



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

# Estimate 2015-16

# Estimate of the Income and Expenses for the Year Ended 31 March 2016

Jointly prepared and laid before the National Assembly for Wales under Section 20(1) of the Public Audit (Wales) Act 2013.

Isobel Garner  
**Chair, Wales Audit Office**

Huw Vaughan Thomas  
**Auditor General for Wales**

# Preface

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

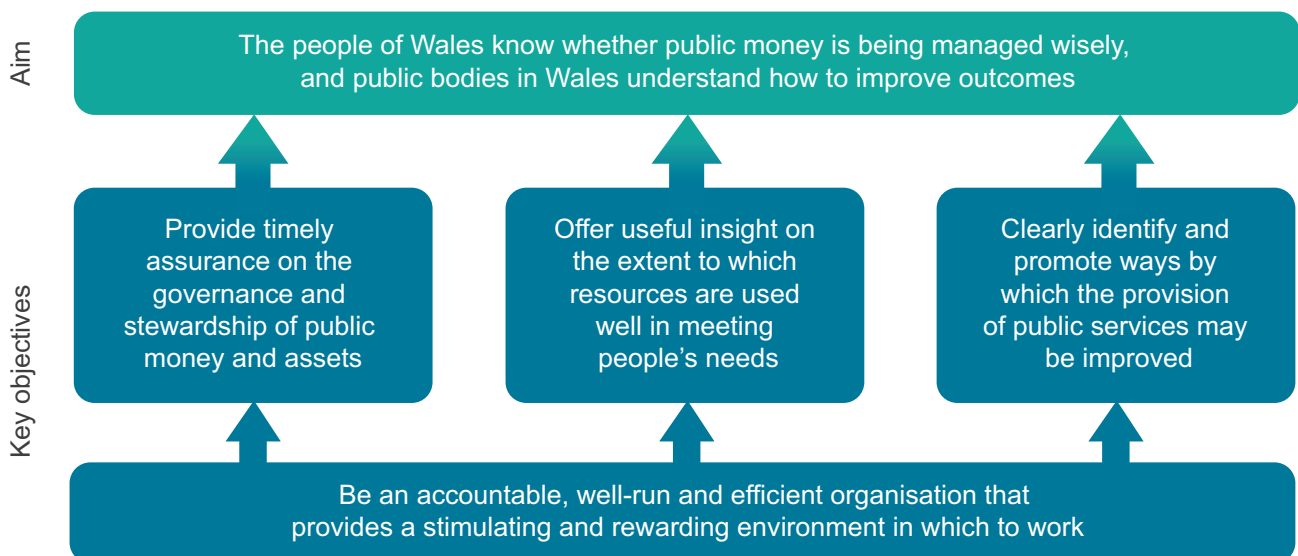
In accordance with Section 20 of the act, each estimate must cover (amongst other things) the resources required by the Auditor General for the exercise of his statutory functions.

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

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

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

## Wales Audit Office's aim and objectives



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# Foreword

The Board of the Wales Audit Office has prepared this Estimate jointly with the Auditor General, the second time we have done so since the Board's creation. This Estimate demonstrates the Board's determination that the Wales Audit Office is a well-run and accountable organisation that fulfils its statutory remit to provide resources to the Auditor General. In auditing over £15 billion of public sector spending, voted annually by the National Assembly, the costs of the Wales Audit Office equate to less than a fifth of one penny of every pound audited.

Our aim at the Wales Audit Office is for the people of Wales to know whether public money is being managed wisely and, for public bodies in Wales to understand how to improve outcomes. Maintaining public confidence in how money is spent has never been more important, particularly as Welsh public services find themselves making tough decisions that will affect the delivery of services for many years. Patterns of delivery are being reconsidered across the public service landscape and audit evidence indicates a clear need for redesign and transformation in the face of limited resource and growing demand.

We expect the Welsh Government and National Assembly will continue to seek the independent and authoritative input of the Auditor General, supported by the Wales Audit Office, for a range of purposes. We also see a continued strengthening of relationships between the Wales Audit Office and the wider community of external review in Wales, building on the advantages of a well-connected Welsh public service.

The Commission on Public Service Governance and Delivery indicated that the messages of our audit reports are permeating thinking in Wales. It is important therefore that the Wales Audit Office continues to provide timely and helpful insight into public spending and accountability. We aim to disseminate learning from successes as well as failures and to encourage improvement by working with others to develop support and improvement tools.

In enabling the Auditor General to carry out his functions, the Board is committed to:

- providing highly skilled resources to deliver the Auditor General's programme of work;
- further developing our workforce through a learning culture;
- positioning ourselves as an organisation trusted by our stakeholders and the people of Wales;
- being, and being seen to be, a well-run organisation;
- keeping a tight grip on costs, seeking further efficiencies and keeping audit fees as low as possible; and
- applying sustainable development as a central organising principle.

The Board's first full year of existence has focused on governance and forward planning so that the organisation is best positioned to meet the challenges it faces over coming years. These challenges are similar to those faced by all other public services – the drive to maximise cost efficiency alongside the demand for high-quality services, calling for transformational thinking in how we deliver.

In April 2015, we will launch our three-year Business Plan, which aligns with our Medium Term Financial Plan. Both are supported through this Estimate for 2015-16 and all work together to help steer a course through the years ahead. We have initiated new performance reporting arrangements that will provide the Wales Audit Office Board with a suite of key performance indicators of our progress against our plans, which we will report in our interim and annual reports for 2015-16 onwards.

In formulating our plans, we have listened carefully to our stakeholders. The majority tell us that they have considerable confidence in the work of the Wales Audit Office and that our work provides value for money. However, they have also told us that in these times of significant financial restraint, we must do more to constrain our operating costs and avoid increases in our fee rates. There is a direct dependency between our Estimate, as approved by the National Assembly's Finance Committee, and the fee rates we set. For the first time, we have included draft fee scales in our Estimate and have undertaken our statutory consultation on fees with local government bodies in time to inform the Estimate. We see this as an important step in enhancing transparency and giving a fuller picture of the costs and funding of the Wales Audit Office.

As we present this Estimate to the Committee for consideration, the Board would stress that we are determined to show strong leadership and fiscal restraint in these austere times: building on the trust of our stakeholders and ensuring that the Wales Audit Office continues to help improve the management, reporting and most importantly the outcomes of public spending in Wales.

Isobel Garner  
**Chair, Wales Audit Office**

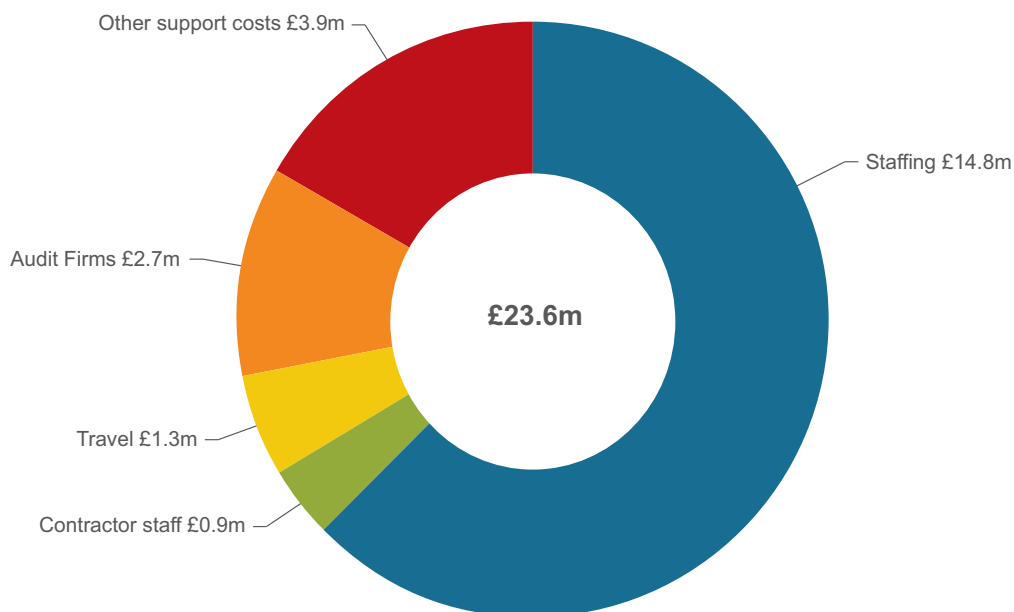
Huw Vaughan Thomas  
**Auditor General for Wales**

# The impact, cost and funding of the Wales Audit Office

- 1 Independent audit of the use of public funds is an essential component of democratic accountability. The public needs to be adequately informed about the activities of public bodies and how they use public money. And, public bodies need to understand how to improve outcomes and succeed. The public needs to be able to access information which is timely, impartial, accurate, comprehensive and clear. It is in these difficult times, of much greater pressures and risk, but also opportunity, that the role of audit is heightened.
- 2 Every year, the Auditor General reports on the accounts of over 800 public bodies in Wales; undertakes annual improvement assessments at all 28 local government improvement authorities and structured assessments at all 10 NHS bodies. He publishes around 15 national reports annually, looking at value for money and proper use of public money and certifies £3 billion worth of grant claims. It is this work that provides the quantum over which Wales Audit Office net costs are recovered, by way of fee charges and a grant for the Wales Programme for Improvement (WPI) work, along with funding from the Welsh Consolidated Fund (WCF).

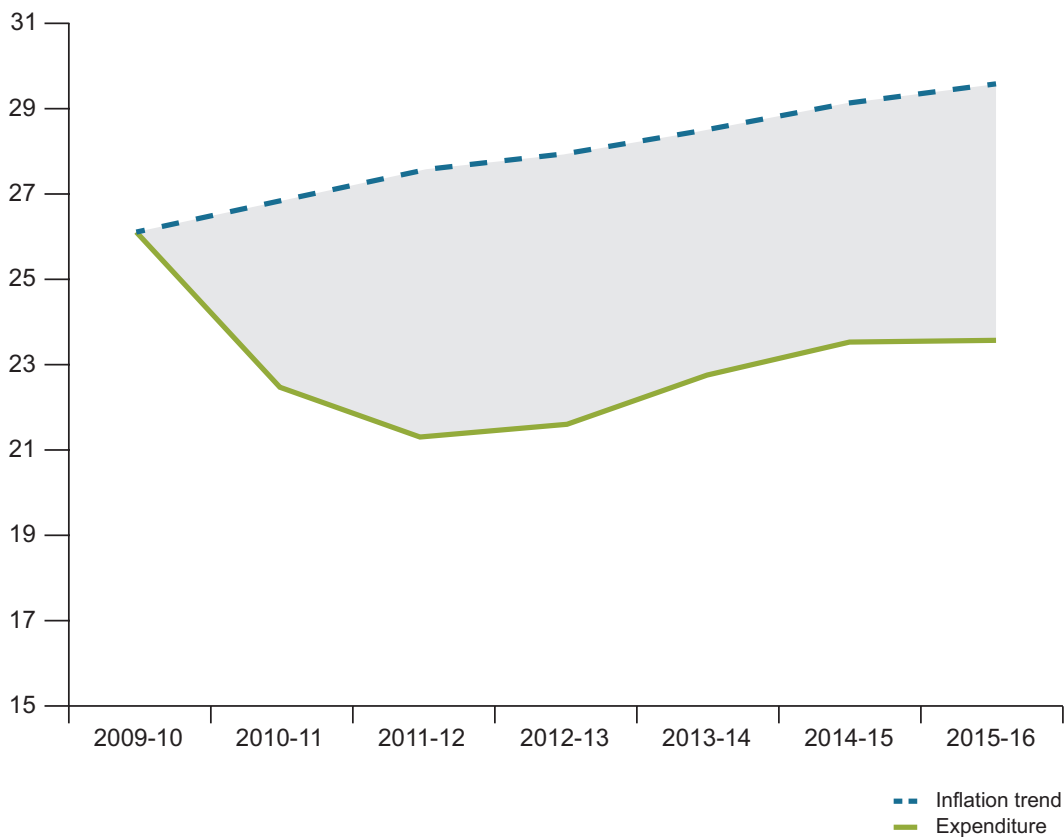
## Expenditure

Exhibit 1: Estimate of expenses 2015-16



- 3 The Wales Audit Office provides the Auditor General with the resources he needs to undertake his work effectively. The majority of our costs relate to the 260 full-time equivalent staff we employ, our contractors, the delivery of services across Wales and, providing the necessary infrastructure and support services to deliver our work. Further detail can be found in [Appendix 1](#).
- 4 Since 2009-10, the Wales Audit Office has reduced its expenditure by 20.5 per cent in real terms, as represented in [Exhibit 2](#). The cumulative saving generated across those years (the shaded area in [Exhibit 2](#)) amounts to over £34 million, reducing both the call on the WCF and the amount required to be raised from audit fees.

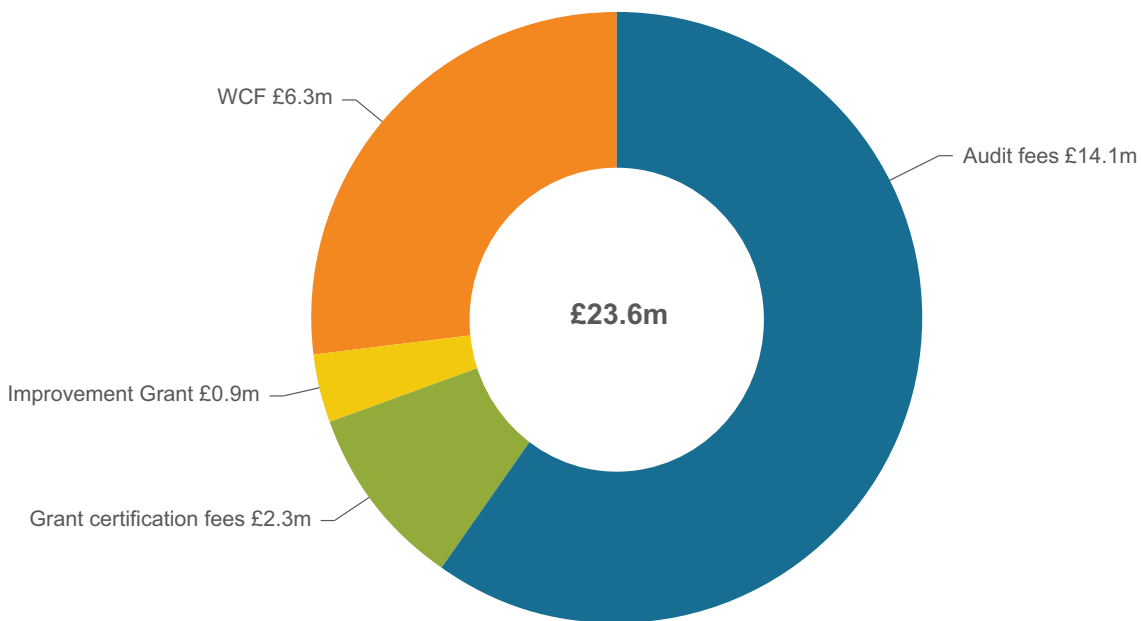
Exhibit 2: Expenditure 2009-10 to 2015-16





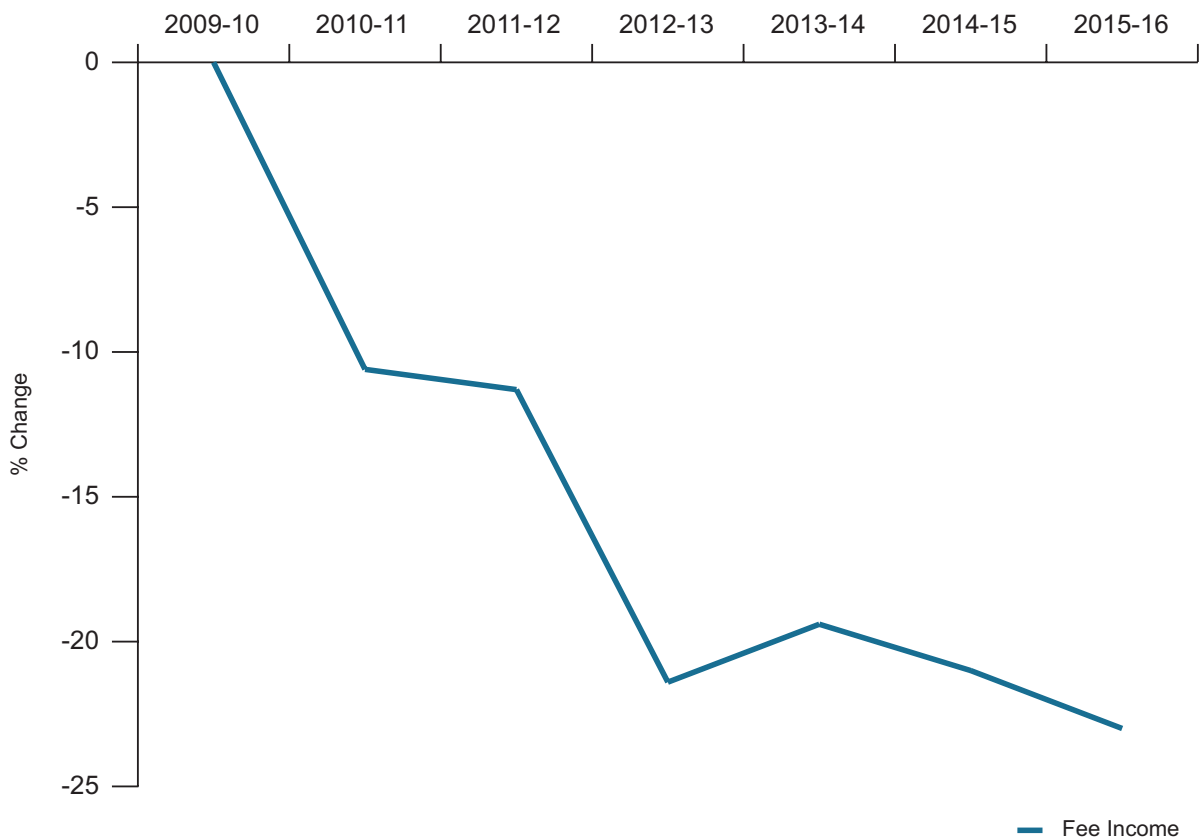
## Funding

Exhibit 3: Estimated funding 2015-16



- 5 Broadly, 73 per cent of the Wales Audit Office's expenditure is funded through fees charged to audited bodies and a grant from the Welsh Government for the WPI. The remaining 27 per cent is provided directly from the WCF, per [Exhibit 3](#). This is comparable with Audit Scotland which received 74.5 per cent of its income from fees in 2013-14. Further details can be found in [Appendix 1](#).

Exhibit 4: Real-terms reduction in fee income 2009-10 to 2015-16



6 **Exhibit 4** illustrates the trend in our annual fee income from 2009-10 to our estimated position for 2015-16 showing a 23 per cent reduction in fee income over the period. In tandem, we have reduced our operating costs by 20.5 per cent.

# Cost reduction and cost efficiency at the Wales Audit Office

- 7 The Wales Audit Office faces significant cost pressures next year as set out in [Exhibit 5](#):

**Exhibit 5: Significant cost pressures in 2015-16**

	£'000
Contractual pay increments	225
Further increased VAT costs, against contracted-out audit work	210
Cost of a one per cent public sector pay policy	145
Cost of an increase in employers' pension contributions imposed by the civil service pension scheme	100
Cost of inflationary increases on other areas including increased energy and business rates costs on our premises	80
<b>TOTAL</b>	<b>760</b>

- 8 Cost efficiency continues to be a priority for the Board. Building on savings achieved in previous years, we take a forward-planning approach that will enable us to achieve additional savings for 2015-16. This means that we can fund the unavoidable cost increases without impacting fee rates or increasing our call on the WCF. To deliver this, we intend to achieve the savings set out in [Exhibit 6](#).

## Exhibit 6: Savings identified for 2015-16

Savings in 2015-16	£'000
Reduction in management and administration costs	335
Efficiency and Effectiveness Programme	185
Revised contracting arrangements	165
Outsourcing services (payroll and internal audit)	75
<b>TOTAL</b>	<b>760</b>

- 9 To deliver a commitment of no increase in hourly rates against the backdrop of the above cost pressures and continued public sector funding restraint, the Wales Audit Office is raising the savings bar still further through its Efficiency and Effectiveness Programme. The programme will build on the work done to date in reducing costs, targeting savings in the following areas:
- transformational efficiency and effectiveness;
  - process efficiency and effectiveness;
  - travel efficiency and effectiveness; and
  - estate efficiency and effectiveness.
- 10 The targets set under this programme will be aligned with the Board's Medium Term Financial Plan to maintain the financial sustainability of our services.
- 11 It is evident that the Wales Audit Office will continue to face significant financial challenges in the years ahead. The Board is satisfied that our planning arrangements which include our Efficiency and Effectiveness Programme, our Medium Term Financial Plan, our Business Plan and our Workforce and Contracting Strategies provide an appropriate framework for meeting those challenges. However, even as we seek more efficient ways to undertake our work, audit quality will remain of paramount importance and a standard on which we cannot, and will not, compromise.

# Securing quality audit delivery for the Auditor General

- 12 We provide highly skilled staff to undertake broadly 82 per cent of the Auditor General's work programme, complemented by a further 18 per cent of audit resource contracted from private sector accountancy firms. It is this strength of expertise that reports on the accounts of over 800 public bodies in Wales; undertakes annual improvement assessments and structured assessments, produces national reports and, certifies £3 billion worth of grant claims. The main operational activities of the Auditor General are set out in [Appendix 2](#).

## Contracting strategy

- 13 As part of our ongoing commitment to ensuring a value-for-money audit service, we have reviewed the proportion of our work that we contract out to these firms, with the aim of increasing the proportion of work undertaken in-house. 2015-16 will be the first of two transition years which will see an increase in staff costs for the Wales Audit Office being offset by reductions in our contracted-out expenditure with the large accountancy firms. Alongside the financial benefit of using in-house staff, the Auditor General is keen to retain some level of mixed economy to provide alternative expertise, short-term reinforcement of resource and to manage the effects of longer-term changes to workload. As our current contracts with the firms end in autumn 2015, new procurements are underway to bring in more flexible supply arrangements over the next three to five years.
- 14 Delivering the above changes over the next two years will help ensure the Wales Audit Office is well positioned for future anticipated changes in workload and resultant resource needs.

## Key business priorities in audit delivery

- 15 Aspects of our work change year on year. In undertaking our audit work in 2015-16, our key business priorities will include:
- providing an all-Wales overview of local assessments of financial health and quality of financial planning in local government bodies;
  - better integrating the planning, delivery and reporting of our audit of accounts and performance audit work, particularly in relation to examining the effectiveness of governance arrangements;
  - further aligning our work with that of the other external review bodies;
  - preparing for the impact of changes to the grant funding regime in Wales arising from the introduction of Universal Credit and the new European Programme for 2014-2020;

- enhancing our work that examines linkages between NHS service providers, including in particular the interface between health and social care provision;
- publishing an annual NHS Wales summary report, drawing on local audit work to present a national picture of relative financial and services performance by NHS bodies; and
- publishing an annual summary report on the results of audit work undertaken within the central government sector.

16 The above will further strengthen public assurances and provide insight into how effectively public services are delivering. We will be delivering these priorities through existing resources rather than seeking additional funding or increasing fee rates and we will report on progress in our interim and annual reports.

## Helping public services improve

- 17 A key objective of the Wales Audit Office is to help Welsh public bodies succeed within the context of an increasingly challenging and complex environment. We look to support public bodies through clearly identifying and promoting ways in which the provision of public services may be improved. We aim to do this as part of our core audit work and through a range of additional activity, such as the Good Practice Exchange. The Auditor General's performance audit work, undertaken directly for the Public Accounts Committee or with audited bodies, provides authoritative and timely coverage of spending and risks to value for money. As well as making recommendations for improvement, our reports often include good practice case studies and tools for improvement, which we publicise across the Welsh public sector. Increasingly, the findings and learning from the Auditor General's local audit work have reached a broader audience, for instance through promoting these messages within national all-Wales summary reports, such as his forthcoming reports on orthopaedic services and primary care prescribing. Our audit work addresses a broad range of issues that are of public interest and gives consideration to the long-term well-being of the people of Wales. For instance, the Auditor General is currently undertaking value-for-money examinations of issues such as NHS waiting lists; the Welsh Government's investment in broadband infrastructure; rail services within Wales; and the impact of welfare reform on social housing.
- 18 Since our inception in 2005, the Wales Audit Office has looked to exploit and share the learning from our audit work across public services in Wales and beyond. The primary tool for gathering and promoting this learning has been through the development of our Good Practice Exchange, which provides a wealth of freely available online resources. Our approach to knowledge exchange has been developed and applied with increasing success over the last five years, in particular through our popular shared learning events where the learning from comparative successes and failures is shared face to face. During 2013-14 over 600 delegates attended our 17 shared learning events and the materials and messages from those events were shared with a much wider audience through the internet and social media. We also work in collaboration with other organisations. In particular, we work in partnership with Good Practice Wales, a single access online portal to Welsh Public Services good practice and knowledge.

## Key business priorities for public services improvement

- 19 In undertaking our work in 2015-16, our key business priorities for helping public services improve will include:
- Better understanding the expectations and requirements of the Public Accounts Committee, through considering members' views of our support for their scrutiny work, and on individual audit reports.
  - Expanding the range of audit outputs for consideration by the Public Accounts Committee and other Assembly committees, potentially including briefings; factual memoranda; and annual summaries of our financial audit work.
  - Putting in place discrete arrangements to support the timely delivery of reactive examinations into emerging issues of public concern, without detriment to other planned programmes of audit work.
  - Building upon the momentum generated by our good practice and shared learning activities by supporting stakeholders to turn ideas into tangible improvements.
  - Further enhancing our sector understanding and relationships with audited bodies to better inform our work programme and provide 'real-time audit', contributing to developments and improvements as they happen across the public sector.
  - Providing audit commentary on Wales' preparedness for the introduction of fiscal powers and on progress made throughout the planning and implementation stages.
- 20 We are seeking additional funding of £380,000 from the WCF in 2015-16 in order to deliver aspects of the above. More detail on how this funding will be used is included in [paragraphs 21 to 32](#).

## Correspondence and forensic auditing<sup>1</sup>

- 21 We are seeing an increasing volume of issues and concerns being raised by members of the public and their elected representatives about the use of public money by Welsh public bodies, with requests for an audit investigation into such matters. Every correspondent will see a proper consideration of their concerns and be entitled to a substantive response. Some correspondence will lead to full value-for-money investigations, such as the recent report on the Cywain Centre in Bala, as well as the audit work currently underway on the Regeneration Investment Fund for Wales (RIFW) and the Welsh Life Sciences Investment Fund (WLSIF). This growing demand upon and expectation of the audit function is not unique to Wales and has been experienced by the audit offices in all other parts of the UK.

<sup>1</sup> Interim Report 2014-15 'Correspondence and unplanned work'



- 22 One case alone has cost the full-year budget currently in place for all such matters. We expect to see the increasing trend continuing as public bodies come under even greater pressure and scrutiny in coming years. Concerned citizens and their elected representatives rightly expect a timely and thorough response from us. Funding this work at a realistic level in future, including the need to strengthen our forensic audit capacity so as to ensure more timeous responses without detracting from our statutory audit work, will require additional WCF resource of £110,000. The total budget for this work is £230,000 and we will be meeting at least £40,000 of this cost from internal efficiencies with the balance being met from fees charged for additional audit work that arises from the issues raised.

### **Strategic sectoral intelligence**

- 23 The nature of our external audit role gives us a wide reach across the Welsh public sector and a depth in terms of our knowledge and understanding of individual public bodies. We provide a range of advice and support to executive teams and those charged with responsibility for the scrutiny of executive decision making. We participate as 'observers' in a wide range of programme or project boards; thereby protecting our audit independence from policy decisions, but bringing to the table our experience and technical advice to help support well-informed decision making and sound risk management.
- 24 The public sector landscape in Wales is undergoing considerable change in the wake of the reports of the Williams and Silk Commissions. In order to ensure that the policy and other changes proposed are able to benefit from audit advice and input at an early stage in their formation, we are needing to allocate senior staff to work with the Welsh Government, the National Assembly and others. Examples of such work are the support we are needing to give to the development of a Welsh Treasury function and providing 'critical friend' input to the public service reform programme. This requires fostering strategic stakeholder relationships within and outside of Wales to inform thinking, support change and review effectiveness.
- 25 Our recent appointment of Sector Leads for Health and Central Government, and Local Government and Criminal Justice provides additional capacity to support improvement. This strategic engagement also helps to ensure that our own planning and audit work programmes are informed by an understanding of new and emerging developments in the public sector. By their nature, it is not appropriate to fund the cost of this work through our audit fees to individual public bodies. For 2015-16, the estimated cost of this capacity is £130,000.

## New audit system

- 26 The current arrangements for audit and records management, some of which are legacy systems from the predecessor organisations, have developed over time as the Wales Audit Office has evolved. There is a business-critical need to introduce a replacement system for financial audit work as the version of the current system that we are using has become unstable and is no longer supported by the system's owner.
- 27 The Board has approved the procurement of a new system to plan, manage, record and store our audit work that will also rationalise and simplify our IT systems as it will also replace our current time-recording and resource-management systems.
- 28 It will be set up for trial purposes by March 2015, sharing good practice with, and learning lessons from, the experiences of both the National Audit Office and Audit Scotland who have introduced similar systems recently. During 2015-16, we will finalise the system and establish it for a state of assured readiness for the start of the financial audit year in autumn 2015. Through careful management of our resources in 2014-15, we will fund the upfront investment costs from existing resources rather than seek additional funding.
- 29 For 2015-16, we will require additional WCF resource of £90,000; £40,000 will provide a contribution to our one-off up-front costs and the remaining £50,000 is non-cash resource required to cover the estimated depreciation cost of the new system.
- 30 We have a longer-term aspiration for a common audit system across the two audit practices to improve operational efficiency by bringing together our differing approaches to audit and records management into a single integrated system and we will continue to work closely with the other UK audit bodies to explore future options as the market develops.

## National Fraud Initiative

- 31 The National Fraud Initiative (NFI) is a collaborative UK-wide exercise undertaken every two years that matches electronic data within and between public and private sector bodies to prevent and detect fraud. Since its commencement in 1996, NFI exercises have resulted in the identification of more than £26 million of fraud and overpayments in Wales, and £1.17 billion across the UK. Savings impact across public finances rather than necessarily at the body that has paid to participate. The Public Accounts Committee has made clear its desire for greater public sector participation and we believe this can be encouraged by removing the cost burden from participating bodies and instead funding the work from our Estimate and drawdown from the WCF.
- 32 The NFI generates annual savings of some £1.5 million to the public sector in Wales. However, the NFI is currently funded by fees charged to individual participating bodies, which can be a distinct disincentive at a time of public sector restraint especially as the benefit from savings identified may occur elsewhere. In order to increase participation in the NFI, we propose that in future this work should be funded by our drawdown from the WCF. The financial impact of doing so follows a two-year cycle, estimated at £50,000 in 2015-16; £100,000 the following year.

## Estimated use of WCF

- 33 **Exhibit 7** sets out the areas of expenditure funded from the WCF rather than the fees we charge audited bodies. These are costs that are more closely linked to our pan-Wales role in providing audit leadership, setting standards, delivering Assembly policy and supporting Assembly scrutiny. For 2015-16, this includes the additional resource requirements discussed above.

## Exhibit 7: Estimated use of WCF

	Year to 31 March 2016 £'000	Year to 31 March 2015 £'000
Value-for-money examinations and studies by the Auditor General including reactive studies	1,760	1,760
Staff training and development and trainee auditors	820	820
Technical support, research and development including compliance and quality assurance	744	744
Good Practice Exchange	540	540
Local government national studies	530	530
Providing support to the Public Accounts Committee and other National Assembly committees	420	420
Wales Audit Office Governance Structure	300	300
Contribution to all-Wales travel costs	300	300
Transitional subsidy for the audit fees of Welsh Government sponsored bodies	250	250
Preparation and support for Future Generations Bill	122	122
Responding to issues that have been brought to our attention through correspondence from the public, elected representatives and others (paragraphs 21-22)	200	90
Strategic sectoral intelligence (paragraphs 23-25)	130	-
Contribution to project management costs for new audit platform along with additional depreciation costs (paragraphs 26-30)	90	-
NFI (paragraphs 31-32)	50	-
<b>Total revenue expenditure requirement</b>	<b>6,256</b>	<b>5,876</b>

### **Capital investment**

- 34 Our provision for capital investment has reduced from £98,000 in 2014-15 to £50,000 for 2015-16. This £50,000 is required to fund planned IT infrastructure replacement along with potential relocation costs for our North Wales office.

# Estimated budget requirements of the Wales Audit Office for the year ending 31 March 2016

- 35 Under Section 125 of the Government of Wales Act 2006, Ministers must move a Budget Motion in the National Assembly to authorise the use of resources, retention of income and drawings of cash from the WCF for certain relevant persons, including the Wales Audit Office.
- 36 In respect of the services and purposes of the Wales Audit Office, the Auditor General and local government appointed auditors in the year ending 31 March 2016, the Budget Motion will authorise:
- the amount of resources which may be used in the financial year by the Wales Audit Office (in line with the budget for the year);
  - the amount of resources accruing to the Wales Audit Office in the financial year, which may be retained rather than being paid into the WCF; and
  - the amount which may be paid out of the WCF to the Wales Audit Office.
- 37 These requirements, which due to the variability of income streams can only be estimates, are summarised in [Table 1](#).

**Table 1: Summary of the estimated 2015-16 budget requirements**

	£'000
Resources other than accruing resources for use by the Wales Audit Office on the discharge of the statutory functions of the Wales Audit Office, the Auditor General and local government appointed auditors, and on the administration of the Wales Audit Office:	
• Revenue	6,256
• Capital	50
Accruing resources from fees and charges for audit, grant certification and related services; grants received to fund audit services; other recoveries of costs associated with the functions of the Auditor General; miscellaneous income from publications, conferences, provision of administrative, professional and technical services; recoveries of costs of seconded staff; repayments of staff loans; recoveries of car leasing payments; recoveries of any costs incurred for a third party; and interest received on working balances – for use by the Wales Audit Office on the discharge of the functions of the Auditor General and local government appointed auditors, and on related services and the administration of the Wales Audit Office.	17,324
Net cash requirement from the WCF to meet the net amounts falling due for payment in the year by the Wales Audit Office.	6,146

38 **Table 2** provides a reconciliation of the Wales Audit Office's total resource request with its net cash requirement for the year ended 31 March 2016.

**Table 2: Reconciliation of resource requirement to cash drawing requirement from the WCF**

	£'000
Net request for resources – revenue and capital	6,306
Non-cash adjustment - depreciation and accruals	(160)
Net cash requirement from the WCF to meet the net amounts falling due for payment in the year by the Wales Audit Office	6,146

## Draft Fee Scales and Fee Rates 2015

- 39 We do not generate profits on our fees. Under legislation, we must *charge no more than the full cost of the exercise of a function*. Fee rates are calculated by dividing our total estimated costs, other than those covered by the WCF, by the amount of audit work to be undertaken in the year.
- 40 There is a tension between providing clients with an up-front fee for the work to be undertaken on specific audits and having a sufficiently flexible regime that recognises the inevitability of variances. We set our audit fees based on the estimated skills mix and number of days required to complete the work. The actual expenditure, actual skills mix and actual days' work inevitably differ and, occasionally, the fee set is found to exceed the actual costs we incur. On such occasions, we will provide a refund. Where the required work is significantly greater than that originally estimated, and the additional cost cannot be met from resources provided by the Assembly's Budget Motions, we will charge a higher fee, as permitted by legislation.
- 41 As a result, our fee-charging arrangements are complex, cumbersome and expensive to administer and are regarded by some as no more than circulating funds within the public sector. Our stakeholders tell us that they would like us to find a simpler model for the recovery of public audit costs, and we are keen to further explore alternative mechanisms. One aspect of this we propose changing for 2015-16 is for the work we do to support the NFI. Our proposals to replace fees to audited bodies with direct funding from WCF are set out in [paragraph 31](#).
- 42 For 2014-15, a review of our costing model, arising from the 'charging no more than full cost of a function' requirements of the Public Audit (Wales) Act 2013, coupled with a change to our VAT status by HM Revenue and Customs, meant that increases in some audit fee rates were necessary.
- 43 For 2015-16, the Board set a clear commitment in order to help public bodies in these austere times: **no increases in fee rates**.
- 44 For the first time, we have included within this Estimate document, draft fee scales and fee rates to be charged to public bodies ([Appendix 3](#)). We see this as an important step in further enhancing transparency and demonstrating the relationship between fee rates and the approved Estimate. Following approval of the Estimate, we will lay our Fee Scheme for 2015-16 before the National Assembly for approval and advise audited bodies of their estimated fees for the year.
- 45 We have calculated fee scales by applying hourly rates to estimated audit input for a typical audited body in the sectors shown. This is on the basis of recovering no more than the full cost of the audit work undertaken. Fees for an individual audited body will depend on local circumstances but would ordinarily be expected to fall within the attached fee scales.



- 46 In September 2014, we undertook the statutory consultation on our fee scales for 2015-16 with local government bodies, on the basis of the Board's commitment not to increase fee rates. Consultation responses told us that:
- the freezing of fee rates and fee scales is very much welcomed in the context of public sector funding pressures;
  - the organisations acknowledge the work done by the Wales Audit Office in managing costs and efficiencies;
  - there is a demand for greater transparency with fee charges;
  - greater proportionality to risk and size of the organisation is wanted; and
  - continued efficiency and innovation in service delivery in order to bring the cost of audit down in future years is expected.
- 47 The Board welcomes this feedback and will respond through the Fee Scheme for 2015-16 and future service delivery.

## Forward look

- 48 The horizon for our public audit work presents a complicated picture for the Wales Audit Office, encompassing:
- The Welsh Government's legislative programme and performance audit regime and any impacts for the work of the Wales Audit Office. This would include impacts arising from further devolution.
  - A reduction in grant claim work for the Wales Audit Office arising from simplification of auditing requirements by the grant-awarding bodies.
  - Anticipated earlier closure of local government accounts, with resultant impacts on resourcing across local government and the Wales Audit Office.
  - Anticipated reconfiguration of the structure of local government, reducing from 22 unitary authorities and a possible restructuring of the national park authorities. This may include voluntary mergers.
  - Within the changes above, we would expect a significant increase in the amount of correspondence and associated reactive work that we will be expected to manage.
  - Continued public sector funding restraint.
  - Public sector pay restraint competing with private sector auditor salaries.
- 49 The Board and Auditor General are actively planning for the impacts so that they do not compromise audit quality nor risk the efficiency of our audit delivery, by:
- setting an annual efficiency savings target through our Efficiency and Effectiveness Programme – to help ensure every £ we spend has maximum impact;
  - changing the mix of audit work to increase that completed in-house and reduce that completed by the audit firms – so that we are best prepared for future changes in workload;
  - reviewing our workforce planning strategy and considering the skills mix and workforce model that will be required in the future – so we can reshape our workforce over time, recognising such changes cannot be achieved overnight; and
  - strengthening our strategic intelligence to inform developing policy and position ourselves for effective responses.
- 50 Our annual estimates and interim and annual reports, approved by the Assembly, will demonstrate each year how we are facing the challenges and remaining focused on ensuring the people of Wales know whether public money is being managed wisely and that public bodies in Wales understand how to improve outcomes.

# Appendix 1

## Wales Audit Office income and expenses

### Breakdown of income and expenses, Wales Audit Office

		Year to 31 March 2016 £'000	Year to 31 March 2015 £'000
Expenses	Staff costs	14,828	14,066
	Contractor staff	862	897
	Travel and subsistence	1,319	1,120
	Private sector firms (incl VAT)	2,728	3,658
	Accommodation	971	951
	ICT	524	555
	Balance of irrecoverable VAT	500	290
	Wales Audit Office Governance Arrangements	300	300
	External training	266	284
	Legal and professional fees	203	253
	Translation of documents	110	110
	Other costs	969	1,031
	<b>EXPENSES TOTAL</b>	<b>23,580</b>	<b>23,515</b>
	Income	Audit fees	14,139
Grant certification fees		2,279	2,429
WPI grant from the Welsh Government		906	1,006
<b>INCOME TOTAL</b>		<b>17,324</b>	<b>17,639</b>
<b>Total revenue budget to be funded by WCF</b>		<b>6,256</b>	<b>5,876</b>

## Fee income analysis 2015-16

Sector	Audit of accounts £'000	Performance audit £'000	Grant certification £'000	Total £'000
Local government bodies	5,802	2,636	1,931	10,369
Central government bodies	1,712	-	344	2,056
NHS bodies	2,262	1,279	4	3,545
Other income	371	77	-	448
Total fee income	10,147	3,992	2,279	16,418

## Appendix 2

# Main operational activities and associated sources of funding

Activity	Scale	Source of funding
Audit of accounts prepared by central government and health bodies	Six accounts prepared by the Welsh Government; 31 other accounts, including the Assembly Commission; eight Welsh Government Sponsored Bodies, seven health boards; and three NHS trusts.	Fees charged to audited bodies, and finance from the WCF.
Audit of accounts prepared by local government bodies	Twenty-two unitary authorities, four police authorities, three fire and rescue authorities, one probation trust, three national park authorities, one internal drainage board, eight pension funds, and approximately 750 town and community councils and other small bodies.	Fees charged to audited bodies.
Local government improvement assessments	Includes annual audits of whether authorities have discharged their improvement planning and performance reporting duties; annual assessments of the likelihood of compliance with improvement duties; cyclical in-depth corporate assessments and special inspections. Undertaken at 28 improvement authorities, (the 22 unitary authorities, three fire and rescue authorities and three national park authorities).	Fees charged to audited bodies. The Welsh Government also provides grant funding to support improvement assessment work.
Local performance audit work at health bodies	Includes assessments of arrangements to secure value for money in the use of resources. Undertaken at seven health boards and three NHS trusts.	Fees charged to audited bodies.
Certification of grant claims and returns	Thirty local government schemes (around 650 claims with a total value of some £3 billion), alongside European structural fund claims with a total annual claim value of around £300 million.	Fees charged to audited bodies.
Value-for-money examinations and studies	Typically around 12 examinations, studies and other outputs are undertaken each year, looking at value for money in key areas of public spending. Often this work is undertaken from a 'whole-system' or 'cross-cutting' perspective, where public spending is examined irrespective of who delivers the services.	Financed from the WCF, following approval by the National Assembly.
Good Practice Exchange	Working with others to share learning and good practice.	Finance from the WCF following approval by the National Assembly.
Other significant activities	Includes: <ul style="list-style-type: none"> <li>• checking requests for grant of approval to draw from the WCF;</li> <li>• anti-fraud and other data-matching exercises, including the NFI;</li> <li>• responding to issues that have been brought to our attention through correspondence from the public, elected representatives and others;</li> <li>• providing support to the Public Accounts Committee and other National Assembly committees; and</li> <li>• administration of the Wales Audit Office.</li> </ul>	Financed from the WCF, following approval by the National Assembly, and some activities are also funded by fees charged to audited bodies.

# Appendix 3

## Extract from Local Government Fee Scales Consultation document September 2014

This appendix provides an extract from the Local Government Fee Scales Consultation document that was published in September 2014.

Set out in the tables are typical fee ranges according to type and size of authority. We would normally expect an authority to have a fee at around the median of the range. The minimum of the range reflects an authority's improved quality aspects for the audit work; the maximum reflects increased complexity aspects.

The actual fee set for an authority is informed by our experience at that authority. Any fees falling outside of these fee scales will require signoff by the Auditor General.

### Unitary authorities

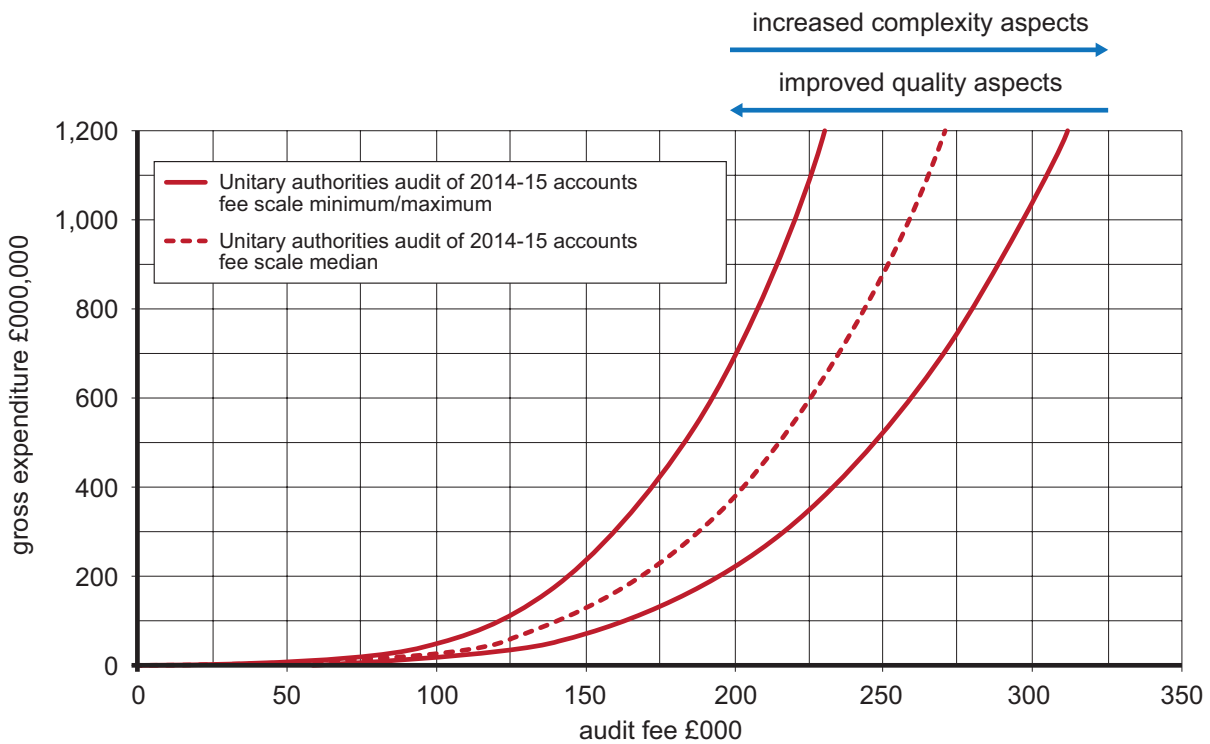
#### Fee scale for audit of 2014-15 accounts

Gross expenditure £000,000	Fee range £000			Previous year median £000
	Minimum	Median	Maximum	
100	119	140	161	140
200	143	168	193	168
300	159	187	215	187
400	172	202	232	202
500	182	215	247	215
600	191	225	259	225
700	199	235	270	235
800	207	243	280	243
900	213	251	289	251
1,000	219	258	297	258
1,100	225	265	304	265
1,200	230	271	312	271

### Fee scale for 2015-16 improvement audits and assessments

All unitary authorities	Fee range £000			Previous year median £000
	Minimum	Median	Maximum	
	94	112	130	117

### Graphic of audit of 2014-15 accounts fee scale for unitary authorities



## Fire and rescue authorities

### Fee scale for audit of 2014-15 accounts

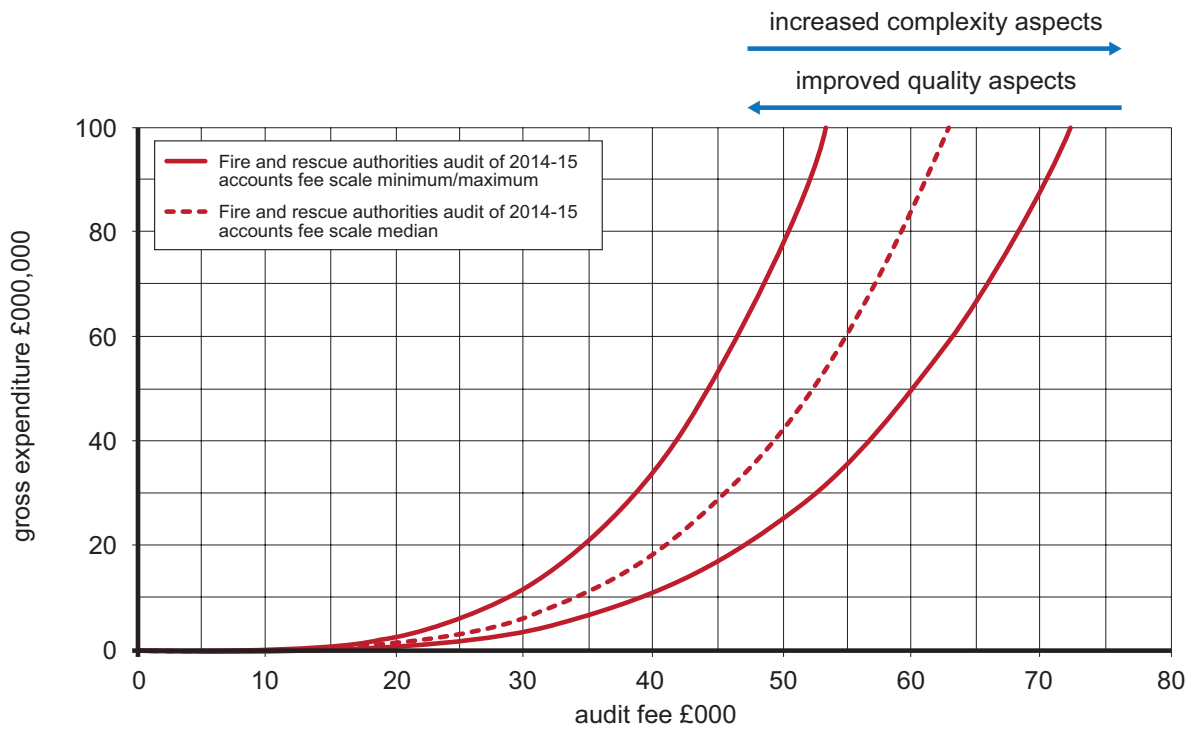
Gross expenditure £000,000	Fee range £000			Previous year median £000
	Minimum	Median	Maximum	
20	35	41	47	41
40	42	49	57	49
60	47	55	63	55
80	50	59	68	59
100	53	63	72	63

### Fee scale for 2015-16 improvement audits and assessments

All fire and rescue authorities	Fee range £000			Previous year median £000
	Minimum	Median	Maximum	
	10	15	20	16



Graphic of audit of 2014-15 accounts fee scale for fire and rescue authorities



## National park authorities

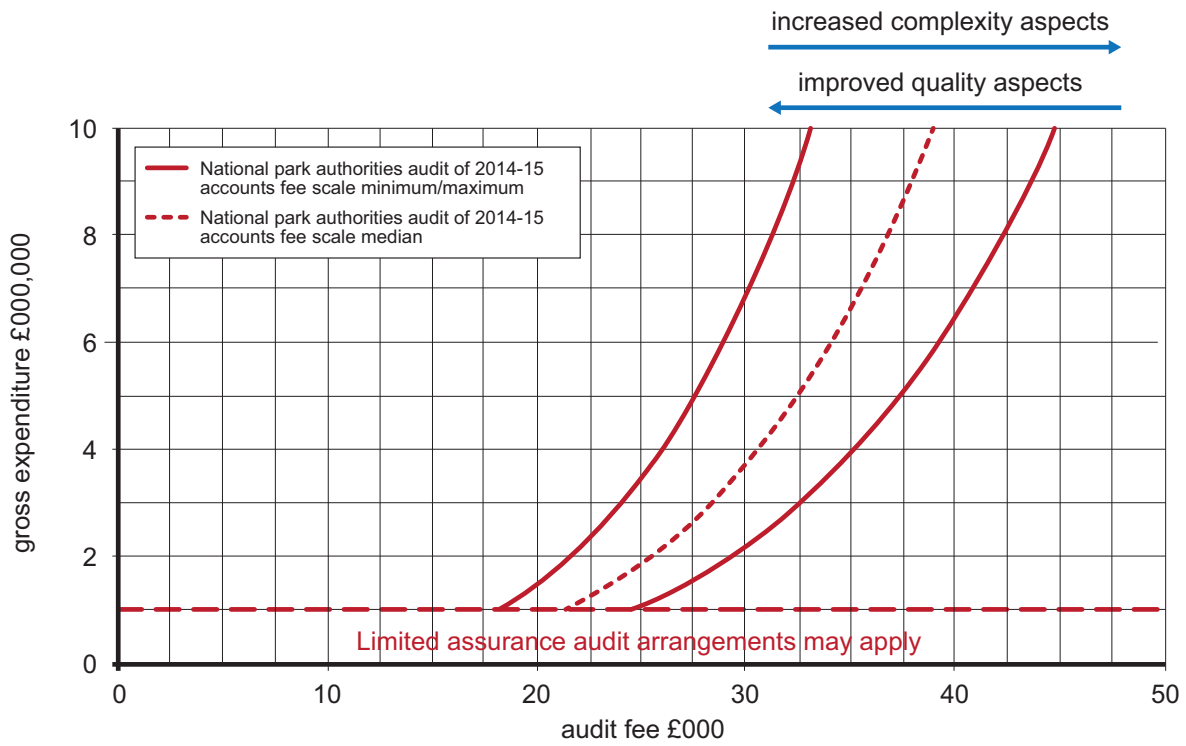
### Fee scale for audit of 2014-15 accounts

Gross expenditure £000,000	Fee range £000			Previous year median £000
	Minimum	Median	Maximum	
2	22	25	29	25
4	26	31	35	31
6	29	34	39	34
8	31	37	42	37
10	33	39	45	39

### Fee scale for 2015-16 improvement audits and assessments

All national park authorities	Fee range £000			Previous year median £000
	Minimum	Median	Maximum	
	5	7	9	7

Graphic of audit of 2014-15 accounts fee scale for national park authorities



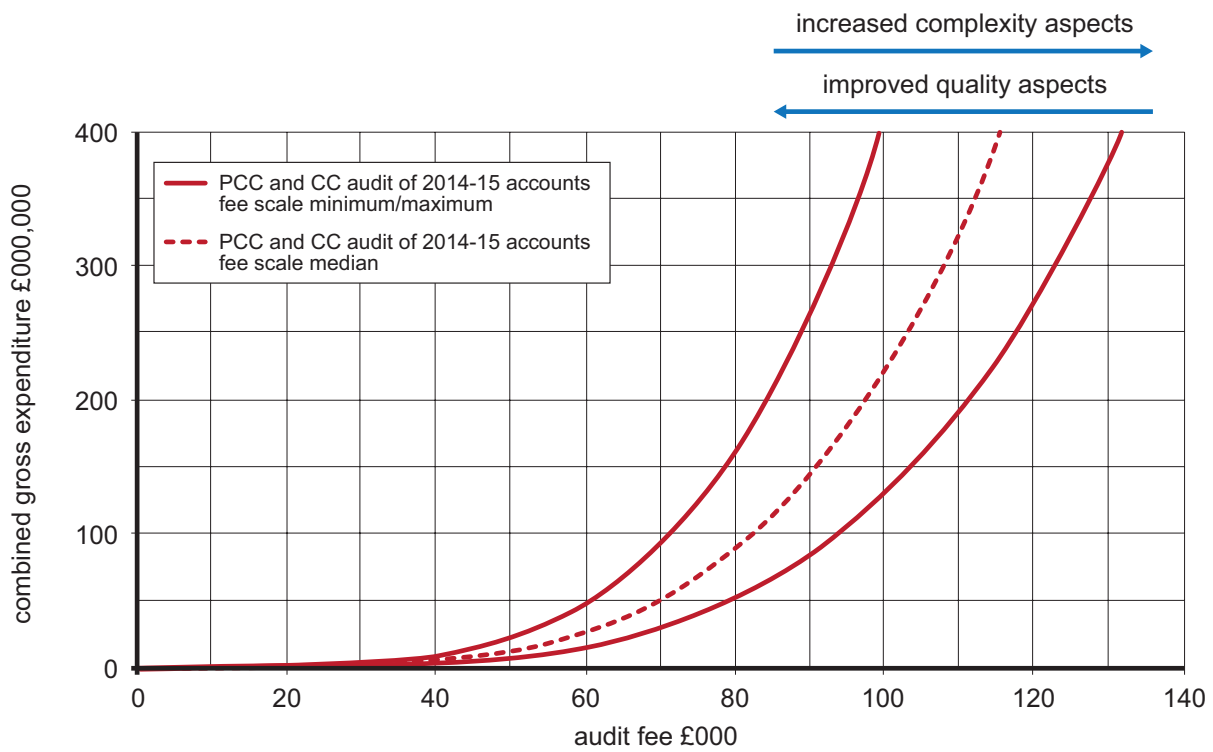
### Police and crime commissioners and chief constables

Auditors undertake audits of two statutory bodies in a police area – the Police and Crime Commissioners (PCC) and the Chief Constables (CC). The split of the total fee between the two bodies in a particular police area will be a matter for auditors to determine, based on accounting requirements and the operational arrangements put in place by each of the bodies.

### Fee scale for audit of 2014-15 accounts

Combined gross expenditure of PCC and CC £000,000	Combined fee range for PCC and CC £000			Previous year median £000
	Minimum	Median	Maximum	
50	61	70	79	76
100	71	83	94	89
150	79	91	104	97
200	84	98	111	104
250	89	103	118	109
300	93	108	123	114
350	96	112	128	118

Graphic of audit of 2014-15 accounts fee scale for police and crime commissioners and chief constables



## Town and community councils

Town and community councils with income or expenditure up to £1 million are subject to a 'limited assurance' audit regime. Fees for these audits vary according to annual turnover.

In circumstances where the auditor requires further evidence to properly discharge their responsibilities, including following publication of a related public interest report, additional testing will be undertaken to address the auditor's concerns, and additional fees will be charged commensurate with the additional work involved.

The Auditor General is replacing the current two-tier (basic/intermediate) approach with a single form of audit for all town and community councils from the 2015-16 year of accounts onwards. The revised approach will encourage councils to focus on improving their financial management and governance arrangements, and increase the public reporting of issues arising from audit work.

### Fee scale for audit of 2014-15 accounts of town and community councils with income or expenditure up to £1,000,000

Annual income or expenditure (fees are payable on whichever is the higher each year)	Type of audit	Proposed fee	Fee charged in previous year
£100 – £1,000	Basic	£30	£30
£1,001 – £5,000	Basic	£80	£80
£5,001 – £10,000	Basic	£175	£175
£10,001 – £30,000	Basic	£205	£205
£30,001 – £60,000	Basic	£295	£295
£60,001 – £100,000	Basic	£350	£350
£100,001 – £200,000	Basic	£415	£415
£200,001 – £300,000	Intermediate	£650	£650
£300,001 – £400,000	Intermediate	£650	£650
£400,001 – £500,000	Intermediate	£650	£650
£500,001 – £750,000	Intermediate	£920	£920
£750,001 – £1,000,000	Intermediate	£920	£920

## Pension funds

### Fee scale for audit of 2014-15 accounts

All pension funds	Fee range £000			Previous year median £000
	Minimum	Median	Maximum	
	30	40	50	40

## National Fraud Initiative 2014-15

In order to support Welsh public bodies in combating fraud, the Auditor General conducts the NFI in Wales on a biennial basis. The NFI is also run in England, Scotland and Northern Ireland. The NFI matches data across organisations and systems to help public bodies identify potentially fraudulent or erroneous claims and transactions. The NFI has been a highly effective tool in detecting and preventing fraud and overpayments. Since its commencement in 1996, NFI exercises have resulted in the detection and prevention of more than £26 million of fraud and overpayments in Wales and £1.17 billion across the UK.

The Auditor General conducts the NFI using his statutory data-matching powers under Part 3A of the Public Audit (Wales) Act 2004.

The proposed statutory fees for data collation for mandatory participants for 2014-15 are shown below.

Type of body	2010-11 (£)	2012-13 (£)	2014-15 (£)
Unitary authority	3,650	3,650	3,650
Police and crime commissioners	1,000	1,000	1,000
Fire and rescue authority	1,000	1,000	1,000
NHS trust	1,000	1,000	1,000
Local health board	3,650	3,650	1,000

Both police and crime commissioners and chief constables are mandatory participants. We propose to charge a fee of £1,000 to the police body in each area which will submit data on behalf of both bodies.

The NFI is run over a two-year period, so the scale of fees on which we are consulting covers the two financial years 2014-15 and 2015-16. We will bill mandatory participants in a single instalment, anticipated to be in January 2015, for the data collation stage of the exercise.

This Estimate proposes switching the cost of follow-on audit work to the WCF at a total cost of £50,000 in 2015-16.

### **Fee rates for other work**

#### **The audit of other types of local government body, work which goes beyond the general duties of auditors, and grant certification work**

Other than those types of bodies for which fee scales have been prescribed, there are a small number of other types of local government body. For audits of these bodies, a zero-based approach to audit planning will still be applied, with resource requirements converted into fees directly based on the costs of delivering the work.

To meet their statutory responsibilities, it is sometimes necessary for auditors to carry out work which goes beyond their general duties. Additional work can include reports in the public interest, extraordinary audit, special inspections and further work in relation to elector challenge and the prevention of unlawful expenditure. Charges for this type of work will reflect the nature of the work required.

Auditors may also undertake grant certification work at local government bodies on behalf of the Auditor General. The amount of grant certification work undertaken in any year is dependent on the number of schemes subject to audit and the number of audited bodies participating in those schemes. Charges for this work are made on a per diem basis and reflect the size, complexity or any particular issues in respect of the grant in question.

In each of these cases, fees will be charged based on the fee rates set out below. Higher rates may be appropriate for certain pieces of work, where specialist skills are required. In such circumstances, the Wales Audit Office Board must be consulted in advance by the auditor.



### Fee rates for other work

Grade of staff		Fee rate per hour
Financial audit	Engagement lead	£162
	Audit manager	£111
	Team leader	£75
	Team member	£56
	Trainee	£45
Performance audit	Engagement lead	£162
	Performance audit manager	£111
	Performance audit lead	£93
	Performance auditor	£65

Estimates of the relative proportions of financial audit staff grades to be used for different types of grants work are also provided below.

### Estimated staff mixes for grant certification work

Grade of staff	Complex grants staff mix %	All other grants staff mix %
Engagement lead	1 to 2	0 to 1
Audit manager	4 to 6	1 to 2
Team leader	18 to 21	12 to 16
Team member/trainee/technician	77 to 71	87 to 81

Complex grants include:

- BEN01 Housing and council tax benefits scheme
- EUR01 Structural funds
- HOU03 HRA subsidy (non-stock transfer authorities)
- LA01 National non-domestic rates return
- PEN05 Teachers' pensions return

### Ancillary work

Audited bodies and certain other types of body may make arrangements with the Wales Audit Office for the Auditor General or the Wales Audit Office to provide administrative, professional and technical services.

Such work will not be accepted if audit independence and integrity could be compromised, or could be perceived to be compromised, unless appropriate mitigation and controls can be applied.

Where such work can be carried out within these rules, the fees to be charged will comply with the published Fee Scheme in relation to financial audit and performance audit staff. For other staff, rates will be agreed subject to the fee charged not exceeding the full cost of the work.