRVS:

'Working with the Wales Audit Office as the case study for their Ignite management development programme was an absolute pleasure and a positive and extremely useful experience. The task set was challenging – how to modernise a service that has been in existence since the 1940s – but the delegates embraced it with enthusiasm and provided feedback and practical advice on how a transformed service could be delivered and the likely impact this would have on service users. Whilst we had already anticipated most of the outcomes from the feedback, it was reassuring to have an independent professional team to confirm that our services were valued and well-delivered. I would jump at the opportunity to be involved with the Ignite programme in the future.'

In addition, during 2012-13 we contacted a range of third sector bodies that represent people with protected characteristics²¹ and sought their views on our draft corporate strategy and programme of value for money studies.

Openness and transparency

We are committed to demonstrating openness and transparency in the way we operate as a business and how we communicate with the public. The Auditor General has adopted the *Model Publication Scheme* prepared and approved by the Information Commissioner. The Scheme commits us to making certain information routinely available to the public – for further information please see our website.

In the 2012-13 financial year, we received 38 requests for information. One of these requests was transferred to the appointed auditor to respond to because the requested information was not held by the Auditor General. Performance auditors deemed one request as appropriate for them to deal with as ordinary correspondence. Of the remaining 36 requests for information dealt with by the Auditor General's Private Office, 92 per cent were processed within the statutory deadline (100 per cent of them were responded to). We received one request for internal review. We were not subject to any reviews in 2012-13 by the Information Commissioner.

²¹ The nine protected characteristics listed in the Equality Act 2010 are: age; disability; gender reassignment; race; religion or belief; sex (gender); sexual orientation; marriage and civil partnership; and pregnancy and maternity.

Future focus for our work

Corporate strategy 2013-2016

In November 2012, we launched a wide-ranging consultation on a *Strategy for the Auditor General for Wales and the Wales Audit Office 2013-2016*. The draft strategy set out our intended response to the key factors in our operating environment over the next three years, alongside our approach to monitoring and reporting on our performance.

Overall, the feedback we received affirmed our overall aim and objectives (see [Exhibit 4](#)), concurred with our evaluation of the main environmental influences on public audit over the next few years, and agreed with our proposed response (see [Exhibit 5](#)).

The final strategy document was published in April 2013²², and includes summaries of our medium-term workforce and financial strategies. Delivery of the strategy will be underpinned by a three-year business plan covering the breadth of our work.

²² For further information, please see *Strategy for the Auditor General for Wales and the Wales Audit Office 2013-2016*, Wales Audit Office, April 2013.

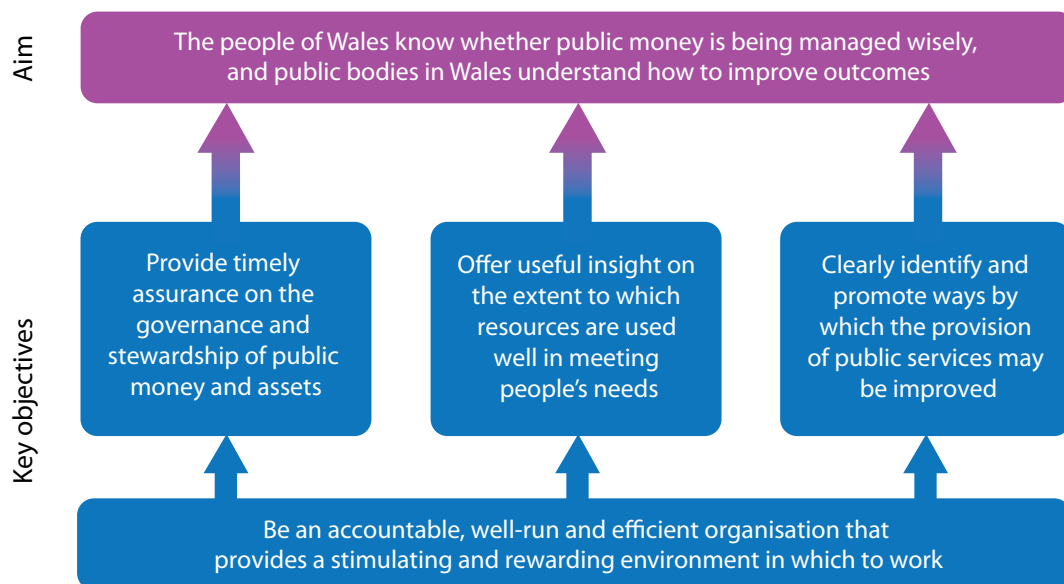


Exhibit 4: Aim and key objectives set out in our strategy

Key environmental factors	Actions we will take in response
We are in a period of financial constraint	Undertake our audit work with an austerity emphasis
Welsh policy continues to diverge through incremental devolution	Enhance our work on benchmarking and performance comparison, sharing of audit knowledge and exchange of good practice
Interest in the effectiveness of governance arrangements is growing and reporting requirements now have a wider scope	Provide further assurance on the effectiveness of governance arrangements and other issues of public interest
New public sector cross-cutting duties and standards have been and are continuing to be introduced in Wales	Report more comprehensively on sustainable development, on equality and on the use of the Welsh language
The external review landscape continues to evolve	Work more closely with other external review bodies and improve the way we run our business through a period of transition
We live in an increasingly networked society	Increase awareness of and engagement with our work, including through more effective use of information technology

Exhibit 5: Actions we will take in response to our operating environment

Programme of audit work

In March 2013, the Auditor General provided the National Assembly's Public Accounts Committee with:

- an update on the Wales Audit Office programme of value for money studies and other audit work in progress that could result in published outputs for consideration by the Committee; and
- an opportunity to comment on potential topic areas for future value for money studies.

The briefing paper to the Committee illustrated the range of value for money study work that we are currently engaged in and on which we expect to report publicly by July 2014. This body of work is in addition to the regular financial and performance audit work reported locally to individual audited bodies. The briefing paper also listed a variety of topics that we have been considering for potential future value for money studies.²³

Estimate of income and expenses

We submitted our *Estimate of income and expenses of the office of Auditor General for the year ending 31 March 2014* to the Public Accounts Committee in October 2012. The Committee subsequently endorsed the estimate in November 2012. In the estimate, we set out our proposals to:

- continue to seek further savings and efficiencies wherever possible that will help us further reduce our cost base;
- hold overall fee levels in 2013-14 at the same cash level as for 2012-13, following significant real terms reductions in earlier years;
- invest additional resource of £0.5 million, specifically on sharing good practice and promoting innovation and improvement, and ensuring we can respond promptly to the increasing number of requests for special investigations and ad hoc work without delaying the delivery of our pre-planned studies programme; and
- seek funding for the additional costs associated with the Public Audit (Wales) Bill²⁴ in a supplementary estimate for 2013-14.

²³ For further information, please see *The Wales Audit Office programme of value for money studies: Briefing Paper for the Public Accounts Committee*; Wales Audit Office, March 2013.

²⁴ Now the Public Audit (Wales) Act 2013; Royal Assent was granted on 29 April 2013

Sustainable development examinations

In a recent white paper, the Welsh Government has set out its intention to legislate to place a duty on the Welsh Government and most public bodies in Wales, to make sustainable development their central organising principle. It has also outlined proposals to confer on the Auditor General a statutory role in examining the public sector's response to this duty.

We are currently represented (with observer status) on the Welsh Government's Sustainable Development Bill External Reference Group, and have agreed to convene a subgroup, to look at scrutiny and reporting in the public sector, in the context of the proposed duty.

A two-year action plan is being developed to support the embedding of sustainable development principles across all our work.

Statement of accounts

Remuneration Report

Remuneration policy

Auditor General for Wales

The Auditor General's remuneration is determined by the National Assembly and, in accordance with the Government of Wales Act 2006, is met from the Welsh Consolidated Fund (WCF). However, for enhanced transparency the remuneration of the Auditor General is disclosed in this Remuneration Report.

Non-Executive committee members

The remuneration of the non-executive members of the Shadow Board, the Audit and Risk Management Committee (ARMC), the Remuneration Committee and the Resources Committee is determined by the Auditor General. This remuneration is non-pensionable.

Wales Audit Office staff

The Auditor General is permitted by legislation to appoint such staff as he considers necessary for assisting him in the discharge of his duties. The remuneration of members of the Executive Committee is determined by the Auditor General. The remuneration terms for other staff of the Wales Audit Office are set by the Wales Audit Office's Executive Committee. Remuneration of all members of staff is subject to consultation with trade unions under a collective agreement.

Wales Audit Office staff normally hold appointments which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Remuneration details

The following sections provide details of the remuneration and pension interests of the Auditor General and the most senior management (ie, Executive Committee members) of the Wales Audit Office, along with members of non-executive committees.

Auditor General for Wales

The Auditor General's salary costs are a direct charge on the WCF and are not therefore paid by the Wales Audit Office. The current Auditor General, Mr Huw Vaughan Thomas, was appointed by Her Majesty the Queen and took office on 1 October 2010 for a non-renewable period of eight years.

The gross salary cost of the Auditor General during 2012-13 was £150,000 (2011-12: £150,000) and employers' pension cost was £21,675 (2011-12: £20,700).

Mr Huw Vaughan Thomas has opted to contribute to a partnership pension account (a form of personal stakeholder pension to which an employer contributes). Total contributions to this account during 2012-13 were £24,973 (including employer contributions of £21,675 and member contributions of £3,298) (2011-12: £22,425 including employer contributions of £20,700 and member contributions of £1,725).

The following information in the Remuneration Report is subject to audit.

Senior management

The Executive Committee is chaired by the Auditor General and additionally during 2012-13 comprised:

	Date of appointment to Wales Audit Office or precursor organisation	Date of appointment to post	Date of termination	Contract
Gillian Body	02/09/1981	01/12/2009	N/A	Permanent
Anthony Barrett	24/01/2001	01/12/2009	N/A	Permanent
Kevin Thomas	26/10/1992	01/12/2009	N/A	Permanent

Each member of the Executive Committee is subject to a periodic performance review. The notice period for each member is 12 weeks. Early termination, other than through misconduct, would result in the individual receiving compensation on loss of office.

Senior managers' remuneration details

The following table sets out remuneration information in relation to members of the Executive Committee.

	Year to 31 March 2013					Year to 31 March 2012				
	Salary	Benefits in kind	Taxable expenses	Total	Pension contribution	Salary	Benefits in kind	Taxable expenses	Total	Pension contribution
	Bands of £5,000	To nearest £100	To nearest £100	Bands of £5,000	Bands of £2,500	Bands of £5,000	To nearest £100	To nearest £100	Bands of £5,000	Bands of £2,500
Gillian Body	115-120	0	0	115-120	27.5-30.0	115-120	0		115-120	27.5-30.0
Anthony Barrett	110-115 ¹	4,500	13,300	130-135	27.5-30.0	110-115	5,000	14,900	130-135	27.5-30.0
Kevin Thomas	105-110 ²	4,200	15,000	120-125	25.0-27.5	100-105	4,100	17,500	120-125	22.5-25.0
Band of highest-paid director's total remuneration (£'000)			130-135					130-135		
Median total remuneration based on full-time-equivalent staff (£) ³			45,964					46,347 ³		
Remuneration ratio			2.870					2.877 ⁴		

¹ Mr Barrett's salary has been reduced by £425 (£522 in 2011-12) in respect of a childcare vouchers salary sacrifice scheme. The value of these vouchers has been reported separately as benefits in kind.

² Mr Thomas' salary includes additional remuneration of £1,758 received in respect of holiday (£1,726 in 2011-12) sold under the Wales Audit Office holiday sale and purchase scheme.

³ Median remuneration for 2011-12 has been restated to include salary, allowances and benefits in kind.

⁴ Restated as per note 3 above.

There is no requirement to disclose the salary of the Auditor General as he is paid directly from the WCF and not by the Wales Audit Office. For enhanced transparency his total remuneration was £150,000 which represented 3.263 times the median total remuneration for the Wales Audit Office (2011-12: £150,000, ratio 3.236).

Salary

'Salary' includes gross salary and any other allowance to the extent that it is subject to UK taxation. This report is based on accrued payments made by the Wales Audit Office and thus recorded in these accounts.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the Wales Audit Office. Benefits in kind have been restated for 2011-12 to include the value of childcare vouchers purchased via a salary sacrifice scheme.

The Wales Audit Office provides a death in service benefit equivalent to a payment of one year's salary for any member of staff who dies whilst in the employment of the Wales Audit Office. The annual cost of this scheme in 2012-13 was £12,658 (2011-12: £13,734). This is a group insurance policy and as such cannot be directly attributed to any one member of staff and hence is excluded from the table above.

No bonuses were paid to any members of the Executive Committee.

Taxable expenses

As disclosed in Notes 15 and 19 and discussed in the Annual Governance Statement, the accounts include a provision and contingent liability for a potential PAYE settlement with HMRC in respect of the Wales Audit Office not operating PAYE over certain expense payments made to some groups of staff prior to 2012-13. The provision includes taxation and national insurance contributions in respect of expenses paid to Kevin Thomas and Anthony Barrett for travel to a main place of work, and for 2011-12 additionally included fuel scale benefit charge. The tax-inclusive value of these payments is disclosed in the above table and the appropriate payment made to HMRC.

Senior management pension details

	Accrued pension at pension age as at 31 March 2013 and related lump sum	Real increase in pension and related lump sum at pension age	CETV at 31 March 2013	CETV at 31 March 2012	Real increase in CETV	Employer contribution to partnership pension account
	£'000	£'000	£'000	£'000	£'000	Nearest £100
Gillian Body	50-55 plus lump sum of 160-165	0-5 plus lump sum of 0-5	1,003	928	23	0
Anthony Barrett	30-35	0-5	454	383	31	0
Kevin Thomas	40-45	0-5	515	461	25	0

Civil service pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes: either a final salary scheme (classic, premium or classic plus) or a whole career scheme (nuvos). These statutory arrangements are unfunded with the cost of benefits met by funds voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with pensions increase legislation. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

Employee contributions are salary-related and for 2012-13 ranged between 1.5 per cent and 3.9 per cent of pensionable earnings for classic and 3.5 per cent and 5.9 per cent for premium, classic plus and nuvos. Increases to employee contributions will apply from 1 April 2013. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum. Classic plus is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 worked out as in premium. In nuvos, a member builds up a pension based on his or her pensionable earnings during his or her period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3 per cent of their pensionable earnings in that scheme year and the accrued pension is uprated in line with pensions increase legislation. In all cases, members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between three per cent and 12.5 per cent (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of three per cent of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8 per cent of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of classic, premium and classic plus and 65 for members of nuvos.

Further details about the Civil Service pension arrangements can be found at the website: www.civilservice.gov.uk/pensions.

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential reduction to benefits resulting from lifetime allowance tax which may be due when pension benefits are taken.

Real increase in CETV

This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Non-executive committee members' remuneration

	ARMC		Remuneration Committee		Resources Committee		Total	
	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12
	£	£	£	£	£	£	£	£
Chair to Shadow Board								
Deep Sagar ¹							3,685	
Committee members								
Rosamund Blomfield-Smith		1,250	7,000	5,083			7,000	6,333
Dr Michael P Brooker		1,250			7,000	5,083	7,000	6,333
Steven Burnett					5,000	3,750	5,000	3,750
Mary Champion					5,000	3,750	5,000	3,750
Professor David Hands		3,804						3,804
Christine Hayes ²	2,487						2,487	
Dr Elizabeth Haywood			5,000	3,750			5,000	3,750
Michael Heap			5,000	3,750			5,000	3,750
Peter Laing ³	3,664	7,250					3,664	7,250
Gilbert Lloyd ⁴	5,393						5,393	
Denver Lynn ⁵								
Dr Arun Midha					5,000	3,750	5,000	3,750
Canon David Stanton			5,000	3,750			5,000	3,750
Haydn Warman	5,000	5,000					5,000	5,000
Total	16,544	18,554	22,000	16,333	22,000	16,333	64,229	51,220

¹ Mr Sagar joined as Chair of the Shadow Board in September 2012 (full-year-equivalent remuneration: £7,250).

² Ms Hayes joined as a member of ARMC in November 2012 (full-year-equivalent remuneration: £5,000).

³ Mr Laing's term of office came to an end in October 2012.

⁴ Mr Lloyd joined as Chair of ARMC in July 2012 (full-year-equivalent remuneration: £7,250).

⁵ Mr Lynn is a Director of the Northern Ireland Audit Office. He received no remuneration from the Wales Audit Office for his membership of this Committee other than reimbursement of travel and expenses.

Contracts for committee members are initially for two or three years and can be extended for a further term subject to satisfactory performance and/or mutual consent. The chairs of each committee are also members of the Shadow Board. They do not receive additional remuneration for this. No committee member may serve for more than seven years. Committee members are able to claim for their travel and expenses. The personal tax liability in respect of these expenses is settled by the Wales Audit Office under a PAYE settlement agreement with HMRC. The tax-inclusive value of these expenses is disclosed in the following table.

Grossed up expenses	ARMC		Remuneration Committee		Resources Committee		Total	
	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12
	£	£	£	£	£	£	£	£
Chair to Shadow Board								
Deep Sagar							2,696	
Committee members								
Rosamund Blomfield-Smith			2,122	1,942			2,122	1,942
Dr Michael P Brooker					369		369	
Steven Burnett					1,328	565	1,328	565
Mary Champion					262	327	262	327
Professor David Hands		1,011						1,011
Christine Hayes								
Dr Elizabeth Haywood				195				195
Michael Heap								
Peter Laing	638						638	
Gilbert Lloyd								
Denver Lynn	2,358	1,134					2,358	1,134
Dr Arun Midha								
Canon David Stanton			1,393	583			1,393	583
Haydn Warman								
Total	2,996	2,145	3,515	2,720	1,959	892	11,166	5,757

Huw Vaughan Thomas

Auditor General for Wales and Accounting Officer
3 July 2013

Statement of Accounting Officer's Responsibilities

Under paragraph 13(1) of Schedule 8 to the Government of Wales Act 2006, HM Treasury has directed the Auditor General to prepare for each financial year a Statement of Accounts in the form and on the basis set out in the Accounts Direction. A new direction was obtained for the 2010-11 Statement of Accounts and remains in force. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Auditor General and of the income and expenditure, changes in taxpayers' equity and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual (FReM) and in particular to:

- observe the Accounts Direction issued by HM Treasury including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgments and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the FReM have been followed, and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on a going concern basis.

The Auditor General is designated as the Accounting Officer of the Wales Audit Office under paragraph 16(1) of Schedule 8 to the Government of Wales Act 2006. The Auditor General's responsibilities as Accounting Officer, including responsibility for the propriety and regularity of the public finances for which he is answerable; for the keeping of proper accounts; for prudent and economical administration; for the avoidance of waste and extravagance; and for the efficient and effective use of all the available resources are set out in the *Memorandum for the Accounting Officer of the Wales Audit Office* issued on 2 November 2010 by the Public Accounts Committee of the National Assembly under paragraph 16 of Schedule 8 to the Government of Wales Act 2006.

Annual Governance Statement 2012-13

Scope of responsibility

As the Accounting Officer I am personally responsible for the overall organisation, management and staffing of the Wales Audit Office. I must ensure that the Wales Audit Office has a high standard of financial management and that its financial systems and procedures promote the efficient and economical conduct of business and safeguard financial propriety and regularity.

In discharging these responsibilities I must maintain a sound system of internal control that supports the achievement of my policies, aims and objectives, facilitates the effective exercise of my functions and which incorporates effective arrangements for managing risk.

I must also establish appropriate arrangements to receive formal comments and advice on the quality and operation of the Wales Audit Office's governance arrangements, including via independent external contribution and particularly with regard to matters of risk and control and to my behaviour and that of my staff.

The full scope of my responsibilities is described in the *Memorandum for the Accounting Officer of the Wales Audit Office* issued on 2 November 2010 by the Public Accounts Committee of the National Assembly to which I am accountable. The Public Accounts Committee examines my annual estimate of income and expenses and appoints my external auditor.

As Auditor General I am the external auditor of, or appoint auditors to, most public bodies in Wales. I also examine how those bodies manage and spend public money, including whether they achieve value in delivering services. In fulfilling this role I am independent of both the National Assembly and of the Welsh Government.

The governance framework

The governance framework is designed to preserve my independence as Auditor General and to balance that independence with my accountability for the public money I spend.

The Wales Audit Office is currently defined by statute as the Auditor General and his staff. It is not a legal entity: all legal powers, rights and duties are vested in the Auditor General. However, I cannot realistically take every business decision and I have established mechanisms to exercise authority on my behalf.

The governance framework comprises the systems, processes, culture and values by which the Wales Audit Office is directed and through which it is accountable for its activities. The framework enables the Wales Audit Office to monitor the achievement of its strategic objectives and to evaluate whether those objectives have led to the delivery of economic, efficient and effective services.

The system of internal control is a significant part of the governance framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives. It therefore provides reasonable rather than absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Wales Audit Office's policies, aims and objectives, to evaluate the likelihood of those risks being realised, the impact should they be realised and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Wales Audit Office for the year ended 31 March 2013 and up to the date of approval of the annual report and accounts. It accords with Treasury guidance.

My aim is to manage the business of the Wales Audit Office in a manner that takes account of the risks we face using appropriate control systems. My governance framework is established in internal guidance which is subject to review as the organisation moves closer to commencement of the provisions of the Public Audit (Wales) Act 2013.

In March 2012, the Welsh Government published for consultation its draft Public Audit (Wales) Bill²⁵ designed to strengthen the governance and accountability arrangements of the Wales Audit Office. Amongst other provisions the then Bill covered the establishment of the Wales Audit Office as a corporate body led by a statutory board with an independent chair and a majority of non-executive directors.

The subsequent introduction of the then Bill to the National Assembly in July 2012 and its passage through the legislative process influenced the focus of my activities during the year as I endeavoured to contribute effectively to the National Assembly's scrutiny process and to ensure that the Wales Audit Office is well-placed to implement the requirements of the legislation.

The provisions represent a significant shift in the internal management and accountability arrangements of the Wales Audit Office and my governance arrangements have continued to evolve to test how those arrangements might work in practice.

²⁵ The Bill received Royal Assent on 29 April 2013

My arrangements are intended to move the Wales Audit Office towards compliance with the government's Code of Good Practice for Corporate Governance insofar as its requirements are relevant and practical given the current legislative framework.

For the period covered by this report, my vision and objectives were established in my corporate strategy 2009-2012. I decided to delay the development and implementation of a new strategic direction pending:

- my consideration of the implications of the then Public Audit (Wales) Bill for future operations;
- the completion of my contracting strategy which establishes the supporting principles and my approach to procuring audit services in the medium term; and
- further work on the Wales Audit Office's workforce strategy and medium-term financial strategy in the context of the consultation responses to my proposed strategic direction and the financially constrained environment in which all public bodies are having to operate.

I published my new strategy at the end of the year and expect the new board, once appointed, to review it and its implementation.

As in previous years, I delegated my authority for delivering my strategic aims and objectives to three assistant auditors general. Together we form the Executive Committee which I chair. The Committee is the vehicle through which I make strategic and policy decisions and is responsible for monitoring key strategic risks and for ensuring that they are managed effectively with appropriate mitigating controls in place. The Committee – together with the Senior Leadership Team comprising all directors – also sets the organisational values that govern the Wales Audit Office's activities and the behaviour of its staff. In 2012-13, the Executive Committee met on 21 occasions and received a range of information to support its activities.

The assistant auditors general are accountable to me for delivering their approved objectives as described in my annual operational plan and for ensuring that effective arrangements are in place to manage the risks in their areas of the business. They each lead a management team of directors or service managers to whom they delegate responsibility for delivering specific projects, tasks and services and for managing risks.

2012-13 was the first full year of operation of my governance arrangements. I established a Shadow Board which is designed to prepare the Wales Audit Office for the implementation of the statutory board. It advises me on the Wales Audit Office's strategic aims and objectives and on the deployment of financial and other resources to achieve them. During the year, an independent chair was appointed through a process overseen by a representative of the Public Accounts Committee. The Shadow Board also comprises the chairs of the three governance committees and the assistant auditors general who sit on my Executive Committee.

In combination, the Audit and Risk Management, Remuneration and Resources Committees provide objective and impartial counsel that helps me to discharge my responsibilities for the proper management of risk, control and governance and the provision of associated assurance within the Wales Audit Office, including in respect of the remuneration of staff and the management of resources.

The three governance committees act as subcommittees of the Shadow Board. In 2012-13, the cycle of business worked more efficiently to support governance and accountability but further improvements will be needed to ensure more timely and effective decision making.

For the Shadow Board and its committees I maintain a register of members' interests that captures information from their declarations of independence collected annually and any additional information during the year from declarations at Shadow Board and committee meetings. This ensures that potential conflicts of interest are identified in advance of meetings where practicable and action taken to mitigate them.

The chairs of the Shadow Board and its governance committees and the Head of Internal Audit each have a right of access, and may report matters of concern, directly to the Chair of the Public Accounts Committee. The Head of Internal Audit and the external auditor each have free and confidential access to the Audit and Risk Management Committee, including via a private session at each committee meeting.

Towards the end of 2012-13, the Shadow Board agreed to review the balance of work between the Remuneration and Resources Committees to reduce the risk of duplication between them and ensure the effective scrutiny of all aspects of Wales Audit Office operations within their responsibilities. That review resulted in responsibility for scrutinising HR functions transferring to the Remuneration Committee. The committees' terms of reference were adjusted accordingly.

[Exhibit 6](#) summarises attendance at Shadow Board and committee meetings in 2012-13.

Exhibit 6: Attendance at Shadow Board and committee meetings 2012-13

	Executive Committee	Shadow Board	ARMC	Remuneration Committee	Resources Committee
Number of meetings held	21	5	4	5	4
Non-executive directors					
Dr Arun Midha					3
Canon David Stanton				5	
Christine Hayes ¹			1		
Deep Sagar ²		4			
Denver Lynn			4		
Dr Elizabeth Haywood				5	
Gilbert Lloyd ³		3	3		
Haydn Warman			4		
Mary Champion					4
Michael Heap				5	
Dr Michael Brooker		5			4
Peter Laing ⁴		2	3		
Rosamund Blomfield-Smith		5		5	
Steve Burnett					4
Wales Audit Office⁵					
Anthony Barrett	19	5	2		
Gillian Body	20	5			1
Huw Vaughan Thomas	20	5	4	3	2
Kevin Thomas	17	4	4	5	4

¹ Christine Hayes was appointed to the Audit and Risk Management Committee following its meeting in October 2012 and the appointment of Gilbert Lloyd as the Chair of the Committee. She also attended one meeting as an observer before her formal appointment.

² Deep Sagar was appointed as the independent Chair of the Shadow Board during the summer of 2012 and assumed that role in September. In his capacity as Chair, Mr Sagar also observed the operation of each governance committee.

³ Gilbert Lloyd was appointed as a member of the Audit and Risk Management Committee in June 2012 and assumed the role of Chair following the Committee's meeting in October.

⁴ Peter Laing stood down as the Chair of the Audit and Risk Management Committee following the meeting in October having served two consecutive terms.

⁵ The Auditor General, as the Accounting Officer, and his assistant auditors general are members of the Shadow Board. They are not members of the governance committees but attend as necessary to brief the committees or to take their advice.

The risk and control framework

The Executive Committee is responsible for managing risk in the Wales Audit Office. The Audit and Risk Management Committee scrutinises the Wales Audit Office's risk management arrangements.

My aim is to manage the business of the Wales Audit Office in a manner that takes into account the risks we face using appropriate control systems. This objective is embedded in our working methods including defined governance procedures, quality control policies, financial management and the identification and management of risks.

Given the nature of our business, we approach areas of professional audit judgement, regularity and propriety and financial management from a low risk tolerance perspective.

I employ a large number of qualified accountants and other professionally qualified persons who are bound by the ethical requirements of their professional bodies. The Wales Audit Office conforms to International Standards on Auditing. In particular, the International Standard on Quality Control 1 is applied to all our financial audit engagements.

Control over the quality of audits is facilitated through our audit process and the hierarchical supervision provided within individual projects. We also have a system of internal and external reviews. The results of these reviews are reported to the Executive Committee. These controls apply both to work undertaken by staff of the Wales Audit Office and to private sector firms contracted to undertake work for me.

The Executive Committee maintains a corporate risk register which identifies strategic and operational risks that could affect the achievement of the Wales Audit Office's aim and objectives. The Committee is alert to the need to keep these risks under review and to deal appropriately with changing circumstances as they arise. The summary risk register is a standing agenda item at the second committee meeting in each month; the Committee reviews the detailed risk register every quarter, in advance of its consideration by the Audit and Risk Management Committee and the Shadow Board.

The Wales Audit Office's risk profile remained relatively stable throughout 2012-13 though there were some fluctuations largely consequent upon the introduction of the Public Audit (Wales) Bill and the ongoing uncertainties caused by delays in Her Majesty's Revenue and Customs' (HMRC) decisions on my VAT status and potential underpayment of PAYE tax and national insurance contributions.

Developments to improve the control framework

It is important that the Wales Audit Office is recognised as a well-governed and effective organisation delivering value for money in its use of resources. In 2012-13, I put in place a number of projects and initiatives to further improve accountability within the organisation, building on the moves towards more direct and transparent reporting lines implemented in the previous financial year.

A number of those projects are ongoing and include:

- establishing a culture development programme in response to a number of issues identified in the 2012 staff survey;
- further development of the corporate performance management framework that provides me, my Executive Committee and now the Shadow Board with appropriate and timely management information to allow us to identify and respond to emerging risks;
- clarifying the arrangements for delegated financial management supported by a new handbook and a staff training programme;
- developing a new staff performance appraisal system that builds on experience to date and draws in good practice from elsewhere;
- assessing, and identifying the scope for further improvements in, the Wales Audit Office's document management arrangements;
- further improving the disaster recovery and business continuity arrangements;
- publishing a new counter-fraud strategy describing the framework governing my arrangements; and
- enhancing the IT security policy to improve the arrangements for routine monitoring of the use of ICT by Wales Audit Office staff.

In combination these ongoing improvements are designed to ensure that the Wales Audit Office is well-placed to implement the requirements of the Public Audit (Wales) Act.

Review of performance and effectiveness

As Accounting Officer I am responsible for reviewing the effectiveness of the system of internal control. My review is informed by the work of Internal Audit, by Wales Audit Office managers who are responsible for developing and maintaining the internal control framework and by the external auditors through comments in their management letter. In completing my review, I also take into account the advice of the Shadow Board and its committees as described in their annual reports.

The Internal Audit Service operated during the year to standards defined in the *Government Internal Audit Standards* (now superseded by the *Public Sector Internal Audit Standards*, with which Internal Audit will also comply). It undertakes a programme of work based on an analysis of the major risks facing the Wales Audit Office. The Head of Internal Audit reports to the Executive Committee and to the Audit and Risk Management Committee on progress in implementing the planned work programme. He also attends the Remuneration and Resources Committees as necessary. The Head of Internal Audit is required by *Public Sector Internal Auditing Standards* to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control.

In 2012-13, the Audit and Risk Management Committee's concern about internal audit resources and consequent delays in the delivery of the work programme led me to review my arrangements. I am now piloting a co-sourcing arrangement in which I subcontract elements of internal audit planned work to external suppliers. This new approach allowed the completion of the balance of the work programme in time to inform the audit opinion. The pilot will continue in 2013-14 and an evaluation will allow the new Wales Audit Office board to make an informed decision on its future arrangements for internal audit.

Each of my governance committees is required to report annually on its activities during the year and on the Wales Audit Office functions it has examined.

The Resources Committee noted that the organisation's resources arrangements continued to improve with some evidence of good practice though the pace of change was slow. Significant investment was ongoing in developing the organisational culture to prepare the Wales Audit Office for the challenges ahead and this is crucial to the further improvement which is sought. Similarly, the Remuneration Committee noted that the organisation's pay and performance management arrangements continued to develop against a background of public sector constraint, and in preparation for the requirements of the Public Audit (Wales) Act. The Audit and Risk Management Committee's main concern in 2012-13 was the impact of the delay in delivering the internal audit programme on the robustness and timeliness of its advice to the Auditor General. The completion of the programme in time for the Committee's review of the annual report and accounts allowed it to endorse the Head of Internal Audit's opinion on the Wales Audit Office's control framework.

During 2012-13, the Shadow Board agreed to implement a system of performance appraisals for non-executive members and a framework for assessing its effectiveness and that of its committees. Both exercises were due for completion in July 2013 and will inform the development of the new governance arrangements following the appointment of the statutory Board.

The work of my executive and governance committees is supported by my private office which delivers a range of activities to provide assurance that the work of the Wales Audit Office is undertaken to appropriate quality standards and that its systems of risk, control and governance are operating effectively.

Information governance

Together with the staff of the Wales Audit Office, I have privileged and wide-ranging access to data and information to support the discharge of the audit function and to ensure that my reports are factual, accurate and complete. The Wales Audit Office has a duty to respect this privileged access and to ensure that the personal information entrusted to it is safeguarded properly.

In discharging this duty, the Wales Audit Office has an *Information Security Policy* which:

- sets out the obligations of all employees in relation to the use of Wales Audit Office ICT facilities;
- outlines the legal requirements for processing data;
- highlights key security responsibilities for staff;
- sets out the arrangements for routine monitoring to check staff compliance with the law and Wales Audit Office policy;
- sets out the Wales Audit Office's arrangements to monitor policy compliance; and
- explains how staff can obtain further support and guidance and how security incidents should be reported.

My Private Secretary is accountable to the Executive Committee for information governance. He also acts as the Single Point of Contact who must authorise all planned bulk transfers of higher-sensitivity information between the Wales Audit Office, audited bodies and other originators.

The Information Security Officer advises senior managers and staff on technical and practical security matters, and leads any required investigative work.

The Information Officer works to ensure sound overall information governance, including compliance with Data Protection Act 1998 and Freedom of Information Act 2000 requirements. The Information Officer is the principal point of contact for the Information Commissioner's Office.

The Wales Audit Office has decided to adopt ISO 27001, the international standard for information security management, scaling its arrangements in line with the needs of the organisation. The Executive Committee expects to consider completed Information Security Management System documentation in June 2013.

There were no personal data related incidents reportable to the Information Commissioner's Office in 2012-13.

Significant internal control issues

In 2011-12, I reported on some specific internal control issues that informed the internal audit opinion and the Wales Audit Office has made significant progress in dealing with them:

- The new management accounts arrangements introduced in 2011-12 have been further improved such that accurate and timely information is available to the Shadow Board and to the Executive Committee. The capacity of the Finance team was strengthened with the appointment of a new Finance Manager and a training programme is underway to reinforce the delegation of budgetary control and reporting arrangements throughout the organisation.
- The nature of the Wales Audit Office's business means that, for reasons of operational efficiency, its staff work at a wide range of locations across Wales. In 2011-12 it became clear that, over time some staff may, for tax assessment purposes, have established permanent places of work at locations other than their normal place of business and that payments for expenses incurred in travelling to those locations should have been subject to tax. This issue has affected other public bodies in Wales and is, therefore, not unique to the Wales Audit Office. My staff are continuing to liaise with HMRC to establish the nature and scope of any breach of the regulations and to ensure that the Wales Audit Office is compliant with tax regulations in future.
- The evolving nature of my enhanced governance arrangements and the prospect of the new corporate structure envisaged in the then Public Audit (Wales) Bill meant that the policies, procedures and guidance that support the Wales Audit Office's business operations are subject to ongoing review and revision.
- The Wales Audit Office has in place policies and procedures governing contracts and procurement and responsibilities for checking that the controls established are operating as approved. In 2012-13, my staff reviewed all non-pay expenditure and a sample of procurement transactions and confirmed compliance with the procurement procedures. However, my staff identified a number of risks attached to specific projects which they are managing. They will continue to conduct periodic reviews of expenditure and procurement transactions to ensure ongoing compliance.

During 2012-13, I introduced improved arrangements for tracking progress in implementing internal and external audit recommendations through a tracker that is reviewed every quarter by the Audit and Risk Management Committee.

There were no 2012-13 internal audit recommendations requiring urgent or significant action because they highlighted a major issue or significant control weakness. Nor did the Head of Internal Audit identify any instances of fraud in the reviews he conducted. Whilst no significant issues arose, four important issues requiring a response from management were identified as follows:

- the need for additional training and improved guidance to increase awareness and understanding of the income recognition policy, in the absence of which management should investigate changing the mechanism for income recognition from an input-based model (time) to one based on outputs (milestones);
- to emphasise the importance of accurate time recording and to improve arrangements for handling variations to work programmes;

- the introduction of quarterly reviews of work in progress by Finance with management of the Performance Group and Financial Audit Practice; and
- further improvement of HR systems including updating and delivering the HR strategy and a number of HR-related policies.

The 2012-13 internal audit opinion was informed by a range of factors, including those listed above. The Head of Internal Audit has concluded that the Wales Audit Office's systems are capable of delivering an effective framework of governance, risk management and control; progress has been made and remaining deficiencies in the operation of internal controls are being addressed.

Next steps

I have accepted the opinion of the Head of Internal Audit and acknowledge the conclusions reached by my governance committees. Subject to these I am satisfied that risks are generally well managed and that the Wales Audit Office's internal controls have improved significantly; where there are weaknesses, action is in place to tackle them.

Managers are implementing the Head of Internal Audit's recommendations and my Executive Committee will continue to monitor the improvements made.

Huw Vaughan Thomas

Auditor General for Wales and Accounting Officer
3 July 2013

Independent Auditor's Report to the National Assembly for Wales

We certify that we have audited the financial statements of the Auditor General for Wales for the year ended 31 March 2013 under the Government of Wales Act 2006. These financial statements comprise the Summary of Resource Outturn, the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Cash Flow Statement, the Statement of Changes in Taxpayers' Equity, and related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2012/13 Government Financial Reporting Manual (FReM).

This report is made solely to the parties to whom it is addressed in accordance with the Government of Wales Act 2006 and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the National Assembly for Wales for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Auditor General for Wales and the Auditor

As explained more fully in the Statement of the Accounting Officer's responsibilities set out on [page 56](#), the Auditor General for Wales is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and is also responsible for ensuring the regularity of expenditure and receipts. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We are also responsible for giving an opinion on the regularity of expenditure and receipts.

Scope of the audit on the financial statements

An audit involves obtaining evidence about the amounts, disclosures, and regularity of expenditure and receipts in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Auditor General for Wales' circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Auditor General as Accounting Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view, in accordance with the Government of Wales Act 2006 and the directions made thereunder by the Treasury, of the state of affairs of the Auditor General for Wales at 31 March 2013 and of the net resource outturn, the net cash requirement and the comprehensive net expenditure, changes in reserves and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2012/13 FReM; and
- have been properly prepared in accordance with the Government of Wales Act 2006 and directions made thereunder by the Treasury.

Opinion on regularity

In our opinion in all material respects, the expenditure and income shown in the financial statements have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform with the authorities that govern them.

Opinion on other matters

In our opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Government of Wales Act 2006 and directions made thereunder by the Treasury; and
- the information included in the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We have nothing to report in respect of the following matters where we are required to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- the Governance Statement does not comply with relevant Treasury guidance.

Report

We have no observations to make on these financial statements.

RSM Tenon Audit Limited
5 July 2013

Registered Auditors
Vantage
Victoria Street
Basingstoke
Hampshire
RG21 3BT

Summary of Resource Out-turn for the year ended 31 March 2013

	2012-13						Net total out-turn compared to estimate	2011-12 Out-turn
	Estimate			Out-turn				
	Gross expenditure	Income	Net Total	Gross expenditure	Income	Net Total		
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Revenue	11,995	(7,271)	4,724	10,842	(7,271)	3,571	1,153	4,743
Capital	16		16	16		16	0	3
Supplementary						0	0	97
Total resources	12,011	(7,271)	4,740	10,858	(7,271)	3,587	1,153	4,843
Net cash requirement (see reconciliation below)			4,740			4,472	268	3,358

Reconciliation of Total Resources to Net Cash Requirement

		2012-13		2011-12
	Estimate	Out-turn	Variance	Out-turn
	£'000	£'000	£'000	£'000
Total resources (as above)	4,740	3,587	1,153	4,843
Adjustments				
Non-cash items (depreciation)	(10)	(210)	200	(121)
Movements in working capital other than cash	10	1,194	(1,184)	(1,054)
Income in excess of estimate		(99)	99	(310)
Total net cash requirement (as above)	4,740	4,472	268	3,358

The above Summary of Resource Out-turn summarises the Wales Audit Office's achieved position against those elements of the budget of the Wales Audit Office that are subject to approval by budget motion of the National Assembly. Namely, the amount of resources and cash that can be drawn down from the Welsh Consolidated Fund (WCF) and the amount of income generated from NHS, central government, local government grants work and sundry sources that can be retained.

Reconciliation of resource out-turn to net expenditure

	2012-13	2011-12
	Out-turn	Out-turn
	£'000	£'000
Total revenue resources	3,571	4,843
Income in excess of estimate	(99)	(310)
Non-supply income	(9,846)	(10,604)
Non-supply expenditure	8,419	10,826
Net expenditure	2,045	4,755

The following table summarises where the 2012-13 figures in the tables above have been derived from the corresponding figures within the Statement of Accounts, and provides a breakdown of how those figures have been apportioned to the Summary of Resource Out-turn.

	Note	Total	Included in Summary of Resource Out-turn	Not included in Summary of Resource Out-turn
		£'000	£'000	£'000
Income (fees)	2	15,871	7,347	8,524
Income (grant)	2	1,322		1,322
Other operating income	3	11	11	0
Bank interest	-	12	12	0
Less income in excess of estimate		(99)	(99)	0
Total income		17,117	7,271	9,846
Total expenditure		19,261	10,842	8,419
Depreciation	7	495	210	285
Movements in working capital	Cash Flow Statement	(2,810)	(1,194)	(1,616)
Capital additions	8 and 9	589	16	573

The movement in working capital in the above table is the net of the movements in receivables (£206,000), payables (£687,000) and provisions (£2,329,000) shown in the Cash Flow Statement.

Explanation of variances

The net out-turn reported above results from a release of the provision made in 2011-12 in respect of the anticipated liability in respect of VAT. A ruling has now been received from Her Majesty's Revenue and Customs on the Auditor General's VAT status. This ruling has confirmed that there will be no historical liability in respect of previous years and we have therefore decided that it is appropriate to release £2.392 million of the £2.6 million set aside in 2011-12.

Summary of cash payable to the Welsh Consolidated Fund

As set out above, in the year we received £99,000 income in excess of the £7,271,000 we were permitted to retain. Arising from the operations of the Wales Audit Office for the 2012-13 financial year, the sum of £268,000 is payable to the WCF.

The notes that follow on [pages 78 to 99](#) form part of these financial statements.

Statement of Comprehensive Net Expenditure for the year ended 31 March 2013

		2012-13	2011-12
	Note	£'000	£'000
Expenditure			
Staff and associated costs	4	14,981	14,855
Bought-in services	6	3,451	3,507
Other operating costs	7	829	5,354
	2	19,261	23,716
Income			
Audit fee income	2	15,871	17,616
Inspection grant	2	1,322	1,295
Other operating income	3	11	16
		17,204	18,927
Net (expenditure)		(2,057)	(4,789)
Interest (payable)/receivable		12	11
Corporation tax (payable)/recoverable		0	23
Net expenditure after tax and interest		(2,045)	(4,755)
Other comprehensive expenditure		0	0
Total comprehensive net expenditure for the year		(2,045)	(4,755)

The notes that follow on [pages 78 to 99](#) form part of these financial statements.

There were no discontinued operations, acquisitions or disposals during the period nor any unrecognised gains or losses.

Statement of Financial Position at 31 March 2013

	Note	31 March 2013 £'000	31 March 2012 £'000
Non-current assets			
Property, plant and equipment	8	816	631
Intangible assets	9	120	218
		936	849
Current assets			
Trade receivables and work in progress	10	1,061	1,223
Other receivables	11	461	522
Cash and cash equivalents	12	4,519	6,667
		6,041	8,412
Total assets		6,977	9,261
Current liabilities			
Trade payables and other current liabilities	13	1,743	2,433
Deferred income	14	2,264	2,279
Provisions for liabilities and charges	15	557	3,134
WCF (see Summary of Resource Out-turn)		268	1,945
		4,832	9,791
Total assets less current liabilities		2,145	(530)
Non-current liabilities			
Provisions for liabilities and charges	15	953	705
		953	705
Total assets less liabilities		1,192	(1,235)
Taxpayers' equity			
General reserve		1,192	(1,235)
		1,192	(1,235)

The notes that follow on [pages 78 to 99](#) form part of these financial statements.

Huw Vaughan Thomas
Auditor General for Wales and Accounting Officer
3 July 2013

Statement of Cash Flows for the year ended 31 March 2013

		2012-13	2011-12
	Note	£'000	£'000
Cash flows from operating activities			
Comprehensive net expenditure		(2,045)	(4,755)
Non cash: depreciation	7	495	276
(Increase)/decrease in trade and other receivables	10, 11	223	426
Increase/(decrease) in trade and other payables	13, 14	(704)	(288)
Increase/(decrease) in provisions	15	(2,757)	2,258
Net cash outflow from operating activities		(4,788)	(2,083)
Cash flows from investing activities			
Purchases of property, plant and equipment	8	(155)	(7)
Purchases of intangible assets	9	(6)	0
Reclassification to revenue	8	6	67
Net cash outflow from investing activities		(155)	60
Cash flows from financing activities			
WCF		4,740	4,753
WCF repaid		(1,945)	(79)
Net financing		2,795	4,674
Movements in cash and cash equivalents	12	(2,148)	2,651

The notes that follow on [pages 78 to 99](#) form part of these financial statements.

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2013

	£'000
Balance at 31 March 2011	162
Changes in taxpayers' equity in 2011-12	
Total comprehensive expenditure	(4,755)
WCF finance	5,303
	710
Payable to WCF	(1,945)
Balance at 31 March 2012	(1,235)
Changes in taxpayers' equity in 2012-13	
Total comprehensive expenditure	(2,045)
WCF finance	4,740
	1,460
Payable to WCF ¹	(268)
Balance at 31 March 2013	1,192

¹ As reported in the Summary of Resource Out-turn for the year ended 31 March 2013.

The notes that follow on [pages 78 to 99](#) form part of these financial statements.

Note 1: Accounting conventions and policies

Statement of Accounting Policies

These financial statements have been prepared in accordance with the 2012-13 Financial Reporting Manual (FReM), issued by the relevant authorities. The financial statements have been prepared on a going concern basis as set out in Note 21: events after the reporting period.

The accounting policies contained in the FReM apply EU-adopted International Financial Reporting Standards as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Auditor General for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Auditor General are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

There are no new accounting standards issued, but not yet effective, that would have had a material effect on these financial statements had they been applied in this reporting period:

- i The accounts are prepared under the historical cost convention, modified to account for the revaluation of property, plant and equipment and intangible assets where material to their value to the business by reference to their current costs, in a form directed by HM Treasury, under paragraph 13(1) of Schedule 8 of the Government of Wales Act 2006. They are presented in British pounds which is the functional currency of the Wales Audit Office and are rounded to the nearest £1,000.
- ii Gross fee income and other operating income are recognised on the value of chargeable work exclusive of VAT.
- iii Operating income, whether derived from direct government grant or fees generated from audited bodies, is credited to the year of account in which the work is done. Income received in advance of the work being done is classed as deferred income (see xi). Work done in advance of income received is classed as work in progress (see ix). Funding drawn from the Welsh Consolidated Fund (WCF) is not direct government grant and is credited directly to taxpayers' equity.
- iv Costs incurred on audit work (ie, staff and contractor firm costs) have been directly attributed to the relevant income streams. Other expenditure is charged firstly against unallocated funding from the WCF and then, to the extent that funds are available, attributed to income streams in direct proportion to income levels.
- v The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme to which both employee and employer contribute. The Auditor General recognises the expected cost of providing pensions on a systematic and rational basis over the period during which the Wales Audit Office benefits from employees' services by payment to the PCSPS of the amounts calculated on an accruing basis.
- vi Operating lease rentals are charged on a straight-line basis over the lease term. Lease incentives received are recognised in the Statement of Comprehensive Net Expenditure as an integral part of the total lease expense. Where the Wales Audit Office enjoys the benefit of rent-free periods in leases, that benefit is credited evenly over the period from the inception of the lease until the first rent review.
- vii Intangible assets, which are software licences, are stated at amortised historic cost. The assets are amortised on a straight-line basis over the shorter of the term of licence or useful economic life. Amortisation is calculated from the date the intangible asset commences its useful life.

viii Depreciation is provided on all property, plant and equipment assets calculated to write off the cost, less estimated residual value, of each asset in equal annual instalments over its expected useful life as follows:

Furniture and fittings	10 years
Computer equipment	3 years
Office equipment	5 years

Under the Auditor General's capitalisation policy, individual and grouped computer equipment and software in excess of £5,000, other equipment in excess of £1,000 and office refurbishments are capitalised. Depreciation is calculated from the date the asset commences its useful life.

- ix Receivables and work in progress are valued at estimated realisable value. Work in progress relates to amounts due on completed work where the fee is yet to be issued or where work done falls into different account periods. This is stated at full cost less provision for foreseeable losses and amounts billed on account. A provision for impairment of trade receivables is established when there is evidence that the Wales Audit Office will not be able to recover all amounts due in accordance with contracts.
- x A provision for future leasehold property dilapidations is established in the Statement of Financial Position. This is built up through an annual dilapidations charge, calculated by applying an annual dilapidation rate to the floor area of the leased assets. Dilapidation liabilities relating to the cost of restoring alterations made to leased buildings are accounted for by means of a provision set aside in the year the cost was identified, based on estimates provided by independent surveyors. Such provisions are capitalised and depreciated over the shorter of the asset life or the length of the lease.
- xi Deferred income comprises fee income that has been invoiced but not yet recognised. This is calculated by assessing the percentage completion of projects, recognising that proportion of invoiced fee income as revenue in the period with unrecognised, invoiced income being treated as deferred income.
- xii The preparation of the financial statements requires various estimates and assumptions to be made that affect the application of accounting policies and reported amounts. All such estimates and judgments are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected.

The most significant areas of estimation and critical judgments are:

- Provisions for redundancies and severances are based on projections of expected future pension payments. In line with accounting standards, the provision is recognised in full in the year that the obligating event occurred, assuming that it is probable that a transfer of economic benefits is required and that this can be reliably estimated.
 - Work in progress is valued at the percentage of completion of unbilled work. Deferred income is calculated based on an assessment of project completion, as explained above.
 - Tax provisions are based on professional advice received.
 - Dilapidations provisions are based on professional advice received.
- xiii Events after the Statement of Financial Position date that may require disclosure or adjustment in accordance with the requirements of IAS 10 are considered up to the date on which the accounts are authorised for issue. This is interpreted as the date on which the Independent Auditor's Report is signed.

Note 2: Analysis of net expenditure by segment

The income, financing and costs of the Wales Audit Office's activities for 2012-13 are summarised in the following table:

	Local government audit	Local government grant certification ¹	NHS audit ¹	Central government audit ¹	Local government performance	NHS performance ¹	Central government performance ¹	Value for money work funded by the WCF	Activities funded by the WCF	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Income and financing										
Audit fees	5,131	2,520	1,987	1,588	3,393	1,252	0			15,871
Grant					1,322					1,322
WCF finance								2,546	2,178	4,724
Total	5,131	2,520	1,987	1,588	4,715	1,252	0	2,546	2,178	21,917
Expenditure	4,734	2,319	1,423	1,390	3,685	986		2,546	2,178	19,261
	397	201	564	198	1,030	266	0	0	0	2,656

¹ Income and expenditure of these segments are included in the Summary of Resource Out-turn.

Reported expenditure in 2012-13 has been reduced by £2.392 million as a result of the release of the provision set aside for historical VAT in 2011-12. Were it not for the release of this provision, income and expenditure funded by the Welsh Consolidated Fund (WCF) would have been broadly in balance in 2012-13.

Reconciliation to Statement of Comprehensive Net Expenditure

	£'000
Per above analysis	2,656
WCF resource	(4,724)
Corporation tax	0
Interest receivable	12
Other income	11
Per Statement of Comprehensive Net Expenditure	(2,045)

Comparative figures for 2011-12 were as follows:

	Local government audit	Local government grant certification	NHS audit	Central government audit	Local government performance	NHS performance	Central government performance	Value for money work funded by the WCF	Activities funded by the WCF	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Income and financing										
Audit fees	5,453	2,609	2,343	1,667	3,856	1,686	2			17,616
Grant					1,295					1,295
WCF finance								1,951	3,452	5,403
Total	5,453	2,609	2,343	1,667	5,151	1,686	2	1,951	3,452	24,314
Expenditure	6,088	2,609	2,343	1,667	4,738	1,321	0	1,951	2,999	23,716
	(635)	0	0	0	413	365	2	0	453	598

Reconciliation to Statement of Comprehensive Net Expenditure

	£'000
Per above analysis	598
WCF resource	(5,403)
Corporation tax	23
Interest receivable	11
Other income	16
Per Statement of Comprehensive Net Expenditure	<u>(4,755)</u>

Note 3: Other operating income

	2012-13	2011-12
	£'000	£'000
Sundry income	11	16
	<u>11</u>	<u>16</u>

Note 4: Staff and associated costs

(i) Staff costs	2012-13	2011-12
	£'000	£'000
Staff salaries	10,317	10,029
Non-executive committee member fees ¹	64	51
Social security costs ²	1,065	1,243
Pension costs	2,069	2,051
	<hr/> 13,515	<hr/> 13,374
Car scheme	745	681
Subscriptions and other benefits	38	33
	<hr/> 14,298	<hr/> 14,088
Audit and inspection contractors	472	728
	<hr/> 14,770	<hr/> 14,816
Redundancy, early retirement and severance costs	263	105
Less monies received in respect of outward secondments	(52)	(66)
Net staff costs	<hr/> 14,981	<hr/> 14,855

¹ As stated in the Remuneration Report.

² Social security costs were higher in 2011-12 as a result of a provision for historical PAYE costs.

More detailed information in respect of the remuneration and pension entitlements of the senior management is shown in the Remuneration Report on [pages 48 to 55](#).

Wales Audit Office staff are eligible to join the Principal Civil Service Pension Scheme. This is an unfunded multi-employer defined benefit scheme but the Wales Audit Office is unable to identify its share of the underlying assets and liabilities. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

Employer contribution rates are based on salary levels and contribution rates vary between 16.7 per cent to 24.3 per cent (2011-12: 16.7 per cent to 24.3 per cent). Total employer contributions amounted to £2,060,736 (2011-12: £2,047,458). The scheme's actuary reviews employer contributions every four years following a full scheme revaluation. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. During 2012-13, two employees took advantage of this option (2011-12: one). Employer contributions to partnership pensions amounted to £7,687 (2011-12: £4,210).

(ii) Staff numbers

	2012-13	2011-12
	£'000	£'000
Average number of full-time-equivalent, UK-based, permanent staff employed during the year	226	223
Audit and inspection contractors (average number of full-time equivalents in year)	11	17

The Wales Audit Office uses a number of temporary audit and inspection contractors at certain times in the year to meet demand for resources at peak times.

Note 5: Redundancies, early retirements and severances

The Wales Audit Office operates voluntary severance schemes in accordance with Civil Service Compensation Scheme rules and as approved by the Cabinet Office. These schemes are in accordance with workforce planning requirements and have resulted in reductions to the staffing cost base of the Wales Audit Office. The cost of the scheme in 2012-13 was £192,207 (2011-12: £346,673).

A number of employees entered into approved exit packages during 2012-13 and 2011-12 as summarised below:

Exit package cost band	2012-13			2011-12		
	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
Less than £10,000						
£10,000 – £25,000					1	1
£25,000 – £50,000					2	2
£50,000 – £100,000		1	1		2	2
£100,000 – £150,000		1	1		1	1
£200,000 and over						
Total	0	2	2	0	6	6

The two people who were approved for voluntary exit in 2012-13, had leaving dates in 2013-14. The costs of both packages are included within Note 4: staff costs and Note 15: provisions for liabilities and charges.

Early retirement and departure costs have been paid in accordance with Wales Audit Office policy, which has been agreed with recognised trade unions. The additional costs that are not met by the Principal Civil Service Pension Scheme are met instead by the Wales Audit Office and are recognised in these financial statements.

Note 6: Bought-in services

	2012-13	2011-12
	£'000	£'000
Payments to private accountancy firms	3,320	3,393
Research and other consultancy costs	131	114
	3,451	3,507

These costs relate to services bought in by the Auditor General that directly relate to audit, inspection or research functions.

Note 7: Other operating costs

	2012-13	2011-12
	£'000	£'000
Accommodation		
Rent lease costs	245	376
Other costs	390	393
Supplies and services ¹	1,374	1,234
Increase/(decrease) in provision for VAT ¹	(2,392)	2,392
Recruitment and transfers	57	31
Depreciation	495	276
Audit fee payable to Audit Scotland	-	3
Audit fee payable to RSM Tenon	29	23
Professional fees ²	64	105
Travel and subsistence	397	408
Training	170	140
Increase/(decrease) in provision for bad debts	-	(27)
	829	5,354

¹ Supplies and services in 2011-12 totalled £3,626,000. This figure has been split for presentation purposes to highlight the effect of the increase and decrease of the provision for taxation.

² Professional fees represent legal and other professional fees.

Note 8: Property, plant and equipment

	Furniture and fittings	Information technology	Office equipment	Total
2012-13	£'000	£'000	£'000	£'000
Cost				
At 31 March 2012	823	207	112	1,142
Additions	560	-	23	583
Disposals	-	-	(20)	(20)
Reclassified to revenue	(6)	-	-	(6)
At 31 March 2013	1,377	207	115	1,699
Depreciation				
At 31 March 2012	344	104	63	511
Provided in period	355	17	20	392
Disposals	-	-	(18)	(18)
Reclassified to revenue	(2)	-	-	(2)
At 31 March 2013	697	121	65	883
Net book value				
At 31 March 2013	680	86	50	816
At 31 March 2012	479	103	49	631
Asset financing				
Owned	680	86	50	816

2011-12	Furniture and fittings	Information technology	Office equipment	Total
	£'000	£'000	£'000	£'000
Cost				
At 31 March 2011	920	260	32	1,212
Additions	7	-	-	7
Disposals	(37)	(53)	-	(90)
Reclassified to revenue	(67)	-	-	(67)
Reclassified from intangible assets	-	-	80	80
At 31 March 2012	823	207	112	1,142
Depreciation				
At 31 March 2011	302	140	24	466
Provided in period	104	17	19	140
Disposals	(35)	(53)	-	(88)
Reclassified to revenue	(27)	-	-	(27)
Reclassified from intangible assets	-	-	20	20
At 31 March 2012	344	104	63	511
Net book value				
At 31 March 2012	479	103	49	631
At 31 March 2011	618	120	8	746
Asset financing				
Owned	479	103	49	631

In the opinion of the Auditor General, there is no material difference between the net book value of assets at current values and at their historical cost.

Note 9: Intangible assets

Intangible assets are software licences.

	Total
2012-13	£'000
Cost	
At 31 March 2012	715
Additions	6
Disposals	(9)
At 31 March 2013	<u>712</u>
Amortisation	
At 31 March 2012	497
Provided in period	104
Disposals	(9)
At 31 March 2013	<u>592</u>
Net book value	
At 31 March 2013	<u>120</u>
At 31 March 2012	<u>218</u>
Asset financing	
Owned	<u>120</u>

2011-12	Total £'000
Cost	
At 31 March 2011	804
Additions	-
Disposals	(9)
Reclassified to office equipment	(80)
At 31 March 2012	<u>715</u>
Amortisation	
At 31 March 2011	362
Provided in period	164
Disposals	(9)
Reclassified to office equipment	(20)
At 31 March 2012	<u>497</u>
Net book value	
At 31 March 2012	<u>218</u>
At 31 March 2011	<u>442</u>
Asset financing	
Owned	<u>218</u>

In the opinion of the Auditor General, there is no material difference between the net book value of assets at current values and at their historical cost.

Note 10: Trade receivables and work in progress

	31 March 2013 £'000	31 March 2012 £'000
Trade receivables		
Central government	98	96
Local government	337	141
NHS	99	248
External to government	6	6
Work in progress		
Central government	391	408
Local government	130	199
NHS	-	125
	<hr/>	<hr/>
	1,061	1,223

A provision for bad and doubtful debts has not been required in 2012-13.

Note 11: Other receivables

	31 March 2013 £'000	31 March 2012 £'000
Other receivables	-	46
Prepayments and accrued income	459	474
Loans to employees	2	2
	<hr/>	<hr/>
	461	522

There are no amounts falling due after one year included in the above figures.

The receivables balances in Notes 10 and 11 can be analysed into the following categories:

	31 March 2013 £'000	31 March 2012 £'000
Central government bodies	506	583
Local government bodies	631	487
NHS bodies	99	308
Bodies external to government	286	367
	<hr/>	<hr/>
	1,522	1,745

Note 12: Cash and cash equivalents

	31 March 2013	31 March 2012
	£'000	£'000
Balance at 1 April	6,667	4,016
Net change in cash and cash equivalents	(2,148)	2,651
Balance at 31 March	<u>4,519</u>	<u>6,667</u>

	31 March 2013	31 March 2012
	£'000	£'000
Current account	2,817	5,672
Euro account	1	3
Global Sterling Fund	1,701	992
	<u>4,519</u>	<u>6,667</u>

The Current account includes an overnight interest bearing facility. The Euro account is maintained to simplify occasional overseas transactions.

The Global Sterling Fund is provided by the RBS Group. This fund aims to protect capital balances even in times of financial instability within the financial markets, whilst offering a wholesale money market return. The fund is structured to ensure that the highest credit ratings are maintained, namely AAA rated or equivalent with Standard & Poor, Fitch and Moody rating agencies.

Note 13: Trade payables and other current liabilities

	31 March 2013	31 March 2012
	£'000	£'000
Trade payables ¹	161	224
VAT	549	451
Taxation and social security costs	2	360
Accrual for holiday entitlement not yet taken	486	619
Other accruals ²	545	779
	<hr/> 1,743	<hr/> 2,433

¹ All trade payables are falling due within one year.

² The bulk of the other accruals relate to accrual of trade payable invoices received post year end. Also within the other accruals figure is £4,076 for lease adjustments pertaining to a rent-free period amortised over the five-year life of the lease. A figure of £210,669 for the March pension contributions is included within other accruals for the year end 31 March 2012.

Note 14: Deferred income

	31 March 2013	31 March 2012
	£'000	£'000
Deferred income	2,264	2,279
	<hr/> 2,264	<hr/> 2,279

In accordance with accounting standards, we are required to assess the percentage completion of projects and recognise that proportion of expected fee income as revenue in the period. Deferred income represents income that has been billed but not yet recognised.

The payable balances in Notes 13 and 14 can be analysed into the following categories:

	31 March 2013	31 March 2012
	£'000	£'000
Central government bodies	776	1,051
Local government bodies	1,351	1,482
NHS bodies	885	815
Bodies external to government	995	1,364
	4,007	4,712

Note 15: Provisions for liabilities and charges

	Dilapidations	Early retirement and severance	HMRC	Totals
	£'000	£'000	£'000	£'000
At 31 March 2012	146	1,088	2,605	3,839
Provided in year	428	239	30	697
Provisions utilised/released in year	(32)	(512)	(2,482)	(3,026)
At 31 March 2013	542	815	153	1,510

The Wales Audit Office uses HM Treasury's discount rate net of CPI at November 2012 of 2.35 per cent in real terms to calculate this balance (2011-12: 2.8 per cent).

Analysis of expected timing:

	Dilapidations	Early retirement and severance	HMRC	Totals
	£'000	£'000	£'000	£'000
Not later than one year	-	404	153	557
Later than one year and not later than five years	65	369	-	434
Later than five years	477	42	-	519
	542	815	153	1,510

The dilapidations provision represents an estimate of the costs the Wales Audit Office may incur in making good its leased properties at the end of the leases. The provision consists of an estimate of the likely cost of restoring alterations made to leased properties, along with an amount for 'wear and tear' calculated by applying an annual dilapidation rate to the floor area of the leased asset. The cost of restoring works done to the Cathedral Road offices has been estimated by independent surveyors. The cost of making good alterations at the Penllergaer and Ewloe offices has been estimated by reference to the costs of carrying out the alterations. The provision has increased during 2012-13 due to a change in accounting treatment to meet the requirements of International Financial Reporting Standards.

The early retirement and severance provisions represent the future liability of the Wales Audit Office in respect of members of staff who have left under redundancy, early retirement and severance schemes.

The HMRC provision relates to:

- underpayment of PAYE tax and national insurance contributions to contractors who have provided services to the Wales Audit Office during the period 1 April 2005 to 31 March 2013;
- underpayment of PAYE tax and national insurance contributions in respect of expenses paid to some Wales Audit Office staff; and
- underpayment of PAYE tax and national insurance contributions in respect of the Employee Assistance Programme.

An element of the provision set aside at the end of 2011-12 in respect of a longstanding query regarding the Auditor General's VAT status has been released in 2012-13 as a ruling has now been received from HMRC that there will be no assessment for historical liabilities and hence the provision is no longer required.

Note 16: Operating leases

There were revenue commitments at 31 March 2013 in respect of non-cancellable car leases which expire:

	31 March 2013	31 March 2012
	£'000	£'000
Within one year	51	17
Within one to five years	346	373
	397	390

There were revenue commitments at 31 March 2013 in respect of office accommodation leases which expire:

	31 March 2013	31 March 2013	31 March 2012	31 March 2012
	£'000	Number of properties	£'000	Number of properties
Within one year	-	-	-	-
Within one to five years	178	2	109	1
Over five years	3,560	1	4,048	2
	3,738	3	4,157	3

Office accommodation leases are subject to periodic rent reviews.

Note 17: Losses and special payments

Special payments

There were no special payments in 2012-13 (2011-12: none).

Losses

There were no disclosable losses in 2012-13 (2011-12: none).

Note 18: Derivatives and financial instruments

IAS 32 *Financial Instruments: Disclosure and Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement* require disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Owing to the nature of the Auditor General's activities and the way in which the operations are financed, the office is not exposed to a significant level of financial risk. Although the Auditor General can borrow funds, the office has not been required to do so in this financial year. The Auditor General can also invest surplus funds, which is done through an overnight interest bearing account and in the Global Sterling Fund (see Note 12). These activities do not give rise to any significant financial risk.

Liquidity risk

Given the nature of our business, our tolerance of risk in areas of financial management is low.

In light of this attitude, and the backing of the Welsh Consolidated Fund, the Auditor General is not exposed to significant liquidity risks.

Interest rate risk

The Auditor General's financial assets and liabilities, with the exception of investment income, are not exposed to interest rate risk.

Foreign currency risk

The Auditor General's exposure to foreign currency risk is negligible as only very small forward purchases of foreign currency are made in connection with foreign travel and other associated costs such as hotels. Also, any fees generated from foreign work or secondments are translated when received. Any exchange differences are recorded in the Statement of Comprehensive Net Expenditure for the year in arriving at the operating surplus.

Credit risk

The Wales Audit Office's clients are mainly the Welsh Government, its sponsored and related public bodies, NHS Wales and local government bodies in Wales. The Wales Audit Office is therefore not exposed to any material credit risks.

Fair values

There is no difference between the book values and fair values of the Auditor General's financial assets and liabilities as at 31 March 2013 (31 March 2012: nil).

Note 19: Contingent liability

The Auditor General has written to HM Revenue and Customs requesting confirmation that Wales Audit Office operational staff continue to meet the definition of being 'geographically based' for tax purposes. We are currently awaiting a response. It is not possible to ascertain whether any liability will crystallise, nor what the likely quantum of such a liability might be. Were a significant liability to crystallise, the Auditor General may need to obtain funding from the Welsh Consolidated Fund or from additional audit fees to meet that liability.

Note 20: Related party transactions

The Auditor General is a corporation sole established under statute and has had a number of material transactions with the Welsh Consolidated Fund and with his audited bodies and the bodies audited by his appointed auditors as disclosed in the Remuneration Report.

During the year, no members of the non-executive committees, nor key members of staff nor their related parties had undertaken any material transactions with either the Auditor General or the Wales Audit Office. Information about key management personnel is included in the Remuneration Report.

Note 21: Events after the reporting period

On 29 April 2013, Her Majesty the Queen granted Royal Assent to the Public Audit (Wales) Act 2013. This Act creates a new corporate body – the Wales Audit Office. Subject to the necessary commencement orders, those staff employed by the Auditor General, and all assets and liabilities vested in the Auditor General, at 31 March 2014 will transfer to the Wales Audit Office with effect from 1 April 2014.

The financial statements have been prepared on a going concern basis as it is anticipated that the current financial operations of the Auditor General will be undertaken in full by the Wales Audit Office with effect from 1 April 2014.