

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Consultation document

Draft strategy for the Auditor General for Wales
and the Wales Audit Office 2017-2020



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU



The Auditor General is independent of the National Assembly and government. He examines and certifies the accounts of the Welsh Government and its sponsored and related public bodies, including NHS bodies. He also has the power to report to the National Assembly on the economy, efficiency and effectiveness with which those organisations have used, and may improve the use of, their resources in discharging their functions.

The Auditor General also audits local government bodies in Wales, conducts local government value for money studies and inspects for compliance with the requirements of the Local Government (Wales) Measure 2009.

The Auditor General undertakes his work using staff and other resources provided by the Wales Audit Office, which is a statutory board established for that purpose and to monitor and advise the Auditor General.

© Auditor General for Wales 2016

You may re-use this publication (not including logos) free of charge in any format or medium. If you re-use it, your re-use must be accurate and must not be in a misleading context. The material must be acknowledged as Auditor General for Wales copyright and you must give the title of this publication. Where we have identified any third party copyright material you will need to obtain permission from the copyright holders concerned before re-use.

For further information, or if you require any of our publications in an alternative format and/or language, please contact us by telephone on 029 2032 0500, or email info@audit.wales. We welcome telephone calls in Welsh and English. You can also write to us in either Welsh or English and we will respond in the language you have used. Corresponding in Welsh will not lead to a delay.

Mae'r ddogfen hon hefyd ar gael yn Gymraeg.

Overview

This consultation invites views and comments on a draft strategy for the Auditor General for Wales and the Wales Audit Office for the period 2017-2020. The final strategy will be published in our Annual Plan for 2017-18.

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.

How to respond

Please respond using the [response form](#) by **27 January 2017**. You can complete the form in either Welsh or English.

Alternatively, please send us your response in writing by post or email using the details below.

Strategy Consultation
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

Email info@audit.wales
Telephone 02920 320 500

Confidentiality and data protection

Information provided in response to this consultation may be published or disclosed in accordance with access to information legislation (chiefly the Freedom of Information Act 2000, but also the Data Protection Act 1998 and the Environmental Information Regulations 2004).

If you want any information you provide to be treated as confidential, you should tell us why you regard the information you have provided as confidential. If we receive a request for disclosure of information we will take full account of your explanation, but we cannot give any assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Auditor General or Wales Audit Office.

Personal data will be processed in accordance with the Data Protection Act. Where such data falls within the scope of a request for information from another person, the provisions of the 1998 and 2000 Acts will need to be considered in the particular circumstances. While no situation can be prejudged, this is likely to mean that information concerning senior officials and public figures is likely to be disclosed while the names and addresses of ordinary members of the public are likely to be withheld.

Foreword



Towards the end of 2015-16, our Board and Senior Leadership Team worked together to construct a vision for the sort of audit office Wales will need in around a decade's time. We captured the vision in the form of the desired 'headlines' from a 2025 external review of the organisation, namely, that the Wales Audit Office:

- is a high impact organisation with excellent stakeholder feedback;
- maximises its use of data and technology to streamline its audit and business processes;
- is an exemplar organisation with lean, robust and effective internal systems; and
- is respected and recognised internationally as a leader in audit development and delivery.

This document sets out the strategy that we feel should underpin our approach to public audit in Wales over the next three years (2017-2020) as the first stage of working towards realising that vision.

When preparing the strategy, we have paid particular attention to understanding upcoming changes to our operating environment, and to formulating our response to the factors we consider will have the greatest influence over the way we deliver our work over the next three years.

The draft strategy reflects our determination to avoid complacency, to stay abreast of external developments and to continually adapt and improve the way we work, thereby maximising our ability to make public money count.

However, before proceeding to determine in more detail how we should seek to deliver this approach through our Annual Plan for 2017-18, we want to test the assumptions we have made and seek the views of our various stakeholders. We hope that you will be able to take the time to read this short consultation document and respond.

We look forward to receiving your views on our proposed approach.

Huw Vaughan Thomas
Auditor General for Wales

Isobel Garner
Chair, on behalf of the Wales Audit Office

Contents

Introduction	6
How we follow the public pound in Wales	7
Our aim and objectives	8
Our operating environment	9
Our response	13
Summary and consultation questions	17

Introduction

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

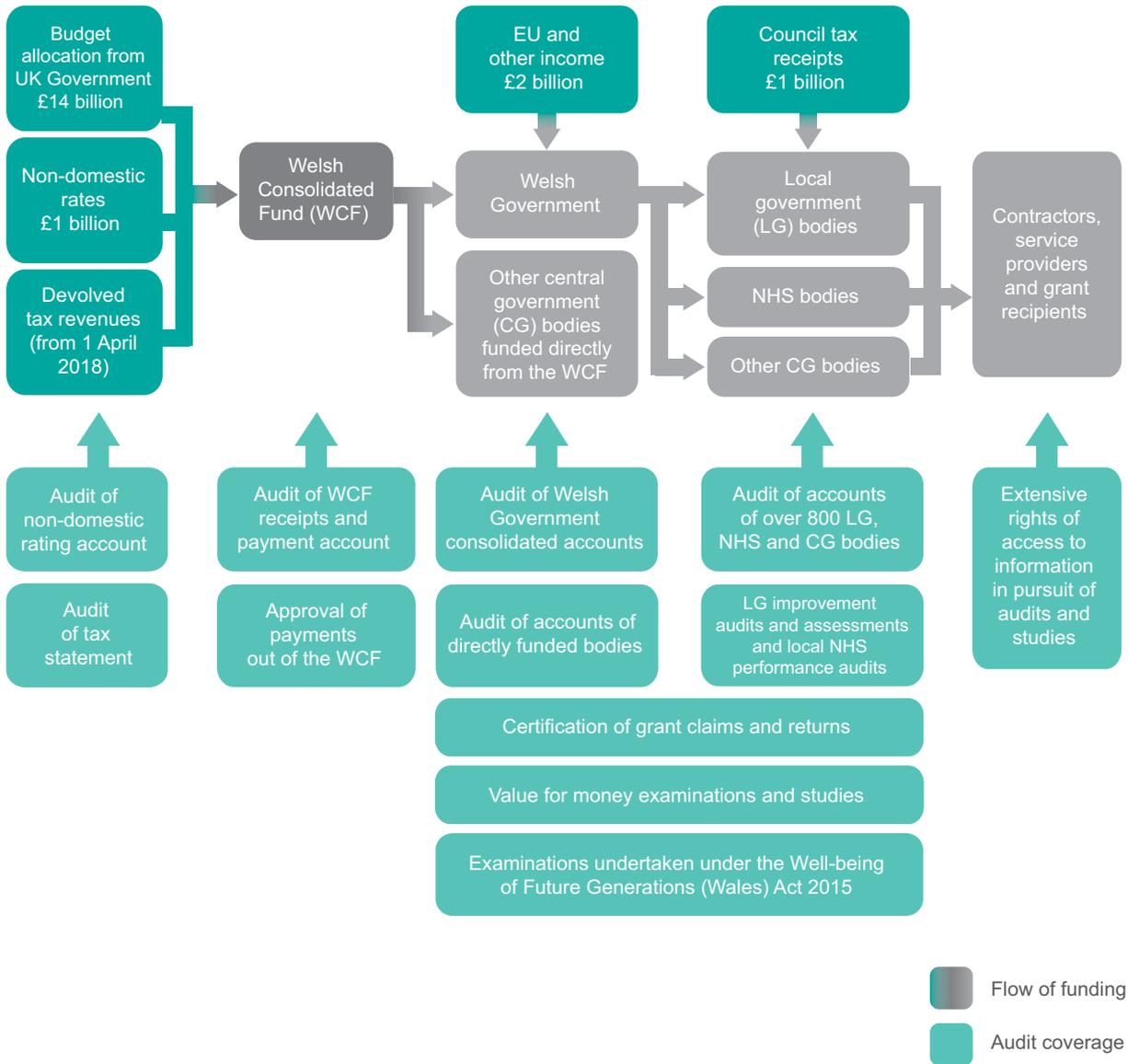
Public sector audit involves providing an opinion on the accounts and also covers issues such as:

- **regularity (whether public money is being used for approved purposes);**
- **propriety (how public business is being conducted); and**
- **value for money.**

- 3 The Wales Audit Office employs professionally qualified 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 currently employs around 250 staff.
- 4 By 31 March each year, the Auditor General and Wales Audit Office must jointly prepare and lay before the National Assembly an Annual Plan for delivering their programmes of work over the forthcoming financial year¹.
- 5 In the Plan we also provide:
 - a a description of our overall aim and objectives;
 - b an assessment of the factors that we consider will have the greatest influence over the way we deliver our work and achieve our aim and objectives over the next three years; and
 - c an outline of the high-level strategic themes that underpin our Plan in response to our operating environment.
- 6 Before finalising our Annual Plan for 2017-18, we want to seek the views of our various stakeholders on: our proposed aim and objectives; our assessment of our operating environment; and the four high-level strategic themes that we propose should underpin our forthcoming work.
- 7 We hope that you will be able to take the time to read this short consultation document and respond.

¹ The Plan also includes additional information on our three-year priorities and a framework of key performance measures and targets – see our **Annual Plan for 2016-17** for more information.

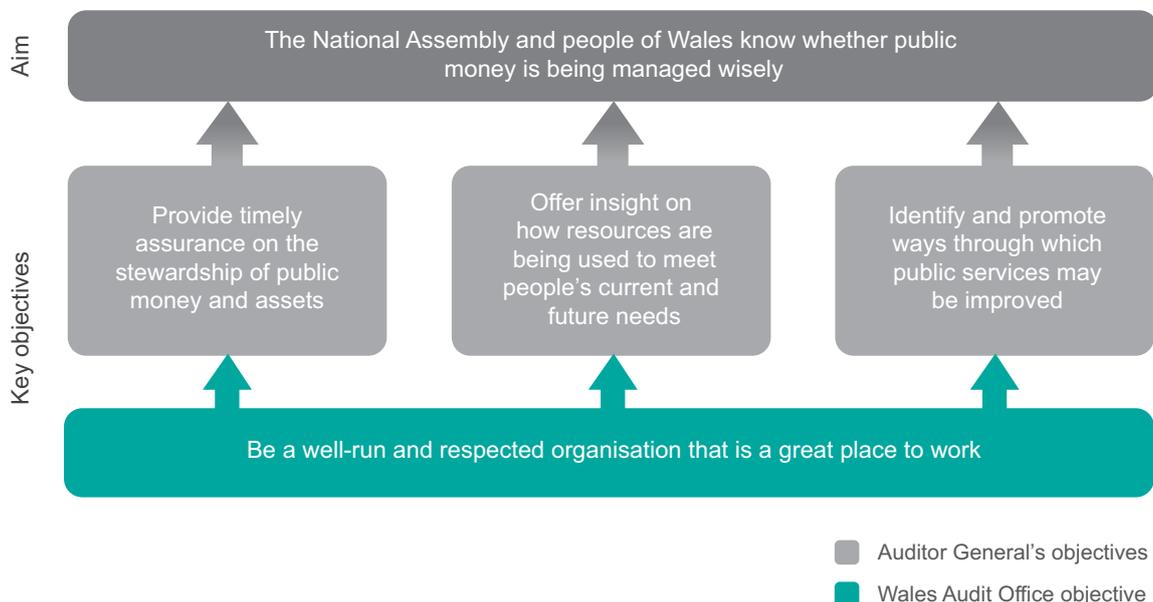
How we follow the public pound in Wales



Our aim and objectives

- 8 Our proposed overall aim and four key objectives for the period 2017 to 2020 are summarised in the exhibit below.
- 9 Our aim is that the National Assembly and people of Wales know whether public money is being managed wisely. It is expressed as an outcome to which we are a key contributor due to our wholly independent status, professional expertise and extensive rights of access to information through the Auditor General's statutory audit powers and functions.
- 10 Our first three objectives focus on effectively achieving the threefold purpose of audit – providing assurance, offering insight and promoting improvement.
- 11 Our fourth objective underpins the first three; in order for the Auditor General to deliver a high-quality audit service, the Wales Audit Office must be a well-run and respected organisation that delivers value for money and provides a stimulating and rewarding environment in which to work.

Making public money count



Consultation question 1

To what extent do you agree with our proposed aim and key objectives?

It would be helpful if you could provide supporting comments.

Our operating environment

- 12 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.

We remain in a period of financial constraint

- 13 Those charged with delivering public services continue to face real-terms reductions in annual budgets, while seeking to meet rising public expectations and demands and maintain and improve service provision.
- 14 As outlined in our report [A Picture of Public Services 2015](#), published in December 2015, the financial pressures that public services have faced since 2010-11 are likely to continue over the medium term. Almost all respondents to a survey of public-sector leaders carried out as part of that study cited financial pressures as one of their three biggest challenges in the future. The November 2015 spending review outlined that there will be further spending cuts in Wales, with the overall budget falling by £0.5 billion between 2015-16 and 2019-20. With capital funding protected, the reduction is made up almost entirely of revenue funding. In total, the period of austerity from 2010-11 to 2019-20 will see a like-for-like reduction of £1.8 billion (11 per cent).
- 15 Public services will need to continue to make radical changes to the way they provide services and engage with service users if they are to build effectively on the reforming approach being adopted in Wales. With many public service leaders expecting to make deeper cuts to services, a more rounded and long-term approach is needed to mitigate impacts on the public. In a recent report on the [Financial resilience of local authorities in Wales](#), we concluded that local authorities are improving their strategic planning arrangements but are having difficulty in developing and delivering the savings and changes to services at the pace required to ensure future financial resilience. Similarly, across NHS Wales, a majority of local health boards and NHS trusts are yet to meet their statutory obligation to produce an Integrated Medium Term Plan suitable for approval by the Minister.

Governance arrangements are now required to have a wider scope

- 16 The National Assembly has placed further legal requirements on the public sector in Wales to strengthen governance arrangements in accordance with the principles of sustainable development². Each public body listed in the Act must work to improve the economic, social, environmental and cultural well-being of Wales. To do this they must set and publish well-being objectives that are designed to maximise their contribution to achieving each of the well-being goals, and then take action to make sure they meet those objectives³.
- 17 The seven well-being goals are:
 - a A prosperous Wales
 - b A resilient Wales
 - c A healthier Wales
 - d A more equal Wales
 - e A Wales of cohesive communities
 - f A Wales of vibrant culture and thriving Welsh language
 - g A globally responsible Wales
- 18 The Act also establishes Public Services Boards for each local authority area in Wales. Each Board must improve the economic, social, environmental and cultural well-being of its area by working to achieve the well-being goals, including through preparing and publishing an assessment of local well-being, a local well-being plan, and annual progress reports.
- 19 Public Services Boards were established and the well-being duties on public bodies and Public Services Boards commenced on 1 April 2016. The first well-being objectives of listed bodies must be set and published by 1 April 2017. Listed bodies are then required to report annually on progress made towards meeting their objectives, as soon as reasonably practicable following the end of the financial year to which the report relates.

² Through the Well-being of Future Generations (Wales) Act 2015.

³ For further information see **Shared Purpose: Shared Future Statutory guidance on the Well-being of Future Generations (Wales) Act 2015**.

The political and policy landscape continues to evolve

- 20 A broad range of policy and political factors are likely to influence how we deliver our work over the next few years. In particular, these include:

Implications of the EU referendum result

- 21 While it is difficult at this stage to fully assess the effect 'Brexit' will have on our work, we can be fairly sure that there will be a cessation of EU agricultural funding⁴ and associated audit work, with possible replacement by alternative agricultural funding arrangements that will require audit.

Changes to the devolution landscape

- 22 The Wales Bill is currently progressing through Parliament⁵ and is set to change the form of devolution from a conferred to a reserved powers model. There is potential for new public bodies to be created under the new model which may require audit by the Auditor General, and for an extended scope for our studies to cover newly devolved service areas.

Fiscal devolution

- 23 Some tax raising and borrowing powers will be transferred from Westminster to Wales by 2018⁶. The Auditor General will be required to undertake new audit work in relation to the Welsh Revenue Authority⁷, which will be responsible for collecting Wales' devolved taxes, including the audit of a Tax Statement for each financial year.

Requirement for earlier closure of local government accounts

- 24 The Welsh Ministers intend to bring forward the deadlines for preparing and publishing the accounts of local government bodies in Wales by 2020-21⁸. This process will have a substantial impact on the use of resource by the Wales Audit Office, since the timescales for completing audits will be reduced from three to two months, and will overlap with those for the audits of central government and NHS bodies.

Amendments to Welsh Government grant funding and certification arrangements

- 25 The Welsh Government has previously indicated its intention to review the way grant funding to local authorities in Wales is audited. The Welsh Government and the Wales Audit Office have recently undertaken a high-level review of the current process and have identified that there is considerable scope to improve both assurance and value for money by refocusing the audit rationale.

⁴ Related reading: **What will Brexit mean for Wales?** Public Policy Institute for Wales, 28 July 2016.

⁵ Further information on the progress of the Bill can be accessed via the **UK Parliament website**.

⁶ Under the Wales Act 2014.

⁷ Under the Tax Collection and Management (Wales) Act 2016.

⁸ From 30 June and 30 September respectively in 2016-17, to 31 May and 31 July in 2020-21, through amendment of the Accounts and Audit (Wales) Regulations 2014.

We live in an increasingly networked society

- 26 Over recent years, advances in information technology have led to increased digitisation of service delivery, increased public access to data, and new opportunities and ways to communicate through social media and other forms of digital communication. Digital transformation forms a central part of the Welsh Government's plans to make public services more meaningful to their users⁹.

‘Every part of the public sector in Wales has a responsibility to ensure that the services it delivers, and the ways in which it offers those services, responds to this societal evolution and remains relevant.’

Digital First, Welsh Government, April 2015

- 27 An increasingly networked society does not just have implications for the public bodies that we audit. It also impacts quite profoundly on audit agencies. The Wales Audit Office, alongside other external review bodies, needs to stay abreast of technological developments and the associated opportunities and risks they present, and take advantage of new ways to gather intelligence, report on our findings and to maximise awareness of and engagement with their work.
- 28 Household availability of superfast broadband services in Wales rapidly increased from 55 per cent in 2014 to 79 per cent in 2015; second to England (84 per cent) among the UK nations¹⁰. However, more well-established, low-technology methods of communication and engagement must still be retained to ensure inclusion and since a significant proportion of households are still unable to receive even standard speed broadband (greater than 10Mbit/s).

Consultation question 2

To what extent do you agree with our assessment of the factors that will have the greatest influence over the way we deliver our work over the next three years?

It would be helpful if you could provide supporting comments.

⁹ For further information see **Digital First, Welsh Government**, April 2015.

¹⁰ Source: **Connected Nations Report 2015**, Ofcom, December 2015.

Our response

- 29 In response to our operating environment, we propose that our Plan for delivering our programmes of work during 2017-18 and for the three-year period 2017-2020 should be underpinned by four high-level strategic themes.

Continue to undertake our audit work with an austerity emphasis and to streamline our business processes

- 30 We will continue to place increased emphasis on the importance of strengthening financial management across the Welsh public sector and improving the effectiveness and efficiency of the use of public resources and assets. Through our audit work, where appropriate, we will focus on assisting service transformation and helping public bodies cope with, and succeed despite, the effects of funding reductions.
- 31 Key aspects of our work will include:
- a maintaining a focus on outcomes for service users;
 - b providing strong audit coverage in areas where we can identify and quantify potential cost savings and efficiencies;
 - c considering the strength of financial management arrangements and assessing the deliverability of savings plans;
 - d recommending practical actions that are consistent with sustainable development to assist service transformation;
 - e examining projects faster and at an earlier stage of delivery so we can look ahead and identify the key issues and challenges that need to be managed; and
 - f retaining flexibility in our audit programme in order that we can respond swiftly to issues brought to our attention.
- 32 In addition, we remain committed to ensuring that the Wales Audit Office itself is a well-run and sustainable organisation that demonstrates value for money. As outlined in our [Estimate for 2017-18](#), approximately two-thirds of Wales Audit Office funding comes from fees charged to audited bodies in accordance with a Scheme of Fees approved by the National Assembly. Most of the remainder comprises approved financing from the Welsh Consolidated Fund. In these times of significant financial restraint, cost efficiency continues to be a priority and we continue to operate an efficiency and effectiveness programme aimed at further streamlining our business processes.

Consultation question 3

To what extent do you agree with our proposal to continue to undertake our audit work with an austerity emphasis and to streamline our business processes?

It would be helpful if you could provide supporting comments.

Report more comprehensively on the effectiveness of governance arrangements, including the extent to which public bodies are acting in accordance with the sustainable development principle

- 33 Under Section 15 of the Well-being of Future Generations (Wales) Act 2015, the Auditor General must examine¹¹ the extent to which listed public bodies have acted in accordance with the Act's sustainable development principle when:
- a setting well-being objectives; and
 - b taking steps to meet those well-being objectives.
- 34 In carrying out such examinations, the Auditor General must take into account any advice or assistance given to the public body by the Future Generations Commissioner for Wales, and consult the Commissioner.
- 35 In April 2016, the Auditor General issued a consultation document [The Well-being of Future Generations Act and what it means for your audit](#). The consultation sought the views of audited bodies, and of other stakeholders, on how our audit approach should be reshaped in order that the Auditor General can effectively discharge his duties under this legislation.
- 36 Having reviewed responses to the consultation, the Auditor General now plans to invite a small number of public bodies in to work with him and the Wales Audit Office over the coming months to develop and test new audit approaches, drawing on the findings of the consultation.
- 37 In addition, the Auditor General will be working closely over the coming year with the Future Generations Commissioner, on developing their respective roles under the Act. A joint conference was held in Cardiff on 22 November 2016, in which they set out their approach to working together in more detail.

Consultation question 4

To what extent do you agree with our proposal to report more comprehensively on the effectiveness of governance arrangements, including the extent to which public bodies are acting in accordance with the sustainable development principle?

It would be helpful if you could provide supporting comments.

¹¹ At least once during a period of equal length to the election cycle for the National Assembly for Wales. It should also be noted that the Auditor General does not have a statutory role in relation to the accountability of Public Services Boards.

Further adapt and reshape our audit approach so that we are better equipped to respond to change and maximise the impact of our work

- 38 We will continue to transform our audit approach over the next three years, to ensure we can both meet current demand and are able to anticipate and respond to future developments, thereby maximising the impact of our work.
- 39 As outlined in our [Annual Report and Accounts for 2015-16](#) we have recently established an investigative studies team to strengthen our forensic audit capacity and ensure timely responses to issues of public concern without detracting from our statutory audit work.
- 40 We are liaising closely with Welsh Government and National Audit Office officials on all aspects of fiscal devolution to Wales, and preparing for the accounting and audit implications of Ministerial policy decisions and associated UK/ Welsh legislation as these emerge. The Auditor General published a report on [Preparations for the implementation of fiscal devolution in Wales](#) on 1 December 2016. A further review is intended for publication in September 2017, prior to the introduction of fiscal powers in April 2018.
- 41 Accounts opinions for three unitary authorities were delivered much earlier in 2016 than in previous years. The post-project learning from these audits will be used to further inform our preparations for the formal introduction of faster closure of local government accounts over the period 2017-18 to 2020-21.
- 42 Development work on our new outcome-based approach to grant certification work is also now complete and the approach is currently being piloted at two unitary authorities. Evaluation of the pilot will then be undertaken in spring 2017 with a view to rolling out the approach across other authorities later that year.
- 43 Another factor that is influencing how we reshape our audit approach, particularly in the local government sector, is the acceleration of changes to service delivery models and financing mechanisms.

Consultation question 5

To what extent do you agree with our proposal to further adapt and reshape our audit approach so that we are better equipped to respond to change and maximise the impact of our work?

It would be helpful if you could provide supporting comments.

Make more effective use of data and information technology

- 44 In our [Estimate for 2016-17](#) we sought and subsequently gained approval from the National Assembly's Finance Committee to reprioritise £100,000 of our Welsh Consolidated Fund funding to develop options for strategic transformation and realignment of our work.
- 45 From 1 April 2016, a programme of work was commenced within the Wales Audit Office to facilitate strategic transformation of audit, operating in parallel to the programmes of work undertaken as part of our annual business cycle. The initial focus of this programme of work is to challenge our existing use of data and technology, through questioning what we normally take for granted and offering solutions as to how we might use new technology to transform our audit and business processes.
- 46 The key areas of investigation currently include:
- a **Data acquisition** – concerned with ensuring we have continuous access to the right financial and performance data to inform our audits, and with being able to locate the data easily.
 - b **Data analytics** – concerned with exploring the potential for us using advanced technology to automate and enhance our analysis and use of data¹².
 - c **Agile working** – concerned with exploiting technology to transform the way our staff deliver their day-to-day work, and looking at the tools they use, as well as the facilities and locations where they work.
 - d **Audit products** – concerned with using technology to transform the way we report our findings.
- 47 The project team is due to report its findings to the Board in March 2017 for further consideration, development and implementation where appropriate.

Consultation question 6

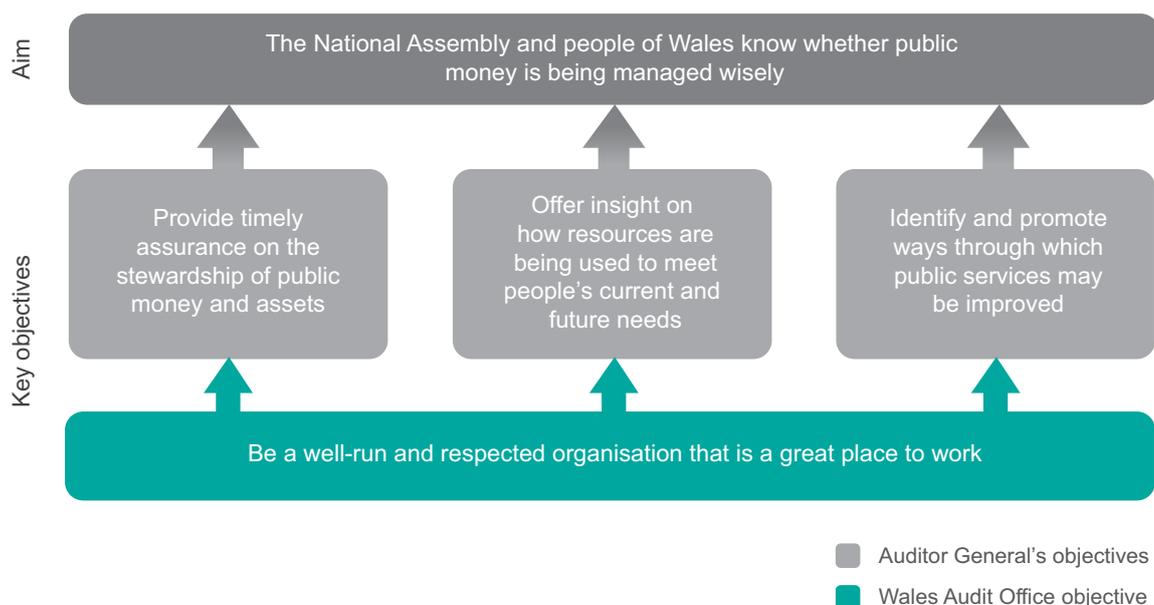
To what extent do you agree with our proposal to make more effective use of data and information technology?

It would be helpful if you could provide supporting comments.

¹² While ensuring appropriate, lawful and fair use of personal data.

Summary and consultation questions

Making public money count



Our operating environment and response

Key factors	How we intend to respond
We remain in a period of financial constraint	Continue to undertake our audit work with an austerity emphasis and to streamline our business processes
Governance arrangements are now required to have a broader scope	Report more comprehensively on the effectiveness of governance arrangements, including the extent to which public bodies are acting in accordance with the sustainable development principle
The political and policy landscape continues to evolve	Further adapt and reshape our audit approach so that we are better equipped to respond to change and maximise the impact of our work
We live in an increasingly networked society	Make more effective use of data and information technology

Consultation questions

- 1 To what extent do you agree with our proposed aim and key objectives?
- 2 To what extent do you agree with our assessment of the factors that will have the greatest influence over the way we deliver our work over the next three years?
- 3 To what extent do you agree with our proposal to continue to undertake our audit work with an austerity emphasis and to streamline our business processes?
- 4 To what extent do you agree with our proposal to report more comprehensively on the effectiveness of governance arrangements, including the extent to which public bodies are acting in accordance with the sustainable development principle?
- 5 To what extent do you agree with our proposal to further adapt and reshape our audit approach so that we are better equipped to respond to change and maximise the impact of our work?
- 6 To what extent do you agree with our proposal to make more effective use of data and information technology?

In the **response form** you will be asked to select your response to each question from the following options, alongside providing supporting comments:

- Strongly agree
- Somewhat agree
- Neither agree nor disagree
- Somewhat disagree
- Strongly disagree

Wales Audit Office

24 Cathedral Road

Cardiff CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone: 029 2032 0660

E-mail: info@audit.wales

Website: www.audit.wales

Swyddfa Archwilio Cymru

24 Heol y Gadeirlan

Caerdydd CF11 9LJ

Ffôn: 029 2032 0500

Ffacs: 029 2032 0600

Ffôn Testun: 029 2032 0660

E-bost: post@archwilio.cymru

Gwefan: www.archwilio.cymru