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WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Estimate of the Income and Expenses of the Wales Audit Office for the Year Ended 31 March 2015

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Jointly prepared and laid before the National Assembly for Wales by the
Auditor General for Wales and the Wales Audit Office under section 20(1)
of the of the Public Audit (Wales) Act 2013

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¹ The Auditor General for Wales is a member of the Wales Audit Office under paragraph 1(2)(b) of Schedule 1 to the Public Audit (Wales) Act 2013 by virtue of his office. The Auditor General for Wales is also, however, a separate legal entity.

For each financial year, section 20 of the Public Audit (Wales) Act 2013 requires the Auditor General and the Wales Audit Office to jointly prepare an estimate of the income and expenses of the Wales Audit Office and to lay that estimate before the National Assembly at least five months before the beginning of the financial year to which it relates.

In accordance with section 20 of the Act, each estimate must cover (amongst other things) the resources required by the Auditor General for the exercise of his statutory functions.

The responsible committee of the National Assembly may make any modifications to the estimate which it considers appropriate, but no modification can be made unless:

- the Auditor General and the Wales Audit Office have been consulted; and
- any representations that either may make have been taken into account.

As the Welsh Ministers must each year move a motion in the National Assembly under section 125 of the Government of Wales Act 2006 that includes authorisation of the resources to be used (including accruing resources) and payments to be made by the Wales Audit Office, this estimate sets out the amounts to be included in respect of the Wales Audit Office.

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Summary report

- 1 This estimate is made up of two sections:
 - a Section 1: Our work
 - b Section 2: Estimate of income and expenditure 2014-15
- 2 In **Section 1**, we provide:
 - a a summary of the strategic priorities for our work over the period 2013-2016 (**paragraph 1.2**);
 - b an explanation of the impact we are making through our work on the exchange of good practice (**paragraphs 1.5 to 1.7**); and
 - c an overview of the work we are undertaking in 2013-14 to respond swiftly to issues as they arise using the additional funding of £250,000 approved by the Public Accounts Committee (**paragraphs 1.8 to 1.13**).
- 3 In **Section 2**, we provide a summary of our estimated budget for 2014-15, with a commentary on the main components of that budget.
- 4 The main features of our budget proposal are set out in **paragraphs 2.1 to 2.4**.

Welsh Consolidated Fund

- 5 We are seeking total funding of £5,974,000 through this estimate, an increase of £543,000 compared to total funding of £5,431,000 requested in 2013-14:

| | 2013-14 £'000 | 2014-15 £'000 |
|-----------------------------------|------------------|------------------|
| Revenue | 5,224 | 5,876 |
| Supplementary estimate 2013-14 | 187 | 0 |
| Capital | 20 | 98 |

- 6 However, £652,000 of the £5,974,000 relates specifically to the following legislative changes which are outside of our control:
 - a the Welsh Government's Future Generations Bill (**paragraph 2.9**) which is expected to place new duties on the Auditor General, for which we need to seek additional development funding of £122,000; and
 - b changes brought about by the Public Audit (Wales) Act 2013 which mean that local government studies costing £530,000 need to be funded from the Welsh Consolidated Fund (the Consolidated Fund) and not, as currently, by local government fees (£353,000) and Wales Programme for Improvement (WPI) grant funding (£177,000) (there is no overall impact on the Welsh block from this change (**paragraphs 2.22 to 2.24**)).

- 7 Without these additional costs, our revenue request for 2014-15 remains unchanged from the £5,224,000 requested in our 2013-14 estimate. This has been made possible by cost reductions and greater efficiency in our working practices. For example, during 2013-14, we have increased our staff utilisation rates, securing staff cost reductions of £200,000 and reducing contractor costs by £50,000. Despite significant increases in the cost of fuel and other supplies, we are also reducing our accommodation costs budget in 2014-15 and setting cash efficiency targets of at least 1.5 per cent (2.9 per cent in real terms) for all of our budget holders.
- 8 Our request for capital funding has increased by £78,000 in respect of one-off expenditure to improve our internet access, increase server and storage capacity, and strengthen our videoconferencing facilities (paragraph 2.41).
- 9 We highlight in paragraphs 2.33 to 2.39 some of the main uncertainties we are currently facing, the more significant of which could give rise to a request for supplementary funding. We may also need to seek approval to retain additional audit fee income in 2014-15 to cover additional costs where this arises from unplanned work, for example special investigations.

Audit fees

- 10 As set out in the Auditor General's request for supplementary funding in 2013-14, the Auditor General received a ruling from HMRC in December 2012 requiring that from 1 April 2013, he no longer charge VAT on audit fees to local government and NHS bodies. This ruling, which will also apply to the Wales Audit Office from 1 April 2014 (paragraphs 2.16 to 2.17) has resulted in an unavoidable increase in our cost base of £600,000 per annum.
- 11 While we are able to absorb general cost increases through ongoing savings and efficiencies we are not able to make savings of this level in the short term from our cost base, as this is largely fixed owing to the need to deliver a statutorily defined programme of work. We have no option, therefore, but to increase income generated from audit fees by 3.8 per cent overall if we are to avoid an additional call of £600,000 on the Consolidated Fund.
- 12 We are currently reviewing how this overall increase may affect audited bodies, while at the same time analysing the potential impact of changes to our fee regime brought about by the Public Audit (Wales) Act 2013. However, as we set out in paragraph 2.25, there are compensatory factors which would significantly offset the impact of any fee increase for the majority of our audited bodies, namely:
- a **local government:** we plan to refund to local government bodies the reserves that we expect to hold at 31 March 2014, which could offset the impact of any fee increase for two financial years; and

b NHS: as NHS bodies were unable to recover the VAT previously charged on audit fees, from 1 April 2013 all NHS bodies have benefited from a 16.7 per cent audit fee reduction; this would more than offset any necessary increase in their audit fees.

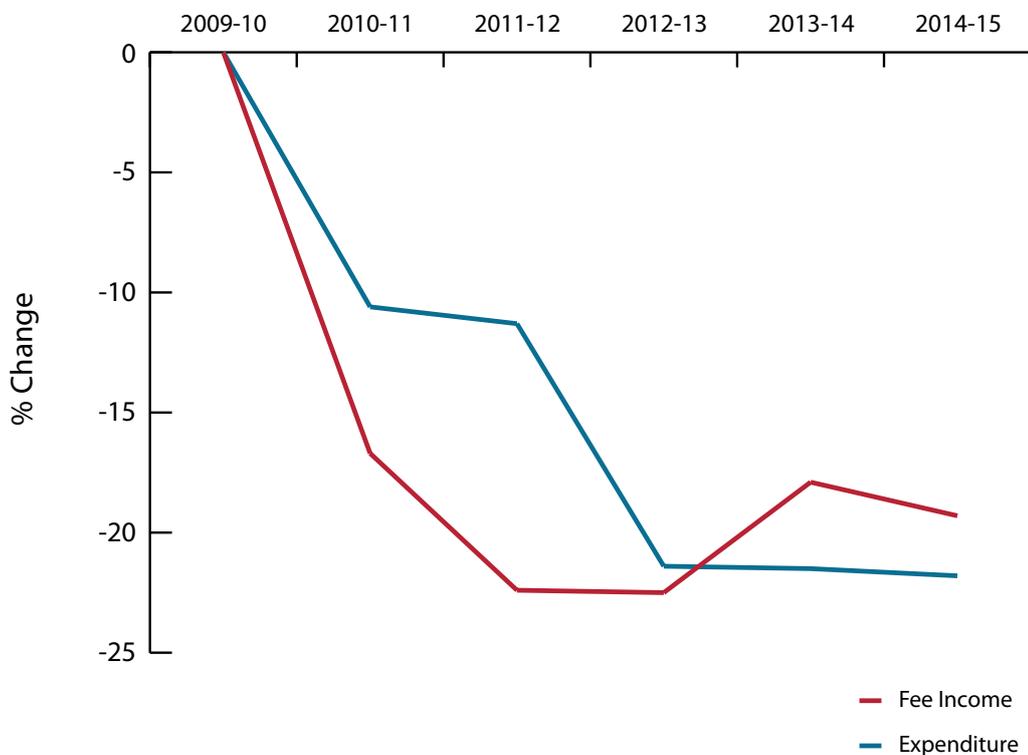
six-year period (a reduction of 10 per cent in cash terms from £26.1 million in 2009-10 to a forecast £23.5 million in 2014-15). Similarly, this exhibit shows that, notwithstanding the enforced need to increase our audit fees in 2014-15, we have succeeded in reducing our annual fee income by 21.6 per cent in real terms over this six-year period. In cash terms this equates to a reduction in fee income from £18.9 million in 2009-10 to a planned £16.5 million in 2014-15.

Long-term review

13 Exhibit 1 illustrates the overall trend in our expenditure from 2009-10 to our planned position for 2014-15, along with the overall trend in our audit fee income over the same period. As shown in this exhibit, notwithstanding the unavoidable cost increases we have highlighted in this estimate, we have successfully reduced our expenditure by over 19 per cent in real terms² during this

14 As explained in paragraph 2.3, we have embarked on a project to review our longer-term operating model to realise our objective of being a modern, sustainable audit office, and look forward to reporting our progress in future estimates.

Exhibit 1 - Real terms reduction in expenditure and fee income 2009-10 to 2014-15



² Real terms reduction calculated using the UK Government GDP Deflators as updated 26 September 2013.

Section 1 - Our work

- 1.1** During the course of the past year, we have continued to undertake work in support of our overall aim of informing the people of Wales about whether public money is being managed wisely, while also helping public bodies in Wales understand how to improve outcomes.
- 1.2** In furtherance of this overall aim, in April 2013, the Auditor General launched our *Strategy for the Auditor General for Wales and the Wales Audit Office 2013-16*. This strategy sets out six main strategic priorities for the strategy period as summarised in [Exhibit 2](#).
- 1.3** The Auditor General was provided with additional funding of £500,000 for 2013-14 to support delivery of initial elements of this strategy: £250,000 to support the exchange of good practice; and £250,000 to allow the Auditor General to undertake unplanned reviews of issues of public concern, without which there would be an impact on the organisation's ability to deliver pre-planned national studies.
- 1.4** We summarise below how that additional funding is being used to date during 2013-14.

Exhibit 2 - Strategic priorities 2013-2016

| Strategic priorities |
|---|
| Undertake audit work with an austerity emphasis. |
| Enhance work on benchmarking and performance comparison, sharing of audit knowledge and exchange of good practice. |
| Provide further assurance on the effectiveness of governance arrangements and other issues of public interest. |
| Report more comprehensively on sustainable development, on equality and on the use of the Welsh language. |
| Work more closely with other external review bodies and improve the way we run our business through a period of transition. |
| Increase awareness of and engagement with our work, including through more effective use of information technology. |

Exchange of good practice

1.5 On 2 October 2013, the Auditor General wrote to the Chair to the Public Accounts Committee providing an update on the work of our Good Practice Exchange (GPX) Team following the additional funding agreed by the Public Accounts Committee for this work.

1.6 That letter ([Appendix 3](#)) highlights a number of encouraging signs from the development of this work, including:

- a Website traffic:** There have been over 33,000 views of the GPX web pages since the beginning of the year which is equivalent to over 150 views per working day.
- b Shared learning seminars:** These continue to be the most effective method of achieving high-quality, high-impact knowledge transfer. Since the beginning of the year, we have hosted eight shared learning seminars, which have been attended by 322 people. The distinctive approach developed by the GPX Team consistently achieves very positive feedback. Between 80 and 96 per cent of shared learning seminar delegates have rated them as being 'highly useful' to them in their roles.
- c Using digital technology to reach further and engage:** The team have been using Twitter to reach out well beyond those attending our seminars. In some cases, the information sent out from Twitter during a seminar has reached over 35,000 people – well beyond the 40 in the room.
- d Bringing outside experience to Wales:** The GPX Team has secured expertise from outside Wales on a number of occasions. This has included private

sector organisations, such as Diageo and Emirates Aluminium, overseas public audit bodies such as Audit New Zealand, and third sector organisations including the Scottish Improvement Service.

1.7 One of the areas that the GPX Team is currently working on is how to measure the impact of its work in a complicated and fast-developing area. A number of activity and impact measures are being developed and we will be reporting against these in future annual and interim reports.

Unplanned work

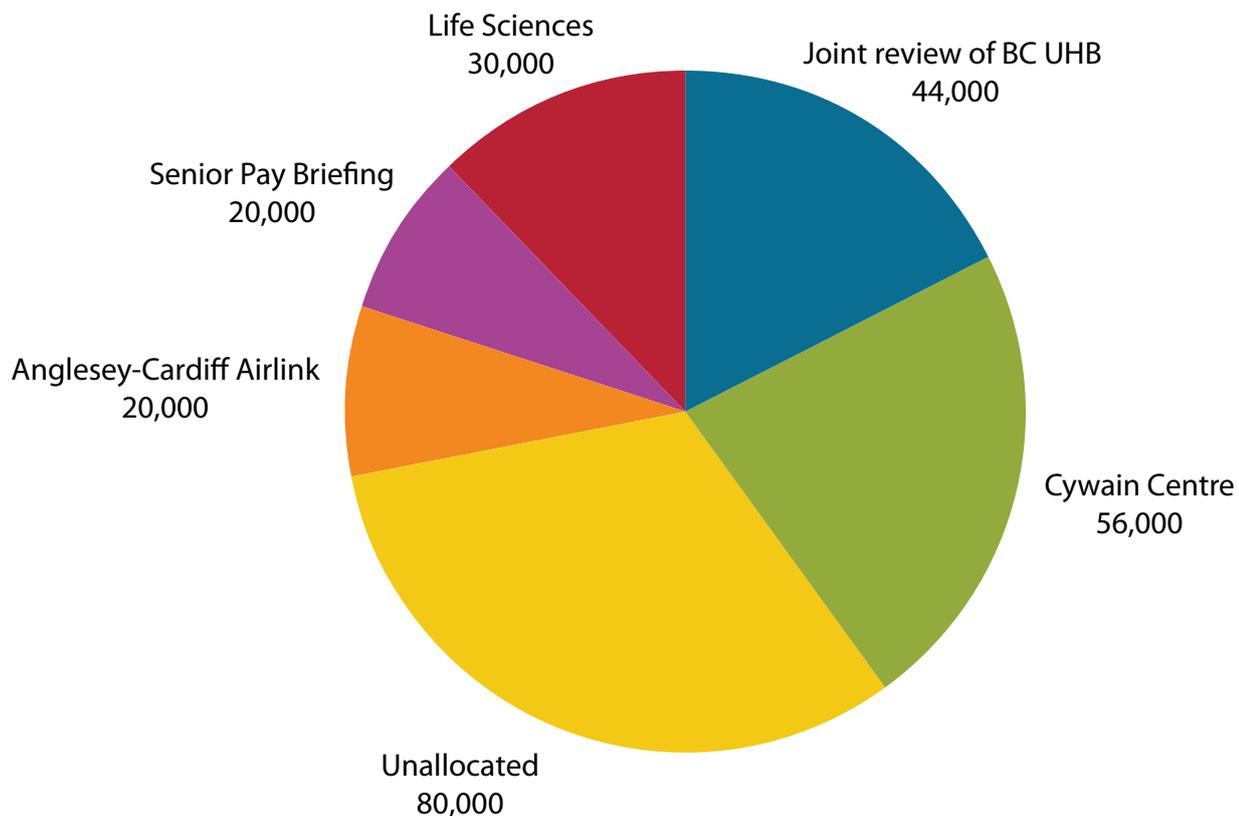
1.8 The Auditor General was provided with additional resource of £250,000 to ensure delivery of his pre-planned value-for-money programme which is designed to provide comprehensive coverage of the Welsh public sector while also providing for a swift response to urgent projects without the need to defer planned work. The Auditor General also continues to provide support to the Public Accounts Committee through delivery of his studies programme and provision of briefings and responses to correspondence.

1.9 [Exhibit 3](#) illustrates how this funding has already been committed to date in 2013-14 for unplanned work.

1.10 [Exhibit 4](#) provides a brief summary about each of the pieces of work identified in [Exhibit 3](#).

1.11 As illustrated in [Exhibit 3](#), at the mid-point of 2013-14 all but £80,000 of the funding allocated to unplanned work has been committed to urgent reviews. Should further such work arise during the year, it may be necessary for us to seek additional funding through a supplementary estimate in order for us to undertake that work.

Exhibit 3 - Additional funding already committed for unplanned work



1.12 Appendix 1 contains a summary of the main operational activities of the Auditor General and the Wales Audit Office across local government, central government and the NHS.

1.13 During 2014-15, we will publish interim and annual reports which will provide further information about the work undertaken by the Auditor General and the Wales Audit Office. These reports will include an update on the work we are carrying out to identify the impact of our work as recommended in the Public Accounts Committee's report on the Auditor General's 2013-14 estimate.

Exhibit 4 - Summary of unplanned activities

| Unplanned activity | Brief description |
|--|--|
| <p>Joint review of Betsi Cadwaladr University Health Board's governance arrangements</p> | <ul style="list-style-type: none"> • Joint review with Healthcare Inspectorate Wales of the corporate, clinical and financial governance challenges facing the health board. • The joint report, published in June 2013, concluded that the health board's governance arrangements and organisational structure are compromising its ability to adequately identify problems that may arise with the quality and safety of patient care. |
| <p>Public funding of the Canolfan Cywain Centre in Bala</p> | <ul style="list-style-type: none"> • In response to concerns expressed by the Chair of the Public Accounts Committee about the collapse of the Canolfan Cywain Centre in Bala, which had received over £2 million in public funding, we undertook preliminary enquiries into the public funding and subsequent closure of the centre. • We are now undertaking a detailed investigation. This is focusing on the decision making around the public funding of the venture, including the actions taken to mitigate the risks (and losses) and the lessons to be learnt from this case. |
| <p>The Anglesey to Cardiff Air-Link</p> | <ul style="list-style-type: none"> • As agreed with the Public Accounts Committee, a briefing paper is being drawn up for the committee following correspondence raising concerns about the value for money of the North-South Wales Air-Link. • This briefing paper will set out the Welsh Government's arrangements for managing its £1.2 million annual subsidy of the air-link, including procurement and contract management and evidence in relation to value for money. |
| <p>Senior management pay in the public sector</p> | <ul style="list-style-type: none"> • As agreed with the Public Accounts Committee in July, a briefing paper is being drafted for the committee to support its plans for a short inquiry into senior management pay. • This paper will set out the frameworks that currently govern senior management pay and benefits across Welsh public services and will draw on our financial audit work to bring together an analysis of senior management pay rates. |
| <p>Welsh Life Sciences Investment Fund</p> | <ul style="list-style-type: none"> • In response to concerns raised in September 2013 by the Chair of the Public Accounts Committee, a joint review of the Welsh Life Sciences Investment Fund is being undertaken by the Wales Audit Office and the Internal Audit Service of the Welsh Government. • The Auditor General will determine the most appropriate form of reporting the results of this work once these are known. |

Section 2 - Estimate of income and expenditure 2014-15

Revenue budget 2014-15

2.1 Our estimate of our revenue income and expenditure for 2014-15 is summarised in [Exhibit 5](#).

2.2 The main issues of note are summarised below:

a With the exception of certain specific new costs and responsibilities we are not seeking additional funding, as we have been able to absorb a range of inflationary and cost pressures though increased efficiencies, including measures such as:

- **improved staff utilisation rates** (ie, staff spending more time on productive audit work and less time on ancillary support and non-productive activities), which has led to recurring reductions in the use of short-term contractors amounting to £50,000;
- **changing staff skill mixes**, which has reduced ongoing costs by £200,000; and
- **making more efficient use of supplies and services**, reducing accommodation and energy costs despite rising prices, and setting real terms savings targets for individual budget holders.

b As part of our commitment to improving the standards of financial management across the Welsh public sector and in order to ensure that our staff are well placed to support audited bodies in

achieving efficiencies and identifying areas for improvement, we are investing heavily in the learning and development of our audit staff and increasing the number of graduate trainees we recruit each year.

c We need to increase audit fee income by an average of 3.8 per cent to fund a significant increase in our irrecoverable VAT of £600,000 arising from a VAT ruling by HMRC. As we outline in paragraph 2.25, however, there are compensatory factors that will mitigate any impact of this increase for the majority of our audited bodies.

d We are seeking to increase our revenue funding from the Consolidated Fund by £652,000 to £5,876,000 in order to:

- Fund additional costs of £122,000, which are a direct result of the new duty expected to be placed on the Auditor General in the planned Future Generations Bill.
- Respond to changes arising from the Public Audit (Wales) Act 2013 relating to the funding of local government studies: these statutory changes require us to fund this work through the estimate (increased by £530,000) rather than from fees (reduced by £353,000) and WPI grant (reduced by £177,000). Importantly, there will be no overall change in our call on the Welsh block as a result of this change.

Exhibit 5 - Estimate of revenue income and expenditure 2014-15

| | | Year to 31 March 2014 £'000 | Year to 31 March 2015 £'000 |
|---|---|-----------------------------------|-----------------------------------|
| Expenses | Staff-related costs | 16,118 | 16,230 |
| | Accommodation costs | 983 | 941 |
| | Learning and development costs | 292 | 407 |
| | IT costs | 588 | 601 |
| | Supplies and services ³ | 5,497 | 5,336 |
| | EXPENSES TOTAL | 23,478 | 23,515 |
| Income | Audit and inspection fees | 13,421 | 13,668 |
| | WPI grant from the Welsh Government | 1,439 | 1,170 |
| | Local government grant certification fees | 2,441 | 2,501 |
| | Other income | 353 | 300 |
| | Contribution from reserves | 413 | 0 |
| | FEES AND OTHER INCOME TOTAL | 18,067 | 17,639 |
| Total revenue budget to be funded by Consolidated Fund | | 5,411 | 5,876 |
| Funded by: | | | |
| • Revenue resource requirement – main estimate | | 5,224 | 5,876 |
| • Revenue resource requirement – supplementary estimate | | 187 | 0 |
| Total resource requirements | | 5,411 | 5,876 |

³ Supplies and services includes payments to contractor firms for audit services (£3,048,000) and irrecoverable VAT (£900,000).

- 2.3** We are currently undertaking work, which is looking at the totality of the way in which we operate as an organisation, in order to ensure that we are a modern, sustainable organisation that is making the best use of the resources available to us. We look forward to providing a further update on this work in our estimate for 2015-16.
- 2.4** The Wales Audit Office will use resources to employ staff and pay associated costs, make payments to contractor firms which carry out work on behalf of the Auditor General and to provide the infrastructure and support needed to carry out our work. We comment in the following paragraphs on the main features of our revenue budget for 2014-15.

Expenditure

Staff costs

- 2.5** Approximately 69 per cent of our revenue resources will be used in employing an estimated 240 full-time-equivalent members of staff during 2014-15.
- 2.6** Our staff cost budget for 2014-15 has been prepared on the assumption that our total pay bill will increase by no more than an average of one per cent, in line with HM Treasury guidelines for government departments, in addition to other contractual changes, and offset by reductions arising from implementation of a previous job evaluation scheme. Our reward structure is designed to allow us to remain competitive with firms and other organisations for similar roles and to help us retain staff in whose personal and professional development the Auditor General has invested significantly over a number of years.
- 2.7** Where funding is available, we operate an ongoing voluntary exit programme designed to support our longer-term workforce planning objectives and to support ongoing cost reductions. We are now realising the savings from previous voluntary exit departures through ongoing savings in staff costs.
- 2.8** We have succeeded in achieving reductions in staff costs through improved staff utilisation, which has led to a reduction of £50,000 in contractor costs, and changes in staff skill mixes, which has reduced ongoing costs by £200,000 as compared to 2013-14.
- 2.9** Our Impact Assessment for the Welsh Government of the consequences of the proposed Future Generations Bill identified that we would likely incur additional staff costs on developmental work of approximately £122,000 per annum in 2014-15 and 2015-16 in order to prepare for the introduction of the new provisions proposed for the Bill. As the Bill is as yet unpublished, this estimate is based on the White Paper consultation and discussions with officers. We are seeking additional funding for these development costs in 2014-15 through this estimate.
- 2.10** As highlighted in [paragraph 2.34](#), a review is currently being undertaken of the structure of our Senior Leadership Team, which may lead to further changes in staff costs in due course.

Accommodation costs

- 2.11** We predict that our overall accommodation expenditure will fall by 4.2 per cent as a result of generated efficiencies despite increased underlying energy, rent and rates costs.

Learning and development costs

- 2.12** The Auditor General and the Wales Audit Office Board (the Board) place significant importance on the development of the knowledge and skills of all our staff. It is an imperative for us that our staff have the highest credibility across the Welsh public sector and beyond. Both the Auditor General and the Board are therefore committed to investing in staff development, and in particular to developing graduate trainees. This commitment supports our longer-term workforce planning, while at the same time offering opportunities to Wales-based graduates who might otherwise need to leave Wales in search of employment and professional training. The projected increase in our training costs for 2014-15 derives from an increased investment in graduate trainees.
- 2.13** We are currently exploring opportunities to further increase the number of graduate trainees we recruit and are also examining other ways we can support young people into employment, through for example offering placement opportunities for school leavers.

IT costs

- 2.14** We have deferred a small element of IT expenditure from 2013-14 to 2014-15, which leads to the slight increase in the comparison in [Exhibit 5](#). Without this deferral, IT costs would fall by £28,000 (4.8 per cent) between the two years.

Supplies and services

- 2.15** Supplies and services is composed of a wide range of activities. We comment below on the two most significant elements – irrecoverable VAT (£900,000) and payments to contractor firms (£3,048,000).

Irrecoverable VAT

- 2.16** The increase in this cost line arises from a significant decrease in the amount of VAT we are able to recover on our expenditure following a ruling on the Auditor General's VAT status that took effect from 1 April 2013. This ruling will also apply to the Wales Audit Office from 1 April 2014. As highlighted in previous estimates, prior to 1 April 2013 the Auditor General charged VAT on audit fees for NHS and local government bodies with the knowledge and agreement of HMRC. In December 2012 however, HMRC determined that from 1 April 2013 the Auditor General should not charge VAT on this work. This ruling meant that we are unable to charge VAT on the vast majority of our work, and consequently unable to recover the VAT charged to us on goods and services. This change in the Auditor General's VAT status has led to an increase in our annual cost base of £600,000 representing an increase in irrecoverable VAT. The report of the Public Accounts Committee on the Auditor General's 2013-14 estimate noted the funding difficulties that would arise from a change in the Auditor General's VAT status and the possibility of the Wales Audit Office having to raise audit fees or seek additional funding from the Consolidated Fund in 2013-14 and future years in order to meet the costs.
- 2.17** While we are able to absorb general cost increases through ongoing savings and efficiencies we are not able to make savings of this level in the short term from a cost base that is largely fixed owing to the need to deliver a statutorily defined programme of work. Unfortunately, owing to this ruling we have no option but to seek additional funding. As we set out in [paragraph 2.25](#), we are seeking to do this through changes in fee levels rather than through an additional call on the Consolidated Fund.

Exhibit 6 - Impact of using contractor firms on 2014-15 budget

| Budget element | £'000 | £'000 |
|--|--------------|------------|
| Income from work carried out by firms | | 4,022 |
| Payments to firms | 3,048 | |
| Irrecoverable VAT on above payments | 610 | |
| Total cost | 3,658 | (3,658) |
| Net contribution to the Wales Audit Office | | 364 |

Payments to contractor firms

- 2.18** In common with other UK audit agencies, we operate a mixed market of suppliers for the delivery of audit work in order to compare audit quality and to benchmark value for money. Following an OJEU procurement process, in addition to Wales Audit Office staff, we currently use three firms which will deliver 22 per cent of our audit work at principal bodies during 2014-15.
- 2.19** The impact of this work on our budget is reflected in [Exhibit 6](#). The costs of £3,048,000 reflected in [Exhibit 6](#) are the largest, single element of our supplies and services budget.
- 2.20** Additionally, we also use a further three firms to undertake reviews of over 730 community and town councils and other small bodies (income value: £248,000).
- 2.21** The current contracting arrangements will cover audits of the 2013-14 financial year. The Board will shortly be considering our contracting strategy from 2014-15. One of the issues the Board will need to consider is the impact of the VAT ruling on our contracting strategy, as approximately two-thirds of the irrecoverable VAT of £900,000 relates to payments to contracting firms.

Income and funding

Local government studies

- 2.22** As a consequence of the Public Audit (Wales) Act 2013, local government studies undertaken under sections 41 and 42 of Public Audit (Wales) Act 2004 are no longer permitted to be funded from audit fees. Furthermore, Welsh Government grant funding provided under the Local Government Act 1999 (WPI grant) may not be used for anything other than work under the Local Government (Wales) Measure 1999.
- 2.23** Until now, local government improvement studies (section 41) have been partly funded through fees and partly from the WPI grant. It will therefore be necessary for all local government studies to be funded from the Consolidated Fund from 1 April 2014.
- 2.24** Importantly, this increased funding through the estimate of £530,000 will be entirely offset by reductions in local government audit fees (£353,000) and the WPI grant (£177,000), and so our overall call on Welsh block funding is unchanged.

Audit fees

2.25 As we set out in [paragraph 2.2](#), we have determined that audit fee income will need to increase by £600,000 per annum (equivalent to a 3.8 per cent average increase) to cover the additional VAT costs. In making this decision however, we are mindful that there are compensatory factors that will mitigate any impact for most of our audited bodies, as follows:

- a NHS:** NHS bodies are not able to reclaim VAT charged to them. Prior to the ruling therefore, the 20 per cent VAT charged by the Auditor General was a real cost borne by NHS bodies. Since 1 April 2013, NHS bodies have therefore benefited by an effective reduction of 16.7 per cent which would more than offset any increase in audit fees.
- b Local government:** As at 31 March 2013, the Auditor General's accounts included reserves in respect of local government activity of £1.2 million. The Auditor General's supplementary estimate for 2013-14 plans to use £413,000 of these reserves to reduce his call on the Consolidated Fund, which will leave a projected balance of reserves of £800,000 at 31 March 2014. Following commencement of the relevant provisions of the Public Audit (Wales) Act on 1 April 2014, we will not be able to retain these reserves and therefore propose to make refunds to local government bodies to the limit of the reserves we hold (as did the Audit Commission on its demise). On current projections, such a refund would effectively offset the equivalent of two years of the planned fee increase.

2.26 The overall change in audit fees also reflects a reduction of £353,000 that arises from the rebalancing in the funding mechanism for local government studies as summarised in [paragraphs 2.22 to 2.24](#).

2.27 The Public Audit (Wales) Act 2013 introduces a revised fee-setting basis for all our audit work. We are currently reviewing the impact of these changes, which may result in fee increases for some audited bodies with overall corresponding fee reductions for other audited bodies. The Wales Audit Office will set out in the fee scheme it is required to produce how audit fees are affected by these changes.

2.28 We will also be writing to our audited bodies, as well as the NHS Confederation and the Welsh Local Government Association, to explain these changes in further detail.

Wales Programme for Improvement grant

2.29 The reduction of £269,000 in [Exhibit 5](#) reflects the rebalancing in the funding mechanism for local government studies as summarised in [paragraphs 2.22 to 2.24](#) and timing differences in the delivery of work between financial years.

Local government grant certification

2.30 The level of this work in any year is dependent on the number of schemes subject to audit and the number of audited bodies participating in those schemes. The level of income we receive from this source is therefore demand-led, and £2,501,000 is our best estimate of amount of income we expect to derive from this work in 2014-15. Such fees will be set to recover but not exceed the full cost of carrying out the work.

Other income

2.31 The reduction in other income of £53,000 illustrated in [Exhibit 5](#) largely relates to a reduction in income for staff secondments that will occur in 2014-15.

Funding from the Consolidated Fund

2.32 We are not seeking any increase in our historical funding of £5,224,000 from the Consolidated Fund in respect of general cost increases. We do, however, need to seek an increase of £652,000 from the 2013-14 base to £5,876,000 to fund the developments outlined above as summarised in [Exhibit 7](#).

Exhibit 7 - Summary of increased funding required

| Budget element | £'000 |
|---|------------|
| Local government studies (paragraphs 2.22 to 2.24) | 530 |
| Future Generations Bill development (paragraph 2.9) | 122 |
| Total increase | 652 |

Areas of uncertainty

Employee travel and subsistence expenses

2.33 The Auditor General reported in his 2013-14 estimate that the way in which Wales Audit Office staff need to work may have led to some having established permanent places of work at the offices of our audited bodies. A permanent place of work may be established for tax purposes by spending a significant amount of time at an audited body – typically more than 40 per cent of the working week for more than a two-year period. It is possible that payments for expenses incurred in travelling to audit offices in such circumstances should be subject to tax and national insurance. We are aware that other Welsh public sector bodies and another UK audit agency have experienced similar problems. We are currently in discussion with HMRC to resolve this matter. Should HMRC rule that we should have deducted PAYE when paying these expenses, we may need to seek extra revenue and cash resources through a supplementary estimate.

Restructure of Senior Leadership Team

2.34 In response to changes in our governance arrangements, which arise from the introduction of the Public Audit (Wales) Act 2013, we are implementing a review of our senior leadership structure, which may result during 2014-15 in some redundancies or voluntary exits. To the extent that we are not able to fund the costs of these departures from existing funds, we may need to seek additional funding through a supplementary estimate.

Future Generations Bill

2.35 In addition to the development costs identified in paragraph 2.9, we have further estimated that there will be ongoing costs from early 2015 of approximately £130,000 for review work at audited bodies to assess how they are responding to the expected requirements of the Future Generations Bill, once enacted. As the Bill is yet to be published, it is very difficult to properly assess the level of required activity and associated cost, but we expect at present that those costs will be recovered from audit fees.

Uncertainties regarding future workload

2.36 As summarised below, we are aware of several developments which present a considerable degree of uncertainty regarding our future workload, income and costs.

European grants

2.37 Approximately three-quarters of claims for the current round of European structural funds in Wales are made by public sector bodies. The Welsh European Funding Office (WEFO) currently requires that these claims be audited by the Auditor General or an auditor authorised by him, and we therefore certify as many as 140 claims every year, generating audit fees in the region of £500,000.

2.38 This workload is likely to change with the roll-out of the new round of funding programmes for 2014-2020. We understand that WEFO is developing new certification arrangements which will introduce a 'select list' of auditors which it will approve. Accordingly, we expect to have to tender for work of this type in future and the entry of further suppliers raises a possibility that our workload may reduce. We may also need to adjust the 'skill mix' which we apply to this work, depending on the eventual audit specification and price considerations.

European Agricultural Guarantee Fund (EAGF)

2.39 The European Commission is planning to introduce changes regarding how this work is undertaken. We are currently in discussions with the National Audit Office, for whom we undertake this work, regarding the implications of these proposed changes.

Capital budget 2014-15

2.40 Our estimate of the capital expenditure for which we are seeking funding is set out in Exhibit 8.

Exhibit 8 - Capital budget

| | £'000 |
|----------------------------------|-----------|
| Internet link | 15 |
| Videoconferencing equipment | 25 |
| Disk-based storage | 40 |
| Replacement servers | 18 |
| Total capital expenditure | 98 |

2.41 Planned investment in our IT infrastructure is designed to address the following:

- a** Our existing connection to the internet is becoming heavily congested at peak periods throughout the working day, owing to ever-higher demands for data transfer such as that arising from increasing demand for teleconferencing in order to save on more extensive travel costs. In order to cope with these increased demands in the longer term, it will be necessary to upgrade the internet link we currently use and strengthen our videoconferencing facilities.

- b** Existing servers are ageing and are no longer adequate, particularly in terms of supported memory to cater for forecast demand for centralised systems. We therefore plan to replace them in 2014-15.
- c** There is growing demand for disk-based storage, particularly for centralised email storage, and this must also be mirrored securely with our off-site disaster recovery centre.

2.42 We currently use a variety of IT systems to plan, manage, record and store our audit work. We have initiated a project to identify whether there is a single product that can undertake these various functions and help us to improve the way in which we carry out our work. Should we identify a suitable product, we may need to seek additional capital funding through a supplementary estimate for 2014-15.

Net cash requirement 2014-15

2.43 Our combined net cash requirement for revenue and capital purposes is summarised in [Exhibit 9](#).

Exhibit 9 - Net cash requirement

| | £'000 |
|---|--------------|
| Revenue | 5,876 |
| Capital | 98 |
| Total net cash requirement 2014-15 | 5,974 |

Appendix 1 - Main operational activities of the Auditor General and the auditors he appoints

Main operational activities of the Auditor General and the auditors he appoints in local government:

| | |
|--|--|
| Audit of accounts prepared by central government and health bodies | Eight accounts prepared by the Welsh Government; 31 other accounts, including the Assembly Commission; seven health boards; and three NHS trusts. |
| Audit of accounts prepared by local government bodies | 22 unitary authorities; four police and crime commissioners and four chief constables; three fire and rescue authorities; one probation trust; three national park authorities; one internal drainage board; eight pension funds; over 730 town and community councils and other small bodies; and 19 joint committees. |
| Local government improvement assessments | Includes audits of whether authorities have discharged their improvement planning and performance reporting duties, assessments of the likelihood of compliance with improvement duties and special inspections. Undertaken at 22 unitary authorities, three fire and rescue authorities and three national park authorities. |
| Local performance audit work at health bodies | Includes assessments of arrangements to secure value-for-money in use of resources. Undertaken at seven health boards and three NHS trusts. |
| Certification of grant claims and returns | 32 local government schemes (around 750 claims with a total value of some £3.0 billion), alongside European structural fund claims with a total annual claim value of around £300 million. |
| Value-for-money examinations and studies | Typically 12 examinations, studies and other outputs are undertaken in the course of a calendar year, looking at value for money in key areas of public spending. Often this work is undertaken from a 'whole-system' or 'cross-cutting' perspective, where public spending is examined irrespective of who delivers the services. |
| Other significant activities | Includes: <ul style="list-style-type: none"> • checking requests for grant of approval to draw from the Consolidated Fund; • working with others to share learning, including provision of the GPX; • anti-fraud and other data-matching exercises, including the National Fraud Initiative; • responding to issues that have been brought to our attention through correspondence from the public, elected representatives and others; • providing support to the Public Accounts Committee and other National Assembly committees; and • administration of the Wales Audit Office. |

Appendix 2 - Estimated budget requirements of the Wales Audit Office for the year ending 31 March 2015

Under Section 125 of the Government of Wales Act 2006 (the 2006 Act), Ministers must move a Budget Motion in the National Assembly to authorise the use of resources, retention of income and drawings of cash from the Consolidated Fund for certain relevant persons, including the Wales Audit Office.

In respect of the services and purposes of the Wales Audit Office, the Auditor General and local government appointed auditors in the year ending 31 March 2015, the Budget Motion will authorise:

- a** the amount of resources which may be used in the financial year by the Wales Audit Office (in line with the budget for the year);
- b** the amount of resources accruing to the Wales Audit Office in the financial year, which may be retained rather than being paid into the Consolidated Fund; and
- c** the amount which may be paid out of the Consolidated Fund to the Wales Audit Office.

These requirements, which due to the variability of income streams can only be estimates, are summarised in [Table 1](#).

Table 1 - Summary of the estimated 2014-15 budget requirements

| | |
|---|--------|
| Resources other than accruing resources for use by the Wales Audit Office on the discharge of the statutory functions of the Wales Audit Office, the Auditor General and local government appointed auditors, and on the administration of the Wales Audit Office: | |
| • Revenue | 5,876 |
| • Capital | 98 |
| Accruing resources from fees and charges for audit, inspection, grant certification and related services; grants received to fund audit and inspection services; other recoveries of costs associated with the functions of the Auditor General; miscellaneous income from publications, conferences, provision of administrative, professional and technical services; recoveries of costs of seconded staff; repayments of staff loans; recoveries of car leasing payments; recoveries of any costs incurred for a third party; and interest received on working balances – for use by the Wales Audit Office on related services and the administration of the Wales Audit Office. | 17,639 |
| Net cash requirement from the Consolidated Fund to meet the net amounts falling due for payment in the year by the Auditor General. | 5,974 |

Table 2 provides a reconciliation of the Wales Audit Office's total resource request with its net cash requirement for the year ended 31 March 2015.

Table 2 - Reconciliation of resource requirement to cash drawing requirement from the Consolidated Fund

| | £'000 |
|---|-------|
| Net request for resources – revenue and capital | 5,974 |
| Adjustments | 0 |
| Net cash requirement | 5,974 |

Appendix 3 - Letter to the Chair of the Public Accounts Committee on the work of the GPX team

Mr Darren Millar AM
Chair of the Public Accounts Committee
National Assembly for Wales
Cardiff Bay
Cardiff
CF99 1NA

Date: 2nd October 2013
Our ref: HVT/1954/fgb
Page: 1 of 3

Dear Darren

UPDATE ON THE WORK OF THE WALES AUDIT OFFICE GOOD PRACTICE EXCHANGE TEAM

I thought it would be a good opportunity to update you on the activities and impact of the Good Practice Exchange (GPX) Team over the past six months. You will recall that the Public Accounts Committee endorsed the allocation of an additional £250,000 to support the exchange of good practice as part of my 2013 14 Estimate. The GPX Team has been working hard with colleagues in the Wales Audit Office and partner organisations to ensure we use this additional funding to best effect.

The basic aim of our good practice work is to promote improvement across public services in Wales, through better knowledge exchange and shared learning. If the users of public services, the service deliverers and policy makers are better informed about what works well elsewhere, they are in an improved position to challenge the status quo and make changes to improve public services in Wales.

The GPX team has focussed its work on areas that are relevant across the whole of public services, identifying opportunities to secure better value for money and improve service delivery. For example, areas such as improving attendance, managing sickness absence and flexible working arrangements as part of employee engagement were covered during the early part of the year. The current focus is around assets, buildings and fleet management and the use of Information Technology. Plans for 2014 include considering the potential benefits of moving some public services online and activities to move public expenditure into areas where early support and intervention can prevent significant costs to public services occurring later on.

The methods used by the GPX Team are a combination of the 'tried and tested', alongside novel and innovative approaches. The use of the internet and social media is becoming more frequently used as a method for us to engage with service users and the public services that deliver them, and we have recruited two new members of staff to increase our capacity here. As a result we now have available an increasingly

large online bank of good practice material and other resource for people to access and use. This material is also acting as a focus for a growing network of people interested in delivering improvement and better value for money across Welsh public services.

Whilst the expanded GPX Team has only been fully operational since April 2013, there are a number of areas which give encouraging signs of the growing potential of its work in the future:

Website Traffic. There have been over 33,000 views of the GPX web pages since the beginning of the year which is the equivalent to over 150 views per working day. Our analysis indicates that these are people searching for examples for good practice, case studies and other material which they use in their own organisations. For example, guidance we produced on how to review vehicle fleet management arrangements continues to be downloaded by public service Fleet Managers and used as a practical working tool.

Shared Learning Seminars. These continue to be the most effective method of achieving high quality, high impact knowledge transfer. The distinctive approach developed by the GPX Team consistently achieves very positive feedback. Between 80 and 96 per cent of delegates have rated shared learning seminars as being 'highly useful' to them in their roles. Most importantly the seminars also result in changes and improvements which are being recorded to demonstrate impact. For example, the recent energy management seminars resulted in significant activity to reduce energy and water costs in Local Government, Police and Criminal Justice buildings. This is a direct consequence of bringing the right people together, in the right circumstances.

Other examples of the impact of seminars include the sharing of business cases, policies and guidance notes between organisations. This means that valuable resources are not wasted developing material from scratch when others have already created them.

Since the beginning of the year we have hosted eight shared learning seminars, which have been attended by 322 people (40 on average). During 2014 15 we intend to significantly increase this level of activity, covering topics such as early intervention and moving services online.

A further consequence of the success of the shared learning seminars is that the GPX Team is being approached by other public service organisations to work collaboratively to deliver similar events. For example a seminar focussed on Governance will take place during National Trustees Week in conjunction with the Charities Commission, and which we hope will reinforce the messages that have come out of our recent grant work. Further seminars and events planned for the remainder of 2013-14 include:

- Fleet Management and Buildings Management Shared Learning Seminars, as part of our series of Asset Management – October 2013 in South Wales and January 2014 in North Wales.
- All-Wales Scrutiny Conference, in collaboration with the Welsh Government, Centre for Public Scrutiny, Cardiff Business School and the WLGA – November 2013 in Cardiff.
- Involvement in enhancing the digital footprint of the Welsh Government's Employee Engagement Conference – November 2013 in Cardiff.

- Sustainable Development seminars, in collaboration with the Commissioner for Sustainable Futures – February 2013, North and South Wales.
- Moving Service Online Conference, in collaboration with the Scottish Improvement Agency and other Scottish organisations – March 2014.

Using Digital Technology to reach further and engage. The Team has been using Twitter to reach out well beyond those attending our seminars. In some cases, the information sent out from Twitter during a seminar has reached over 35,000 people – well beyond the 40 in the room. We have also had influential individuals joining the conversation, from outside Wales and across private, public and voluntary sectors, providing great insight and knowledge, which has enhanced the seminars.

We have recently added a Blog, which shows signs of growing in popularity and generating conversations that are helping to build relationships and encourage improvement.

Bringing outside experience to Wales. The GPX Team has secured expertise from outside Wales on a number of occasions. This has included private and third sector organisations such as Diageo and Emirates Aluminium and the Scottish Improvement Service. Other audit bodies in the UK and Ireland have recognised the value of what has been achieved so far and are starting to send representatives to Wales to attend GPX shared learning events on an increasingly frequent basis.

Measuring Impact. One of the areas the Team is working on is how to measure impact of its work in a complicated and fast developing area. A number of activity and impact measures are being developed and I will be sharing these with you once they have matured and been tested.

I hope this gives you a flavour for what has been achieved in relatively short space of time, and the potential for what can be achieved in the future. As mentioned, PAC Members are most welcome to attend any of the planned GPX events or indeed to engage with the Team on Twitter or via the GPX Blog.

Yours sincerely

HUW VAUGHAN THOMAS
AUDITOR GENERAL FOR WALES