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WALES AUDIT OFFICE

SWYDDFA ARCHWILIO CYMRU

Estimate of income and expenditure of the Wales Audit Office for the year ending 31 March 2012

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Submitted to the Public Accounts Committee of the National Assembly for Wales under
Paragraph 12 of Schedule 8 of the Government of Wales Act 2006

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Summary

- 1** My budget, as Auditor General, is determined¹ after the Public Accounts Committee has examined my annual estimate of income and expenses and endorsed it before laying it before the National Assembly. I therefore invite the Public Accounts Committee (the PAC) to examine, endorse and lay this estimate of my income and expenses for the year ending 31 March 2012.
- 2** The estimate that I am presenting provides a real terms reduction of 7.0 per cent against the resources sought in 2010-11. In resource terms, I am seeking £4.853 million, compared with £5.047 million in 2009-10 and 2010-11. This reduction reflects my recognition of the general state of the public finances, and how I am endeavouring to make appropriate savings. There have been extra costs incurred in the 2010-11 financial year, most notably a charge for early retiree costs in order to regularise our accounts. Whilst it is not anticipated that a supplementary request for resources is required, nevertheless, the budget will need to be carefully managed over the next two years in order to achieve financial balance.
- 3** My estimate is based on continuing to provide the level of activity and service that the Committee has expected in the past five years. Although a large part of this work is discretionary, I believe that it is important to continue to provide existing service levels which include:
 - a** around twelve studies each year of the Assembly Government and its sponsored and related bodies, including the NHS;
 - b** the flexibility to respond to short-notice requests for audit scrutiny, for instance arising from correspondence from members of the public and Assembly members;
 - c** the Good Practice Exchange (the GPX), an online facility designed to help public bodies to readily identify examples of good practice so as to help them to improve their own service provision and other aspects of good value for money;
 - d** other active sharing of good practice through conferences, seminars and publications; and
 - e** support to the Committee in the form of briefing and advice.
- 4** My estimate also takes account of both known and expected cost pressures and planned further increases in efficiency and other cost-containment measures which are detailed later in this document. Since its creation, the Wales Audit Office has voluntarily applied the requirement, set for public bodies by the Assembly Government as part of its Making the Connections policy, to generate efficiency savings of at least one per cent a year cumulatively. Internal audit has confirmed that the Wales Audit Office has exceeded that requirement. The known and expected cost pressures include:

¹ Under Paragraph 12 of Schedule 8 of the Government of Wales Act 2006 (the 2006 Act).

- a** New work needed to deal with the consequences of the abolition of the Audit Commission, particularly its effect on the National Fraud Initiative (the NFI), which I undertake jointly with the Audit Commission and other UK audit agencies. Indications from the UK government are that the current arrangements will continue. However, in the event that this situation changes it is estimated that the additional cost to the Wales Audit Office could be £350,000. In addition, I would need to engage in legal work in order to make arrangements for the continuation of the Initiative, which prevented and detected £4.5 million of fraud and overpayments in Welsh public bodies in its last (2008-09) exercise. Other areas of new work include making arrangements for certain UK-wide grant certification, developing or procuring actuarial and property valuation support to assist in the completion of audits, developing a new housing subsidy tool which is currently licensed from the Audit Commission and establishing new community council audit support arrangements previously undertaken by the Audit Commission.
 - b** An increase in the number of cross-cutting studies that examine public service provision and management issues across organisational boundaries; for example, considering the work of both the Assembly Government and local government – such studies involve resource intensive consultation and co-ordination work and dealing with organisations which have different ways of working, systems and information sources and coordinating our work to take account of this make such studies more expensive than single sector studies.
 - c** The further development of shared learning of good practice across public services, including conferences, seminars and reports.
 - d** Work to meet enhanced transparency and openness requirements, including the provision of extensive information on the operation of the Wales Audit Office through its publication scheme and a disclosure log, and dealing with expected increases in the number and complexity of Freedom of Information requests, which often include detailed supplementary queries which are not classified as separate requests, and other requests for information. Based on the continuing increasing trends from previous years I expect the cost of this to increase to around £50,000.
 - e** Developing arrangements in response to both new and existing equalities legislation.
 - f** Further strengthening of corporate governance by, for example, developing improved Information and Communications Technology (ICT) and Human Resources (HR) policies so as in the medium term to hopefully reduce expenditure on grievances and disciplinary matters.
 - g** Enhancement of the ICT estate.
- 5** There are also some areas of uncertainty, such as the possibility of changes in relation to what I may do in terms of charging for Value Added Tax (VAT) and offsetting against payable VAT. I have not included any additional amount in the estimate to address this, but I have included information on this matter, as I should ensure that the Committee is aware of it. I understand that the HMRC is planning to make a decision on this matter by March 2011. As in previous estimate submissions the impact of the HMRC is potentially significant and may lead me to make a request for supplementary resources.

- 6 My planned increases in efficiency and cost-containment measures include:
- a A reduction in salary costs of some four per cent following the implementation of a voluntary early severance scheme.
 - b Pay restraint that will be recognised in the next pay round even though there has been no pay award for either 2009-10 or 2010-11.
 - c Deferring expenditure, and cost savings on a wide range of areas including subscriptions, consultancy and the use of external meeting rooms.
 - d A reduction in the resources taken up by staff grievances and other employment disputes. I intend to achieve this through a variety of improvements in corporate governance, including a remuneration committee and clearer staff policies.
 - e New fleet management arrangements following agreement with staff and unions that will help realise efficiencies as well as having a positive impact on health and safety and the environment.
- 7 In considering and laying my estimate, the Committee sets three amounts for inclusion in the National Assembly's Budget Motion for the year ending 31 March 2012. The need for three amounts arises because of the requirements of resource accounting (as distinct from cash accounting), which apply in part to my accounts, and because of the requirement for National Assembly authorisation for the use of certain resources that I raise through fees.
- 8 The three amounts are:
- a the total resources (other than fees etc) for use on the administration of the Wales Audit Office and the discharge of statutory functions – £4.853 million;
 - b resources from fees etc, for use on related services and the administration of the Wales Audit Office – £8.024 million; and
 - c cash to be issued from the Welsh Consolidated Fund to meet amounts falling due for payment in the year – £4.753 million.
- 9 **Annex 1** provides a complete description of the three amounts in the terms necessary for incorporation into the National Assembly's budget motion. **Annex 2** gives a detailed analysis of estimated income and expenditure, together with comparative figures for 2010-11.
- 10 In addition to these amounts, I accrue resources from certain local government activities that I am permitted to retain for use in connection with those activities. During 2011-12, I estimate that these will amount to £11.379 million (2010-11: £11.920 million). I am not required to pay such income into the Welsh Consolidated Fund, so it does not form part of the amount to be authorised. However, I mention it here in order to give the full context of Wales Audit Office finances.

The role of the Auditor General

11 The Auditor General:

- a** Audits the accounts of the Assembly Commission, the Welsh Consolidated Fund, the Assembly Government, Assembly Government sponsored bodies and related bodies including all NHS Wales bodies. He also appoints auditors to local government bodies (including fire and rescue authorities, police authorities, probation board, national park authorities and community councils).
- b** Has the power to undertake examinations and studies, and to publish reports on economy, efficiency and effectiveness and make recommendations for improvement in all parts of the Welsh public sector.
- c** Is required to undertake and publish certain studies of Welsh local government bodies.
- d** Is required to undertake improvement plan audits and improvement assessments of all Welsh improvement authorities. Such authorities are Welsh county councils or county borough councils, national park authorities, and fire and rescue authorities.
- e** Has the power (and duty, if directed by the Welsh Ministers) to undertake an inspection of a Welsh improvement authority if it has failed to comply with its improvement duties under the Local Government (Wales) Measure 2009 (the 2009 Measure).

- f** Has certain other functions, including undertaking data matching exercises for the prevention and detection of fraud and control of the Welsh Consolidated Fund.
- g** Has powers to provide administrative, professional and technical services to public bodies in emergency situations, certain accountancy bodies and qualified auditors.

How the work of the Wales Audit Office is funded

- 12** The Wales Audit Office undertakes a wide variety of work at Welsh public sector organisations. The main elements, together with the sources of funding, are set out in [Table 1](#).
- 13** Just under three-quarters of the work is funded by fees charged to audited bodies and improvement authorities. These fees are set so as to recover the full cost of the work involved.

Table 1 – Main activities of the Wales Audit Office and sources of funding

Activity	Scale	How funded
<p>Value for money/performance audit work on the Assembly Commission, Assembly Government, Assembly Government sponsored and related public bodies, NHS Wales, and the further and higher education sectors.</p> <p>Support to the Public Accounts Committee and other National Assembly committees.</p> <p>Correspondence from National Assembly members and from members of the public.</p> <p>Other significant activities, including, provision of the Good Practice Exchange, control of the Welsh Consolidated Fund and administration of the Wales Audit Office.</p>	<p>Total expenditure subject to value for money/performance audit is approximately £17 billion.</p> <p>Briefing the Public Accounts Committee in support of its 18-20 meetings during the year and advising on Assembly Government responses.</p>	<p>From the Welsh Consolidated Fund. Some activities are also funded by fees.</p>
<p>Audit of accounts prepared by the Assembly Commission, Assembly Government and Assembly Government sponsored and related public bodies, and health bodies.</p>	<p>Nine accounts prepared by the Assembly Government.</p> <p>Twenty-six other accounts, including seven integrated Local Health Boards and three NHS trusts.</p>	<p>Fees charged to audited bodies.</p>
<p>Financial, value for money/performance audit and measure work on local government bodies.</p>	<p>Twenty-two unitary authorities, four police authorities, three fire and rescue authorities, one probation board, three national park authorities, seven pension funds and some 740 community councils.</p>	<p>Fees charged to audited bodies and improvement authorities. The Assembly Government provides some grant funding to support local government measure work.</p>
<p>Grant certification work and other work undertaken by agreement.</p>	<p>Work predominantly undertaken at 22 unitary authorities, the Assembly Government and several Assembly Government sponsored bodies.</p>	<p>Fees charged to relevant bodies.</p>

Note: Work of a cross-cutting nature, such as a study covering the Assembly Government and local government, could fall under more than one of the above activities and be funded by a combination of fees and money from the Welsh Consolidated Fund.

The level of activity and service that I propose to provide

- 14** While statute requires me to undertake certain duties, it also gives me discretion in the exercise of my functions. Most notably, I am not required to undertake any particular number of value for money studies.
- 15** I consider that there is a need to rebalance the mixture of studies undertaken, so that there are slightly fewer studies of NHS services and more studies regarding management issues across the range of Welsh public bodies. But I do not consider that an overall reduction in studies would be prudent or conducive to providing the Welsh public sector with adequate scrutiny. My estimate is therefore based on continuing to provide the same overall level of activity and service that the Committee has expected in the past five years. That activity and service includes:
- a** The preparation and publication of national study reports relating to the Assembly Government and its sponsored and related bodies, including the NHS. The number of published outputs has varied from year to year and depends on the relative scale of our different projects. Since early November 2009, the Wales Audit Office has produced, individually or jointly, 12 published reports.
 - b** Responding to short-notice requests, including Committee members' questions and other correspondence or whistleblowing disclosures. This work can often involve detailed fieldwork activity and may lead to a published report (such as in the case of the reports produced by the Wales Audit Office over the past 12 months on the management of public funding by Cymad Cyf and the public funding of the Ffynnonne and Cilgwyn woodlands).
 - c** The GPX is part of the Wales Audit Office's approach to supporting improvement and better value for money in public services. The GPX is a freely available online facility, which allows public bodies to readily identify examples of good practice and other materials, helping them to improve their own service provision and other aspects of good value for money. It has recently included material on timely financial reporting and efficiency and innovation to help public bodies deal with the current constraints on the public finances. The important role played by the GPX has been recognised by the Public Services Efficiency and Innovation Programme in its Programme Strategy 2010-2014 as a principal means of supporting knowledge transfer, alongside goodpracticewales.com which is closely linked to the GPX.
 - d** Other active sharing of good practice and knowledge transfer through peer to peer activities which include conferences and seminars. For example, I have recently provided a free seminar on 'grey' fleet management (the use by staff of their own cars for business purposes and related payments) which has generated significant demand from across public services. Similar events and shared learning activities on a smaller basis are run regularly.
 - e** The general support that we provide to the PAC and, where requested, other National Assembly committees. Our input to the PAC includes the briefings that we provide in public session on our own reports, along with a range of assistance and advice as requested by the Committee to support its scrutiny function.

Additional audit work arising in 2011-12

Work to ensure continuation of data matching to prevent and detect fraud in Wales and deal with the other consequences of the abolition of the Audit Commission

- 16 Owing to the enhanced degree of co-operation and joint working between the Wales Audit Office and other UK audit agencies, the forthcoming abolition of the Audit Commission will have some important practical effects on my work. In particular, I will need to engage in legal and related work to secure the continuation of the NFI data matching exercise in a viable form. The NFI prevented and detected £4.5 million of fraud and overpayments in Welsh public bodies in its last (2008-09) exercise, so I consider some modest investment is justified. In addition, fee and cost levels may vary considerably due to the impact of the abolition of the Audit Commission. There was a statutory duty to work with the Audit Commission in many areas and this could result in additional costs to the Wales Audit Office. This is further explained in more detail in [Annex 3](#) and this also demonstrates the uncertainties faced by the Wales Audit Office.
- 17 I will also need to make arrangements to address other consequences of the abolition. This includes securing licence agreements for hitherto jointly used software for the audit of housing benefit grant claim.

Increasing the number of cross-cutting studies

- 18 If I am to pursue the rebalancing of the mixture of studies, so that I undertake more cross-cutting studies, then this will be an additional call on resources. This is because such studies, especially where they involve local government, which is often the case, involve resource intensive consultation and

co-ordination work. They also tend to be innately larger because of the need to cover a larger number of bodies.

Enhancing the Good Practice Exchange and other good practice sharing mechanisms

- 19 The Peer Review recommended that the good practice initiative needs to develop further through a number of activities. These include more effective mainstreaming of the good practice approach into all aspects of the Wales Audit Office's business and further strengthening of collaboration with others involved in public sector improvement. Both mainstreaming the good practice approach across Wales Audit Office business, for example, requiring observation for and reporting of examples of good practice, and increased collaboration with other public bodies are an additional call on resources.

Work to meet enhanced transparency and openness requirements

- 20 While the Wales Audit Office met the Information Commissioner's requirements for providing a guide to its publication scheme (a catalogue of the information that it actively makes available), the approach taken until early 2010 had been somewhat minimalist. I consider that, given its public reporting role, it is important that the Wales Audit Office is an example of good practice in openness and transparency. But quite a lot of work is needed to achieve this. A lot more information on the operation of the Wales Audit Office needs to be made available through the publication scheme. However, this has to be done with care so as to ensure that the Data Protection Act is not breached in relation to personal information and that there are not infringements of copyright or other unintended consequences. Much the same applies in relation to the development of a disclosure log for responses to Freedom of Information requests.

21 Related to enhanced transparency and openness requirements, I expect the number and complexity of Freedom of Information requests and other requests for information to increase in 2011-12. This is in part because of developments in relation to one of my predecessors, but also because of UK government policy in this area. A small amount of direct additional resource is needed to cope with such an increase in the number and/or complexity of requests. An increase in resources is in any case needed in order to continue to manage the existing Freedom of Information workload.

Developing arrangements in response to equalities legislation

22 While the relevant secondary legislation has not been finalised, it seems likely that the Assembly Government will specify additional duties for me in relation to the Equalities Act 2010. I am, in any case, keen to extend the work we undertake, and in particular through my studies and inspection work, to look for opportunities to promote equality.

Further strengthening of corporate governance

23 I recognise that the National Assembly has been seeking statutory functions in relation to the corporate governance of the Wales Audit Office. However, I do not think it is either necessary or desirable to wait for legislative developments before making any changes. Consequently, I intend to introduce a remuneration committee. This will help to ensure transparency and fairness in the setting of Wales Audit Office staff remuneration, which has been a sore subject in the Wales Audit Office for the past five years. While this development will incur some initial and ongoing costs, I consider that in the medium and long term it will help protect public resources, by, for example, ensuring remuneration packages are reasonable and

by assisting to reduce the possible number of grievances and other employment disputes in the Wales Audit Office. Such disputes are expensive both in costs and the time spent by staff dealing with them.

24 I also intend to spend time on developing improved ICT and HR policies. Again, this investment should help to reduce expenditure on grievances and disciplinary matters in the medium and long term.

Further development of anti-money laundering arrangements

25 Last year's estimate included reference to the need to make arrangements to meet the Money Laundering Regulations 2007. While the Wales Audit Office has made arrangements for reporting suspicions of dealings in the proceeds of crime, including providing relevant training across the range of Wales Audit Office staff, further investment is needed to ensure reporting is always undertaken when called for. Such further efforts are particularly needed in relation to data matching exercises, especially the NFI. Also, in addition to the demise of the Audit Commission and the resulting need to take on additional work as detailed in paragraph 4a, I am planning to expand and develop our work in this area to maximise its impact and effectiveness.

Enhancement of ICT

26 By the nature of the work it undertakes, the Wales Audit Office has access to confidential and highly sensitive information. There are stringent measures already in place to protect such data, but there is a need to constantly review and improve, as appropriate, the facilities to ensure that such data remains secure.

27 As noted in last year's estimate, the Wales Audit Office has completed its most recent upgrade of the ICT equipment, providing sophisticated encryption for all laptops and memory sticks. However, due to the need to constantly review security and generally maintain reliable and satisfactory ICT infrastructure, the Wales Audit Office will replace around a third of its laptops and desktop machines during the 2011-12 financial year. This will upgrade equipment to ensure that the latest encryption and hardware is in place as well as generally improve and develop the ICT estate.

New and continuing uncertainties affecting the Wales Audit Office

Value Added Tax

28 As reflected in last year's estimate, HM Revenue & Customs (HMRC) has agreed that the existing arrangements inherited from the Audit Commission of adding VAT to inspection fees chargeable to local government, and offsetting this against VAT payable on supplies and services, can continue pending review. The Wales Audit Office has extended this practice to work under the 2009 Measure.

29 As last year, I have assumed that the existing arrangements will continue unchanged for the purpose of compiling the 2011-12 estimates, and I have not included any provision for additional irrecoverable VAT. Should any changes be necessary, I will need to discuss with the Committee whether the increased costs should be financed through additional fees, further funding from the Welsh Consolidated Fund or by a combination of both. I understand that HMRC plan to make a decision on this matter by March 2011.

Fee Levels

30 The reorganisation within the health sector meant that in the 2009-10 financial year, a large amount of additional work was required. The work arose due to the one-off creation of a number of part-year accounts and the impact of the introduction of International Financial Reporting Standards (IFRS). At present, the Wales Audit Office is still in the process of agreeing the 2010-11 project fees and the outcome of such negotiations may affect future estimate submissions. In addition, it is still uncertain what the longer-term impact of reorganisation will have for audit fees and the wider implications this may have on the Wales Audit Office.

31 Key elements of the 2009 Measure commenced in April 2010. This included the requirement for the Auditor General to undertake an improvement assessment of each Welsh improvement authority. In order to undertake these assessments, the Wales Audit Office had to:

- a** establish a methodology for assessing the improvement authorities;
- b** train all the relevant staff in order to comply with the requirements of the 2009 Measure;
- c** establish new teams of staff to undertake the work; and
- d** assess the impact of the work level onto the remaining workforce.

32 Further provisions under the 2009 Measure commence in April 2011, including the requirement for the Auditor General to undertake a full improvement and assessment audit of each authority. The Wales Audit Office has now moved onto the delivery phase of this work.

- 33** The first period of review will end in April 2011. Now that the Wales Audit Office has established the methodology for this work it will review the approach adopted and identify whether there is scope to generate efficiencies and reduce project fees for this area of work. The outcome of which may affect future estimate submissions.

Efficiency gains already achieved or in progress

Making the Connections efficiency gains

- 34** My predecessors voluntarily adopted an annual one per cent efficiency gain target for the Wales Audit Office for the period 2006-07 to 2010-11, in line with that set for public sector bodies by the Assembly Government. In common with other bodies, the Wales Audit Office interpreted the target as being one per cent a year of expenditure. By the end of the 2009-10 financial year, cumulative audited savings of at least £988,000 (2008-09: £765,000) had been generated, exceeding the target by £19,000 (2008-09: £53,000).
- 35** The main area of efficiency gains has been the provision of the same amount of audit work while increasing fees by less than the full expected increase in the cost of the work (fees increased by one percentage point less than the rate of inflation). This has amounted to some £170,000 a year and has been achieved by the use of more efficient audit practices. The Wales Audit Office has achieved other specific savings through the introduction of a new accounting and resource management system, and an integrated HR and Payroll system. These systems are delivering recurring cash savings of approximately £100,000 a year and have improved the quality of services provided.

Also, the Wales Audit Office has converted a number of agency staff to permanent, flexible staff contract terms. Not only does this provide for greater continuity, efficiency, and a more highly trained pool of staff, it has also delivered savings in the amounts which would otherwise have been payable in commission to recruitment agencies. Efficiencies have been recognised in not backfilling for some staff that have left and new contracts have been negotiated for ICT services and other goods and services.

Environmental protection improvements

- 36** The Wales Audit Office is pursuing improvements in environmental stewardship. Sound environmental practice complements other measures to increase efficiency and supports the broader objective to promote sustainable development by considering the environment, social and economic impacts of our work and activities. Some specific achievements include:
- a** A level 3 Green Dragon accreditation at four of its major offices. This accreditation includes CO₂ monitoring, waste management, compliance with legislation, and environmental monitoring and reporting.
 - b** Completion of enhancements to all of the major offices in May 2010, to support wider use of videoconferencing (VC). This builds on an increased use of VC, with 473 sessions taking place in 2009-10 (a 364 per cent increase since 2007-08). The improved facilities have already led to a further increase in use. This should reduce travel for both staff and for external stakeholders, and reduce telephone costs in the longer term.

- c A pilot scheme to trial the use of 1:1 PC sessions in remote areas and to establish better VC links with certain clients with the facility. These steps are to work towards one of our environmental targets - to reduce business car miles by five per cent - and we are currently at a 3.3 per cent reduction from our baseline.
- d Continued reduction of paper use and waste, through greater use of e-reporting, scanning devices, and other measures such as online payslips. Paper-based reporting has reduced by some 40 per cent and we have saved approximately 8 tonnes of paper waste and reduced paper use by 15 per cent over 2009-10 compared to the baseline. We aim to continue to reduce paper use and other types of waste over the upcoming period.

Planned increases in efficiency and other cost containment

Reduction in salary costs

- 37 Staff costs are currently some £16.4 million, the single largest item of Wales Audit Office expenditure. In response to the current period of austerity, the Wales Audit Office has introduced a workforce planning project looking from a zero base view at the staff numbers and skill mixes required to undertake the Office's work.
- 38 Initial findings from this project have identified the need for different skill mixes in some areas, and, as a result, the Wales Audit Office introduced a voluntary severance scheme in March 2010 to facilitate appropriate changes. Fourteen staff have taken up this voluntary severance, and the project should be completed by end of December 2010. Initial

indications are that there will be a saving of four per cent of year on year salary costs with approximately five per cent headcount reduction. The initial cost of this exercise will be recovered through salary savings in less than two years after which there will be ongoing annual savings. This cost, in part, falls on the estimate, and in part on other sources of funding.

- 39 To further reduce salary costs in real terms, I intend to ensure ongoing pay restraint even though there has been no pay award for the years 2009-10 and 2010-11. Also, where there is natural wastage of staff not all posts will be filled. This will be determined by business need taking account of the results from the workforce planning exercise.
- 40 I also intend to reduce associated costs such as legal fees by trying to reduce the resources taken up by staff grievances and other employment disputes. This will be achieved through a variety of improvements in corporate governance, including the remuneration committee and clearer policies mentioned above.

Review of transport and utility costs

- 41 I am planning to renegotiate with the trade unions the terms and conditions surrounding transport allowances and lease cars. This is designed to provide a more cost effective and sustainable fleet policy and have additional health and safety and environmental benefits.
- 42 The Wales Audit Office has a target of reducing electricity and gas use by two per cent this year. This is just one target in ensuring the Wales Audit Office retains its Green Dragon status as well as reducing overall utility costs.

- 43** Our VC facilities were improved during the 2009-10 financial year. This has delivered efficiencies during the year and is expected to deliver further savings as the level of usage increases. This is not only good for the environment but by reducing the number of journeys required to be undertaken, there are benefits in terms of financial and time savings, as well as improving the health and safety of staff.

Reductions in other costs

- 44** In order to meet our financial targets for 2010-11, I am planning to defer expenditure in a number of areas, as well as making further efficiencies and savings in a wide range of areas including subscriptions, consultancy and external meeting rooms. A more detailed review is currently being undertaken to identify further savings and efficiencies.

Impact of funding levels and potential future requirements

- 45** For the 2011-12 financial year, the level of resources funded by this paper will still enable the same level of activities and service that have previously been provided to continue, but this may limit my ability to respond to additional reporting and requests for information and advice. However, due to changing demands for work and the level of uncertainty around fees, there may be a need for redundancies in the future. Such costs may be significant and may require further funding at that time in order to release further efficiencies in the future.

Huw Vaughan Thomas

Auditor General for Wales

October 2010

Annex 1 – Summary of 2011-12 budget requirements for inclusion in the Welsh Ministers' Budget Motion under section 125 of the Government of Wales Act 2006

- 1** Under Section 125 of the Government of Wales Act 2006 (the 2006 Act), Ministers must move a Budget Motion in the National Assembly to authorise the use of resources, retention of income and drawings of cash from the Welsh Consolidated Fund for certain relevant persons, including the Auditor General. The Auditor General's budget is determined, under paragraph 12 of Schedule 8 to the 2006 Act, after the PAC has examined his annual estimate of income and expenses, and laid it before the National Assembly.
- 2** In respect of the services and purposes of the Auditor General in the year ending 31 March 2012, the Budget Motion will authorise:

 - a** the amount of resources to be used by the Auditor General;
 - b** the amount of resources accruing to the Auditor General which may be retained by him (rather than paid into the Welsh Consolidated Fund); and
 - c** the amount which may be paid out of the Welsh Consolidated Fund to the Auditor General.
- 3** These requirements, which due to the variability of income streams can only be estimates, are summarised in [Table 1](#) below.
- 4** In addition to the amounts shown in [Table 1](#), the Auditor General accrues resources from local government activities under Part 1 and Section 33 of the Local Government Act 1999, Part 2 of the Public Audit (Wales) Act 2004 and Part 1 of the Local Government (Wales) Measure 2009, which he is permitted to retain for use in connection with the exercise of functions under those statutory provisions. During 2011-12, these are estimated to amount to £11.379 million (2010-11: £11.920 million). Under Paragraph 9(3) of Schedule 8 to the 2006 Act, the Auditor General is authorised to retain such income rather than paying it into the Welsh Consolidated Fund. As in previous years, it does not therefore form part of the amount to be authorised by Budget Motion under Section 125(1)(b) of the 2006 Act but is included for information.

Table 1 – Summary of the estimated 2011-12 budget requirements

	£ million
Resources other than accruing resources for use by the Auditor General on the administration of the Wales Audit Office, and the discharge of the statutory functions of the Auditor General and local government appointed auditors [1].	4.853
Accruing resources from fees and charges for audit and related services (excluding income under Part 1 and Section 33 of the Local Government Act 1999, and Part 2 of the Public Audit (Wales) Act 2004 and Part 1 of the Local Government (Wales) Measure 2009), other recoveries of costs associated with the functions of the Auditor General, miscellaneous income from publications, conferences, provision of administrative and professional and technical services etc, recoveries of costs of seconded staff, repayments of staff loans, recoveries of car leasing payments, and interest received on working balances fees for use by the Auditor General on related services and the administration of the Wales Audit Office [2]. (See Annex 2 Table 2)	8.024
Net cash requirement from the Welsh Consolidated Fund to meet the net amounts falling due for payment in the year by the Auditor General [3].	4.753

[1] This is the net revenue and capital expenditure in resource terms that the National Assembly will be requested to authorise by Budget Motion under Section 125(1)(a) of the 2006 Act.

[2] This is the income accruing to the Auditor General (other than that arising from local government activities) that the National Assembly will be asked to authorise by Budget Motion under Section 125(1)(b) for use on related services rather than being paid into the Welsh Consolidated Fund.

[3] This is the cash needed from the Welsh Consolidated Fund to meet the Auditor General's estimated net payments (payments less receipts) falling due in the year for authorisation by the National Assembly by Budget Motion under Section 125(1)(c) of the 2006 Act.

Annex 2 – Detailed analysis of estimated income and expenditure for 2011-12

Table 1 provides my detailed estimate of the Wales Audit Office's income and expenditure for 2011-12 compared with estimated figures for 2010-11, including a breakdown of the main areas of expenditure.

Table 1 – Detailed estimate of Wales Audit Office income and expenditure 2011-12

		2010-11		2011-12	
		£ million	£ million	£ million	£ million
Income					
Audit of accounts and inspection/measure work of local government bodies	(i)		9.951		9.585
Wales Programme for Improvement grant (which is now used for measure work)	(ii)		1.721		1.669
Certification of grant claims	(iii)		2.914		2.300
Audit of accounts of the Assembly Government, Assembly Government sponsored and related public bodies	(iv)		1.350		1.350
Audit of accounts and performance audit of NHS Wales bodies	(v)		6.338		4.334
Other	(vi)		0.418		0.165
Total income			22.692		19.403
Expenditure					
Staff costs and related costs	(vii)		16.356		15.427
Fees payable to appointed auditors, agency contractors and consultants	(viii)		5.179		3.413
Accommodation and related costs	(ix)	1.342		1.155	
Supplies and services	(x)	1.899		1.633	
Corporate charges	(xi)	2.763		2.428	
Capital charges		0.200	6.204	0.200	5.416
Total revenue expenditure			27.739		24.256
Capital expenditure			0		0
Net request for resources			5.047		4.853
Net cash requirement			5.074		4.753

Notes

- (i) *Fees income from the audit of accounts and inspection/measure work is expected to decrease following the introduction of IFRS, together with a review of the work undertaken in the first transitional year of the 2009 Measure and the identification of opportunities to improve the efficiency and effectiveness of this work.*
- (ii) *The Wales Programme for Improvement grant was reduced by £25,000 for 2010-11 and is expected to be further reduced in line with inflation. It should be noted that although the name of the grant remains unchanged following the cessation of the Wales Programme for Improvement, this grant is now used to fund measure work.*
- (iii) *Grant certification income will reduce in line with a reduction in the work required.*
- (iv) *The fees for the audit of accounts work in relation to the Assembly Government, Assembly Government sponsored and related public bodies are expected to remain stable, which would mean a reduction in real terms in the cost of work.*
- (v) *This year income from the audit of health bodies will be significantly lower. This is primarily due to the fact that following the mid-year reorganisation, there was a need to audit both the six and twelve month NHS accounts last year.*
- (vi) *Other income, such as bank interest, is expected to fall due to lower cash balances.*
- (vii) *Staff costs and related costs are expected to fall in line with a small reduction in staff numbers mainly as a consequence of the voluntary severance scheme, combined with pay restraint for all but the most junior staff.*
- (viii) *Fees payable to contractors are expected to decrease due to less work being required after the completion of the peak of accounts work required as a result of the restructuring of the NHS, as explained in note (v) above.*
- (ix) *Accommodation costs are expected to decrease overall by £187,000 due to savings being realised from the termination of leases following the consolidation of accommodation in Cardiff.*
- (x) *Supplies and services are expected to decrease by £266,000 due to forecast decreases in work volumes.*
- (xi) *Corporate charges costs are expected to decrease due to enhanced video conferencing facilities, which is reducing travel costs and associated subsistence costs, recruitment and training costs.*

Table 2 – Reconciling income to Table 1

Accruing resources other than under Part 1 and Section 33 of the Local Government Act 1999, and Part 2 of the Public Audit (Wales) Act 2004 consists of:

	2010-11 £ million	2011-12 £ million
Certification of grant claims	2.914	2.300
Audit of accounts of the Assembly Government, Assembly Government sponsored and related public bodies	1.350	1.350
Audit of accounts and performance audit of NHS Wales bodies	6.338	4.334
Other	0.170	0.040
Total	10.772	8.024

Table 3 – Reconciliation of resource requirement to cash drawing requirement from the Welsh Consolidated Fund

	2010-11 £ million	2011-12 £ million
Net request for resources	5.047	4.853
Movement in year-end debtors and work in progress, creditors and provisions, and deferred income	0.227	0.100
Capital charges (interest and depreciation)	(0.200)	(0.200)
Net cash requirement	5.074	4.753

Annex 3 – Potential impact of the demise of the Audit Commission

- 1** During my presentation to the PAC in October I made a number of points about the potential impact that the demise of the Audit Commission could have on the Wales Audit Office. Current indications are that there will be a very short timescale to develop answers to a range of important questions about the future of public audit arrangements in England. In one sense the strategic risks to Wales are small; England was the only nation of the UK that had two audit bodies (Scotland, Wales and Northern Ireland operated with one) so England could be seen to be following suit. However, I am concerned about the potential impact of what might be hastily drafted legislation to impinge on our legislation and roles.
 - 2** My staff are liaising with the NAO and the Audit Commission to ensure that we are kept in the picture. I have written to the Comptroller and Auditor General and to my counterparts to suggest a combined consideration of the consequences. I am keen to work with National Assembly officials to ensure that, if there are legislative consequences, we identify them at an early point.
 - 3** To that end, the PAC affirmed that it would 'keep an eye' on the legislation, in case any particular issue should arise, particularly to do with the way in which joint work is undertaken between the Wales Audit Office and bodies based in England. The PAC agreed to keep the Constitutional Affairs Committee informed as that committee has the ability to scrutinise legislation passing through Westminster.
 - 4** This annex focuses on the potential impact that the demise of the Audit Commission could have on the Wales Audit Office and its ability to meet its objectives.
- ### Potential increase in the Wales Audit Office's costs
- 5** The Wales Audit Office has a number of areas of commonality with the Audit Commission where the demise of the Audit Commission could contribute to increased costs for the Wales Audit Office. These include:

 - i** VAT exemptions
 - ii** Shared procurements
 - iii** Grant certification arrangements
 - 6** The Wales Audit Office currently has a risk relating to the potential loss of monies associated with VAT in relation to inspection work in local government and health audits. The Wales Audit Office has been discussing its VAT status with HMRC for several years and is seeking clarification of arrangements which would enable all its input VAT to be reclaimed. The potential liability is large and this matter has been highlighted in all previous estimate papers submitted by the Wales Audit Office.

7 The Audit Commission shares some procurement costs with the Wales Audit Office. At present the Wales Audit Office and Audit Scotland contribute towards the costs of a review of the actuarial assumptions made by the various actuaries who prepare FRS 17 returns which are required to be used to account for pensions by local government bodies. This could now be unaffordable without the Audit Commission's involvement as they currently contribute some £36,000 to this work. It is possible such an arrangement could continue with new suppliers but it would be more difficult to co-ordinate and potentially more costly as the Audit Commission's contribution would need to be split equally between Audit Scotland and Wales Audit Office.

8 The Audit Commission plays a major part in developing arrangements for UK-wide grant certification schemes ie, Housing and Council Tax Benefits, and Teachers' Pension contributions, and currently influences the work carried out in a number of other areas. For example, the Wales Audit Office currently has a licence to use an Audit Commission audit tool to support its work on housing benefits, which costs approximately £10,000 each year. The Wales Audit Office will also need to agree with the Audit Commission ongoing conditions for the licence, as well as decisions made by the DWP on the future of grant audits.

9 Changes in approach by Government departments to grant certification, as a result of the Audit Commission's demise could have a major impact in Wales. Certification fees currently payable to the Wales Audit Office could be at risk if the DWP decides to appoint different auditors. The estimated net impact could be around £150,000. In addition, unless the DWP specifies a methodology, I will need to develop my own or, if the Commission

waives certain licence terms, update and maintain the Commission's tools for the future.

10 Similarly, in the event that the Teachers Pension Agency decides to appoint different auditors the estimated net impact could be around £15,000.

Potential decrease in the Wales Audit Office's knowledge

11 The Wales Audit Office has a number of areas where it works closely with the Audit Commission on knowledge development and sharing ie:

i Financial Audit Technical liaison

ii Grants

iii Governance

iv Fraud

12 Following the abolition of the Audit Commission, the Wales Audit Office will lose informal networking contacts and the ability to share and discuss common issues with the Audit Commission. This is a significant issue for the Wales Audit Office Technical Team as challenging and complex issues are often discussed with the Audit Commission to test the validity of approaches and to ensure consistency. There would be a further loss of access to Audit Commission training and guidance material and loss of intelligence on electronic audit products. The Wales Audit Office, alongside other UK institutions, will have to fill the void left by the abolition of the Audit Commission. Therefore, the Wales Audit Office would require additional resources to maintain the current level of knowledge.

13 Although the Community Council regimes in England and Wales have diverged slightly since 2005, the Wales Audit Office Technical Team has close links with the Audit Commission on common issues including legislation and general support. The impact of the loss of support from the Audit Commission could be around £15,000.

16 Inspections are expected to transfer from the Audit Commission to the NAO. The Wales Audit Office also currently carries out some inspections and there will need to be clarity on the roles of the NAO and Wales Audit Office on inspections in the future.

Other areas of potential impact onto the Wales Audit Office

14 The Wales Audit Office works jointly with the Audit Commission in the following areas:

- i** NFI
- ii** Limited assurance regime
- iii** Grant certification
- iv** Public Audit Forum (PAF)
- v** Responses to Financial Audit standards
- vi** Home Office inspections
- vii** Studies to benchmark performance of public bodies across England and Wales
- viii** Liaison with the Local Government Association and the Welsh Local Government Association.

15 Representation on technical decision making bodies could increase. There is also a risk of less input/challenge to/for CIPFA's Local Government Code and other guidance notes, possibly leaving the Wales Audit Office as the lead body informing the development of these documents.