



Supporting information for the Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2023

October 2021

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Estimate summary

Overview of Estimate 2022-23

Our Budget 2022-23

- 1 With this Estimate we are requesting to increase our overall call on Welsh Consolidated Fund (WCF) funding in 2022-23 by 3.1%, after allowing for increased investment and the bi-annual funding increase for the National Fraud Initiative (NFI) as set out in **Exhibit 1**. Our detailed budget for the year is attached in **Appendix 1**.
- 2 All capital investment is funded from the WCF through this Estimate. Our Estimate for 2021-22 anticipated major capital investment for 2022-23 due to an expected move from our Cardiff office. We have decided to delay this for a year as we seek to develop our working practices and stakeholder requirements post COVID. Further details are set out in **paragraphs 11 to 13 and 61 to 64**.

Exhibit 1: changes in our call on the WCF 2021-22 to 2022-23

| | Revenue £'000 | Capital £'000 | Total £'000 |
|--------------------------------------|------------------|------------------|----------------|
| WCF 2021-22 | 7,798 | 350 | 8,148 |
| Changes for 2022-23 | | | |
| Increased cost of audit work | 74 | | 74 |
| Increased Audit Quality requirements | 80 | | 80 |
| Staff travel time | 70 | | 70 |
| National insurance increase | 51 | | 51 |
| Contribution to operating costs | 15 | | 15 |
| Increase 2022-23 | 290 | (40) | 250 |
| National Fraud Initiative | 210 | – | 210 |
| Total WCF 2022-23 | 8,298 | 310 | 8,608 |

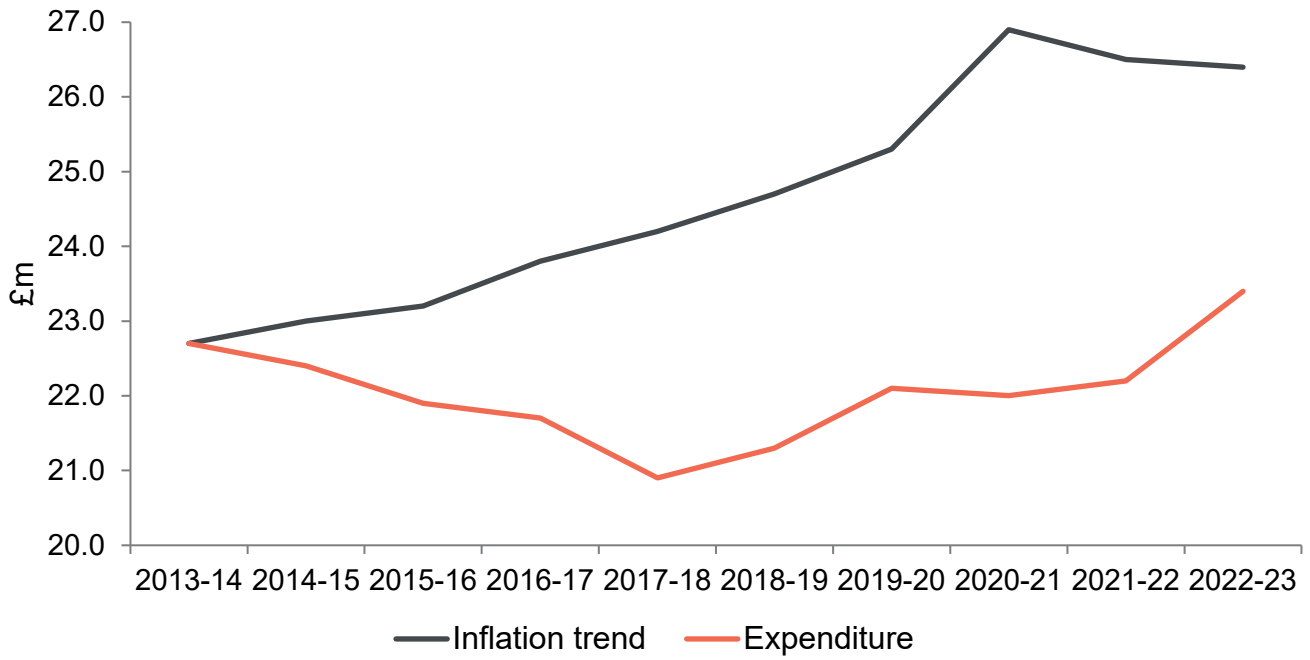
Value for money at Audit Wales

Our performance to date

- 3 At Audit Wales, we continually strive to provide world class public audit for the Welsh public sector in the most cost-effective way.
- 4 Since 2013-14, we have reduced the cost of public audit in Wales by 11% in real terms¹ despite an increase in the scope of our work, increased requirements for audit quality and an increase in the number of audits we must undertake. This is represented in **Exhibit 2**. The cumulative savings generated across those years amounts to almost £26 million.
- 5 We have achieved this reduction by:
 - significantly changing the shape of our workforce – investing in a graduate training programme to provide opportunities for graduates in Wales as well as providing future financial managers for the Welsh public sector. In 2013-14, Directors and Managers accounted for 24% of our workforce. By 2021-22 this has reduced to 17%.
 - in-sourcing our audit work. From 2021-22 we no longer use private sector firms to carry out our audit work. This has allowed us to maintain audit quality, whilst benefiting from efficiencies of scale as well as protecting us from price increases for this work that are being experienced by other UK audit agencies.
 - using technology and data analytics to carry out our audit work as efficiently as possible and minimise our travel across Wales.

1 Based on GDP deflators published by ONS, July 2021.

Exhibit 2: the cost of public audit 2013-14 to 2022-23



Future savings

- 6 Our Estimate for 2022-23 requires that we make in-year savings of over £1.4 million to balance the budget; this includes £940,000 of savings from expected staff turnover and a further £500,000 savings from other cost reductions including travel and subsistence.

Travel and subsistence

- 7 During 2020-21, and in response to a value for money review carried out by RSM UK LLP, the Board established a staff 'task and finish' group to consider how we replace the annual travel allowance paid to our mobile staff with more cost effective and sustainable reimbursement for staff travel.
- 8 In response to the Group's recommendations, the Board is currently consulting with Trade Unions and staff on the transition arrangements as we remove the travel allowance from 2024-25. We will be asking the Finance Committee to consider a Supplementary Estimate for 2021-22 to enable an early buy out of the travel allowance. If supported, this will allow us to deliver savings earlier than would otherwise have been the case.
- 9 Our budget as set out in **Appendix 1** makes no assumption for any reduction in travel allowance in 2022-23 as the staff consultation period is still open. Any agreement on an early buy-out will result in potential savings which may result in a reduction in the amount of WCF required in the year. If this is significant, we will submit a Supplementary Estimate during 2022-23 to reduce our budget accordingly.
- 10 Given our experience of working through the COVID pandemic, we also expect to see an overall reduction in the amount of travel required to deliver our audit work. The pattern for this is still evolving and we will need to work closely with our audited bodies over the coming year to establish a model that works for all concerned. Some savings have been anticipated for 2022-23 but we think there is scope for future savings as new working patterns become embedded.

Our office accommodation

- 11 A major project to review our office accommodation requirements was started in 2019, prior to the COVID pandemic. The requirement for all of our staff to work remotely from March 2020 has provided us with an opportunity to fundamentally re-think what our future workplaces will look like.
- 12 We have learnt some important lessons over the last 18 months, and we are continuing to explore different ways of working. Alongside this, uncertainty about the availability of accommodation at audited bodies means that we have extended the lease on our Cardiff office by a year to allow for a better understanding of our accommodation needs in a post-COVID world.
- 13 As a result, the capital expenditure anticipated for 2022-23 has been moved to 2023-24. Any savings from reduced office accommodation are now expected to be delivered from 2024-25.

Cost pressures

Audit quality

- 14 Recent UK-wide reviews² of audit have potential wide-ranging implications for the whole audit profession. These various reviews reflect increasing expectations of audit and of the quality of that audit.
- 15 In response, audit regulators have issued new and complex auditing and quality standards for our accounts audit work that we need to introduce by 2023. We are also adopting the international INTOSAI³ standard for our performance audit work to ensure that all our work continues to be carried out in line with best professional practice.
- 16 At the same time the way bodies organise themselves, eg new partnership and group structures, brings added complexity while we are also seeing increasing demand for public services as society attempts to recover from the effects of the COVID-19 pandemic.
- 17 We need to invest further in audit quality if we are to respond to these various challenges and have increased our budget by £230,000 per year for the next two years to do this.
- 18 We are requesting that a relevant proportion of this funding (£80,000) be provided from the WCF with the balance being met from fees charged to audited bodies.

2 Competition and Markets Authority Review; Kingman Review; and Brydon Review

3 The International Organisation of Supreme Audit Institutions (INTOSAI) issues professional standards and best practice guidelines for performance audit.

Travel in work time

- 19 Historically Audit Wales staff, when travelling to do audit work at our client sites, have been expected to absorb the first hour of travel both there and back in their own time.
- 20 Recent case law has determined that this expectation is unlawful and that all travel for work purposes, other than a regular commute, should be included within the working day. Whilst we expect our requirement for staff to travel to reduce significantly in the future, we have calculated that we will need to employ additional resource to the value of £200,000 to address this shortfall.
- 21 Again, we are requesting that a relevant proportion of these additional costs are met from WCF (£70,000) with the balance being met through fees.

National Insurance increase

- 22 In September 2021, the UK Government announced a 1.25% increase in National Insurance contributions for both employees and employers from April 2022.
- 23 The total additional cost of this change for Audit Wales is £145,000, of which we need to seek a relevant proportion (£51,000) from WCF with the balance being met from fees. We understand that additional funding will be made available from the UK Government to the Welsh public sector to meet the cost of this increase.

COVID-related audit work

- 24 We are aware that the national audit institutions have been awarded significant additional funding in 2021-22 to address the additional audit work associated with the unprecedented and largely unplanned increase in public expenditure associated with the pandemic.
- 25 To date, we have managed to contain our expenditure by re-scoping our audit work to address these new pressures. We are therefore not currently seeking additional funding for 2022-23 to address this.

Pay and price increases

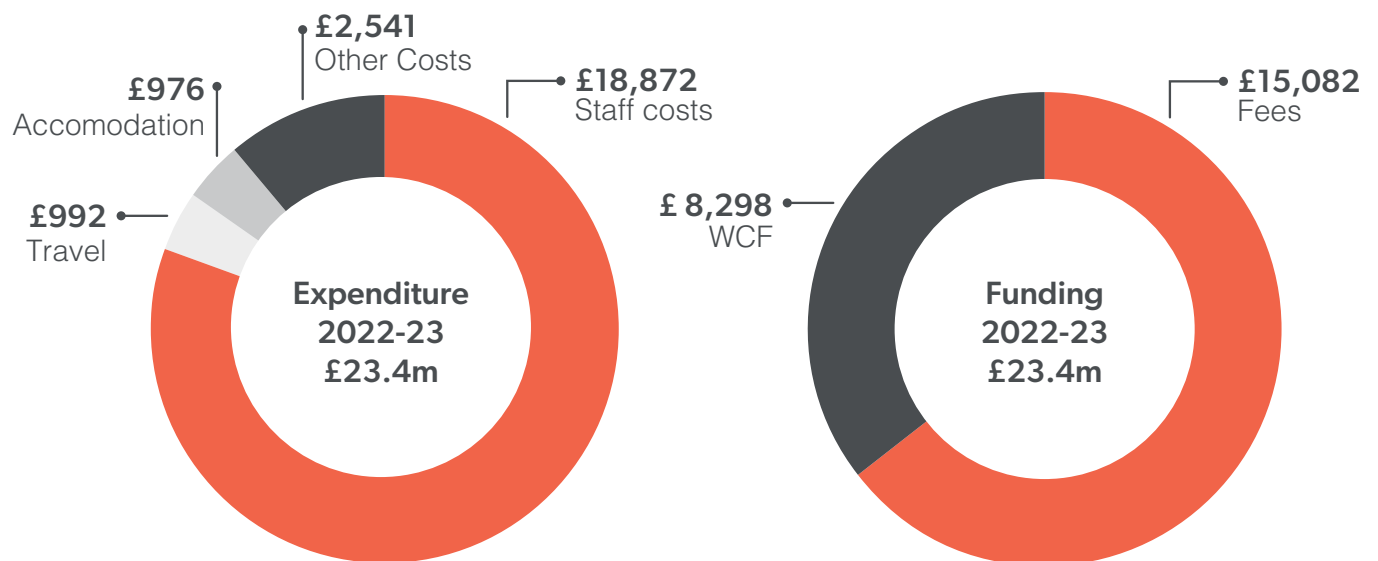
- 26 We have made minimal provision for pay and price increases in 2023-24 and have assumed that any other cost pressures will be managed within existing budgets.
- 27 As notified by the Minister for Finance and Local Government, we are aware that the OBR is predicting pay and price increases of 2.4% in 2022-23 but we have assumed that this is unlikely to result in equivalent pay increases in the public sector.

◀ Funding Audit Wales

Revenue

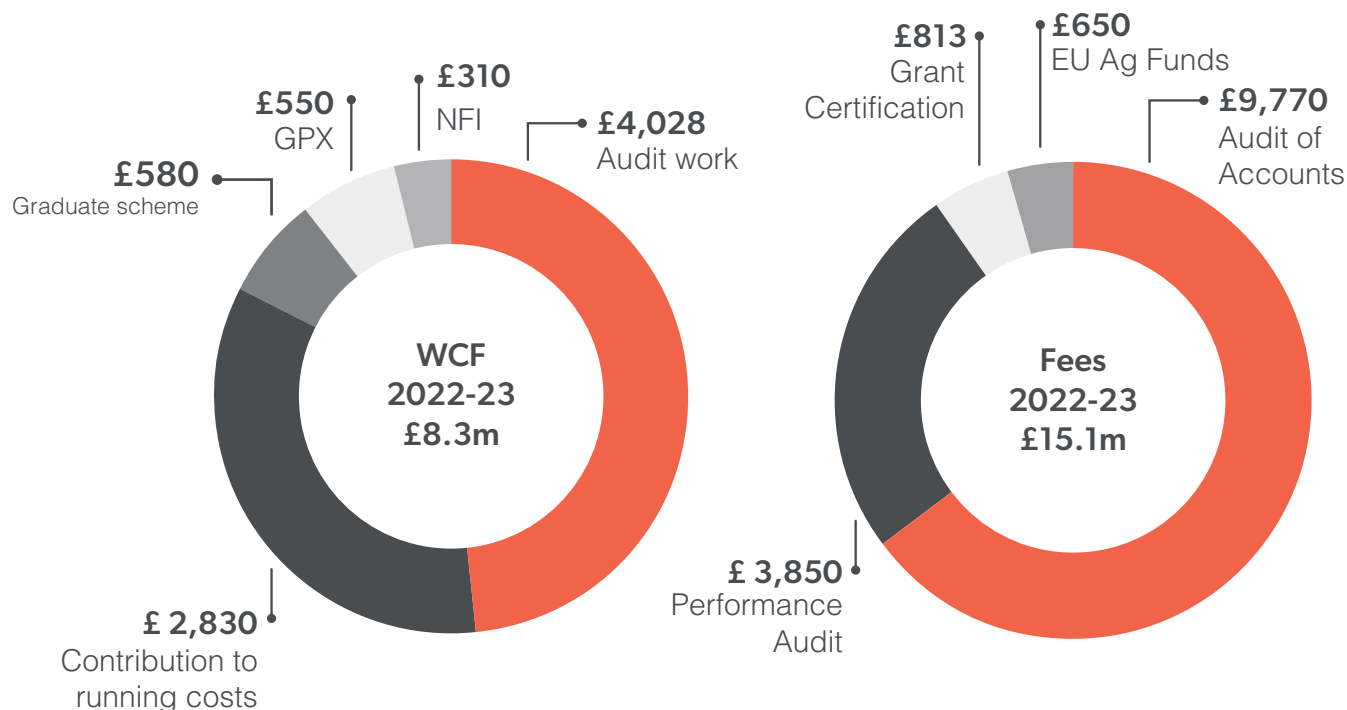
- 28 Around 35% of the running costs of Audit Wales are met from WCF, with the balance of 65% being funded from the fees charged for our audit work.
- 29 **Exhibit 3** summarises our planned expenditure and funding for 2022-23 - a detailed breakdown of our budget for 2022-23 is set out in **Appendix 1**.

Exhibit 3: our expenditure and funding 2022-23



- 30 **Exhibit 4** provides a breakdown of how we plan to use this funding to deliver our work in 2022-23.

Exhibit 4: our use of funding 2022-23



31 Further detail on how we use this funding is provided below.

Audit work funded from WCF

National and Local Government Studies

- 32 The Auditor General’s programme of national value for money studies is undertaken to provide support to the scrutiny work of the Senedd. These studies are reported to the Senedd’s Public Accounts and Public Administration Committee (PAPAC) and described in our Annual Plan for 2021-22.
- 33 This funding is also used to help discharge the Auditor General’s duties under the Well-being of Future Generations (Wales) Act 2015 for the relevant central government bodies.
- 34 The PAPAC is one of the key mechanisms for the Senedd to hold to account the organisations which it funds directly or through the Welsh Government. We therefore aim to ensure that the Committee is well supported by us in its work.
- 35 We have increased funding for these areas of work for 2022-23 in line with our expectations for pay and price increases.

Other audit related work

- 36 As agreed in previous Estimates, we also use WCF funding to:
- undertake annual pieces of work to explore themes arising from our accounts work;
 - carry out necessary development associated with our performance audit work in Local Government; and
 - investigate and respond to issues brought to our attention by members of the public and their elected representatives.
- 37 Again, we have increased funding for these areas of work for 2022-23 in line with our expectations for pay and price increases.

WCF Contribution to operating costs

- 38 Funding from WCF is used to meet costs of Audit Wales which are not passed on through fees to audited bodies.
- 39 For 2022-23, we have applied a small increase of just £15,000 to this contribution being the impact of potential pay increases on these budgets.

WCF Funding for wider public sector benefit

Pan-Wales financial skills development

- 40 Funding from WCF is used to provide ongoing support to our successful programme providing graduate and apprentice opportunities to students from across Wales.
- 41 We currently employ around 60 graduate trainees and apprentices, providing them with world class training opportunities and ensuring a supply of future finance professionals for the Welsh public sector.
- 42 We use the WCF funding to:
- provide secondment opportunities for our graduate trainees in other Welsh public sector bodies;
 - target our recruitment to improve social diversity and inclusion within our workforce and the wider finance profession in Wales; and
 - support the training costs for our graduate training programme, reducing costs which would otherwise be recovered from fees.

Good Practice Exchange

- 43 We use funding provided by WCF to run our highly regarded Good Practice programme free of charge to public bodies and the third sector across Wales.
- 44 In response to the COVID-19 pandemic, we have targeted resources away from running on-site shared learning events to sharing outputs from our newly established real-time learning project, capturing the good practice of public bodies responding to the pandemic. This is being shared via our website and through social media to maximise the reach of our work.
- 45 We continue to provide online resources, facilitation and webinar learning while our on-site events are suspended.

National Fraud Initiative

- 46 Since 2015, the Finance Committee has supported the principle of participation in [NFI](#) for all public bodies in Wales at no cost to those bodies. Our last biennial report identified potential savings and over-payments of £8 million across Wales's public services, increasing cumulative savings to £42.9 million since 1996 – a significant return on investment.
- 47 Without this funding, the costs of carrying out this work would instead need to be passed on directly to participating bodies as additional fees, potentially resulting in a significant reduction in the number of bodies who opt to take part.
- 48 As set out in previous Estimates, for 2022-23, there will be an alternate year increase of **£130,000** to meet Cabinet Office costs for data checking.
- 49 The NFI is a UK wide basis and NFI matching operates on a largely common basis across the four UK nations. However, policy divergence has resulted in an increasing need to develop data-matching to address fraud risks which are specific to Wales. This involves designing data-matching approaches to address these risks and developing the data-analytic tools to identify transactions which have a high fraud risk. We propose to design and run one Wales-specific fraud data-matching exercise each year.
- 50 The UK NFI Team has developed data-matching products to enable public bodies to undertake bank verification and trading status checks on organisations which have applied for grant funding. These products have been piloted by a number of local authorities across the UK to check the eligibility of organisations in receipt of COVID-19 business support funding.

- 51 These pilots have been successful and have helped detect high numbers of fraudulent or erroneous applications. The products use information provided through a credit reference agency to inform the data-matches. Credit reference agencies are commercial organisations and therefore charge to access the data they hold. As a consequence, providing the bank verification and trading status products to public bodies in Wales will result in additional costs.
- 52 We propose making these products available for a one-year period. We would then review the usage and outcomes of the products to determine whether there is merit in their continuing use.
- 53 The cost to Audit Wales of this additional work will be £80,000 in 2022-23 and we are seeking additional funding from WCF to support this. We anticipate that this will result in the detection of fraud running to the many millions of pounds, hence providing a very significant return on investment.

Audit work funded from fees

- 54 As shown in **Exhibit 3**, around 65% of the funding for Audit Wales is from the fees that we charge to audited bodies. We are required by legislation to charge 'no more than the full cost' of the audit work at each audited body. We calculate this full cost based both on our budget for the year and the contribution from WCF towards our running costs and for that audit work which is funded from WCF.
- 55 There is therefore a direct relationship between this Estimate and the fees that we charge to our audited bodies.

Our fee income 2022-23

- 56 Our budget for 2022-23 (see **Appendix 1**) requires an increase in fee income of 4.3% subject to the approval of this Estimate.
- 57 This increase is required to fund the additional investment in Audit Quality and the legal requirement for our staff to carry out business travel in work time as well as anticipated pay and price increases and the increase in employer's National Insurance contributions.
- 58 As was the case for 2021-22, we will consult widely on our proposed fees once this Estimate has been considered by Finance Committee and then lay our Fee Scheme for Finance Committee consideration early in 2022.

Capital investment at Audit Wales

- 59 Our capital investment priorities for 2021-22 to 2025-26 are set out in **Exhibit 5**.
- 60 Capital investment is targeted at projects that will deliver future efficiencies and savings; ensuring that our ICT provision makes the best use of available technology and that our workplaces meet our changing requirements in a post-COVID-19 world.

Exhibit 5: capital investment 2021-22 to 2025-26

| | 2021-22 £'000 | 2022-23 £'000 | 2023-24 £'000 | 2024-25 £'000 | 2025-26 £'000 |
|------------------|------------------|------------------|------------------|------------------|------------------|
| Change Programme | 200 | 200 | 650 | 400 | 400 |
| ICT Strategy | 150 | 110 | 110 | 110 | 110 |
| Total | 350 | 310 | 760 | 510 | 510 |

Our Change Programme

- 61 As referenced above, we have established a transformational change programme within Audit Wales to provide effective management of upcoming change projects. Some of these will require capital investment as set out below.

Future workplaces

- 62 The leases on our three office buildings in Cardiff, Swansea and Abergele will be due for renewal or ending over the next few years. Our capital programme provides an early indication of the estimated costs associated with potential moves and as agreed with Finance Committee in November 2019, we will continue to keep the Committee updated as our work progresses, and we are able to confirm costs.
- 63 There is also a potential requirement for additional non-cash resource funding to allow for the impact of International Financial Reporting Standard 16 (IFRS 16) on any new lease commitments. This cannot currently be estimated.
- 64 The pause in this project will allow us to consider our future office requirements, particularly in the light of an expected reduction in the number of audit rooms available to us at client sites. It may be that we are not able to realise the savings previously anticipated, if we have to accommodate more of our audit staff at our own offices.
- 65 It is difficult to estimate costs at this time, but we continue to anticipate an investment requirement for 2023-24 as indicated in **Exhibit 5**.

Our Digital Strategy

- 66 We continue to invest in digital tools to ensure that we can deliver our work as efficiently and effectively as possible. Planned investment for 2022-23 includes:
- completing the development of new audit platform software for both our Financial and Performance audit work; and
 - the proposed development of automated audit quality tools to ensure we continue to meet stringent audit quality requirements.

Our ICT Strategy

- 67 We have established a rolling programme of PC/IT equipment renewal to ensure business continuity and that equipment remains fit for purpose and reliable. This has also allowed us to transition seamlessly to home working during the course of the pandemic.
- 68 We continue to invest in equipment to allow more of our staff to work remotely in a post-COVID-19 world. This investment being closely linked to our Future Workplaces project.

Potential changes to this Budget

Pay and price inflation

- 69 In line with the guidance received from the Minister for Finance and Local Government, we have made only minimal provision for pay and price increases in 2022-23.
- 70 If inflationary pressure is significantly greater than Office for Budget Responsibility predictions, then this position may not be sustainable in terms of our ability to attract and retain staff, and it could become necessary for us to revisit this with the Finance Committee.

Recruitment and retention

- 71 There is a growing, UK-wide, shortage of audit professionals partly in response to the increased quality requirements being placed on both corporate and public sector audit.
- 72 Our graduate and apprentice training programme has provided us with some protection from this pressure to date. We are, however, starting to experience high levels of staff turnover as our staff are able to attract higher salaries elsewhere.
- 73 If this trend continues, we may need to review our pay and reward strategy during 2022-23.

Travel and subsistence

- 74 As indicated earlier, our proposed budget for 2022-23 currently makes no assumptions about a potential reduction in travel costs if staff choose to accept the proposed up-front payment in lieu of travel allowance later this year. As an example, if 50% of staff choose to accept the up-front payment, we would expect our costs in 2022-23 to reduce by around £300,000.

- 75 Any resulting underspend in 2022-23 would be returned to WCF; if the impact is likely to be significant then we will submit a Supplementary Estimate in the year to reflect this.

Fee income

- 76 There is significant uncertainty in our estimates for the volume of audit work that will be required in 2022-23, and we may need to return to Finance Committee to adjust the amount of accruing resources we are able to utilise if the amount of work required exceeds our current expectations.

New reporting standards

- 77 IFRS 16 on accounting for leases is to be introduced from 2022-23.
- 78 The impact of accounting for the depreciation and interest associated with the capitalisation of existing leases as compared to the annual running costs of those leases is not significant for Audit Wales, due to the short amount of time remaining on our property leases. No adjustment is therefore required to our budget for this change in 2022-23.
- 79 There will potentially be a change to our capital expenditure requirement in 2023-24, as shown in **Exhibit 4**, if we enter into a new lease arrangement. It is not possible to estimate this impact at present.

Future considerations

Local Performance Audit work

- 80 As part of our emerging five-year strategy to support our ambition to “fully exploit our unique perspective, expertise and depth of insight”, we will be asking Finance Committee to switch the funding for some of our performance audit work in Local Government and Health from fee to WCF funding in our Estimate for 2023-24.
- 81 The elements of the fee that we are seeking to switch to WCF relate to the delivery of “thematic” or topic specific reviews that typically involve audit work across a number of audited bodies – this work could be at the all-Wales and/or regional level, often with a cross-sector or whole-system focus; we also tend to want to look at issues such as the Welsh Government’s system leadership on the particular theme we are examining, which cannot be funded from the fee.
- 82 The current way we fund these types of reviews can also lead to some inflexibility in the way we disseminate our findings; with each individual audited body involved contributing something from their fee, there is an understandable expectation that there will be some form of specific output for that individual audited body from the work – there are times where we will want to do that but also times where we may choose to have a different range of outputs from the review which may not be locally focused and it would be good to have the flexibility to choose the most appropriate outputs in each instance.
- 83 We see such pieces of work as key in adding value to our audit regime with their ability to give a whole system view, helping improve the quality of services provided to taxpayers, and also helping to achieve the Welsh Government’s ambition of ‘One Public Sector’ – making their delivery as flexible and efficient as possible will help achieve these aims.
- 84 Currently, when we deliver these pieces of work, we take a proportion of the audit fee from of all the relevant audited bodies to make up the overall project budget, and where we want to look at the Welsh Government’s role in the topic we are examining, we also need to add in separate WCF funding to cover that; we then need to create numerous timesheet codes for auditors to use that reflect the various work in different audited bodies involved in review.

- 85 This creates a significant transactional complexity in planning these pieces of work and charging the time back to individual audited bodies; in addition, the requirement within the Public Audit (Wales) Act 2013 to 'charge no more than the full cost' means we have to be careful that there is no cross subsidisation from one body to the another when we pool budgets across audited bodies to fund the development, design and delivery of such projects.
- 86 We have discussed this approach with Welsh Government officials, and they broadly support our proposal and would be prepared to make the necessary adjustments to funding allocations to audited bodies so that the overall call on WCF is held harmless.
- 87 We will also be discussing this approach with the affected audited bodies over the coming months and would welcome Finance Committee's thoughts on whether this switch is something that they would be prepared to support in a future Estimate.

Appendices

1 Revenue budget 2022-23

1 Revenue budget 2022-23

| | Estimate 2022-23 £'000 | Estimate 2021-22 £'000 | Increase/ (Reduction) £'000 | |
|------------------------------------|------------------------------|------------------------------|-----------------------------------|------------|
| Expenses | Staff costs | 18,932 | 18,214 | 718 |
| | Vacancy management | (939) | (911) | (28) |
| | Short-term contract staff | 579 | 311 | 268 |
| | Travel allowance | 746 | 746 | – |
| | Travel and subsistence | 246 | 257 | (11) |
| | Accommodation | 976 | 964 | 12 |
| | Irrecoverable VAT | 500 | 500 | – |
| | ICT | 633 | 602 | 31 |
| | Audit Wales governance | 300 | 295 | 5 |
| | External training | 278 | 278 | – |
| | Translation | 120 | 120 | – |
| | Legal and professional fees | 374 | 222 | 152 |
| | Depreciation | 280 | 280 | – |
| | Other supplies and services | 595 | 731 | (136) |
| | Savings target | (500) | (400) | (100) |
| | TOTAL | 23,120 | 22,209 | 911 |
| | National Fraud Initiative | 260 | 50 | 210 |
| Expenses total | 23,380 | 22,259 | 1,121 | |
| Income | Audit Fees | 13,619 | 13,021 | 584 |
| | EU Agricultural Funds Audit | 650 | 650 | – |
| | Grant certification fees | 813 | 790 | 23 |
| | INCOME TOTAL | 15,082 | 14,461 | 621 |
| Total to be funded from WCF | 8,298 | 7,798 | 500 | |



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