

June 2018

Archwilydd Cyffredinol Cymru
Auditor General for Wales

ANNUAL REPORT AND ACCOUNTS

2017-18



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU



The Annual Report for the year ended 31 March 2018 has been jointly prepared, and is laid before the National Assembly for Wales, by the Auditor General for Wales and the Chair of the Wales Audit Office, in accordance with Schedule 2 of the Public Audit (Wales) Act 2013 and containing matters as directed by the Treasury.

The Annual Report demonstrates that, during 2017-18:

- the exercise of the functions of both the Auditor General and the Wales Audit Office has been consistent with the [Annual Plan](#) prepared for the year under section 25 of the Public Audit (Wales) Act 2013, with no significant changes made to planned work; and
- the priorities set out in the Plan for 2017-18 have been substantively achieved.

The Accounts for the year ended 31 March 2018 have been prepared by the Auditor General for Wales, as the Accounting Officer for the Wales Audit Office, in accordance with Schedule 1 of the Public Audit (Wales) Act 2013 and in a form directed by the Treasury.

If you require this publication in an alternative format and/or language, or have any questions about its content, please contact us using the details below. We welcome correspondence in Welsh and English and we will respond in the language you have used. Corresponding in Welsh will not lead to a delay.

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This document is also available in Welsh.

SNAPSHOT OF THE YEAR

APRIL

Concluded that there were significant shortcomings in how the Welsh Government managed the risks to taxpayers' money associated with the Circuit of Wales project.

Produced a leaflet for NHS audit committee members aimed at supporting the scrutiny and challenge of the use of single tender actions.



MAY

Reported that continuing improvements are evident in the quality and timeliness of the accounts of central government bodies, but there is scope for some bodies to improve on their annual reporting.

Recommended that the Welsh Government and Councils develop an up-to-date and reliable picture of the condition and suitability of the education estate.



JUNE

Invited views on proposals for simplification of the fee regime under which the Wales Audit Office operates.

Established that medium-term financial planning in Welsh councils is generally effective, but there are shortcomings in some councils' plans for achieving the further savings they need to make.



JULY

Established that the way in which Cardiff and Vale University Health Board had procured and managed certain HR consultancy contracts fell well short of the standard that the public has a right to expect.

Recommended that the Welsh Government swiftly completes the review of its funding formula for health boards, to ensure that variations in funding levels properly reflect differences in population health needs.



AUGUST

Highlighted that progress has been slow in addressing some key weaknesses in the Supporting People Programme, which helps vulnerable people in Wales to live as independently as possible.

Issued annual reports outlining that each of the Welsh National Park Authorities was likely to comply with its duty to secure continuous improvement in 2017-18.



SEPTEMBER

Hosted a seminar focused on the importance of engaging with service users and sharing examples of how public bodies across Wales have done so using a range of different and innovative methods.

Published a report on the progress we had made in 2016-17 towards delivering our equality objectives, which included information on our workforce diversity and structural pay gaps.



OCTOBER

Highlighted some innovative ways through which councils have approached the governance of service change and which there may be merit in other organisations exploring.

Ran a new staff survey to gain a better understanding of the employee experience at the Wales Audit Office, using the same core questionnaire as the 2017 Civil Service People Survey.



DECEMBER

Updated our assessment for the Finance Committee on the effectiveness of preparations for fiscal devolution in Wales, highlighting the remaining key risks and challenges, particularly those associated with digital tax collection.

Produced a checklist aimed at supporting NHS board members to seek assurance on how local district nursing resources are being managed.



NOVEMBER

Reported that public bodies are not using National Procurement Service frameworks as much as anticipated, and that many of its members were dissatisfied with the service.

Facilitated a webinar aimed at raising awareness of the impact adverse childhood experiences can have on demand for public services, and discussing how integrated delivery can help prevent such experiences.

JANUARY

Outlined that a significant proportion of town and community councils in Wales continue to receive avoidable qualified audit opinions, and there remains scope to develop and improve their governance and management of public money.

Concluded that local authorities are reacting to the problems caused by homelessness with varying degrees of success, but there is limited focus on preventing the fundamental causes of homelessness.



FEBRUARY

Invited views and comments on a revised draft of the Auditor General's Code of Audit Practice, which prescribes how we carry out our work and embodies best professional practice.

Reported that relatively high user satisfaction with housing adaptations masks a hugely complicated, reactive and inequitable system that is not delivering for all those who may need it.



MARCH

Delivered a seminar where we shared examples of how public services are collaborating to deliver a hospital discharge service which provides better outcomes for individuals.

National Assembly for Wales approved the nomination of Adrian Crompton as the new Auditor General for Wales, who will take up post in July 2018.



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PERFORMANCE REPORT

**A REVIEW OF THE WORK OF THE AUDITOR GENERAL AND
WALES AUDIT OFFICE IN 2017-18, INCLUDING AN ANALYSIS
OF OUR DELIVERY AND PERFORMANCE, AND OUR POSITION
AT THE END OF THE YEAR**



Huw Vaughan Thomas
Auditor General for Wales and Accounting Officer

7 June 2018



OVERVIEW

Statement from the Auditor General



2017-18 was a very productive year for us in terms of audit delivery. Thanks to the professionalism, dedication and hard work of Wales Audit Office staff and contractors, we successfully delivered the broad programme of audit work laid out in our Annual Plan to a high quality standard.

A selection of case studies has been included in this Report to give more insight on some of the projects that we have been involved with, and the significant contribution that our work makes in terms of holding public bodies to account and helping improve the delivery of public services in Wales.

In addition, we have made substantial progress on our longer-term priorities for transforming the way we deliver our audit programme. This has included developing and piloting our approach for undertaking examinations under the Well-being of Future Generations (Wales) Act 2015, focusing more on work that examines regional and other partnership working arrangements, and strengthening engagement with our work among Assembly committees.

During 2017-18, I also announced my retirement. It has been a great privilege since 2010 to serve as the Auditor General for Wales, and to have the opportunity to oversee the establishment and rapid development of the newly-reconstituted Wales Audit Office.

I would like to thank my many talented and professional colleagues, and our many supportive stakeholders, without whom none of our achievements would have been possible. I would also like to thank Isobel Garner and the members of the Wales Audit Office Board for their advice and support over the last five years.

I wish Adrian Crompton well in his role as the next Auditor General. I am sure that, under his leadership and with the continuing support of the Board, the Wales Audit Office will continue to go from strength to strength.

Huw Vaughan Thomas
Auditor General for Wales

Statement from the Chair



2017-18 at the Wales Audit Office was a year very much focused on reflecting on our changing operating environment and positioning ourselves to ensure we remain fit-for-the-future. Alongside the development of an overall vision statement for the organisation, the Board oversaw a number of key corporate initiatives.

In October, we ran a new staff survey to gain a better understanding of the employee experience. The results of the survey were really encouraging; for the majority of survey questions and themes, responses from our staff were more typical of (and in some cases significantly better than) a Civil Service People Survey 'high performing'

organisation.

Where the survey results did suggest there is room for improvement, we will be taking these matters forward in 2018-19 through the delivery of our new People Strategy. A lot of work has gone into the development of the Strategy over the last year, which is centred on embedding a framework of values and behaviours that define our organisational culture.

In addition, following two separate public consultation exercises, we published a revised suite of equality objectives for the next four years, and a case for simplifying the fee regime within which we operate.

This has also been a year of change for the Board itself. We said goodbye to Peter Price and David Corner, who served as non-executive members. My thanks go to them both for their significant and distinctive contributions. We then welcomed their successors, Alison Gerrard and Bill Richardson, who each bring a wealth of knowledge and experience to the fold.

And, of course, in light of his imminent departure, on behalf of us all at the Wales Audit Office I would like to say a big thank you to Huw. Over the last eight years, he has brought authority, commitment and dedicated leadership, significantly strengthening the post of Auditor General and helping establish the Wales Audit Office as a respected and influential organisation. We wish him well for the future.

Despite the change agenda, it was still another strong year in terms of organisational performance. Strategic risks were well managed and we achieved many of the challenging targets we had set for our key performance indicators. We have a strong organisation to build on and I pay tribute to the staff of the Wales Audit Office for all their hard work and commitment throughout the year.

Isobel Garner

Chair, on behalf of the Wales Audit Office Board

Who we are and what we do

The Auditor General for Wales is the statutory external auditor of most of the Welsh public sector.

The Auditor General is responsible for the audit of the majority of public money spent in Wales, including the funds that are voted on annually by the National Assembly. Significant elements of this funding are passed by the Welsh Government to the NHS and local government in Wales.

The Wales Audit Office employs professional staff and utilises other resources, including additional expertise from private sector accountancy firms, to enable the Auditor General to carry out his functions. The Wales Audit Office employed around 270 staff as of 31 March 2018.

The Auditor General uses the resources provided by the Wales Audit Office to independently examine whether public money in Wales is being managed wisely and is properly accounted for.

PUBLIC SECTOR AUDIT INVOLVES:

- ▶ PROVIDING AN OPINION ON THE ACCOUNTS
- ▶ CONSIDERING WHETHER PUBLIC MONEY IS BEING USED FOR APPROVED PURPOSES (REGULARITY)
- ▶ CONSIDERING HOW PUBLIC BUSINESS IS BEING CONDUCTED (PROPRIETY)
- ▶ EXAMINING WHETHER PROPER ARRANGEMENTS ARE IN PLACE TO SECURE VALUE FOR MONEY

The Auditor General's functions may be exercised, in combination if necessary, across different types of bodies to examine public spending irrespective of who delivers the services.

We identify good practice from across the full breadth of the Auditor General's audit work and disseminate this through our [Good Practice Exchange](#) and other media, including shared learning seminars and webinars.

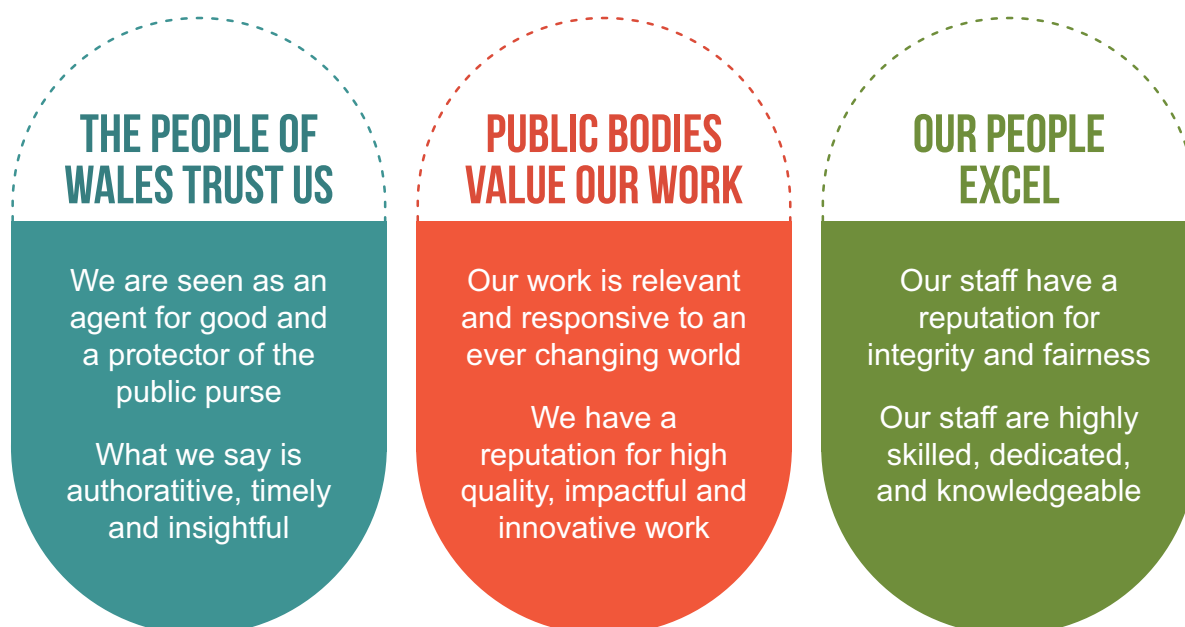
We also work closely with the other UK audit agencies and with the other main external review bodies in Wales to enhance the collective impact of our work.

We undertake our work in accordance with the Auditor General's [Code of Audit Practice](#). The Code prescribes the way in which the Auditor General's audit and certain other functions are to be carried out, and embodies what appears to the Auditor General to be best professional practice.

Each year we publish an [Annual Plan](#) that provides more information on:

- a how we follow the public pound in Wales;
- b our vision and values;
- c our aim and objectives;
- d our operating environment;
- e our three-year strategic priorities;
- f our planned programmes of work for the next 12 months; and
- g how we measure and report on our performance.

Our vision



Key issues and risks that we face

As outlined in greater detail in our current Annual Plan, we consider the following factors to be those that will have the greatest influence over the way we deliver our work and achieve our aim and objectives over the next three years:

- a We remain in a period of financial constraint
- b Governance arrangements are now required to have a wider scope
- c The political and policy landscape continues to evolve
- d We live in an increasingly networked society

In response to our operating environment, our Plan for delivering our programmes of work during 2018-19 and for the three-year period 2018-2021 is underpinned by ten strategic priorities.

An account of our risk management in 2017-18, alongside a description of the principal risks and uncertainties we face, is provided in the Governance Statement.

Our strategic priorities

	<p>Integrate the Auditor General’s duties under the Well-being of Future Generations (Wales) Act 2015 into the delivery of our audit work programmes.</p>
	<p>Examine the integrated delivery of public services in Wales from the perspective of people who use the services.</p>
	<p>Strengthen engagement with our work among Assembly committees and identify ways to further enhance our work on supporting effective scrutiny and accountability.</p>
	<p>Enhance the collective impact of external audit, inspection and review in Wales by making better shared use of intelligence and resources.</p>
	<p>Engage with other audit agencies in the UK and internationally, to share and inform best practice and intelligence.</p>
	<p>Enhance the readability and accessibility of our audit products to maximise their reach and impact.</p>
	<p>Utilise emerging technologies to improve how we source, acquire and analyse data and how we present and visualise our findings.</p>
	<p>Adopt new ways of working to provide an efficient and fit-for-the-future audit service as our operating environment changes.</p>
	<p>Deliver a people strategy that responds to the results of our staff survey, helps us to achieve our equality objectives and enables our staff to excel in their work.</p>
	<p>Improve our management of knowledge and data, including through effectively responding to the introduction of the General Data Protection Regulation.</p>

Performance indicators

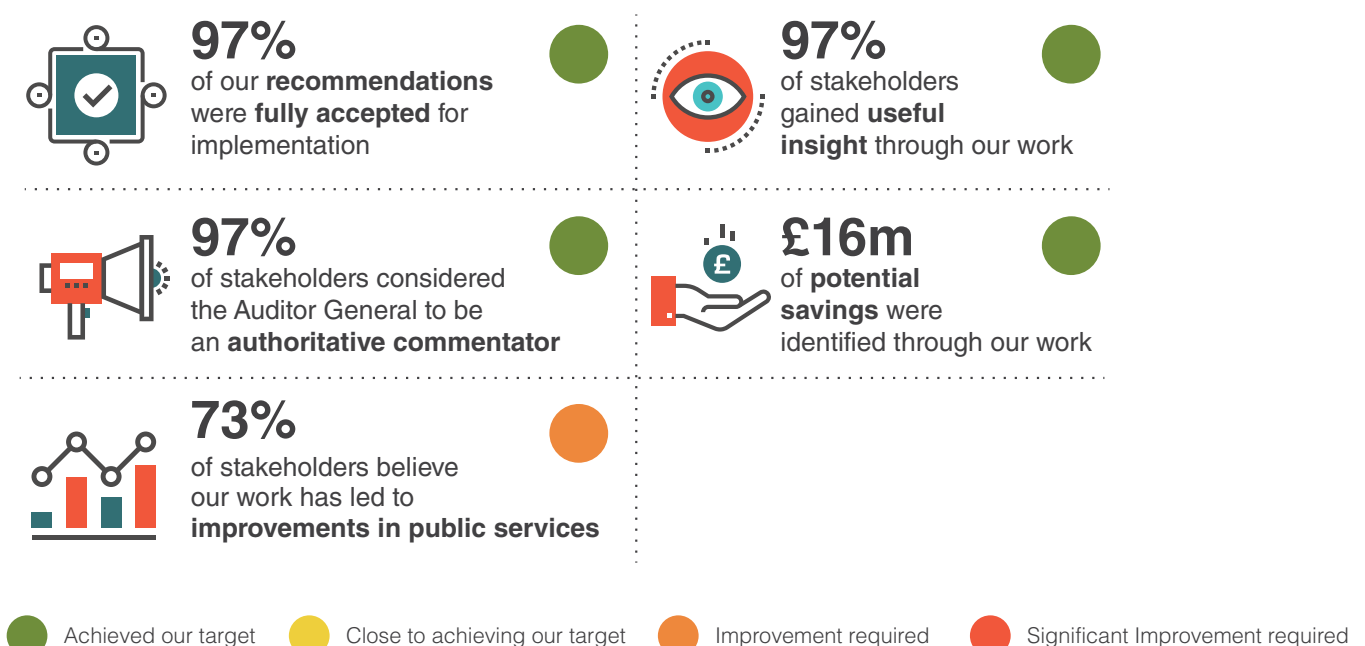
A framework of key performance indicators, centred on seven themes and questions about our activities, was included in our [Annual Plan for 2017-18](#). We also developed a suite of targets, with reference to levels of performance at the end of 2016-17 and appropriate benchmarks.

Over the course of 2017-18, we used a combination of quantitative and qualitative methods to measure, report and reflect on our performance and risks. This included quarterly reporting to our Management Committee and Board on progress made in achieving our priorities and targets. Our suite of targets was also subject to further scrutiny and refinement during the year to ensure they remained suitably challenging but achievable within the specified timescales.

Overall, in 2017-18 we achieved our targets for 22 of the 35 performance indicators, and were close to achieving our targets for another 6 indicators. Our performance against the remaining 7 indicators will be a particular focus for improvement work in 2018-19. In addition, for 2018-19 we have reviewed and revised our framework of key performance indicators to align more clearly with our overall objectives.

Impact

To what extent is our work informing the people of Wales, helping public bodies in Wales to succeed, and valued by our stakeholders?



Delivery

Are we delivering our audits on time and to the required quality and professional standards?



99%

of requests to draw funds from the WCF were **processed within 24 hours**



88%

of key audit products were **delivered on time**



100%

of audits were delivered in accordance with **quality standards**



20

good practice products were delivered



19

National reports were published



Leadership

Are our governance and leadership arrangements operating effectively?



100%

of stakeholders said they have **confidence in our work**



81%

of staff feel that their **performance is evaluated fairly**¹



76%

of staff feel that their team are **encouraged** to come up with **new ways of doing things**



91%

of staff feel **trusted** to carry out their job **effectively**



82%

of staff feel they have a **clear understanding of the organisation's objectives**



● Achieved our target
 ● Close to achieving our target
 ● Improvement required
 ● Significant Improvement required

¹ Compared to an average of 65% for those organisations that participated in the 2017 Civil Service People Survey. A further 13% of our staff responded 'Neither agree nor disagree'.

Financial

How well are we managing our finances and assets?



£3,317
estate cost per full-time equivalent member of staff



88%
of suppliers paid within 10 days of receipt of invoice



£1.4m
of cost savings and efficiencies identified throughout the business



Level of surplus at year end within **0.0%** of budget



£0.1m
of aged debts aged over 60 days



Social

How well are we promoting and supporting equality, well-being and learning?



71%
of staff feel that they are able to **access the right learning opportunities**



85%
of staff feel that they are **treated fairly at work**



80%
of staff feel able to strike a **good balance between work and private life**



7.6 days, on average, were **lost through sickness** per member of staff



0
complaints were received and upheld regarding our **Welsh language provision**²

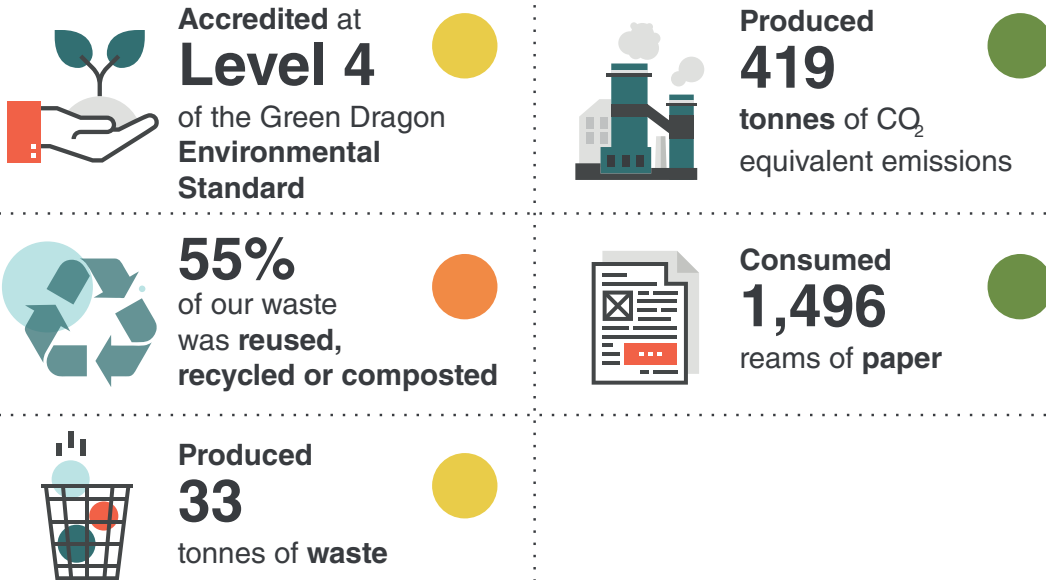


● Achieved our target
 ● Close to achieving our target
 ● Improvement required
 ● Significant Improvement required

² One complaint regarding our Welsh language provision was received during 2017-18, which is currently being considered.

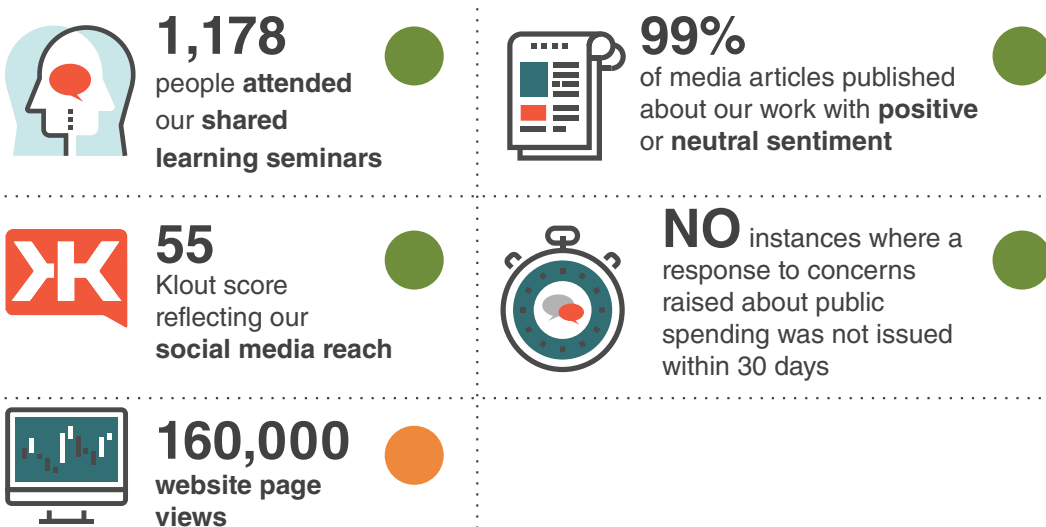
Environmental

How well are we managing our impact on the environment?



Communication

How well are we raising awareness of and encouraging engagement with our work?



 Achieved our target
  Close to achieving our target
  Improvement required
  Significant Improvement required

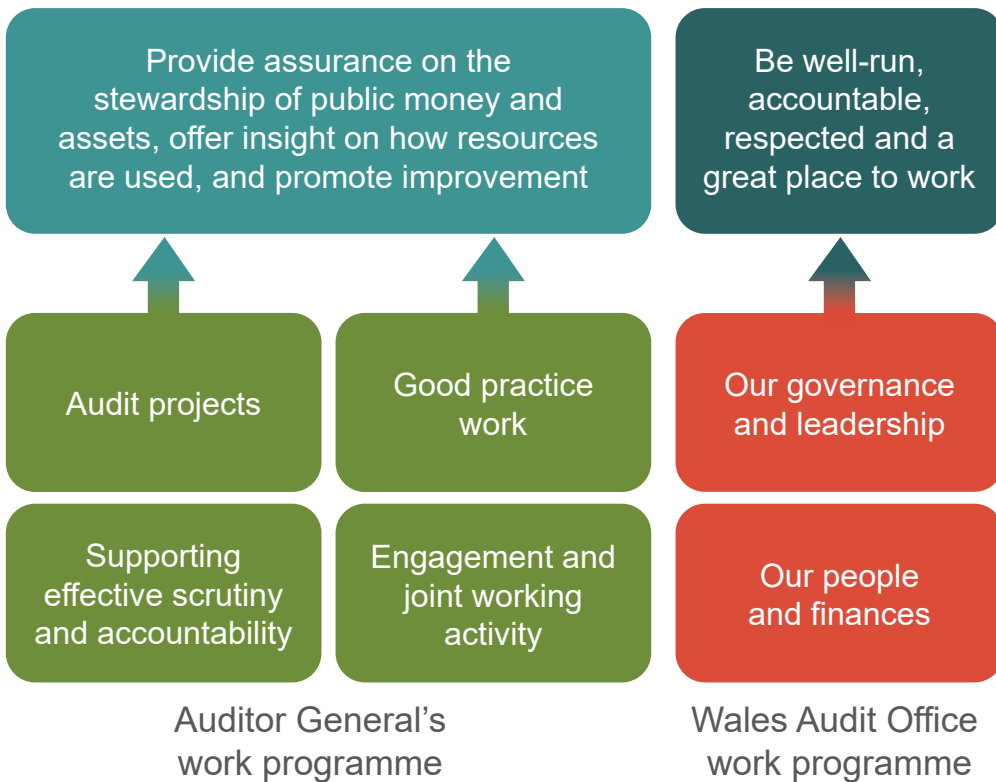
PERFORMANCE ANALYSIS

In this section we provide an assessment of the extent to which the programmes of work and three-year priorities set out in our [2017-18 Annual Plan](#) have been achieved, including through the use of case study examples.

This section should be read in conjunction with:

- [Appendix 1](#), which provides more detail on the Auditor General’s programme of work delivered in 2017-18, and includes the Auditor General’s report on disclosures of information; and
- [Appendix 2](#), which provides further commentary on the progress we have made towards achieving our three-year priorities.

Consistent with our Plan, our analysis is divided into six sections which are aligned with our objectives. The first four sections relate to the Auditor General’s work programme. The remaining two sections relate to the Wales Audit Office’s work programme.



In 2017-18, we successfully delivered the entire programme of work laid out in our Annual Plan for the year. And we are on track to deliver (and in some cases have already completed the necessary work on) all of our three-year priorities.

Audit projects

The Auditor General's programme of work covers a broad range of public bodies, including unitary authorities, local health boards, NHS Trusts, fire and rescue authorities, national park authorities, police and crime commissioners and chief constables, local government pension funds and town and community councils.

The programme of audit work includes audits of accounts, local performance audits, certification of grant claims and returns, value for money examinations and studies, and the preparation of summary reports of the findings from audit work across multiple NHS, central government and/or local government bodies. It also includes examinations undertaken in response to issues of public concern identified through our audit work or raised with the Auditor General.

During 2017-18, all of our audit projects were completed or progressed in alignment with our Plan.

The quality of our work is of paramount importance to us and our stakeholders. [The Code of Audit Practice](#), which is reviewed on an annual basis, prescribes the way in which the Auditor General's audit and certain other functions are to be exercised, and is designed to complement International Standards on Auditing and embody best professional practice.

Our Transparency Statement provides more detail on how the Wales Audit Office is meeting high standards in the way it works and in the quality of its work.

Our Management Committee is of the view that this quality framework is operating effectively, and that the arrangements are continuing to develop.

ISSUED OVER
800
AUDIT OPINIONS
ON THE ACCOUNTS OF
LOCAL GOVERNMENT
BODIES

CERTIFIED 20
GRANT SCHEMES
WORTH APPROACHING
£3
BILLION

19
NATIONAL REPORTS
WERE PUBLISHED

APPROVED AROUND
£1 BILLION
OF PAYMENTS OUT
OF THE WELSH
CONSOLIDATED
FUND EVERY MONTH

Case study: Capturing service user perspectives

When receiving services from councils, users often do not have a choice of provider. So, when designing and delivering services, it is important that councils understand the perspective of the service users whose needs they are trying to meet. We place particular emphasis in our audit work on the importance of understanding the perspectives of service users when we are considering the effectiveness of service delivery arrangements.

Over the last year, we have made significant efforts and have employed a wide variety of approaches to capture service user perspectives relevant to a number of areas of our audit work at each local authority area in Wales. These included house-to-house surveys of social housing tenants, exit surveys of library and contact centre users, telephone surveys of people who have received housing adaptations, and a number of focused workshops with service user groups.

While each project followed a broadly similar approach, the specific focus and method was tailored between councils to best align with local circumstances.

Our work on obtaining service user perspectives has had significant impact. We informed council departments of our findings as we carried out the work, which led to several councils taking action to address the issues we had identified before we formally published our findings.

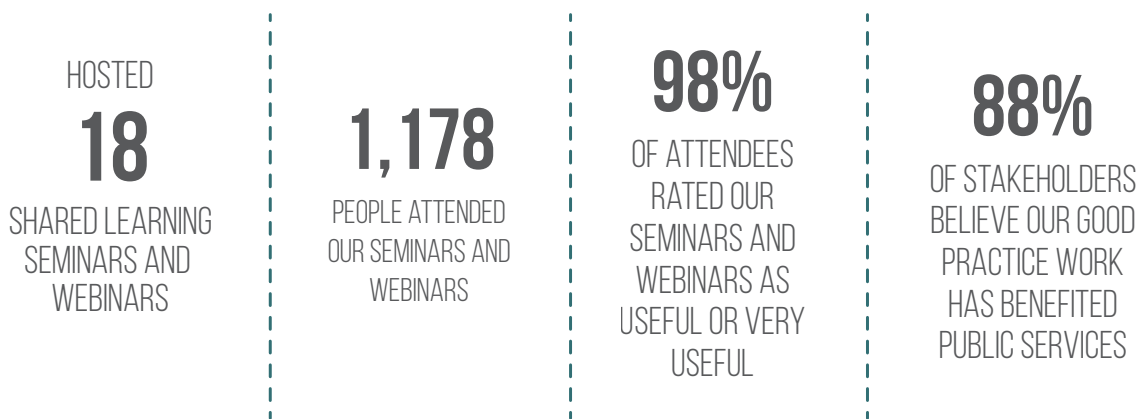
We recognise that engaging with service users, including those who share protected characteristics, requires detailed planning and the application of specialist skills and knowledge. We are using the learning and experience from carrying out these projects in 2017-18 to improve our audit methods, and we are committed to continuing to seek service users' views as an integral part of our future audit work.



Good practice work

One of the two main strands of our good practice work is the provision of [online resources](#) that enable the public, service users, service providers, policy makers and decision makers to access information that will leave them better informed. Our other strand of activity involves facilitating conversations where the learning from comparative successes and failures is shared face-to-face.

During 2017-18, all of our good practice work has been completed or has progressed in alignment with our Plan.



Case study: Making greater use of webinars and podcasts

During the last year, we successfully made greater use of webinars and introduced the use of podcasts as additional and effective methods of facilitating the sharing of learning and emerging ideas on good practice between public service providers.

We had previously received feedback from various stakeholders and attendees of our seminars recommending that we make greater use of the webinar format to open up access to a wider range of attendees, particularly where topic areas are of interest right across an organisation and to partnerships, and to reduce travel time and time out of the office for delegates.

Throughout the year, on-going conversations were held with our stakeholders to help determine which topics and areas of learning would be best suited to the webinar format. To maximise accessibility and participation, we then made particular efforts to ensure that the timing of our webinars was aligned with when many public sector bodies open up social media channels for staff. After the live streaming event, the recorded discussion was made available for viewing on [YouTube](#), allowing complete freedom of choice as to when and where delegates access the learning. A good example of how this worked in practice was our [Adverse Childhood Experiences](#) webinar, where around 250 individuals listened and contributed to the live streaming, but with a further 350 views of the content, sometimes of the whole webinar but often of particular sections that relate to specific topics.

Over the course of the year we then extended this concept by piloting the preparation of short podcasts which can be downloaded onto smart phones or mobile devices. Each [Podcast](#) comprises of a more in-depth conversation by an expert speaker, based on their personal experiences relating to the topic area.

“THE PANEL SET-UP WAS A REFRESHING CHANGE FROM THE ‘DEATH BY POWERPOINT’ OF MANY WEBINARS - AND THE SPEAKERS CHOSEN WERE VERY ENGAGING”

QUOTE FROM AN ATTENDEE OF THE ADVERSE CHILDHOOD EXPERIENCES WEBINAR

Supporting effective scrutiny and accountability

Our work plays a key role in supporting the work of the Public Accounts Committee in its consideration of matters relating to the use of resources in the discharge of public functions in Wales. Where applicable, our work can also inform the work of other National Assembly committees whose wider remit includes scrutinising the expenditure and policies of the Welsh Government, holding Ministers to account, and examining proposed legislation³. In 2017-18, we presented 16 reports for consideration by the Public Accounts Committee and other Assembly committees.

Throughout the year, we also attend most meetings of the audit committees of the principal bodies that we audit to provide regular briefings and report on our audit work, and will provide further advice and support to audit and scrutiny committees.

In addition, we regularly receive correspondence from the public, their local and national elected representatives and others that raises potential concerns about the stewardship of public money and assets, and the Auditor General is a 'prescribed person' for making whistleblowing disclosures.

THE OUTPUTS
FROM OUR WORK
SUPPORTED

29

**MEETINGS OF THE
PUBLIC ACCOUNTS
COMMITTEE**

77

PIECES OF
CORRESPONDENCE
RECEIVED THAT
RAISED POTENTIAL
CONCERNS ABOUT
PUBLIC SPENDING

NO

INSTANCES WHERE
A RESPONSE TO
CONCERNS RAISED
ABOUT PUBLIC
SPENDING WAS
NOT ISSUED
WITHIN **30 DAYS**

31

INDIVIDUALS
CONTACTED US
INDICATING THAT
THEY WISHED TO
MAKE A
**WHISTLEBLOWING
DISCLOSURE**

³ For example, the findings of our examination of how local authorities address homelessness were noted by the Public Accounts Committee, but were also relevant to the Equality, Local Government and Communities Committee's inquiry into poverty in Wales.

Case study: Preparing for fiscal devolution

On 1 April 2018, the new Welsh Revenue Authority successfully opened its doors to collect the first Welsh taxes in nearly 800 years – a significant milestone in the devolution journey.

Over the last two years, our financial and performance audit staff have been working closely together to examine the Welsh Government’s fiscal devolution programme.

Our aim has been to help the Welsh Treasury and Welsh Revenue Authority to ‘get it right first time’ – rather than coming in afterwards in the more ‘traditional’ audit role of examining what might otherwise (potentially) have gone wrong.

The Auditor General provided a senior member of his team from the outset to attend meetings of the Welsh Government’s Implementation Programme Board as an ‘observer’ – providing real-time constructive challenge and sharing examples of good practice learning from previous audit reports but, crucially, without compromising the Auditor General’s independence as the external auditor.

We also published two reports, in [November 2016](#) and [December 2017](#), assessing the Welsh Government’s evolving preparedness to take on fiscal powers. These two reports, and the Welsh Government’s constructive responses to them, have supported timely and effective scrutiny by the National Assembly’s Finance Committee of this landmark programme.

Looking ahead to the planned implementation of the Welsh Rate of Income Tax in April 2019, we intend to continue with this future-focused audit approach, as a practical example of our values⁴ in action.



⁴ As laid out in our [Annual Plan for 2018-19](#), over the past 12 months we have developed a set of values which define our organisational culture and core beliefs.

Engagement and joint working activity

Over the reporting period, the Auditor General and Wales Audit Office have continued to exercise their commitment to effective stakeholder engagement to inform the development, maximise the relevance, and extend the reach and impact of the Auditor General's work.

Consistent with our Plan, we have also worked closely with the other UK audit agencies and with the other main external review bodies in Wales to enhance the collective impact of our work, and have undertaken a small amount of commissioned audit work.

The Wales Audit Office is able to make arrangements with certain types of bodies for it or the Auditor General to provide services to, or to exercise the functions of, those bodies. But, we are mindful that all such activities should be self-financing and should not be undertaken to the detriment of our core audit work in Wales.

From time to time, we are proud to represent Wales on the international stage in relation to our work. In 2017-18, we regularly delivered papers at EURORA⁵ events, and were invited by the National Audit Office of the Republic of Kosovo to share our experience and learning on performance audit in local government, and on facilitating the exchange of good practice.

ACTIVE MEMBER OF

12

KEY EXTERNAL
WORKING GROUPS
AND AN OBSERVER
ON EIGHT OTHER
KEY GROUPS

AUDITED
**£250
MILLION**
OF EUROPEAN
FUNDS USED TO
SUPPORT FARMERS
AND AGRICULTURE
ACROSS WALES

56%
OF STAKEHOLDERS
BELIEVE WE WORK
WELL WITH OTHER
EXTERNAL REVIEW
BODIES⁶

FACILITATED THE
DETECTION AND
PREVENTION OF
FRAUD AND ERROR
WORTH MORE THAN
**£5.4
MILLION**

⁵ A co-operation project among public sector audit institutions in Europe.

⁶ A further 40% of stakeholders who responded to our survey answered 'Don't know'.

Case study: Developing our methodology for undertaking sustainable development examinations



The Well-being of Future Generations (Wales) Act 2015 requires that we examine how public bodies are applying the sustainable development principle. This represents a new focus for our work and the Auditor General was keen that we work collaboratively with our stakeholders in 2017-18 to develop an audit approach that is meaningful, proportionate and adds value. Nine public bodies volunteered to take part in a programme of pilot activity over the course of the year.

Early in the year, we involved over 100 internal and external stakeholders in initial methodology development sessions to build a collective understanding of the Auditor General's new duty and to discuss ideas for an audit approach. We then worked closely with the pilot bodies to develop a methodology through considering how we could assess ways of working, what behaviours we should be looking for, and through what means. The Office of the Future Generations Commissioner has been involved in the process throughout, following agreement of a [Memorandum of Understanding](#).

Each pilot project has been a rich source of learning for us, and has also provided valuable feedback to the bodies on meeting the requirements of the legislation. Auditors and pilot bodies are now working together to evaluate the approaches and will continue to be involved in refining them.

Case study: Helping the NHS strengthen its approach to making financial savings

NHS bodies are facing significant financial pressures, and need to produce cost improvement plans each year to help achieve financial balance. Our 2017 NHS structured assessment work included a detailed analysis of NHS organisations' approach to planning and delivering financial savings.

This work highlighted some significant variation in practice across Wales, and in general a need to secure some fundamental improvements in how savings plans are developed, delivered and monitored. NHS bodies have accepted all of our recommendations for strengthening current arrangements. We have pulled together the key national messages and presented them to the NHS Wales Efficiency Healthcare Value and Improvement Board. We shall also be sharing the findings with other key Wales groups such as Directors of Finance and Audit Committee Chairs.

This additional engagement at the all Wales level has provided insight into current practices alongside an analysis of what 'good looks like', and identified where wider system actions can help secure the improvements that are needed.



Our governance and leadership

The Public Audit (Wales) Act 2013 prescribes the framework for our governance arrangements, most notably in relation to the composition and functions of the Wales Audit Office Board, and the relationship between the Wales Audit Office and the Auditor General.

Our Board combines the knowledge and skills of non-executive, executive and elected employee members to provide dimensions of insight and experience that are helping to shape our strategic direction. Our governance arrangements provide us with a real opportunity to further develop and progress as a business.

The Wales Audit Office also has a senior management structure which is designed to provide clear lines of reporting and accountability, and to enable the Auditor General's work to inform the public and influence public service delivery in the most efficient and effective way.

In a survey of key stakeholders conducted in early 2018, 86% of respondents either agreed or strongly agreed with the statement 'the Wales Audit Office appears to be a well-run organisation'.

Our Governance Statement provides an outline of the control structure of the Wales Audit Office, accounts of corporate governance and risk management for the year, and a description of the principal risks and uncertainties we faced in 2017-18. Further information on membership of the Board and the Management Committee during 2017-18 is provided in the Directors' Report.

During the year, the Board approved, amongst other business, the [Annual Report and Accounts](#) for 2016-17, an [Estimate](#) of income and expenses for 2018-19, an [Interim Report](#) on progress made against the 2017-18 Annual Plan, a [Fee Scheme](#) for 2018-19 and an [Annual Plan](#) for 2018-19 which includes additional information on our vision, values and strategic priorities. These documents were laid before the National Assembly and scrutinised by its Finance Committee.

On 25 January 2018, for the second year running, the Wales Audit Office was shortlisted as a finalist in the Achievement in Financial Reporting and Accountability category at the [Public Finance Innovation Awards 2018](#), which showcase and reward achievements within public finance and governance.



Our use of resources

We have been working hard to embed the principle of sustainable development⁷ in the way we run our business, and in the way we resource the Auditor General's audit work, for a number of years. In this section we provide some high-level commentary on how we have managed our use of resources in 2017-18.

While neither the Auditor General nor the Wales Audit Office are listed public bodies for the purposes of the Well-being of Future Generations (Wales) Act 2015, we nonetheless seek to maximise our contribution to achieving the seven Welsh well-being goals:

- A prosperous Wales
- A resilient Wales
- A healthier Wales
- A more equal Wales
- A Wales of cohesive communities
- A Wales of vibrant culture and thriving Welsh language
- A globally responsible Wales.

In addition, we have indicated in this section (through use of the relevant icons) where our performance in 2017-18 contributed to one or more of the 17 [United Nations Sustainable Development Goals](#)⁸.



The Wales Audit Office supports the Sustainable Development Goals

⁷ Defined in the Well-being of Future Generations (Wales) Act 2015 as acting 'in a manner which seeks to ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs'

⁸ In accordance with the HM Treasury [Public sector annual reports: sustainability reporting guidance 2017-18](#)

Financial management and efficiencies

Robust financial management and cost efficiency remains a priority at the Wales Audit Office.

In 2017-18, our total gross expenditure was some £687,000 (3.1%) lower than the previous year, reflecting savings made through our on-going efficiency agenda. Our year-end out-turn was an underspend of £71,000 against the approved Estimate for the year.

We were able to use savings made on staffing and other costs of £500,000 during the year to fund a voluntary exit scheme as part of our ongoing workforce planning. This will deliver annual savings of £194,000 in the future, positively impacting on our Medium Term Financial Plan.

Overall savings identified for 2017-18 total some £1.4 million, including savings from previous voluntary exit schemes along with savings identified from reviewing our audit approaches and our transformation projects. We anticipate that the outcome of our work on the use of data analytics, along with a project examining our future ways of working, will help us ensure that we continue to provide value for money in the delivery of public audit in Wales.

We invested £313,000 of capital funding in five areas in 2017-18, which will deliver further efficiency savings in coming years:

- £129,000 for new hybrid laptops which allow our staff to work more efficiently and help reduce our use of paper
- £89,000 for the purchase and implementation of a new integrated finance system, which will allow for better, more timely, financial reporting and make it easier for staff to comply with our procurement procedures
- £42,000 for developing the use of Skype for Business to increase the ability of staff to attend meetings via videoconference and to take calls and meetings whilst off site
- £41,000 for an improved performance audit information management system, which will allow us to better manage our performance audit work in the future
- £12,000 for new software to allow staff to book meeting rooms more effectively

Learning and development

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

During the 2017-18 financial year, 35 trainees successfully moved on to the next stages of their studies, collectively achieving a 97% first-time pass rate for examinations with the Institute of Chartered Accountants in England and Wales (ICAEW).

In 2017-18, we continued to work in partnership with other publicly funded bodies in Wales on the Finance Skills and Development Initiative, which aims to make public finance a more attractive career option for graduates and to raise the standard of financial management in the country. Under the initiative, partner organisations including the Wales Audit Office offer secondment opportunities for finance trainees to spend periods of time at other publicly funded bodies. In 2017-18, eight Wales Audit Office trainees completed placements at bodies including Betsi Cadwaladr University Health Board, the DVLA, the BBC, Cardiff and Vale College and a number of local authorities. We also facilitated a reciprocal inward secondment from Betsi Cadwaladr University Health Board.

We continue to invest more broadly in learning and development to support our staff in the delivery of their work. In 2017-18, the average amount of time spent per employee on a range of learning and development activities was 9.3 days. Some of the training was designed and delivered in-house, and where appropriate and cost-effective, we commissioned external support to deliver training to our bespoke requirements.

An electronic evaluation form enables us to quickly capture outcomes and then measure the success and impact of the training courses. 99% of staff felt that the courses they attended in 2017-18 were effective in helping them meet their objectives.



Staff engagement and the employee experience

During the course of the year we used a variety of media and mechanisms to provide Wales Audit Office employees with useful information, to encourage the involvement of employees in the organisation's performance, and to consult with employees so that their views can be taken into account when making decisions which are likely to affect their interests.

These included:

- posting regular blogs from members of the Board and Management Committee, and making Board and Management Committee minutes readily available for viewing on our intranet;
- encouraging staff to share information and good practice through an internal social media network;
- arranging 'partnership forum' meetings with trade union representatives, and engaging such representatives in the process for preparing or revising specific policies and organisational development initiatives, where relevant; and
- holding a well-received all-staff 'unconference' in February 2018.

In October 2017, we ran a new staff survey to gain a better understanding of the employee experience at the Wales Audit Office and identify where we need to improve. We used the same core survey questionnaire as used in the 2017 [Civil Service People Survey \(CSPS\)](#).

The survey covered a range of themes, from the leadership and culture of the organisation through to how individual teams function.

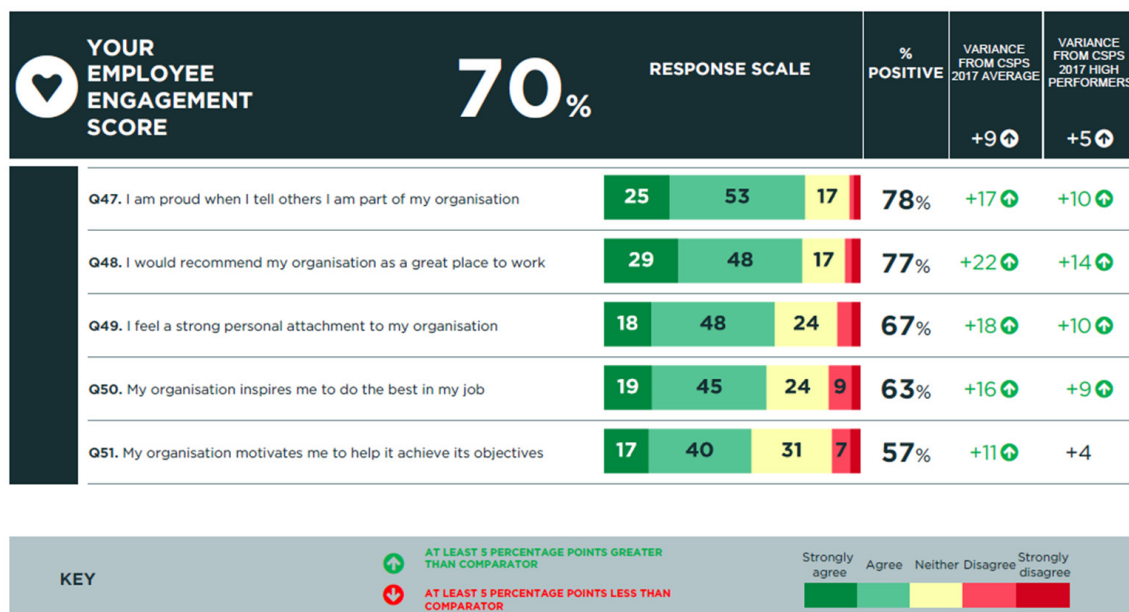
Overall, the results of the survey were very encouraging. In particular, it was reassuring to note that colleagues across the Wales Audit Office feel very positive about the relationships within their teams and feel a strong connection to our organisational objectives and purpose. This positivity was reflected in our strong overall engagement index score of 70%.

2017 was the first time we had run a staff survey using the CSPS questionnaire. Inevitably, therefore, we had limited scope for looking at our direction of travel for many of the individual survey questions. Despite the absence of complete trend data, what we did have was a very robust set of benchmarking data against which to compare ourselves.

For the majority of survey questions and themes, responses from our staff were more typical of (and in some cases significantly better than) a CSPS ‘high performing’ organisation. However, the survey results also suggested that there is room for improvement in a number of areas, which we are now having a careful look at. These include ensuring that:

- all staff, including in particular those who are new to the organisation, feel sufficiently challenged by their work;
- all colleagues feel that the learning and development opportunities that we offer support and lead to their overall career development; and
- all staff, including in particular younger colleagues, feel safe to challenge the way things are done in the organisation.

In early 2018, we explored the reasons behind the survey results in more detail through discussions at team meetings, and offered all staff the opportunity to actively shape our response at a conference held in Swansea in February 2018. We will be repeating the survey in October 2018.



Employee well-being

We are committed to encouraging a healthy lifestyle and a good work-life balance amongst our staff. We also want our staff to feel valued and fully supported when they are experiencing difficulties, irrespective of whether or not there is an impact on their ability to undertake their role.

Our well-being policy is supplemented by guidance to support our commitments and ensure any staff health and well-being issues are proactively and sensitively identified and managed. We also actively promote and support staff emotional and physical health, and their wellbeing, including through an annual programme of events and through offering a health screening service.

In addition, an employee assistance programme is available via either a 24-hour telephone service or through an online facility. The employee assistance programme provides staff with professional advice and emotional support on a range of matters.

At an organisational level, in our staff survey we included the four questions being used by the Office for National Statistics as part of their Measuring National Wellbeing programme:

- a Overall, how satisfied are you with your life nowadays?
- b Overall, to what extent do you think the things you do in your life are worthwhile?
- c Overall, how happy did you feel yesterday?
- d Overall, how anxious did you feel yesterday?

Again responses from our staff were typically more positive than those of a CSPS 'high performing' organisation.

We also closely monitor rates of sickness absence and have in place a range of mechanisms for supporting successful return to work. An average of 7.6 days per employee were lost to sickness absence during the reporting year ending 31 March 2018 (compared to 6.5 days per employee for the previous year, and an average of 8.5 days for the public sector⁹).



⁹ Source: [Health and Well-Being at Work \(Public Sector\); CIPD, May 2018](#)

Equality and human rights

The Auditor General for Wales and Wales Audit Office are required to follow the framework of protection against discrimination, harassment and victimisation and the public sector equality duties brought in by the Equality Act 2010. We also have a responsibility to uphold the conventions set out in the Human Rights Act 1998.

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.

Our recently published [Strategic Equality Plan](#) outlines our continued commitment to equality and our related objectives. Our [Annual Report](#) on progress made towards delivering our equality objectives in 2016-17 is available on our website. Our report for 2017-18 will be published in summer 2018.



5 GENDER EQUALITY



10 REDUCED INEQUALITIES



Promoting use of the Welsh language

The Auditor General and Wales Audit Office take pride in providing a bilingual audit service. Our public documents are available in both English and Welsh, we have a fully bilingual website, and throughout 2017-18 we communicated with the public, audited bodies and the media in both languages. We also actively encourage staff to learn Welsh and to use the Welsh language in their work and socially.

We are committed to implementing and maintaining the new Welsh Language Standards. Our [Compliance Notices](#) can be found on our website, alongside our [Annual Report on the Welsh Language](#).

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, participating in conservation projects and the administration of public events.

Wales Audit Office staff chose charities in the mental health field as the focus for their fundraising activities in 2017-18. Over the course of the year and in their own time, our staff held a number of fundraising events:

- several members of staff took part in events such as half marathons and ‘tough mudders’; and
- we held a number of other events in our offices, including regular raffles and cake sales, and a Six Nations Championship scores and results predictor competition.

In total, staff raised over £3,000 for mental health charities. For 2018-19, the staff-chosen focus for fundraising activities will be charities involved in helping people who are homeless or who have been dispossessed.



Environmental stewardship¹⁰

RE-ACCREDITED AT
LEVEL 4
OF THE GREEN
DRAGON
ENVIRONMENTAL
STANDARD

REDUCED OUR
GREENHOUSE GAS
EMISSIONS AND
USE OF PAPER BY
NEARLY
9%

REDUCED OUR
CONSUMPTION OF
ELECTRICITY BY
20%

USED CARBON
CREDITS TO OFFSET
56%
OF OUR
GREENHOUSE
GAS EMISSIONS

We were re-accredited for 2017-18 at Level 4 (the second highest level) of the Green Dragon Environmental Standard, demonstrating our ongoing commitment to effective environmental management. Although we did not quite reach our target of achieving Level 5 (the highest level) in 2017-18, we aim to do so in 2018-19.

As part of this commitment, to support the global reduction of greenhouse gas emissions, we have offset¹¹ 233 tonnes (56%) of our carbon dioxide equivalent emissions (tCO₂e) resulting from our business travel, by supporting the following projects:

- a UK trees and protecting the Amazon (140 tCO₂e)
- b Wind Based Power Generation by Panama Wind (93 tCO₂e)

In 2017-18 we invested in Skype for Business – a system which allows our staff to collaborate and communicate with each other, and with outside contacts, through phone calls, video conferencing, screen sharing and instant messaging, via their laptops and regardless of where they are working. This significantly reduces the need for colleagues and client staff to travel to meet and work together.

Many of our staff also now use laptops which combine the size format of tablets with mobile device functionality, reducing the need for the printing of meeting papers and enabling them to take notes onscreen.

We are committed to using recycled stationery products and using the Buying Standards as a guide for cleaning, construction and purchase of equipment. We also invested in multi-functional machines that are of high productivity, value for money and have low environmental impact for our offices.

**SUSTAINABLE
DEVELOPMENT
GOALS**

13 CLIMATE
ACTION



15 LIFE
ON LAND

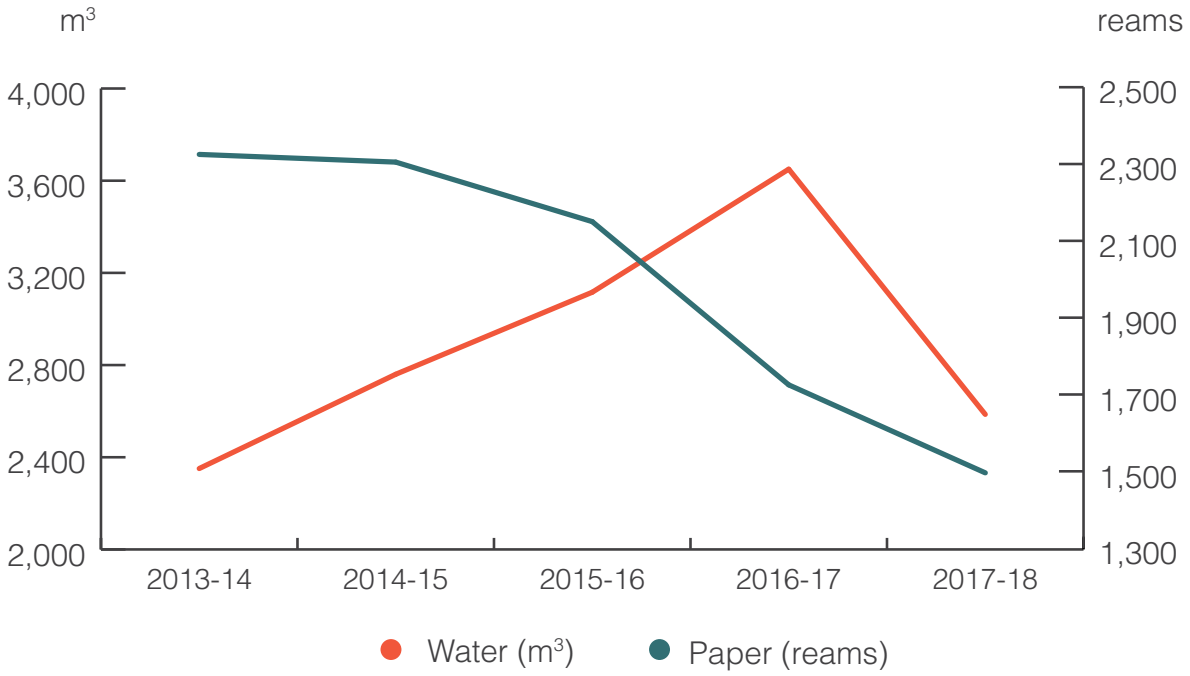


¹⁰ Prepared in accordance with [HM Treasury Public Sector Annual Reports Sustainability Reporting Guidance 2017-18](#)

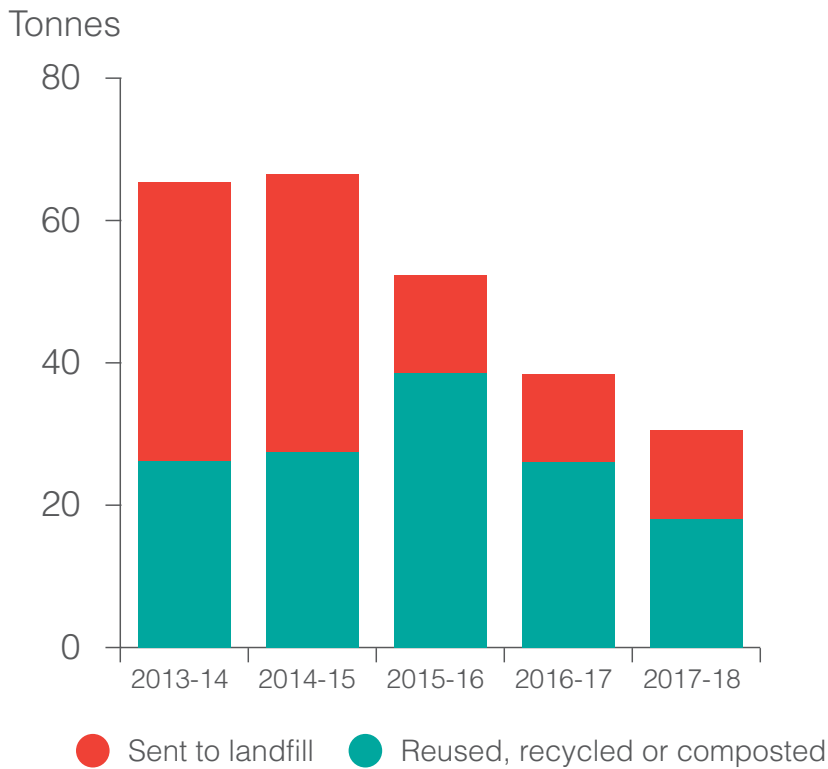
¹¹ Carbon offsetting is the use of carbon credits to enable organisations to compensate for some of their emissions.

Organisations can make up for some of the carbon emissions by buying credits in projects by funding an equivalent carbon dioxide saving elsewhere.

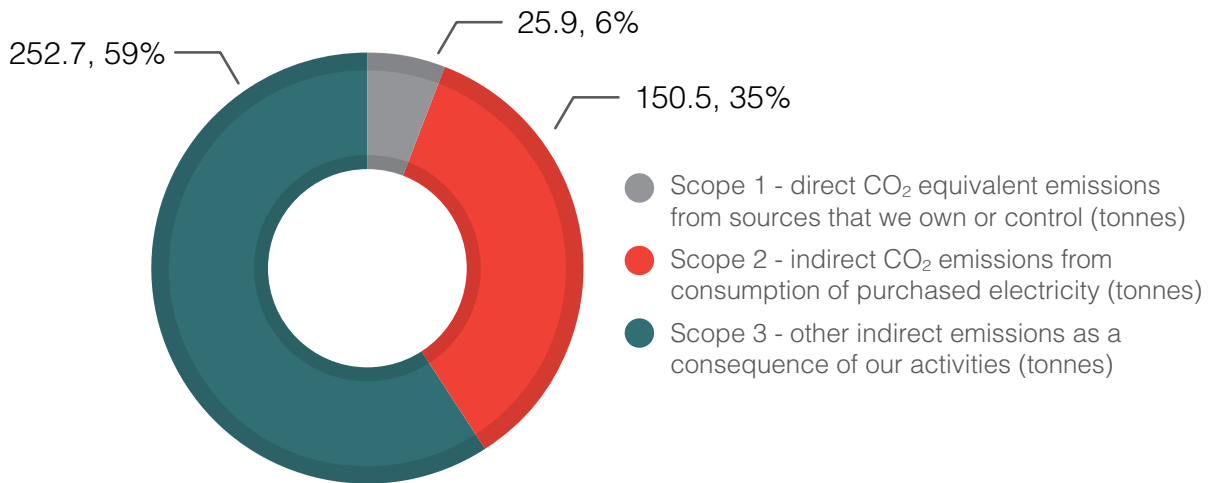
Finite resource consumption



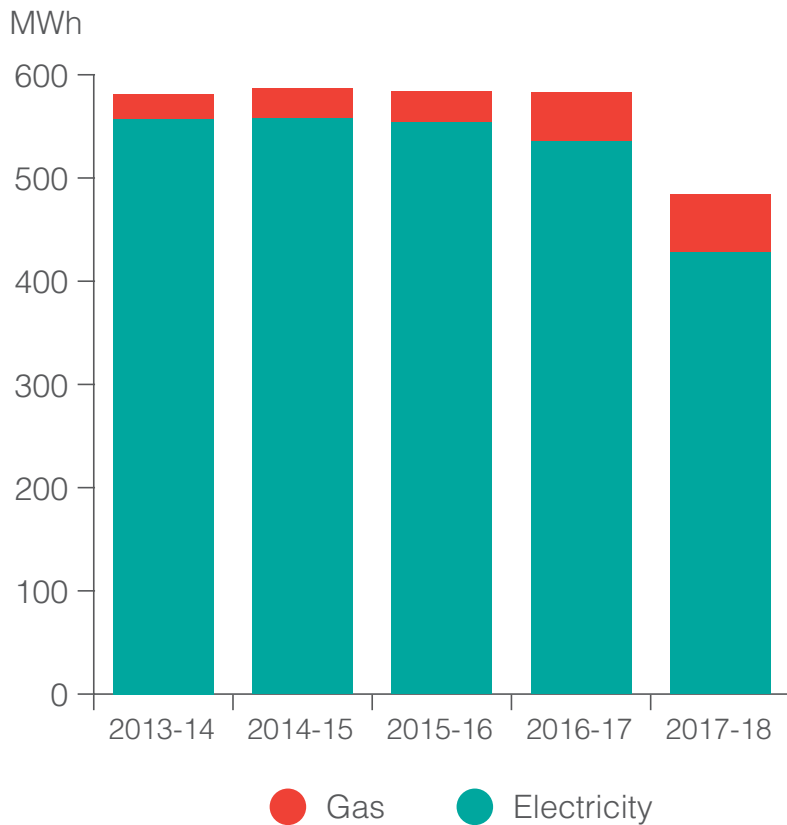
Waste minimisation and management



Greenhouse gas emissions



Energy consumption



	2017-18	2016-17	2015-16	2014-15	2013-14
Environmental management					
Level of Green Dragon accreditation	4	4	4	4	4
Finite resource consumption¹²					
Water consumption m ³	2,586	3,650	3,116	2,760	2,351
Water consumption m ³ per FTE	10.0	13.9	10.5	12.0	10.1
Water supply costs £	3,564	6,219	6,280	4,754	4,348
Paper consumption in reams	1,496	1,725	2,150	2,305	2,325
Paper supply costs £	3,737	4,269	5,609	6,349	6,426
Waste minimisation and management¹³					
Total waste tonnes	33.2	38.7	54.9	66.5	65.8
Reused, recycled or composted	18.1	26.0	38.6	27.4	26.2
ICT waste recycled and reused (externally)	0.2	0.7	2.6	0.0	0.0
Furniture and equipment (externally)	0.0	2.6	12.3	0.0	0.0
Mixed recycling, paper, food waste, garden	17.9	22.6	23.7	27.4	26.2
Landfill	12.4	12.4	13.7	39.1	39.2
Hazardous	2.7	0.4	2.5	0.0	0.4
Reused, recycled, composted as % of total waste ¹⁴	54.5	67.0	70.4	41.1	39.8
Total disposal costs £	9,964	13,466	16,400	7,337	6,229

12 Good practice for water usage within an office is considered to be between 4 m³ and 6 m³ and per Full-Time-Equivalent (FTE) per annum ([Greening Government Commitment targets](#)). However, we do not include office visitors in our calculation which is likely to have a substantial impact on our figures due to the number of shared learning events held at our Cardiff headquarters.

13 Calculated using appropriate WRAP conversion factors; hazardous waste includes ICT disposals and interceptor cleaning.

14 81.5% for the Welsh Government in 2016-17 ([State of the Estate Report 2016-17](#)). 4.5 tonnes of unrecyclable car park cleaning waste has significantly impacted on our recycling rate in 2017-18.

	2017-18	2016-17	2015-16	2014-15	2013-14
Greenhouse gas emissions¹⁵					
Total emissions tonnes CO ₂ e	419.0	483.7	533.0	563.1	539.5
Attributable to business travel	242.1	233.2	272.3	275.7	252.1
By car	215.7	199.5	232.7	239.1	231.2
By rail and air	26.4	33.7	39.6	36.6	20.9
Attributable to energy consumption	160.7	227.8	233.8	263.3	261.8
Electricity	150.5	220.5	228.3	257.7	257.5
Gas	10.2	7.3	5.5	5.5	4.3
Attributable to other ¹⁶	16.1	22.6	23.6	24.1	25.6
Total expenditure on business travel £000 ¹⁷	1,204	1,232	1,258	1,214	1,173
Cost per FTE of business travel £	4,658	4,720	4,972	5,037	4,827
Total energy expenditure £	54,676	57,051	64,394	63,119	56,556
Efficiency of estate					
Cost per FTE £ ¹⁸	3,317	3,072	3,228	3,397	3,431
Cost efficiency ¹⁹ £ per m ²	306	287	300	278	285
Space efficiency m ² per FTE ²⁰	10.8	10.7	10.7	12.2	12.0

15 Calculated in accordance with [DEFRA Environmental Reporting Guidelines](#).

16 Attributable to energy transmission and distribution, waste disposal and water usage and treatment.

17 Includes costs of leased cars, transport allowances and travel and subsistence.

18 Compared to £3,380 for the Welsh Government as of 31 March 2017.

19 Including rent, rates and other costs. In 2017-18, we undertook exterior redecoration and repairs at our largest office (a requirement of our lease terms) leading to reduced cost efficiency. However, our office space has reduced by 90 m² since June 2016 after an office relocation to smaller and more environmentally efficient premises, which has also led to a reduction in our other running costs.

20 Compared to 15.1 m² per FTE for the Welsh Government as of 31 March 2017. 2015-16 was the first year that we included contractors in our FTE total, to ensure a like-for-like benchmarking comparison.

ACCOUNTABILITY REPORT

**KEY STATEMENTS AND REPORTS THAT ENABLE US TO MEET
ACCOUNTABILITY REQUIREMENTS AND DEMONSTRATE
COMPLIANCE WITH GOOD CORPORATE GOVERNANCE**



Huw Vaughan Thomas
Auditor General for Wales and Accounting Officer

7 June 2018



Directors' report

General matters

On 1 April 2014, the Wales Audit Office became fully established under the Public Audit (Wales) Act 2013 with the transfer of staff, property, rights and liabilities from the Auditor General.

Information on our register of interests and how access to the information in that register may be obtained, and on our reporting of personal data related incidents, is provided in the Governance statement.

Auditor of the Wales Audit Office

RSM UK Audit LLP have been appointed as the external auditor of the Wales Audit Office by the Finance Committee of the National Assembly for Wales for a period of 43 months commencing 1 March 2015.

In addition to their work to form an opinion on the financial statements, the auditor may carry out examinations into the economy, efficiency and effectiveness with which the Auditor General or Wales Audit Office has used resources in discharging their functions, and lay a report of the results of any such examinations before the National Assembly.

Details of the cost of external audit services are disclosed in the Notes to the financial statements.

The Wales Audit Office Board



Alison Gerrard
Non-executive
member



Amanda Hughes
Elected employee
member



Bill Richardson
Non-executive
member



**Huw Vaughan
Thomas**
Auditor General,
and Chief Executive



Isobel Garner
Chair of the Board



Kevin Thomas
Appointed
employee member



Lindsay Foyster
Non-executive
member



Louise Fleet
Elected employee
member



Steven Burnett
Non-executive
member and
Senior Independent
Director

The Wales Audit Office Management Committee



Anthony Barrett
Assistant Auditor
General



**Huw Vaughan
Thomas**
Auditor General,
Accounting
Officer and Chief
Executive



Jane Holownia
Sector Lead,
Local Government
and Criminal
Justice



Kevin Thomas
Director of
Corporate
Services



Mike Usher
Sector Lead,
Health and
Central
Government



**Steve
O'Donoghue**
Director of
Finance and HR

Statement of Accounting Officer's responsibilities

Under paragraph 33 of Schedule 1 to the Public Audit (Wales) Act 2013, the Auditor General is the Accounting Officer for the Wales Audit Office and must, for each financial year:

- keep proper accounts and proper records in relation to them; and
- prepare a statement of accounts in the form and on the basis set out in the Accounts Direction issued by the National Assembly for Wales.

The responsibilities of an Accounting Officer, including for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the Wales Audit Office's assets, are set out in [Managing Welsh Public Money](#) published by the Welsh Government.

Additional responsibilities are described in the Memorandum for the Accounting Officer of the Wales Audit Office, issued by the National Assembly, including that the Accounting Officer must:

- ensure that there is a high standard of financial management in the Wales Audit Office and that its financial systems and procedures promote the efficient and economical conduct of business and safeguard financial propriety and regularity;
- ensure funds are applied only to the extent and for the purpose authorised by the National Assembly;
- ensure that the resources for which the Wales Audit Office is responsible are properly and well managed and safeguarded; and
- provide advice to the Wales Audit Office on all matters of financial propriety and regularity.

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

- observe the Accounts Direction, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis.

The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Wales Audit Office and of its net resource out-turn, application of resources, changes in taxpayers' equity and cash flows for the financial year.

As Accounting Officer, I confirm that:

- as far as I am aware, there is no relevant audit information of which the Wales Audit Office's auditors are unaware;
- I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the Wales Audit Office's auditors are aware of that information; and
- this annual report and accounts as a whole is fair, balanced and understandable and that I take personal responsibility for this annual report and accounts and the judgments required for determining that it is fair, balanced and understandable.

Governance statement

This statement sets out the control structure of the Wales Audit Office, and provides an account of corporate governance and risk management, alongside a description of the principal risks and uncertainties we face.

My responsibilities as Accounting Officer are set out in the Statement of accounting officer's responsibilities. In discharging these responsibilities and amongst other requirements, I must seek to ensure that:

- a sound system of internal control is maintained in the Wales Audit Office, including a robust internal audit process, to support the proper exercise of statutory functions; and
- the Wales Audit Office's management of opportunities and risk achieves the right balance commensurate with the business of the Auditor General and Wales Audit Office.

Corporate governance

The governance framework

The governance framework of the Wales Audit Office, including information on the coverage of the Board's work and that of its committees, is summarised in the exhibit on [page 53](#).

Our Board of nine members comprises a majority of five non-executive members (including the Chair), the Auditor General, an employee member appointed on the Auditor General's recommendation and two elected employee members.

There is a Senior Independent Director whose responsibilities include: deputising for the Chair when he or she is unable to act; appraising the performance of the Chair; receiving reports from whistleblowers outside the normal line management chain; and overseeing the election of employee members to the Board.

The relationship between the Wales Audit Office and the Auditor General is governed by a [Code of Practice](#) which is approved by the National Assembly and reviewed periodically.

The Board has established two committees which operate in an advisory capacity:

- The Audit and Risk Assurance Committee comprises two non-executive Board members, an elected employee Board member and an independent external member
- The Remuneration and HR Committee comprises three non-executive members of the Board and an elected employee Board member

The elected employee Board members are not members of the Management Committee nor involved in senior-level decision-making other than in a Board capacity. The Board is satisfied that there are no conflicts of interest in their Committee membership and that, where conflicts arise, they are managed and mitigated effectively.

I have established a Management Committee – which I chair - to advise me in my capacity as Auditor General, Chief Executive and Accounting Officer. It comprises the Wales Audit Office's five most senior managers and meets every month.

The Board and its Committees, and the Management Committee are supported by a Board Secretary. There is a forward programme of business that informs their provisional agenda, designed to ensure that business is conducted as efficiently and effectively as possible.

Further information on membership of the Board and Management Committee can be found in the Directors' Report.

FINANCE COMMITTEE OF THE NATIONAL ASSEMBLY

Scrutinises the Wales Audit Office's use of resources, recommends the appointment of the Auditor General and non-executive members of the Wales Audit Office, and is responsible for the appointment of the Wales Audit Office's external auditor.



WALES AUDIT OFFICE BOARD

Monitors the exercise of the Auditor General's functions.

Provides the Auditor General with advice.

Employs staff and provides resources for the exercise of the Auditor General's functions.

Charges fees for work done by the Auditor General.

Prepares jointly with the Auditor General an estimate of income and expenses, fee scheme, annual plan, interim report(s) and an annual report.



REMUNERATION AND HR COMMITTEE

Advises the Board by scrutinising and challenging three broad areas of human resources management and development:

- a) governance;
- b) performance; and
- c) policy and remuneration.

AUDIT AND RISK ASSURANCE COMMITTEE

Advises the Board by:

- a) reviewing the comprehensiveness and reliability of sources of corporate assurance;
- b) reviewing the integrity of the annual report and accounts; and
- c) providing an opinion on how well the Board and the Accounting Officer are supported in discharging their respective roles.



MANAGEMENT COMMITTEE

Directs and oversees implementation of the vision, aim and objectives, and strategic priorities laid out in the joint annual plan of the Auditor General and Wales Audit Office.



Attendance at Board and committee meetings 2017-18

	Board	ARAC	RHRC	MC
Number of meetings held	6	4	3	13
Members of the Board and its committees				
Alison Gerrard, Chair of the Audit & Risk Assurance Committee (ARAC) ²¹	5	4		
Amanda Hughes	6	4		
Bill Richardson ²²	4		2	
David Corner ²³	1	1		
Dianne Thomas, Independent Member of ARAC ²⁴		2		
Huw Vaughan Thomas ²⁵	6	2	3	11
Isobel Garner ²⁶	6	4		
Kevin Thomas ²⁷	6	4		11
Lindsay Foyster, Chair of the Remuneration & HR Committee (RHRC) ²⁸	6	1	3	
Louise Fleet	6		3	

21 Alison Gerrard was the independent member of the ARAC until 1 September 2017 and attended one Board meeting in that capacity. From 4 September 2017, she was appointed as a non-executive member of the Board. She chaired one Committee meeting as the interim Chair before her permanent appointment in that role on 29 November 2017.

22 Bill Richardson was appointed as a non-executive member of the Board from 17 October 2017 and to the RHRC on 29 November 2017. He attended one meeting of the Board in an observer capacity.

23 David Corner was a non-executive member of the Board and Chair of the ARAC until his resignation from the Wales Audit Office on 24 July 2017.

24 The Wales Audit Office appointed Dianne Thomas as the independent member of the ARAC on 29 November 2017, effective from 1 December 2017.

25 Huw Vaughan Thomas attended ARAC and RHRC meetings in his capacity as Chief Executive and Accounting Officer.

26 Isobel Garner's appointment as Chair of the Wales Audit Office was extended on 19 July 2017.

27 Kevin Thomas attended ARAC meetings in his capacity as Director of Corporate Services.

28 Lindsay Foyster's appointment as Chair of the RHRC commenced on 29 November 2017. She attended one meeting of the ARAC as part of the Board's learning and development arrangements.

	Board	ARAC	RHRC	MC
Number of meetings held	6	4	3	13
Peter Price ²⁹	2		1	
Steve Burnett ³⁰	6		3	
Members of the Management Committee (MC) who are not Board members³¹				
Anthony Barrett	6	1		9
Gillian Body ³²				3
Jane Holownia	2	2		12
Mike Usher	6			12
Steve O'Donoghue ³³	6	4	3	13

29 Peter Price's term of appointment as a non-executive member of the Board, during which he also acted as Chair of the RHRC, ended on 16 October 2017.

30 Steve Burnett was re-appointed as a non-executive member of the Board from 17 October 2017.

31 Management Committee members attended meetings of the ARAC as necessary to give briefings, participate in discussions or to take their advice. They have a standing invitation to attend Board meetings.

32 Gillian Body left the Wales Audit Office under a voluntary exit agreement on 30 June 2017 and was not replaced.

33 Steve O'Donoghue, as Director of Finance and HR, is required to attend all meetings of the Board, ARAC and RHRC.

Account of corporate governance

The Board receives assurance that its objectives are being met through:

- internal management reports, performance reports and topical briefings;
- independent internal reports, including internal audit reports and the reports of the Audit and Risk Assurance Committee and the Remuneration and HR Committee; and
- external audit reports.

The level of assurance sought and provided is proportionate to the associated levels of assessed risk.

The Board is satisfied with the quality of the information it receives though there is some scope to improve both its breadth and timeliness; guidance is in hand to address these points.

When carrying out our work, the Wales Audit Office and I (in my capacity both as Auditor General and Accounting Officer) apply formal [Schemes of Delegation](#), which we have reviewed and updated during the year. The schemes of delegation inform the terms of reference of the Board, its committees and the Management Committee, which are reviewed annually.

The Board operates a Code of Conduct under which the Board Secretary maintains members' registers of interests which are reviewed annually and updated during the year to capture any changes notified by members. This ensures that potential conflicts of interest, including risks to the Auditor General's independence, are identified on an ongoing basis and appropriate action taken to mitigate them. The Wales Audit Office publishes the Registers on its website.

The Chair of the Wales Audit Office and the chairs of its committees have a right of access, and can report any matters of concern, directly to the Chair of the Finance Committee.

The Head of Internal Audit and the external auditor continued to have open and confidential access to the Chair of the Audit and Risk Assurance Committee. In addition, the Committee held a private session with the internal and external auditors before each committee meeting.

The Board is satisfied that the Wales Audit Office is compliant with the requirements of the [Code of Good Practice for Corporate Governance in central government departments](#) insofar as its requirements are relevant and practical. The arrangements did not comply with the Code's requirements in respect of the following aspects:

- The Board's composition is prescribed by statute, and to include ministerial representation and government officials would risk compromising my independence as Auditor General.
- The Board has not established a nominations committee but the functions described in the Code are undertaken by the Board and the Remuneration and HR Committee.

Board performance and effectiveness review

In 2017-18, the Board continued to implement an action plan developed from the report of an independent evaluation of its effectiveness completed in 2016. The appointment of two new non-executive members in October 2017, the impending election of two employee members early in 2018-19 and the departure of the current Auditor General in July 2018 means that some development activities are ongoing as working relationships change and evolve.

At the end of the year, work was ongoing in respect of:

- refocusing the Board's work programme, taking account of the assurance map (see Report of the Audit and Risk Assurance Committee) and to ensure that its time is well-spent;
- developing guidance on the form and content of Board and committee papers;
- considering how the Board can engage more effectively with staff, following discussions at the staff conference in February;
- considering whether and how to measure the Board's impact; and
- reviewing how the relationship between the Auditor General and the Wales Audit Office operates in practice to inform a review of the Code of Relationship Practice.

As part of their annual reporting requirements, the Board committees each complete a self-assessment of their effectiveness. The Audit and Risk Assurance Committee has adopted the National Audit Office's checklist which captures the good practice principles described in HM Treasury's Audit Committee Handbook. The Remuneration and HR Committee has adapted the checklist to ensure that it is relevant and proportionate to its needs. The Board is satisfied with the robustness of the assessments and content that there are no matters of concern.

The Board has in place a process for conducting members' performance appraisals operating on a 12 to 18-month cycle. They were last completed in May 2017 and will next be conducted early in 2018-19. The Senior Independent Director completes an appraisal of the Chair's performance on the same cycle, with input from the Chair of the Finance Committee.

The Board has a learning and development plan which is updated annually. The plan sets out the arrangements for induction training and for meeting ongoing learning and development needs identified during the year, including through the performance appraisal process.

Report of the Audit and Risk Assurance Committee

The Audit and Risk Assurance Committee presented its annual report to the Board and Accounting Officer in June 2018, summarising its conclusions from the work it had undertaken during 2017-18.

During the year, management – working with the Committee – completed the development of an assurance map, which the Board adopted in September 2017. The Committee saw this articulation of the control framework as a significant step towards ensuring that the Wales Audit Office has more robust assurance that the right levels of control are in place to manage effectively the risks that affect the achievement of its aim and objectives.

The assurance areas illustrated overleaf were agreed by the Board as a framework around which to structure the map.

Existing controls and sources of assurance are then listed under each assurance area, and any gaps relative to meeting the assurance needs of the Board are highlighted and discussed.

Based on the work undertaken during the year, the Committee provided assurance that:

- the risk management arrangements appeared to be operating effectively within a policy framework that was clear and unambiguous;
- the financial management and reporting arrangements were governed by a delegation framework and clear guidance, both of which were refreshed and updated during the year;
- the arrangements to enable staff to report wrongdoing in the workplace in the public interest and for money laundering reporting were robust;
- the Wales Audit Office's counter-fraud arrangements were also robust though management needed to increase the pace with which training was rolled-out across the organisation;
- the draft annual governance statement is consistent with the Committee's view of the control framework; and
- there appear to be no significant gaps in the assurance framework though management was considering the articulation of the arrangements to ensure the prevention of fraud, corruption and bribery.

The Committee's self-assessment demonstrates that it is following accepted good practice. With the Board's adoption of its assurance map, the Committee will be better able to focus on those areas of greatest risk and to ensure that it can triangulate the assurances it receives from management.



STRATEGIC DIRECTION



**GOVERNANCE, LEADERSHIP
& CULTURE**



**OPERATING MODEL /
APPROACH TO RESOURCE
DEPLOYMENT**



**EXTERNAL STAKEHOLDER
RELATIONSHIPS AND
REPUTATION**



**WORKFORCE AND PEOPLE
STRATEGY**



INFORMATION STRATEGY



**STEWARDSHIP OF PHYSICAL
& ICT ASSETS**



**EFFECTIVENESS OF BUSINESS
SYSTEMS**



**SAFEGUARDING
ARRANGEMENTS**



**SECURING VALUE FOR MONEY
IN OUR USE OF RESOURCES**



**ARRANGEMENTS FOR
MONITORING THE EXERCISE
OF THE AUDITOR GENERAL'S
FUNCTIONS**

Report of the Remuneration and HR Committee

Much of the work of the Remuneration & HR Committee had a direct impact on the day-to-day decisions that affected staff most directly. The Committee recorded its appreciation of the work in-year to update the HR policy framework, ensuring that it meets the Board's strategic objectives. The establishment of a programme of routine review and updating was particularly important and the Committee expects this momentum to be maintained.

In completing its work, the Committee identified some general points of process and procedure that may have wider application beyond its work. In particular, management needs to plan more effectively to accommodate the role of the Board and its committees in the decision-making process to protect the integrity of the arrangements in place.

From its self-assessment, the Committee concluded that:

- it needs to maximise the value that the elected employee member's perspective can bring to its work and the Board has approved changes to the terms of reference to clarify the role; and
- constructive relationships with the executive are important to the Committee's effectiveness and that building those relationships outside the confines of formal meetings is necessary but guidance is needed to ensure that the Committee's assurance role is not undermined.

Changes to the Wales Audit Office's scheme of delegation and the Board's approval of a People Strategy mean that the Committee's remit has evolved and the Board has approved a revised terms of reference to reflect its new role.

Internal auditor's report

BDO LLP were appointed as the internal auditors of the Wales Audit Office for the year ended 31 March 2018.

During 2017-18, eight internal audit reports were issued by BDO LLP on reviews of financial controls (interim and final), IT support, operational capacity and workforce planning, strategic procurement, business planning and management information, implementation of a new finance system, and fraud controls.

Summary of the levels of assurance provided in internal audit report opinions in 2017-18

Design of internal control framework	Substantial			1	4
	Moderate			2	1
	Limited				
	None				
Assurance level	None	Limited	Moderate	Substantial	
Operational effectiveness of internal controls					

In his annual statement of assurance for 2017-18, the Head of Internal Audit reported that:

'We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness of the Wales Audit Office's risk management and internal control arrangements.

In our opinion, based on the reviews undertaken and completed during the period, we are able to conclude that risk management, control and governance arrangements were operating with sufficient effectiveness to provide reasonable assurance that the related risk management, control and governance objectives were generally achieved by the end of the period under review.'

Following a tender exercise conducted under the Crown Commercial Services Management Consultancy Framework, PricewaterhouseCoopers LLP were appointed as the internal auditors of the Wales Audit Office for the three-year period 2018-19 to 2020-21. An internal audit strategy and plan for 2018-19 was prepared for consideration and was approved by the Audit & Risk Assurance Committee at its meeting on 28 February 2018.

Risk appetite and management

Given the nature of our business, our tolerance of risk in areas of professional audit judgement, regularity, propriety and financial management is low. In other areas, such as in relation to the exchange of good practice and engaging more effectively with the public, we are prepared to accept more risk in order to take advantage of opportunities to pursue our aim and objectives.

The Wales Audit Office is committed to adopting best practice in the identification, evaluation and cost-effective control of risks to ensure they are reduced to an acceptable level or eliminated. It is acknowledged that some risks will always exist and will never be eliminated – but these too must be monitored and controlled.

Risk management and control framework

The Board has overall responsibility for risk management, and receives and considers a strategic risk register and a report which summarises any significant changes to the organisation's risk profile at each of its meetings.

The Board is supported by the Audit and Risk Assurance Committee, which reviews and advises the Board on:

- its risk strategy, including the appropriateness of the Wales Audit Office's approach to setting its appetite for risk;
- the Wales Audit Office's overall risk assessment processes that inform executive decision making;
- the Wales Audit Office's capability to identify and manage risk;
- the remit of the risk management function; and
- management's responsiveness to risk assessment.

The Management Committee is responsible for: approving and overseeing the implementation of the Wales Audit Office's risk management policy and agreeing any resources needed to support this corporately; assessing and managing strategic risks; and reviewing the operational risk register every six months.

The Accounting Officer advises the Board and its committees on the system of internal control, and is supported in doing so by the Management Committee.

Risk assessment

At each of its meetings in 2017-18, the Board considered a summary of the key strategic risks faced by the organisation, alongside a more detailed strategic risk register which:

- provided an assessment of inherent levels of risk and assigned risk targets;
- described the key controls that had been put in place to mitigate risk likelihood and impact and achieve targets;
- provided an assessment of residual levels of risk;
- identified risk movements and highlighted changes that had been made to mitigating controls since the last Board meeting; and
- summarised the content of the register through inherent and residual risk heat maps and profiles.

A number of key strategic risks fluctuated during the year and particularly engaged the time of the Board and Management Committee. These included:

- the role of the Auditor General might not be recognised appropriately in forthcoming legislation;
- the need to realise the benefits of having a more diverse workforce, particularly at the management and senior management level; and
- the risk of there being insufficient funding from fees and financing from the Welsh Consolidated Fund for the Auditor General to deliver his statutory functions in a way that delivers the desired levels of impact and added value.

I am satisfied that these risks have been monitored and managed effectively during the year.

In 2017-18, the Audit and Risk Assurance Committee continued to take a role in scrutinising the strategic and operational risk registers, including through testing individual strategic risks, to determine whether, in the round, the risk management arrangements were robust. Over the course of the year, the Committee considered four strategic risks, alongside undertaking two reviews of the operational risk register. The Committee was content that its detailed reviews demonstrated that the Wales Audit Office's risk management arrangements appeared to be operating effectively.

A number of risks were successfully managed and removed from the strategic risk register during 2017-18. The risks were either closed completely or de-escalated to the operational risk register for ongoing management by the relevant risk lead.

The Wales Audit Office also faces a number of newly identified risks going forward into 2018-19, which have been reflected in our strategic risk register. In particular:

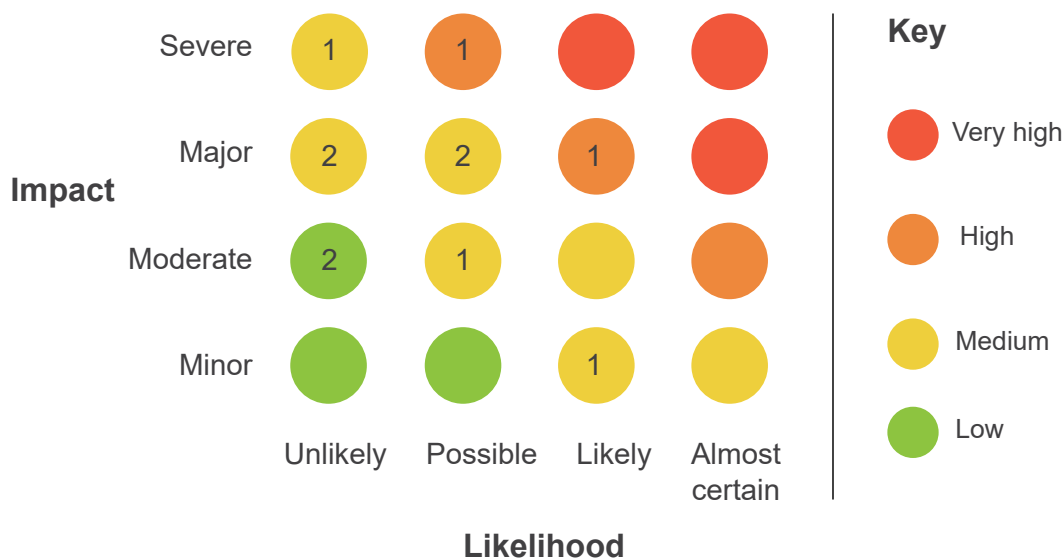
- failing to recognise and understand the changing landscape in which we operate, including in relation to Brexit, fiscal devolution and local government reform, and to modernise our audit approach accordingly;
- not adopting best professional practice in our approach to and investment in data analytics, resulting in a failure to deliver efficiencies and achieve the greatest possible impact; and
- failing to respond effectively to the results of the staff survey undertaken in October 2017, which focused on current levels of staff engagement and on gaining a better understanding of the employee experience.

We have commissioned work to mitigate these new risks.

I will continue to ensure that risks are generally well managed, that where there are weaknesses, appropriate actions are in place to tackle them, and that the Wales Audit Office’s internal controls are regularly reviewed to ensure they remain effective.

The Wales Audit Office’s strategic risk profile

A summary of the Wales Audit Office’s strategic risk profile as of 31 March 2018 is provided in the following ‘heat map’, which highlights the number of strategic risks and the assessed levels of residual risk following the application of controls to mitigate their impact and likelihood.



Information governance

As Auditor General, I have wide-ranging access to information for the discharge of my audit functions. These powerful statutory access rights bring with them a responsibility to ensure that the information obtained by me and the Wales Audit Office is safeguarded properly.

The Wales Audit Office therefore has an Information Governance Policy and an Information Security Policy which set out staff obligations and responsibilities, data processing requirements, monitoring and reporting arrangements, and explain how staff can obtain further support and guidance.

Data protection

The protection of personal data is especially important, and during the year the organisation has been making preparations for the enforcement of the General Data Protection Regulations (GDPR) in May 2018. This work has included:

- providing training to staff across the organisation on the principles, practical requirements and impact of the GDPR;
- undertaking data mapping to record information about the personal information that is processed by the Wales Audit Office, the purposes of the processing, the legal basis for the processing, data retention and details of technical and organisational security measures;
- providing guidance setting out GDPR principles, record keeping and fair processing requirements so as to ensure that all data processing conducted is fair and lawful, appropriate fair processing (privacy) notices are used and suitable records maintained;
- designating a Data Protection Officer;
- introducing a new privacy impact assessment; and
- revising policies, codes and contracts to ensure that they meet the requirements of the regulations.

The Director of Corporate Services is accountable to the Board for information governance. The Wales Audit Office has adopted ISO 27001, the international standard for information security management, scaling its arrangements in line with the needs of the organisation.

There were no personal data related incidents reportable to the Information Commissioner's Office in 2017-18.

Openness and transparency

We are committed to openness and transparency in the way we operate as a business and have 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.

In the 2017-18 financial year, we received 36 requests for information, and met the statutory deadlines for all but two of these requests. In one of the cases where we did not meet the statutory 20 working-day deadline, the request was embedded in correspondence regarding comments on a draft report and was not identified initially on receipt. In the other case, as permitted by the Freedom of Information Act, an additional nine working days were required in order to properly apply public interest tests in respect of exemptions.

We were not subject to any reviews in 2017-18 by the Information Commissioner.

Whistleblowing (internal)

All Wales Audit Office staff are encouraged to raise issues of concern about misconduct or wrongdoing that come to their attention while at work. The Wales Audit Office Board regards the internal identification of wrongdoing as an important contribution to managing corporate risk and ensuring good governance.

We have a well-established internal whistleblowing policy which reflects the provisions of the Public Interest Disclosure Act 1998, sets out the mechanism for raising such matters, and applies to staff of the Wales Audit Office and all contractors and others working for the Wales Audit Office in any capacity.

It is difficult to directly assess the effectiveness of our whistleblowing arrangements, as we have had no internal disclosures in the year, or in preceding years. However, in our staff survey which was undertaken in October 2017 and to which 85% of staff responded, we asked staff to rate their response to the following statement on a strongly agree to strongly disagree scale: 'I am confident that if I raised a concern under the Wales Audit Office's whistleblowing arrangements it would be investigated properly'. 76% of those staff responded 'strongly agree' or 'agree' to this question, with a further 17% responding 'neither agree nor disagree'. While this result indicates extensive confidence in arrangements, it suggests that there is some further work to do to ensure all staff are aware of and are confident in those arrangements.

We have specific arrangements for reporting information governance problems, such as potential threats to information security, which are operated by the same staff as the whistleblowing arrangements. While the volume of reporting is not high – a handful of concerns raised during the year – this does indicate that staff have some confidence in making reports where appropriate.

REMUNERATION AND STAFF REPORT

Remuneration report

Auditor General for Wales

The Auditor General's remuneration is determined by the National Assembly for Wales and, in accordance with the Public Audit (Wales) Act 2013, is met directly from the Welsh Consolidated Fund (WCF) rather than being paid by the Wales Audit Office. For transparency, the remuneration of the Auditor General is disclosed in this Remuneration Report.

The current Auditor General, 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 Auditor General will be retiring from the role on 20 July 2018 and will be succeeded by Adrian Crompton following his appointment by Her Majesty the Queen. The gross salary cost of the Auditor General during 2017-18 was £161,744 (2016-17: £153,117³⁴).

Mr Huw Vaughan Thomas has opted for a partnership pension account (a form of personal stakeholder pension to which an employer contributes). Total employer contributions to this account during 2017-18 were £23,333 (no member contributions were made). (2016-17: £23,333³⁵, no member contributions).

Wales Audit Office Board

The Wales Audit Office Board comprises five non-executive members appointed by the National Assembly, two elected employee members, the Auditor General for Wales and his nominated employee member, currently the Director of Corporate Services.

The terms of appointment for 4 of the 5 non-executive Board members would have ended in October 2017, so the Finance Committee of the National Assembly for Wales undertook a recruitment campaign during the year. The Finance Committee determined that the term of office for the Chair of the Board, Isobel Garner, be extended for a further 3 years. Steven Burnett was reappointed for a term of 17 months to March 2019 and 2 new non-executive members, Alison Gerrard³⁶ and Bill Richardson were appointed for a 4 year term, replacing former members David Corner and Peter Price.

³⁴ Salary restated from £153,000 to £153,117 for 2016-17 to rectify an oversight by the National Assembly for Wales. Salary reported for 2015-16 is also restated from £153,000 to £153,117.

³⁵ Employer contributions restated from £27,923 to £23,333 for 2016-17 to rectify a calculation error by the National Assembly for Wales. Employer contributions reported for 2015-16 are also restated from £26,701 to £26,318.

³⁶ Alison Gerrard was appointed from 4 September 2017 following the early resignation of David Corner in July 2017.

The remuneration of the non-executive members of the Wales Audit Office Board is non-pensionable and is determined by the Assembly, and in the case of the Chair, is met from the WCF directly, in accordance with the Public Audit (Wales) Act 2013. For enhanced transparency, the remuneration of the Chair of the Wales Audit Office Board is disclosed in this report. The two elected employee members were appointed by the non-executive members of the Board, following a staff ballot, in May 2014. The allowances that they receive for their Board related duties are set by the Board³⁷ and disclosed in this report. The Auditor General and the Director of Corporate Services receive no additional allowances for their Board related duties.

The information on pages 71 to 83 in the Remuneration and Staff Report is subject to audit.

³⁷ Employee members do not participate in this decision

Single total figure of remuneration for Wales Audit Office Board members

	Remuneration / Allowance		Tax-inclusive expenses ³⁸		Single total figure of remuneration	
	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17
	£	£	£	£	£	£
Isobel Garner (Chair) ³⁹	25,000	25,000	9,403	5,741	34,403	30,741
Steven Burnett	12,500	12,500	3,324	3,068	15,824	15,568
David Corner ⁴⁰	3,583	12,500	1,805	9,176	5,388	21,676
Lindsay Foyster	12,500	12,500	1,156	488	13,656	12,988
Alison Gerrard ⁴¹	6,771	-	1,412	-	8,183	-
Peter Price ⁴²	5,786	12,500	386	454	6,172	12,954
Bill Richardson ⁴³	5,712	-	1,480	-	7,192	-
Amanda Hughes ⁴⁴	4,167	4,167	1,982	1,194	6,149	5,361
Louise Fleet	4,167	4,167	457	276	4,624	4,443
Total	80,186	83,334	21,405	20,397	101,591	103,731

38 In addition to the remuneration or allowance for their role, Board and non-executive 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.

39 The Chair's remuneration is met directly from the WCF. The Chair's travel and expenses are met by the Wales Audit Office. The Chair's remuneration is disclosed here for transparency.

40 David Corner resigned from his role as a Board Member on 24 July 2017.

41 Alison Gerrard was a non-executive member of ARAC until 3 September 2017.

42 Peter Price's term of office came to an end on 16 October 2017.

43 Bill Richardson was appointed as a member of the Wales Audit Office Board on 17 October 2017.

44 Amanda Hughes and Louise Fleet are employee members of the Wales Audit Office Board. The allowances disclosed above relate solely to their Board member duties.

Non-executive committee members

The Wales Audit Office Board has appointed an independent member of its Audit and Risk Assurance Committee (ARAC). Remuneration for this post was determined by the Board and is non-pensionable. Following Alison Gerrard's appointment as a Board member in September 2017, Dianne Thomas was appointed to this role in December 2017.

Single total figure of remuneration for ARAC members

	Remuneration		Tax-inclusive expenses		Single total figure of remuneration	
	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17
	£	£	£	£	£	£
Alison Gerrard	2,541	5,000	79	142	2,620	5,142
Dianne Thomas	1,667	-	399	-	2,066	-
Total	4,208	5,000	478	142	4,686	5,142

Wales Audit Office staff

The Wales Audit Office pay policy is available on our [website](#).

All members of staff are employed by the Wales Audit Office on such terms and conditions as the Board determines. Remuneration of all members of staff is subject to periodic review under strategies set by the Board and in consultation with trade unions under a collective agreement. Remuneration is pensionable under the Civil Service Pension Scheme.

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

When determining pay strategies, the Board considers:

- the need to recruit, retain and motivate suitably able, qualified and high-calibre people;
- overall affordability;
- pay practices in the wider public sector and comparator organisations; and
- relevant legal obligations including equality and anti-discrimination requirements.

Pay ranges for all staff are available on our [website](#). The Wales Audit Office does not pay performance-related bonuses to any members of staff, but does have performance appraisal arrangements that suspend salary increments if performance is less than satisfactory.

During 2017-18, no payments were made to previous members of staff whose remuneration would have been disclosable (2016-17: Nil).

Single total figure of remuneration for senior managers

Set out below are details of the remuneration and pension interests of members of the Management Committee. The Auditor General's performance appraisal summary of Management Committee members is subject to scrutiny by the Board's Remuneration Committee.

	Year to 31 March 2018				
	Salary ⁴⁵	Benefits in kind	Taxable expenses ⁴⁶	Pension benefit	Total single figure of remuneration
	Bands of £5,000	To nearest £100	To nearest £100	To nearest £1,000	Bands of £5,000
Anthony Barrett	120-125		17,200	29	165-170
Gillian Body ⁴⁷	30-35			(3)	25-30
Jane Holownia (0.8 FTE)	85-90			13	100-105
Alan Morris ⁴⁸	-			-	-
Steve O'Donoghue	85-90			45	130-135
Kevin Thomas	120-125		14,100	21	155-160
Mike Usher	105-110			16	120-125

	Year to 31 March 2017				
	Salary	Benefits in kind	Taxable expenses	Pension benefit	Total single figure of remuneration
	Bands of £5,000	To nearest £100	To nearest £100	To nearest £1,000	Bands of £5,000
Anthony Barrett	120-125	300	15,100	37	170-175
Gillian Body	120-125			(1)	120-125
Jane Holownia (0.8 FTE)	20-25 ⁴⁹			5	25-30
Alan Morris	80-85	1,000		59	140-145
Steve O'Donoghue	80-85			64	145-150
Kevin Thomas	120-125		19,300	50	190-195
Mike Usher	105-110			33	135-140

⁴⁵ Including Travel Allowance paid to Anthony Barrett (£5,160), Gillian Body (£1,290), Kevin Thomas (£5,160) and Jane Holownia (£3,015). Mike Usher is entitled to Travel Allowance but did not access this in 2017-18 or 2016-17.

⁴⁶ Being the tax-inclusive value of payments made to Anthony Barrett and Kevin Thomas for travel to a main place of work.

⁴⁷ Gillian Body left the Wales Audit Office under a Voluntary Exit Agreement at the end of June 2017 (Full year equivalent salary in the range of 120-125). Details of this agreement were included in the Annual Report and Accounts for 2016-17. The salary disclosed is for 3 months of the year.

⁴⁸ Alan Morris retired at the end of December 2016.

⁴⁹ Jane Holownia was appointed to the Management Committee in January 2017.

Salary

'Salary' includes gross salary and any other allowance (eg, travel allowance) to the extent that it is subject to UK taxation.

Benefits in kind

The monetary value of benefits in kind represents leased-car benefits provided by the Wales Audit Office and treated by Her Majesty's Revenue and Customs (HMRC) as a taxable benefit. These benefits are in line with a standard entitlement for all mobile staff.

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 2017-18 was £22,349 (2016-17: £18,679). 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.

Expenses of senior staff

Information on the expenses of Management Committee members is published on the Wales Audit Office [website](#).

Civil Service pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or **alpha**, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service joined **alpha**. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: 3 providing benefits on a final salary basis (**classic, premium or classic plus**) with a normal pension age of 60; and one providing benefits on a whole career basis (**nuvos**) with a normal pension age of 65.

These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year.

The **partnership** pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 8% and 14.75% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.5% 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**, 65 for members of **nuvos**, and the higher of 65 or State Pension Age for members of **alpha**. (The pension figures quoted for officials show pension earned in PCSPS or alpha – as appropriate. Where the official has benefits in both the PCSPS and alpha the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages).

Further details about the Civil Service pension arrangements can be found at the website www.civilservicepensionscheme.org.uk

Pension entitlements for senior managers

	Accrued pension at pension age as at 31 March 2018 and related lump sum	Real increase / (decrease) in pension and related lump sum at pension age	CETV at 31 March 2018	CETV at 31 March 2017	Real increase / (decrease) in CETV	Employer contribution to partnership pension account
	£'000	£'000	£'000	£'000	£'000	Nearest £100
Anthony Barrett	45-50	0-2.5	777	720	9	-
Gillian Body	50-55 plus lump sum of 155-160	0 plus lump sum of 0	1,144	1136	(3)	-
Jane Holownia	45-50	0-2.5	816	748	9	-
Steve O'Donoghue	45-50	2.5-5	563	507	21	-
Kevin Thomas	55-60	0-2.5	852	797	2	-
Mike Usher	40-45 plus lump sum of 105-110	0-2.5 plus lump sum of 0	764	716	-	-

Cash equivalent transfer values (CETV)

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 cash equivalent transfer value

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.

Fair pay disclosure

The relationship between the remuneration of the highest-paid director and the median remuneration of the workforce is as disclosed in the following table.

	2017-18	2016-17
Band of highest-paid director's total remuneration ⁵⁰ excluding pension contributions (£'000)	135-140	140-145
Median total remuneration based on full-time-equivalent staff (excluding pension contributions)	£42,757	£44,065
Range of total remuneration excluding pension contributions	£16,381- £138,632	£16,300- £141,452
Remuneration ratio	3.24	3.21

In 2017-18, no employees received remuneration in excess of the highest-paid director (2016-17: none). Remuneration ranged from £16,381 to £138,632 (2016-17: £16,300 to £141,452). The reduction in median remuneration reflects the increased number of graduate trainees employed by the Wales Audit Office. The lowest remuneration reflects work-experience placements. The reduced remuneration for the highest-paid director reflects a reduction in taxable travel expenses.

For transparency, the Auditor General's total remuneration of £161,744 (excluding pension contributions) represented 3.78 times the median total remuneration for the Wales Audit Office (2016-17: £153,117⁵¹, ratio: 3.47).

Off Payroll Engagements

The Wales Audit Office had no contracts during 2017-18 which met the HM Treasury definition of off payroll arrangements. (2016-17: none)

⁵⁰ Total remuneration includes salary, travel allowance and benefits in kind. In the case of the highest-paid director, it also includes taxable expenses. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

⁵¹ Salary restated from £153,000 to £153,117 for 2016-17 to rectify an oversight by the National Assembly for Wales. Salary reported for 2015-16 is also restated from £153,000 to £153,117. This did not affect the remuneration ratio.

Redundancies, early retirements and severances

The Wales Audit Office operates voluntary-severance arrangements in accordance with the Civil Service Compensation Scheme. 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 2017-18 was £501,078 (2016-17: £695,700). This will deliver savings estimated at £194,000 annually.

7 employees (2016-17: 16) entered into approved exit packages during 2017-18 as detailed below:

Exit package cost band	2017-18			2016-17		
	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 £25,000	–	1	1	–	8	8
£25,001-£50,000	–	2	2	–	3	3
£50,001-£100,000	–	2	2	–	4	4
£100,001-£150,000	–	1	1	–	-	-
£150,001-£200,000	–	1	1	–	1	1
Total	–	7	7	–	16	16

No members of staff retired early on health grounds during the year.

Staff report

Senior leadership

The following table details the number of senior staff by band at 31 March 2018

	31 March 2018	31 March 2017
Band A (£92,430 - £116,256)	2	3
Band B (£81,686 - £102,762)	3	3
Band C (£73,579 - £89,268)	8	8
Total	13	14

Posts in Band A and B form the Management Committee, chaired by the Auditor General. With posts in Band C, they collectively form the Senior Leadership Team.

Staff numbers

The average number of full-time equivalent staff employed increased by three during the year; the number of permanent staff fell by eight with an increase of eleven staff on fixed-term contracts. This reflects an increase in the number of graduate trainees in line with our workforce planning assumptions and the [Graduate Trainee Programme](#).

	2017-18	2016-17
Average number of full-time-equivalent, UK-based, permanent staff employed during the year	209	217
Average number of full-time-equivalent, UK-based, staff on fixed-term contracts employed during the year	38	27
Audit and inspection contractors (average number of full-time equivalents in year)	8	9

Staff and associated costs

	2017-18	2016-17
	£'000	£'000
Staff salaries	11,016	10,992
Seconded-in staff	29	69
Short-term contract staff	249	301
Non-executive member remuneration	59	68
Social security costs	1,299	1,294
Pension costs (PCPS)	2,365	2,379
Pension costs (stakeholder pensions)	18	4
	15,035	15,107
Transport allowance and leased cars	709	720
Subscriptions ⁵²	75	73
	15,819	15,900
Audit and inspection contractors	104	216
	15,923	16,116
Redundancy, early retirement and severance costs	501	702
Less monies received in respect of outward secondments	(153)	(45)
Net staff costs	16,271	16,773

⁵² Fees for the membership of professional bodies, eye tests and health screening.

Bought-in services⁵³

	2017-18	2016-17
	£'000	£'000
Payments to private accountancy firms	795	952
Research and other consultancy costs	21	199
	816	1,151

These costs relate to services bought in by the Auditor General that directly relate to audit, inspection, advice or research functions. The cost has reduced in line with a planned reduction in contracted-out work as part of a long-term savings plan and workforce planning.

The following information (pages 84 to 86) in the Remuneration and Staff report is not subject to audit.

Staff policies, equality and diversity

The Auditor General for Wales and the Wales Audit Office are required to follow the framework of protection against discrimination, harassment and victimisation and the public sector equality duties brought in by the Equality Act 2010.

We also have a responsibility to uphold the conventions set out in the Human Rights Act 1998. 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.

Our recently published [Strategic Equality Plan](#) outlines our continued commitment to equality and our related objectives. Our [Annual Report](#) on progress made towards delivering our equality objectives in 2016-17, which provides information on employment matters such as diversity issues and equal treatment in employment, is available on our website. Our report for 2017-18 will be published in summer 2018.

⁵³ Exclusive of VAT

Our Equality and Diversity Policy outlines our commitment to ensuring fair and equal treatment for all staff with protected characteristics (including impairment) in all aspects of employment. The policy provides for parity in selection for employment, recruitment, promotion, learning and development and/or any other benefit, based solely on aptitude and ability in accordance with our duties under the Equality Act 2010 and associated legislation.

Staff composition (numbers of persons employed as of 31 March 2018)

	Male	Female	Prefer not to say	No data
Directors	8	2	-	3
Other employees of the Wales Audit Office	89	126	-	37

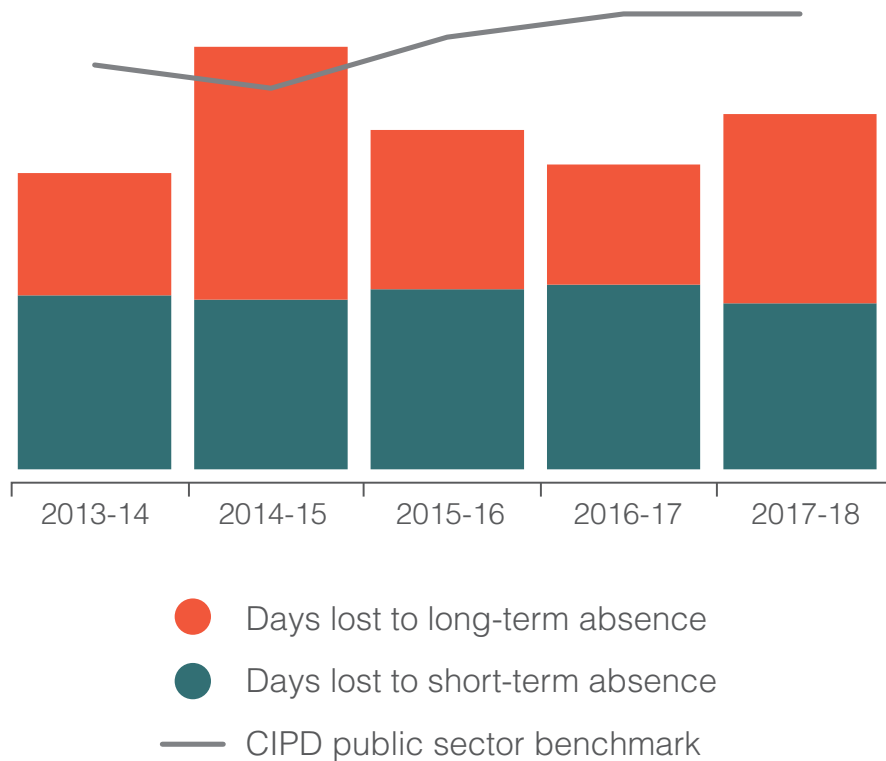
Sickness absence

- Our staff sickness levels increased by an average of one day per person due to an increase in long-term absence. Days lost due to short term absence reduced slightly when compared to 2016-17.
- The overall absence figure was two days less than the Chartered Institute of Personnel and Development (CIPD) benchmark⁵⁴, but exceeded our corporate target of 6.5 days.
- In order to help staff manage their health, we have in place Health Screening, an Employee Assistance Programme, Mental Health Champions and a programme of well-being awareness events run through the year.

	2017-18	2016-17
Average working days lost per member of staff	7.7	6.5
Due to short-term absence	3.6	3.9
Due to long-term absence (periods of ≥21 days)	4.1	2.6

⁵⁴ Mean of 9.8 days per employee per year for those public service organisations that responded to the 2016 CIPD annual Absence Management Survey.

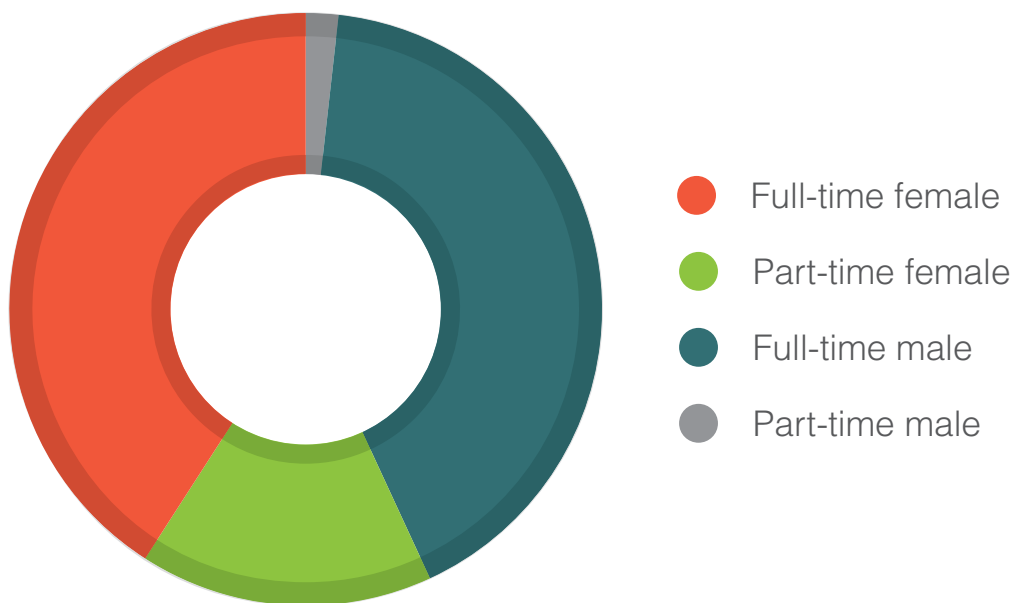
Staff sickness absence 2013-14 to 2017-18



Our workforce

- The proportion of part-time employees increased by 1.5% in 2017-18. This increase included a reduction for men of 0.8% and a 1.4% increase for women.
- The percentage of staff on permanent employment contracts reduced reflecting an increase in graduate trainees on four-year training contracts. This was planned as part of our workforce planning assumptions.
- Our annual staff turnover rate has reduced slightly as compared to 2016-17 to 10%.

	2017-18	2016-17
Working patterns		
Part-time employees as a percentage of total	17.7	16.2
For men	4.1	4.9
For women	28.1	26.7
Employment contract type		
Percentage of staff on permanent employment contracts	82.0	88.5
Turnover		
Annual staff turnover rate percentage	10	10.5



Huw Vaughan Thomas
Auditor General for Wales and Accounting Officer
7 June 2018

RESOURCE OUT-TURN AND AUDITORS' REPORT

Summary of Resource Out-turn 2017-18

The information on page 87 to 90 is subject to audit.

This statement provides a comparison of the Estimate for 2017-18 (including changes made through the Supplementary Budget Motion), as voted by the National Assembly with actual income and expenditure for the year.

NOTE		2017-18 Estimate			2017-18 Out-turn			2016-17 Out-turn	
		Gross expenditure	Income	NET TOTAL	Gross expenditure	Income	NET TOTAL	Net total out-turn compared to estimate	NET TOTAL
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
SORO1	Revenue	21,545	(14,694)	6,851	20,969	(14,122)	6,847	(4)	6,486
SORO2	Capital	380	–	380	313		313	(67)	222
SORO2	Total Resources	21,925	(14,694)	7,231	21,282	(14,122)	7,160	(71)	6,708
SORO3	Net Cash Requirement			7,031			6,308	(723)	6,233

Arising from the operations of the Wales Audit Office for the financial year 2017-18:

- the net total out-turn on revenue resources was £4,000 within the approved net resources of £6,851,000;
- the out-turn on capital spend was £67,000 within the approved capital budget of £380,000; and
- After taking account of non cash adjustments, £723,000 is due to the Welsh Consolidated Fund (WCF). This reflects the timing of year end transactions.

Notes to the Summary of Resource Out-turn

Note SORO1: Analysis of Estimate 2017-18

	2017-18 Estimate			2016-17 Estimate
	Estimate	Supplementary Estimate	NET	NET
	2017-18	2017-18	TOTAL	TOTAL
	£'000	£'000	£'000	£'000
Expenditure	21,680	(135)	21,545	21,747
Income	(15,154)	460	(14,694)	(15,261)
Net Total	6,526	325	6,851	6,678
Capital	380	-	380	250
Net Resource Requirement	6,906	325	7,231	6,928
Net Cash Requirement	6,706	325	7,031	6,728

Note SORO2: Analysis of net resource out-turn 2017-18

2016-17 Out-turn £'000		2017-18 Estimate £'000	2017-18 Out-turn £'000	Variance £'000	Reason for significant variances against the Estimate
15,204	Staff costs	15,411	14,909	(502)	Staff vacancies during the year exceeded expectations
517	Contractor staff	735	353	(382)	Reduced use of contractor staff
1,232	Travel and subsistence	1,299	1,204	(95)	Reduction in travel linked to investment in ICT and video conferencing
1,099	Private sector firms (incl VAT)	874	917	43	Increased work in year
912	Accommodation	938	931	(7)	
455	ICT	399	494	95	Investment in Data Analytics in year
624	Balance of irrecoverable VAT	390	519	129	Reflects increased capital expenditure
332	Wales Audit Office Governance Arrangements	300	300	0	
295	External training	255	292	37	Additional investment in staff training in year
139	Legal and professional fees	201	120	(81)	Reduced consultancy expenditure
115	Translation of documents	145	158	13	
823	Other costs	598	772	174	Includes increased depreciation costs and staff conference
21,747	TOTAL EXPENSES	21,545	20,969	(576)	
Income					
(13,263)	Audit fees	(13,288)	(12,755)	533	Reduction in the amount of audit work carried out
(1,540)	Grant certification fees	(1,406)	(1,351)	55	Reduction in number of grants requiring certification
(433)	WPI Grant	-	(5)	(5)	Completion of previous year reviews
(25)	Other income	-	(11)	(11)	
(15,261)	TOTAL INCOME	(14,694)	(14,122)	572	
6,486	NET REVENUE RESOURCE	6,851	6,847	(4)	
222	CAPITAL EXPENDITURE	380	313	(67)	

Income from audit and grant certification fees was £588,000 less in 2017-18 than anticipated in the Estimate. As a consequence, our staffing and other costs were reduced accordingly through vacancy management and lower than planned use of short-term contractors. Despite these challenges, the net cost of the Wales Audit Office was £4,000 less than anticipated when the Estimate was agreed.

The financial management summary on page 33 provides further explanation of cost efficiency at the Wales Audit Office.

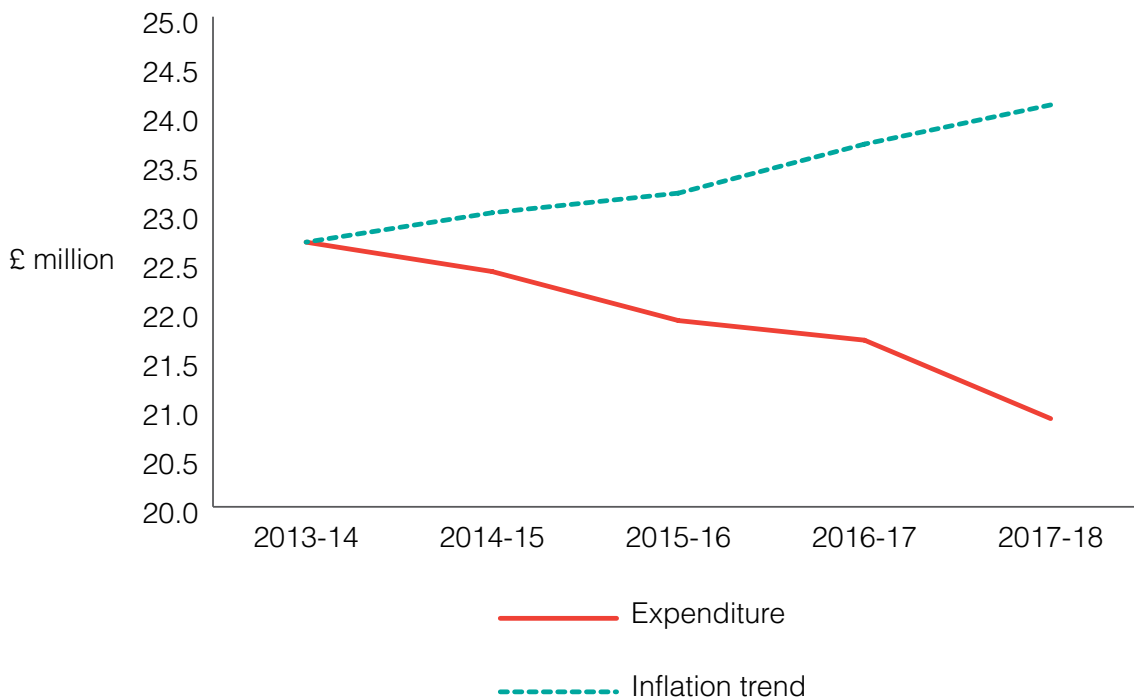
Audit fee income is governed by the Fee Scheme approved by the Finance Committee of the National Assembly. A breakdown of this income is included in Note 1 to the Financial Statements.

Note SORO3: Reconciliation of net resource out-turn to net cash requirement

	2017-18			2016-17
	Supplementary Estimate	Out-turn	Variance	Out-turn
	£'000	£'000	£'000	£'000
Revenue resources	6,851	6,847	(4)	6,486
Capital resources	380	313	(67)	222
Adjustments:				
Non-cash items (depreciation)	(200)	(226)	(26)	(204)
Movements in working capital other than cash:	–			
Increase /(reduction) in receivables and work in progress	–	(698)	(698)	(504)
(Increase)/reduction in payables and deferred income		242	242	98
(Increase)/reduction in provisions		(170)	(170)	135
Total net cash requirement	7,031	6,308	(723)	6,233

Long-term expenditure trends

Since 2013-14, the Wales Audit Office has reduced its expenditure by 13% in real terms⁵⁵, as represented below. The cumulative saving generated across those years amounts to £6.8 million, reducing both the call on the WCF, other than for new responsibilities, and the amount required to be raised from charging fees to audited bodies.



Future budgeted expenditure and income of the Wales Audit Office is voted annually by the National Assembly.

The Auditor General is not aware of any remote contingent liabilities that will impact long-term expenditure plans.

Any special payments and disclosable losses in 2017-18 are disclosed in Note 14 to the Financial Statements.

⁵⁵ Based on GDP deflators published by ONS March 2018.

Independent Auditors' Report to the National Assembly for Wales

Opinion on financial statements

We certify that we have audited the financial statements of the Wales Audit Office for the year ended 31 March 2018 under Schedule 1 of the Public Audit (Wales) Act 2013. These financial statements comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity, and related notes. We have also audited the information in the Remuneration and Staff Report that is described in the report as having been audited.

The financial reporting framework that has been applied in their preparation is HM Treasury directions issued under the 2013 Act.

In our opinion the financial statements:

- give a true and fair view of the state of the Wales Audit Office affairs as at 31 March 2018 and of its net operating cost for the year then ended; and
- have been properly prepared in accordance with the HM Treasury directions issued under the Public Audit (Wales) Act 2013.

Regularity opinion on financial statements

We have undertaken work, as required under Schedule 1 of the Public Audit (Wales) Act 2013, to obtain reasonable assurance that expenditure to which the statement relates has been incurred lawfully and in accordance with the authority that governs it and that money to which the statement relates, received by the Wales Audit Office for a particular purpose or particular purposes, has not been expended otherwise than for that purpose or purposes.

In our opinion, in all material respects:

- the expenditure to which the statement relates has been incurred lawfully and in accordance with the authority that governs it; and
- the money to which the statement relates, received by the Wales Audit Office for a particular purpose or particular purposes, has not been expended otherwise than for that purpose or purposes.

Basis for the opinion on the financial statements

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Wales Audit Office in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We also audit the Summary of Resource Outturn and associated notes and the information in the Accountability Report that is described in the report as having been audited.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Basis for the regularity opinion on the financial statements

We are required to obtain evidence sufficient to give reasonable assurance that the expenditure to which the statement relates has been incurred lawfully and in accordance with the authority that governs it and that that money to which the statement relates, received by the Wales Audit Office for a particular purpose or particular purposes, has not been expended otherwise than for that purpose or purposes. We have conducted our work in accordance with the Statement of Recommended Practice, Practice Note 10 Audit of financial statements of public sector bodies in the United Kingdom in this respect.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Wales Audit Office and the Auditor General for Wales's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Wales Audit Office and the Auditor General for Wales have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Wales Audit Office and the Auditor General for Wales are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters

In our opinion:

- the Summary of Resource Outturn and the part of the Accountability Report to be audited has been properly prepared in accordance with HM Treasury directions issued under the Public Audit (Wales) Act 2013; 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.

Responsibilities of the Wales Audit Office and the Auditor General for Wales

As explained more fully in the Statement of the Accounting Officer's responsibilities set out on page 49, the Wales Audit Office and the Auditor General for Wales are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Wales Audit Office and the Auditor General for Wales are responsible for assessing the Wales Audit Office's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Assembly intends to dissolve the Wales Audit Office without continuation of its operations.

The Auditor General is also responsible for ensuring expenditure to which the statement relates has been incurred lawfully and in accordance with the authority that governs it and that that money to which the statement relates, received by the Wales Audit Office for a particular purpose or particular purposes, has not been expended otherwise than for that purpose or purposes.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's [website](#). This description forms part of our auditor's report.

Auditor's responsibilities for regularity opinion on financial statements

We are also responsible for giving a reasonable assurance opinion that expenditure to which the statement relates has been incurred lawfully and in accordance with the authority that governs it and that that money to which the statement relates, received by the Wales Audit Office for a particular purpose or particular purposes, has not been expended otherwise than for that purpose or purposes.

This report is made solely to the National Assembly for Wales to whom it is addressed in accordance with the Public Audit (Wales) Act 2013 and for no other purpose. Our audit work has been undertaken so that we might state to the National Assembly for Wales those matters we are required to state to them in an auditor's report 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.

RSM UK Audit LLP

8th June 2018

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One London Square

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FINANCIAL STATEMENTS

THE FINANCIAL STATEMENTS FOR THE WALES AUDIT OFFICE,
ALONGSIDE SUPPORTING AND EXPLANATORY NOTES.



Statement of Comprehensive Net Expenditure for the year ended 31 March 2018

		2017-18	2016-17
	Note	£'000	£'000
Expenditure			
Staff and associated costs	Staff report ⁵⁶	16,271	16,773
Bought-in services	Staff report	816	1,151
Other operating costs	3	3,882	3,823
		20,969	21,747
Income			
Audit fee income	1	(14,106)	(14,803)
Inspection grant	1	(5)	(433)
Other operating income	2	(11)	(25)
		(14,122)	(15,261)
Net expenditure		6,847	6,486
Total comprehensive net expenditure for the year		6,847	6,486

The notes that follow on pages 102 to 119 form part of these financial statements.

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

⁵⁶ Staff costs note on page 82 of the Remuneration and Staff Report.

Statement of Financial Position at 31 March 2018

	Note	31 March 2018 £'000	31 March 2017 £'000
Non-current assets			
Property, plant and equipment	4	593	590
Intangible assets	5	233	149
Total non-current assets		826	739
Current assets			
Trade receivables and work in progress	6	1,432	2,136
Other receivables	7	556	550
Cash and cash equivalents	8	3,017	2,789
Total current assets		5,005	5,475
Total assets		5,831	6,214
Current liabilities			
Trade and other payables	9	(1,745)	(2,253)
Deferred income	10	(2,556)	(2,290)
Provisions for other liabilities and charges	11	(687)	(485)
WCF (see Summary of Resource Out-turn)		(723)	(495)
Total current liabilities		(5,711)	(5,523)
Total assets less current liabilities		120	691
Non-current liabilities			
Provisions for other liabilities and charges	11	(733)	(765)
Total non-current liabilities		(733)	(765)
Total assets less liabilities		(613)	(74)
Taxpayers' equity			
General fund		(613)	(74)
		(613)	(74)

The notes that follow on pages 102 to 119 form part of these financial statements.

The financial statements on pages 98 to 119 were approved by the Wales Audit Office Board and authorised for issue on 7 June 2018 and are signed on its behalf by:

Huw Vaughan Thomas

Auditor General for Wales and Accounting Officer

7 June 2018

Statement of Cash Flows for the year ended 31 March 2018

		2017-18	2016-17
	Note	£'000	£'000
Cash flows from operating activities			
Comprehensive net expenditure		(6,847)	(6,486)
Adjustments for non-cash transactions: depreciation and amortisation	3	226	204
Increase/(decrease) in provisions	11	170	164
Changes in working capital			
(Increase)/decrease in trade and other receivables	6,7	698	(504)
Increase/(decrease) in trade and other payables	9,10	(242)	98
Net cash outflow used from operating activities		(5,995)	(6,524)
Cash flows used from investing activities			
Purchases of property, plant and equipment	4	(152)	(190)
Purchases of intangible assets	5	(161)	(32)
Net cash outflow from investing activities		(313)	(222)
Cash flows from financing activities			
WCF		7,031	6,728
WCF repaid		(495)	(143)
Net financing		6,536	6,585
Movements in cash and cash equivalents	8	228	(161)

The notes that follow on pages 102 to 119 form part of these financial statements.

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2018

	£'000
Balance at 31 March 2016	179
Changes in taxpayers' equity in 2016-17	
Total comprehensive expenditure	(6,486)
WCF finance	6,728
	421
Payable to WCF	(495)
Balance at 31 March 2017	(74)
Changes in taxpayers' equity in 2017-18	
Total comprehensive net expenditure	(6,847)
WCF finance	7,031
	110
Due to WCF	(723)
Balance at 31 March 2018	(613)

The notes that follow on pages 102 to 119 form part of these financial statements.

Notes to the Financial Statements

These financial statements have been prepared in accordance with the 2017-18 Financial Reporting Manual (FReM), issued by the relevant authorities.

Basis of preparation

The accounting policies contained in the FReM apply EU-adopted International Financial Reporting Standards (IFRS) 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 Wales Audit Office for the purpose of giving a true and fair view has been selected. Significant policies adopted by the Wales Audit Office are described alongside the note to which they refer. They have been applied consistently in dealing with items considered material in relation to the accounts.

These financial statements have been prepared under the historical cost convention. Figures are presented in pounds sterling, which is the functional currency of the Wales Audit Office, and are rounded to the nearest £1,000.

The potential impact of IFRS 16 (Leases) issued in January 2016 but not effective until 1 January 2019 is disclosed in Note 12. We have considered the impact of IFRS 15 (Revenue from contracts with customers) and believe that there is no material difference from the accounting treatment currently applied.

There are no other 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.

The financial statements have been prepared on a going concern basis as set out below:

The Wales Audit Office works to annual funding arrangements by statute. Although voted funding has only been approved for nine months after the date of signing these statements, an Estimate for the 2019-20 financial year will be presented to the Finance Committee of the National Assembly in the autumn of 2018-19 and there is no reason to believe that funding will not be approved for that financial year.

The Wales Audit Office is not liable for corporation tax.

Critical accounting estimates and areas of judgement

- Revenue recognition is based on time charged to projects adjusted where applicable to reflect stage completion of work done. An assessment is undertaken at the year-end to consider the reasonableness of income recognised taking into account the cost to complete of audit projects. This treatment is in line with IAS 18 (Revenue) and directly impacts the valuation of work in progress and deferred income in these financial statements.
- Income recognised in advance of invoices being raised is treated as Work in Progress (See Note 6). Invoices raised in advance of work being done is treated as Deferred Income (See Note 10).
- Provisions have been made where, in the opinion of the Accounting Officer, it is more likely than not that a financial liability exists which cannot be accurately estimated at present. (See Note 11).
- 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. This has been 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.

Note 1 (a): Wales Audit Office operating segments

2017-18

	Financial audit	Performance audit	Activities funded by WCF	Total
	£'000	£'000	£'000	£'000
Audit fees	(10,687)	(3,419)	-	(14,106)
Grant	-	(5)	-	(5)
Other income	-	-	(11)	(11)
Total	(10,687)	(3,424)	(11)	(14,122)
Expenditure	10,851	3,260	6,858	20,969
	164	(164)	6,847	6,847

2016-17

	Financial audit	Performance audit	Activities funded by WCF	Total
	£'000	£'000	£'000	£'000
Audit fees	(11,161)	(3,642)		(14,803)
Grant		(433)		(433)
Other income			(25)	(25)
Total	(11,161)	(4,075)	(25)	(15,261)
Expenditure	11,118	4,118	6,511	21,747
	(43)	43	6,486	6,486

The Wales Audit Office reports income and expenditure on its two main audit functions for which fees are charged and also for activities which are funded directly from the Welsh Consolidated Fund (WCF).

Note 1 (b): Analysis of audit fee income

	2017-18			2016-17		
	Financial Audit	Performance Audit	Total	Financial Audit	Performance Audit	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Local Government Audit	(5,598)	(2,265)	(7,863)	(5,772)	(2,381)	(8,153)
Local Government Grant Certification	(1,351)		(1,351)	(1,540)		(1,540)
NHS	(1,900)	(1,154)	(3,054)	(2,009)	(1,261)	(3,270)
Central Government Audit	(1,838)	-	(1,838)	(1,840)		(1,840)
	(10,687)	(3,419)	(14,106)	(11,161)	(3,642)	(14,803)

Fees charged for audit work are set in accordance with a [Fee Scheme](#) agreed by the Finance Committee of the National Assembly.

Gross fee income and other operating income are recognised on the value of chargeable work exclusive of VAT. This value is assessed by reference to time charges and stage of completion of projects.

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. Invoices raised in advance of the work being done is classed as deferred income (see Note 10). Work done in advance of income received is classed as work in progress (see Note 6). Funding drawn from the WCF is not direct government grant and is credited directly to taxpayers' equity.

Note 2: Other operating income

	2017-18	2016-17
	£'000	£'000
Other operating income ⁵⁷	(11)	(25)
	<hr/>	<hr/>
	(11)	(25)

Note 3: Other operating costs

	2017-18	2016-17
	£'000	£'000
Accommodation		
Rent lease costs	454	453
Other accommodation costs	411	384
Supplies and services ⁵⁸	1,806	1,805
Recruitment	70	69
Depreciation and amortisation	226	204
Professional fees		
Internal audit services	43	39
External audit fees	38	36
Other professional fees	47	64
Staff travel and subsistence	495	512
Staff learning and development	292	257
	<hr/>	<hr/>
	3,882	3,823

No non-audit services were provided by our external auditors in 2017-18. (2016: £nil).

⁵⁷ Other operating income includes charges for training provided, personal use of mobile phones and recharges for refreshments.

⁵⁸ Includes irrecoverable VAT. All other totals in this note are net of VAT

Note 4: Property, plant and equipment

Fixed assets are held at depreciated cost.

	Furniture and fittings	Information technology	Office equipment	Total
2017-18	£'000	£'000	£'000	£'000
Cost				
At 31 March 2017	1,329	377	160	1,866
Additions		152		152
Disposals	(27)	(10)	(3)	(40)
At 31 March 2018	1,302	519	157	1,978
Depreciation				
At 31 March 2017	949	214	113	1,276
Provided in period	68	67	14	149
Disposals	(27)	(10)	(3)	(40)
At 31 March 2018	990	271	124	1,385
Net book value				
At 31 March 2018	312	248	33	593
At 31 March 2017	380	163	47	590
Asset financing				
Owned	312	248	33	593

	Furniture and fittings	Information technology	Office equipment	Total
2016-17	£'000	£'000	£'000	£'000
Cost				
At 31 March 2016	1,296	306	132	1,734
Additions	68	86	36	190
Disposals	(35)	(15)	(8)	(58)
At 31 March 2017	1,329	377	160	1,866
Depreciation				
At 31 March 2016	907	186	108	1,201
Provided in period	79	43	13	135
Disposals	(37)	(15)	(8)	(60)
At 31 March 2017	949	214	113	1,276
Net book value				
At 31 March 2017	380	163	47	590
At 31 March 2016	389	120	24	533
Asset financing				
Owned	380	163	47	590

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

Subsequent expenditure on assets which meets these capitalisation criteria would be further capitalised. Items not meeting these criteria would be treated as revenue expenditure in the year.

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 (including IT infrastructure)	10 years (or shorter of asset life or length of lease for fittings in leased buildings)
Computer equipment	Three years
Office equipment	Five years

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 depreciated replacement cost. An annual assessment of impairment is carried out to confirm that this remains the case.

Note 5: Intangible assets

Intangible assets 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 (five years). Amortisation is calculated from the date the intangible asset commences its useful life.

	Total
2017-18	£'000
Cost	
At 31 March 2017	503
Additions	161
Disposals	(1)
At 31 March 2018	<u>663</u>
Amortisation	
At 31 March 2017	354
Provided in period	77
Disposals	(1)
At 31 March 2018	<u>430</u>
Net book value	
At 31 March 2018	<u>233</u>
At 31 March 2017	<u>149</u>
Asset financing	
Owned	<u>233</u>

	Total
2016-17	£'000
Cost	
At 31 March 2016	479
Additions	32
Disposals	(8)
At 31 March 2017	503
Amortisation	
At 31 March 2016	291
Provided in period	71
Disposals	(8)
At 31 March 2017	354
Net book value	
At 31 March 2017	149
At 31 March 2016	188
Asset financing	
Owned	149

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. An annual assessment of impairment is carried out to confirm that this remains the case.

Note 6: Trade receivables and work in progress

Receivables and work in progress are valued at fair value initial recognition and then subsequent measurement at amortised cost using effective interest method less provision for impairment.

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 would be established when there is evidence that the Wales Audit Office will not be able to recover all amounts due in accordance with contracts.

	31 March 2018	31 March 2017
	£'000	£'000
Trade receivables		
Central government	222	161
Local government	276	449
NHS	236	178
External to government	4	25
Work in progress		
Central government	535	609
Local government	152	704
NHS	7	10
	<u>1,432</u>	<u>2,136</u>

Included in the above figures is £67,000 that is overdue but not yet impaired. No issues regarding the eventual receipt of this amount are anticipated.

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

A provision for bad and doubtful debts has not been required in 2017-18 (2016-17: not required).

Note 7: Other receivables

	31 March 2018	31 March 2017
	£'000	£'000
Prepayments and accrued income ⁵⁹	543	546
Loans to employees ⁶⁰	13	4
	<u>556</u>	<u>550</u>

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

Note 8: Cash and cash equivalents

Cash and cash equivalents include all funds held in accounts to which the Wales Audit Office has instant access.

	31 March 2018	31 March 2017
	£'000	£'000
Balance at 1 April	2,789	2,950
Net change in cash and cash equivalents	228	(161)
Balance at 31 March	<u>3,017</u>	<u>2,789</u>

	31 March 2018	31 March 2017
	£'000	£'000
Current account (Government Banking Service)	3,017	2,789
	<u>3,017</u>	<u>2,789</u>

⁵⁹ Mainly advance payments for rent and other property-related costs.

⁶⁰ Cycle loans and prepayments for salary sacrifice car leases.

Note 9: Trade payables and other current liabilities

	31 March 2018	31 March 2017
	£'000	£'000
Trade payables (due within one year)	40	431
VAT	77	62
Taxation and social security costs	357	352
Accrual for holiday entitlement not yet taken	474	509
Other accruals ⁶¹	797	899
	<u>1,745</u>	<u>2,253</u>

The Wales Audit Office aims to pay 95% of all undisputed supplier invoices within 30 days of receipt and 84% within 10 days. In 2017-18, 98% were paid within 30 days and 88% within 10 days.

Staff holiday entitlement is based on the date on which they were employed. The calculation of the accrual for holiday entitlement is therefore based on individual holiday anniversaries rather than a fixed holiday year.

Note 10: Deferred income

Audit fee income recognised in our accounts is assessed by reference to time charges and a review of work in progress. We invoice for most of our work on an instalment basis through the year. Deferred income represents income that has been billed but not yet recognised.

	31 March 2018	31 March 2017
	£'000	£'000
Deferred income	2,556	2,290
	<u>2,556</u>	<u>2,290</u>

⁶¹ The majority of the other accruals (£371,000) relates to trade payable invoices received post year-end. £260,000 is in respect of pension contributions for March 2018, paid in April 2018.

Note 11: Provisions for liabilities and charges

Provisions are recognised when an obligation at the reporting date as a result of a past event which it is probable will result in the transfer of economic benefits and the obligation can be estimated reliably.

Provisions are measured at the best estimate of the amounts required to settle the obligation. Where the effect of the time value of money is material, the provision is based on the present value of those amounts, discounted at the pre-tax discount rate that reflects the risks specific to the liability. The unwinding of the discount is recognised within relevant expense.

	Dilapidations ⁶²	Early retirement and severance ⁶³	Car scheme buy-out	Firms' Income	Totals
	£'000	£'000	£'000	£'000	£'000
At 31 March 2017	631	612	7	-	1,250
Provided in year	16	496	-	143	655
Provisions utilised in year	-	(479)	(5)	-	(484)
Provisions released in year	-	-	(1)	-	(1)
At 31 March 2018	647	629	1	143	1,420

Analysis of expected timing:

	Dilapidations	Early retirement and severance	Car scheme buy-out	Firms' Income	Totals
	£'000	£'000	£'000	£'000	£'000
Not later than one year	-	543	1	143	687
Later than one year and not later than five years	629	86	-	-	715
Later than five years	18	-	-	-	18
	647	629	1	143	1,420

62 The Wales Audit Office uses HM Treasury's discount rate as set out in PES (2017) 10 for balances of 0-5 years of -2.42% and for 5 to 10 years of -1.85% to calculate this balance

63 The Wales Audit Office uses HM Treasury's discount rate as set out in PES (2017) 10 of 0.10% to calculate this balance.

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.

This has been 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.

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 car scheme provision reflects a commitment to compensate staff who have agreed to a buy-out of terms and conditions relating to the provision of leased cars and transport allowance. This provision was established in 2015-16 and the large majority of qualifying employees received payments in 2016-17. The remaining balance is in respect of employees whose leased car arrangements have not yet ended.

The Firms' income provision represents a refund of fees due to two audited bodies as a result of over-invoicing in prior periods by a contractor Firm.

Note 12: Operating leases

The Wales Audit Office holds operating leases for cars and its operational offices. 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.

There were aggregate minimum lease payments at 31 March 2018 in respect of non-cancellable car leases:

	31 March 2018	31 March 2017
	£'000	£'000
Within one year	10	34
	10	34

There were aggregate minimum lease payments at 31 March 2018 in respect of three office accommodation leases. The Wales Audit Office has three operational offices at Cardiff, Swansea and Abergele.

	31 March 2018	31 March 2018	31 March 2017	31 March 2017
	£'000	Number of properties	£'000	Number of properties
Within one year	443	3	443	3
Between two and five years	1,735	3	1,774	3
Over five years	79	1	385	3
	2,257		2,602	

Office accommodation leases are subject to periodic rent reviews.

IFRS16 issued in January 2016 but not effective until 1 January 2019, requires that all leases with a lease term of more than 12 months be recognised as assets and liabilities in financial statements. It is not yet known if this standard will be adopted within the FReM; if it had been adopted for 2017-18 there would have been an increase to both assets and liabilities of £2.435 million. The Wales Audit Office has performed an assessment of the impact on net expenditure for the year and deemed there is no material impact.

Note 13: Capital commitments

There were capital commitments of £28,000 in respect of the remaining consultancy work on a new finance system which was completed in April 2018. (31 March 2017: Nil).

Note 14: Losses and special payments

During 2017-18 a loss of £44,000 was incurred when it became necessary to refund two audited bodies for fees paid for 2014-15 for audit work that was not completed to a satisfactory standard by a contractor firm.

There were no special payments or disclosable losses in 2016-17.

Note 15: Derivatives and financial instruments

IFRS 7 Financial Instruments Disclosures requires disclosure of information about the significance of financial instruments to an entity, and the nature and extent of risks arising from those financial instruments, both in qualitative and quantitative terms. Owing to the nature of the Wales Audit Office'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 Wales Audit Office can borrow funds for short-term financing purposes, the office has not been required to do so in this financial year. The Wales Audit Office can also invest surplus funds, which has been done through an overnight interest-bearing account during the year. 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 risk appetite, and the backing of the WCF, the Wales Audit Office is not exposed to significant liquidity risks.

Interest rate risk

The Wales Audit Office's financial assets and liabilities are not exposed to interest rate risk.

Foreign currency risk

The Wales Audit Office'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 converted 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 charges fees under legislation in accordance with an approved Fee Scheme and is therefore not exposed to any material credit risks.

Fair values

There is no difference between the book values and fair values of the Wales Audit Office's financial assets and liabilities as at 31 March 2018 (31 March 2017: nil).

Note 16: Related party transactions

The Wales Audit Office is a body corporate established under statute and has had material transactions with the WCF and with bodies audited by the Auditor General as disclosed in the Remuneration Report.

Isobel Garner (Non-Executive Chair of the Wales Audit Office Board) is married to the Chief Executive of a local council which is audited by the Auditor General. This is disclosed for transparency although it does not meet the definition of a related party transaction.

During the year, no other 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 (page 69).

Note 17: VAT

The Wales Audit Office is only able to recover a small proportion of VAT on its gross expenditure being the proportion of non statutory fee income as compared to total income for the year.

Glossary of Terms⁶⁴

Accruals basis	The effects of transactions and other events are recognised when they occur (and not as cash or its equivalent, is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate.
Amortisation	The apportionment of the cost of an intangible fixed asset over its useful life.
Assets	Something that the organisation owns or uses eg, equipment or software rights.
Capital expenditure	Spending on non-current (fixed) assets.
Current assets	An asset that is expected to be converted to cash within the next 12 months.
Current liability	A liability that is expected to be settled within the next 12 months.
Deferred income	Represents income that has been billed but not yet recognised in the Statement of Comprehensive Net Expenditure.
Depreciation	The apportionment of the cost of a tangible fixed asset over its useful life.
Estimate	For the Wales Audit Office the annual Estimate of Income and Expenses approved in plenary by the Budget Motion. The National Assembly Finance Committee provides a report to support this. Also referred to as the approved budget.
Fixed assets	An asset that is held by an organisation for use in the production or supply of goods or services, for rental to others, or for administrative purposes on a continuing basis in the reporting entity's activities. Examples are equipment, vehicles, land and buildings.
Going concern basis	Financial statements are prepared on this basis assuming that the organisation will continue operating into the foreseeable future.
Intangible fixed asset	An asset, such as a right, that has no physical substance.
Leasing	Acquiring the use of an asset through a rental agreement.
Prepayments	An amount paid for in advance such as insurance premiums or rent in advance. Initially recognised as an asset, then transferred to expense in the period when the benefit is enjoyed.
Provision	Liability of uncertain timing or amount.
Taxpayers' equity	The net assets of the organisation.

⁶⁴ Full definitions are available in the FReM

Trade payables	Amounts due for payment to suppliers of goods and services
Trade receivables	Amounts due from clients.
Tangible fixed asset	A fixed asset (also called a non-current asset) which has a physical existence. Used to differentiate it from an intangible fixed asset.
Welsh Consolidated Fund	The fund used by the National Assembly to hold sums voted by Parliament which are then allocated via a Budget Motion to the Welsh Government, Auditor General for Wales, National Assembly Commission and Public Service Ombudsman for Wales.
Work in progress	Work done and recognised as income in the accounts which has yet to be invoiced to clients.

APPENDICES



APPENDIX 1 — PROGRAMMES OF WORK DELIVERED IN 2017-18

Audit work carried out at local government bodies

Audit of accounts

22 unitary authorities
 3 fire and rescue authorities
 3 national park authorities
 4 police and crime commissioners
 4 chief constables
 8 pension funds
 A number of other smaller local government bodies including joint committees and harbour authorities
 Audits of over 735 town and community councils on a limited assurance basis

Studies completed or substantially completed

Strategic commissioning of learning disability services by local authorities
 Improving well-being through housing adaptations
 How local government manages demand (homelessness services)

Summary reports

Good governance when determining significant service changes
 Financial management and governance in local councils 2016-17
 Local government financial reporting 2016-17

Improvement audits and assessments

22 unitary authorities (including themed reviews of scrutiny and service user perspective)
 3 fire and rescue authorities
 3 national park authorities

Well-being of future generations audit work

22 unitary authorities
 3 fire and rescue authorities
 3 national park authorities

Certification of grant claims and returns

Up to 20 schemes worth approaching £3 billion and involving around 300 individual claims
 Outcomes-focused reports

Ongoing studies

Services to rural communities
 Use of data
 Cross-cutting review of the Integrated Care Fund

Audit work carried out at NHS bodies

Audit of accounts

7 local health boards
3 NHS trusts
Local health board summarised accounts
NHS trusts summarised accounts

Structured assessments

7 local health boards
3 NHS trusts
All Wales comparison of aspects of governance

Well-being of future generations audit work

7 local health boards
Velindre NHS Trust
Public Health Wales NHS Trust

Studies completed or substantially completed

GP Out-of-Hours services
Discharge planning

Local performance audit work

7 local health boards
3 NHS trusts
Betsi Cadwaladr University Health Board governance review

Ongoing studies

Primary care services
Cross-cutting review of the Integrated Care Fund

Audit work carried out at central government bodies

Welsh Government accounts

Welsh Government consolidated accounts
Non-domestic rating account
Welsh Consolidated Fund account
Whole of Government Accounts

Accounts of Welsh Government sponsored bodies

Arts Council of Wales
Arts Council of Wales Lottery Fund
Social Care Wales
Higher Education Funding Council for Wales
National Library of Wales
National Museums and Galleries of Wales
Natural Resources Wales
Sports Council for Wales Main and Trust Accounts
Sports Council for Wales Lottery Fund
Local Democracy and Boundary Commission for Wales
Qualifications Wales

National Assembly for Wales accounts

National Assembly for Wales Commission
Assembly Members Pension Fund

Summary reports

Central government accounts 2015-16
Central government accounts 2016-17

Welsh Government companies

Hybu Cig Cymru
Careers Choice
Life Sciences Hub
Sector Development Wales

Accounts of commissioners, inspectors and regulators

Children's Commissioner for Wales
Older People's Commissioner for Wales
Public Services Ombudsman for Wales
Welsh Language Commissioner
Estyn
Education Workforce Council
Future Generations Commissioner

Well-being of future generations audit work

Welsh Government
Natural Resources Wales
Higher Education Funding Council for Wales
Arts Council of Wales
Sports Council for Wales
National Library of Wales
National Museums and Galleries of Wales

Audit work undertaken for consideration by the Public Accounts Committee

Value-for-money studies, summary reports or reactive examinations completed

The Welsh Government's Initial Funding of the Circuit of Wales Project

21st century schools and education programme

Implementation of the NHS Finances (Wales) Act 2014

Cardiff and Vale University Health Board Public Interest Report

Welsh Government financial support for Carmarthenshire Energy Ltd

Emergency ambulance commissioning arrangements

Supporting People programme

Public procurement in Wales

The National Procurement Service

Fiscal devolution in Wales: an update on preparations for its implementation (follow-on report for consideration by the Finance Committee)

Informatics systems in NHS Wales

Reactive examinations in progress

Pinewood Studios Wales

NHS agency costs

Summary reports in progress

Well-being of future generations audit work (year one commentary)

GP Out-of-Hours services

Radiology

Ongoing value-for-money studies

Primary care services

Overcoming language and communication barriers in public services

Waste management (waste prevention)

Waste management (municipal recycling)

Waste management (procurement of waste treatment infrastructure)

Business finance

Improving the well-being of young people

The 2014-2020 Rural Development Programme

The 2014-2020 European Structural Funds programmes

The cross-cutting review of the Integrated Care Fund

Good practice work

Shared learning seminars delivered

Well managed risks (part 1)
Improving digital leadership and ownership
How different methods of engagement can help involve the citizen in public service delivery
Early closure of local government accounts
Using alternative delivery models to deliver public services
The role of scrutiny in relation to the Well-being of Future Generations (Wales) Act 2015
I'm a patient, get me out of here - how public services are collaborating to deliver a hospital discharge service which provides better outcomes for individuals
Well-managed risks (part 2)

Shared learning webinars delivered

Governance: supporting improvement across complex public service delivery
Integrating information technology through open standards
Building financial resilience in public services
How understanding adverse childhood experiences can help integrated service delivery

Good practice guides delivered

Grants management
Checklist for NHS board members when seeking assurance on how local district nursing resources are being managed
Leaflet highlighting the most important considerations for NHS audit committee members in their scrutiny and challenge of the use of single tender actions

External facilitation of shared learning and community support

Academi Wales summer school
Futures Generations Commissioner
Good Practice Wales
Wales Centre for Behaviour Change, Bangor University
Welsh NHS Confederation
Working With Not To co-production practitioner groups
Participation Cymru
Natural Resources Wales
Aneurin Bevan UHB

Supporting effective scrutiny and accountability

The Auditor General's report on disclosures of information

The Auditor General is a 'prescribed person' for making whistleblowing disclosures about the proper conduct of public business and fraud, value for money, and corruption in relation to the provision of public services. The Prescribed Persons (Reports on Disclosures of Information) Regulations 2017 require the Auditor General to publish a report for each financial year setting out:

- a the number of disclosures made to the Auditor General in that year that he believes to be qualifying disclosures⁶⁵;
- b the number of qualifying disclosures where the Auditor General has decided to take action;
- c a summary of the types of action that the Auditor General has taken; and
- d a summary of how the information disclosed has affected the Auditor General's ability to perform his functions.

The Auditor General's main functions are summarised in our [Annual Plan](#) for each year and are described in more detail in our [Guide to Welsh public audit legislation](#).

In 2017-18, 31 individuals wrote to or telephoned the Auditor General or the Wales Audit Office indicating that they wished to make a whistleblowing disclosure. However, in only 11 cases did the Auditor General have a reasonable basis to believe that the disclosure qualified and was within the matters in respect of which he is prescribed. This was because individuals either did not give details of their employment situation, or it was clear that they were not employees or other qualifying workers.

Of the 11 apparently qualifying disclosures, in eight cases the relevant audit team reviewed the matters raised, but they were not found to amount to substantive matters on which the Auditor General would need to report or take other action. In the other three cases, after initial consideration by audit staff, significant further review work has been undertaken or is pending, and in one of these cases, the Auditor General is undertaking an authority-wide review of whistleblowing arrangements. One or more of the three cases may result in a published report.

Generally, where the Auditor General has received information that has been relevant to his functions, this has helped to inform his work, and in three cases, the information has enabled the Auditor General to identify issues meriting significant examination.

⁶⁵ Disclosures that meet the criteria set out in section 43B of the Employment Rights Act 1996 and which engage the protection from detriment provided by that Act.

Engagement and joint working activity

Joined up delivery

These include:

National Fraud Initiative with other UK audit agencies

Working with Estyn to undertake follow-up inspections of Regional Education Improvement Consortia and support their delivery of improvement conferences

Annual certification of the accounts of the European Agricultural Funds

Follow-up joint review with Healthcare Inspectorate Wales of governance arrangements at Betsi Cadwaladr University Health Board

Development of a memorandum of understanding with the Future Generations Commissioner

Working with other Inspection Wales partners on joint work on support for young people

Participation with observer status on external working groups

These include:

Partnership Council for Wales

Welsh Revenue Authority Implementation Programme Board

Finance Minister's Welsh Tax Forum

Local Government Data Unit Board

NHS Wales Efficiency, Healthcare Value and Improvement Group

Public Appointments Working Group

Health Education and Improvement Wales Establishment Programme Board

National Procurement Service and Value Wales – Review Oversight Board

Membership of external working groups

These include:

EURORAI

International Integrated Reporting Council's Public Sector Integrated Reporting Network
Public Audit Forum

CIPFA/LASAAC Local Authority Code Board

ICAEW Public Sector Audit Committee

CIPFA Audit and Accounting Standards Panel
Inspection Wales initiative

DWP Housing Benefit and Welfare Reform
UK Inspectorates liaison group

Financial Reporting Council Public Sector Advisory Group

Participation in NHS Escalation and Intervention Protocol with Welsh Government and Healthcare Inspectorate Wales

OECD Auditor Alliance

Participation in twice-yearly healthcare summits

Commissioned audit work

A range of charity audits

Chief Auditor to and audit of the accounts of the Government of Anguilla

Waste management and trade refuse benchmarking groups

APPENDIX 2 — PROGRESS MADE DURING THE YEAR TOWARDS ACHIEVING OUR THREE-YEAR PRIORITIES

Planned priorities	When	Progress	Commentary
Develop an approach, through working in collaboration with key stakeholders, to deliver the Auditor General's duties under the Well-being of Future Generations (Wales) Act 2015.	2017-2018	On track	<p>The project plan for this priority is overseen by a Programme Board comprising four members of our Management Committee and chaired by the Auditor General for Wales. Audit work reflecting on How public bodies have responded to the introduction of the Act was completed at all 44 listed bodies in 2017-18. We will be sharing the learning from this work via a stakeholder seminar.</p> <p>Pilot work on developing an audit approach that is meaningful, proportionate and adds value is on track to be completed, and a Memorandum of Understanding has been agreed with the Future Generations Commissioner's Office. Associated work for 2018-19 has been integrated within the audit plans for all listed bodies.</p>
Focus on work that examines regional and other partnership working arrangements, including the interface between health and social care provision.	2017-2019	On track	<p>In February 2018, we published a local government study on improving wellbeing through Housing Adaptations, which had a particular focus on partnership working and collaboration arrangements between health, social care and housing organisations.</p> <p>We also commenced a cross-cutting study of the Integrated Care Fund. In addition to the Welsh Government's role, we are examining whether Regional Partnership Boards are providing effective oversight and the difference that is being made by funded projects on the ground.</p> <p>Informed by the Findings of a Call for Evidence, we are in the process of planning a review to look at the collaborative and regional working arrangements established to deliver the requirements of the Social Services and Well Being (Wales) Act 2014.</p>

Planned priorities	When	Progress	Commentary
<p>Strengthen engagement with our work among Assembly committees, and identify ways to further enhance our work on supporting effective scrutiny and accountability.</p>	<p>2017-2021</p>	<p>On track</p>	<p>In addition to our usual extensive engagement with the Public Accounts Committee, in 2017-18 we gave evidence on budgetary and fiscal matters to the National Assembly's Finance Committee.</p> <p>Our audit work also served to inform a report by the Economy, Infrastructure and Skills Committee on the Rail franchise and South Wales metro, and we engaged with researchers and clerks supporting the Health, Social Care and Sport Committee to discuss our review of the Implementation of the NHS Finances (Wales) Act 2014.</p> <p>In September 2017, Wales Audit Office staff participated in a network event, hosted by the National Assembly's Public Accounts Committee, to share experience about the way in which equivalent committees work across the UK and beyond.</p>
<p>Enhance the collective impact of external audit, inspection and review in Wales through working more closely with Inspection Wales and other partners and by making better shared use of intelligence and resources.</p>	<p>2017-2019</p>	<p>On track</p>	<p>With our Inspection Wales partners, we continued to share an agreed programme of work for the year, focused on enhancing the collective impact of our work. A particular area of focus in 2017-18 was Planning and co-ordinating our work which looks at service provision for young people.</p> <p>In 2017-18, for the second year running, we shared a stand at the Royal Welsh Show with our Inspection Wales partners to raise awareness of, and engage with the public on our work.</p> <p>As separate initiatives, we also attended quarterly meetings held between the Public Services Ombudsman for Wales and the Welsh Commissioners, and continue to work closely with Healthcare Inspectorate Wales through jointly contributing to the Welsh Government's tripartite review meetings.</p>

Planned priorities	When	Progress	Commentary
Facilitate strategic transformation of audit, through improving our use of data and technology, and our methods of communication.	2017- 2020	On track	<p>During the last year we established a Data Analytics Group, led by a director and focused on developing and implementing a data analytics strategy for the Wales Audit Office. Via the Estimate process, the National Assembly has approved our use of funding to support this three-year project, and we have already taken steps to recruit and appoint additional dedicated expertise to support the work of our staff in this area.</p> <p>We also commenced a further transformation project during the year, with particular emphasis on how we report on, and engage others with, the findings of our work.</p>
Revise our model for the deployment of audit resources in preparation for upcoming changes to our operating environment, including in particular the introduction of faster closure of local government accounts.	2017-2020	On track	<p>Work on preparing for the earlier closure of local government accounts is progressing well. We undertook further pilot audit work at a larger group of authorities in 2017-18, and held a related Shared Learning Seminar in October 2017.</p> <p>We also secured additional approved financing from the National Assembly totalling £420,000 over the next three years to support this major project and ensure we maintain timely delivery of our programme of audit work.</p> <p>In addition, we have continued to take steps to streamline our audit approach more generally over the last year, including through more closely aligning our programmes of financial and performance audit work and how resources are deployed to deliver that work.</p>

Planned priorities	When	Progress	Commentary
<p>Refresh our people strategy and stimulate culture change within the Wales Audit Office by embedding a new framework of agreed values and behaviours.</p>	<p>2017-2018</p>	<p>Complete</p>	<p>Over the course of 2017-18, we developed a People Strategy for the Wales Audit Office which, following a period of consultation with staff, we then launched in April 2018. A central theme of the strategy is the embedding of a framework of values and behaviours that define our organisational culture and core beliefs.</p> <p>We have established three Director-led groups, with particular interests in culture, people development and equality, to oversee and monitor delivery of the Strategy.</p>
<p>Formulate and apply action plans aimed at narrowing our overall gender, age and ethnicity pay gaps and ensuring our compliance with the new Welsh language standards.</p>	<p>2017-2018</p>	<p>Complete</p>	<p>We published our annual Equality progress report for 2016-17 in September 2017, which included a commitment to address, through the development of our new People Strategy, the feedback received from a staff focus group which looked at ways through which we can narrow our overall pay gaps.</p> <p>During the latter part of 2017-18, we then developed, consulted externally on, and published a revised Strategic Equality Plan. The Plan includes two equality objectives specific to addressing pay gaps.</p> <p>Substantive progress was also made over the course of the year to ensure compliance with applicable Welsh language standards. Our key priorities in this area include providing accelerated learning, alongside further opportunities for learners and Welsh speakers to use the Welsh language in the workplace.</p>

Planned priorities	When	Progress	Commentary
<p>Develop proposals for simplifying and improving the cost-effectiveness of the funding arrangements for the Wales Audit Office, for consideration by the National Assembly.</p>	<p>2017-2018</p>	<p>Complete</p>	<p>In June 2017, we published a Consultation Paper explaining why the fee regime under which the Wales Audit Office currently operates is overly complex, and inviting views on proposals for its simplification.</p> <p>We received responses to the consultation from across the range of public bodies that we audit. Taking account of those responses, we then prepared a Case for Change report which we published in October 2017 for consideration by the National Assembly.</p> <p>The Assembly's Finance Committee considered the report and took evidence on 15 March 2018. We have very much welcomed the willingness of the National Assembly's Finance Committee to explore this issue, and we look forward to continued discussions with the Committee on how it takes this matter forward.</p>

Planned priorities	When	Progress	Commentary
<p>Increase our engagement with stakeholders and our use of external benchmarking to help enhance the impact of our work.</p>	<p>2017-2018</p>	<p>On track</p>	<p>In 2017-18, the newly-established Assistant Auditor General reviewed and reinvigorated the role of audit Engagement Directors, with the particular aim of generating and acting on feedback about our work from stakeholders. In early 2018, we undertook a stakeholder survey, and have referenced some of the key outcomes from that survey in this Report.</p> <p>We also carried out work to implement the key recommendations from an external review of our arrangements for measuring and reporting on the impact of our work. In particular, this work has led to the roll-out of training to further strengthen the quality and style of our audit recommendations.</p> <p>In terms of external benchmarking, one of the key developments we made in 2017-18 was to run a new staff survey to gain a better understanding of the employee experience at the Wales Audit Office, using the same core survey questionnaire that was used in the 2017 Civil Service People Survey (CSPS).</p> <p>It was pleasing to note that, for the majority of survey questions and themes, responses from our staff were more typical of (and in some cases significantly better than) a CSPS 'high performing' organisation.</p>

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