

Annual Scrutiny of the Wales Audit Office and the Auditor General for Wales

November 2023



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November 2023



About the Committee

The Committee was established on 23 June 2021. Its remit can be found at:
www.senedd.wales/SeneddFinance

Current Committee membership:



Committee Chair:
Peredur Owen Griffiths MS
Plaid Cymru



Peter Fox MS
Welsh Conservatives



Mike Hedges MS
Welsh Labour



Rhianon Passmore MS
Welsh Labour

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Conclusions and Recommendations

Conclusion 1. Subject to the conclusions and recommendations in this report, the Committee is content with the following publications provided by the Auditor General for Wales and the Wales Audit Office during the annual scrutiny sessions:

- Annual Report and Accounts 2022-23;
- Audit Findings Report - Year Ended 31 March 2023;
- Annual Plan 2023-24;
- Interim Report - An assessment of progress made against our 2023-24 Annual Plan during the period 1 April to 30 September 2023;
- Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2025. Page 10

Recommendation 1. The Committee recommends that Audit Wales provides details of how it is evaluating the steps taken to improve performance in relation to employee engagement and employee experience..... Page 31

Recommendation 2. The Committee recommends that Audit Wales provides information on the feedback received from staff on its Cardiff office relocation and how that change was managed..... Page 31

Recommendation 3. The Committee recommends that Audit Wales provides details on the outcomes of its staff wellbeing strategy, including when it expects the impact of the strategy to be reflected in the staff survey results..... Page 32

Recommendation 4. The Committee recommends that Audit Wales provides details of how it intends to capture stakeholder feedback to ensure meaningful year-on-year comparison. The Committee recommends that Audit Wales provides more information on:

- how it is reprioritising resources internally to meet its statutory deadlines in the short-term;
- what it is doing in the long-term to overcome the strategic risks of missing statutory deadlines that are posed by resourcing and staffing concerns; and

- progress in implementing new auditing quality standards and how it is being assessed. Page 32

Recommendation 5. The Committee recommends that Audit Wales provides details of staff turnover rates and how they compare year-on-year. Page 32

Recommendation 6. The Committee recommends that further information is provided on the review of Audit Wales’s trainee scheme and its impact on workforce planning. Page 32

Recommendation 7. The Committee recommends that Audit Wales explains why it has returned funds allocated for the National Fraud Initiative to the Welsh Consolidated Fund. Page 32

Recommendation 8. The Committee recommends that Audit Wales provides updates on the impact that high levels of staff turnover is having on its ability to meet statutory deadlines for audit work and what it is doing to mitigate these challenges. Page 41

Recommendation 9. The Committee recommends that Audit Wales provides updates on:

- the activities it is undertaking to improve staff wellbeing and how this is reflected in the staff survey;
- how it is providing staff with training and continued professional development; and
- how its new staff survey compares to the previous approach, which used the Civil Service People Survey. Page 41

Recommendation 10. The Committee recommends that Audit Wales alters the presentation of future Estimates to make clear the total value of WCF funding and the value of changes to that funding by:

- detailing both increases and decreases in budget lines separately;
- specifying the budget area to which changes relate and reasons for the change; and
- making clear the split between the work funded from the WCF and work funded from fees. Page 65

Recommendation 11. The Committee recommends that Audit Wales provides information on the £522,000 for non-cash movements in Exhibit 1 of its supporting information and includes a breakdown of this figure into constituent elements of its Estimate.....Page 65

Recommendation 12. The Committee recommends that Audit Wales confirms that funding for dilapidations in 2023-24 was a one-off charge and provides further information on the interaction of the year-on-year change in movements in working capital and the overall change in the year-on-year change for total funding to be provided from the WCF, with specific reference to the table “Revenue budget 2024-25” in the appendices to its supporting information.Page 65

Recommendation 13. The Committee recommends that Audit Wales includes more information on movements in working capital in future Estimates, including detailing their purpose and to what each movement relates to.Page 66

Recommendation 14. The Committee recommends that Audit Wales provides further detail and a breakdown of how specific elements of its capital funding will be spent in 2024-25 and also includes the same level of detail in all future Estimates.Page 66

Recommendation 15. The Committee recommends that further information is provided to explain how cash associated with the rent-free period at its new Cardiff Offices is being utilised in 2024-25, and to provide assurances that there will not be a request for an increase in cash associated with the rent-free period ending.Page 66

Recommendation 16. The Committee recommends that Audit Wales provides information on the final costs and benefits of the changes to its Travel Allowance, including the total costs of implementing the changes; the costs/savings associated with replacement arrangements; and the costs/savings associated with any other related changes such as the uplift in staff salaries.Page 66

Recommendation 17. The Committee recommends that Audit Wales continues to seek ways to manage the pay increases it proposes awarding to staff within its existing budget.Page 66

Recommendation 18. The Committee recommends that Audit Wales provides regular updates on:

- how the funding associated with staff pay awards will be applied across grades;

- the budgetary impact of any decisions taken in relation to staff pay;
- consultations taking place with Trade Unions and specialist pay review bodies; and
- the intended impact of the pay awards on staff turnover. Page 66

Recommendation 19. The Committee recommends that Audit Wales provides an update on the expanded trainee scheme, including its associated costs, and information on the proportion of newly qualified staff remaining in the organisation.....Page 66

Recommendation 20. The Committee recommends that Audit Wales provides regular updates on how it is evaluating the impact of its fee increases associated with its new auditing standards.....Page 67

1. Introduction

Background to the Public Audit (Wales) Act 2013 and the Auditor General for Wales

- 1.** The Public Audit (Wales) Act 2013 (the Act) received Royal Assent on 29 April 2013.¹ The Act continued the office of the Auditor General for Wales (Auditor General) and created a new body known as the Wales Audit Office (WAO). It also set out accountability and governance arrangements relating to the Auditor General and the WAO.
- 2.** The Auditor General is the statutory external auditor for most of the Welsh public sector, and is Chief Executive of the WAO and its Accounting Officer. The WAO monitors and advises the Auditor General, holds and provides resources and charges fees for the Auditor General and the WAO's work. The WAO is represented by a Board, which includes a non-executive Chair, other non-executive members, the Auditor General, an appointed employee member and two elected employee members.
- 3.** Audit Wales is the non-statutory collective name for the Auditor General and the WAO, which are separate legal entities with their own legal functions. Audit Wales is not a legal entity.

Accountability and Governance Arrangements

- 4.** The Act confers a number of functions on the Welsh Parliament (the Senedd). Under Section 28 of the Act, the Senedd may make provision through its Standing Orders regarding the exercise of the functions conferred upon it by the Act, including “delegating functions to the Presiding Officer, the Deputy Presiding Officer, a committee or sub-committee of the Senedd or the chair of such a committee or sub-committee”.² In accordance with Standing Order 18.10, oversight of the WAO has been delegated to the Finance Committee (the Committee).³
- 5.** This year's annual scrutiny of the WAO and the Auditor General took place in two parts.

¹ Public Audit (Wales) Act 2013

² Standing Orders of the Welsh Parliament

³ Business Committee minutes, 1 October 2013

6. The Committee examined the following publications on 20 September 2023 and took evidence from the Auditor General, Adrian Crompton, the Chair of the Board, Dr Kathryn Chamberlain, and two officials from Audit Wales:

- Annual Report and Accounts 2022-23;⁴
- RSM UK Audit LLP - Audit Findings Report - Year Ended 31 March 2023;⁵
- Annual Plan 2023-24.⁶

7. On 9 November 2023, the Committee took evidence from the Auditor General, Chair of the Board, and two officials from Audit Wales on the following publications:

- Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2025;
- Interim Report - An assessment of progress made against our 2023-24 Annual Plan during the period 1 April to 30 September 2023.

Conclusion 1. Subject to the conclusions and recommendations in this report, the Committee is content with the following publications provided by the Auditor General for Wales and the Wales Audit Office during the annual scrutiny sessions:

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⁴ Annual Report and Accounts 2022-23

⁵ RSM UK Audit LLP - Audit Findings Report - Year Ended 31 March 2023

⁶ Annual Plan 2023-24

2. Annual Report and Accounts 2022-23

8. The Annual Report and Accounts for 2022-23⁷ were laid before the Senedd on 16 June 2023. The Auditor General prepared the Accounts for 2022-23 as the Accounting Officer for the WAO, in accordance with Schedule 1 to the Act. The Auditor General and the Chair of the Board jointly prepared the Annual Report, in accordance with Schedule 2 to the Act.⁸

9. The Annual Report states that the exercise of the functions of both the Auditor General and WAO has been broadly consistent with the Annual Plan prepared for the year and that the priorities in the Plan “have been substantively achieved”.⁹

10. This is the first Annual Report and Accounts of the new Chair of the Board, Dr Kathryn Chamberlain, who took up the role on 16 March 2023. In her opening statement¹⁰, the Chair alludes to the financial challenges facing Audit Wales and the public sector. The Chair also commented on her experiences so far in meeting individually with board members and members of the executive leadership team, as well as members of the Finance Committee. She also went on to share some observations from her first six months in post, referring to Audit Wales’s focus on quality and efficiency whilst also having the “right number and experience of staff in place”.¹¹

“... it’s essential that we are able to provide a good and robust public audit service, and clearly we need to be able to have the resources to do so.”¹²

11. The Annual Report refers to a number of Audit Wales’s plans and strategies, including Audit Wales’s five year strategy 2022-2027: Assure, Explain, Inspire. The Auditor General says:

“This year marked the first year of our new strategy and it has been rewarding to see the progress we have made towards achieving our strategic ambitions, underpinned by a relentless focus on improving the quality and impact of our work.”¹³

⁷ [Annual Report and Accounts 2022-23](#)

⁸ [Public Audit \(Wales\) Act 2013](#)

⁹ [Annual Report and Accounts 2022-23, page 3](#)

¹⁰ [Annual Report and Accounts 2022-23, page 11](#)

¹¹ Finance Committee, RoP, 20 September 2023, paragraph 25

¹² Finance Committee, RoP, 20 September 2023, paragraph 23

¹³ [Assure, Explain, Inspire: Our Strategy 2022-27](#)

12. Audit Wales sets out its priorities over the last 12 months, which have focussed on setting its strategic direction, implementing changes to its workplaces and adapting the ways it supports staff to work flexibly.

13. The Auditor General explained in his oral evidence that Audit Wales's work programme for a three-year period had been published for the first time and that providing strategic clarity to stakeholders had been "very well received".¹⁴

14. He summarised the delivery of first year of Audit Wales's five-year strategic plan as making "good progress" and that it would report to the board on a quarterly basis.

15. The Annual Report also sets out that in 2022-23 the Executive Leadership Team (ELT) and WAO Board undertook a:

"... joint 'blank sheet' review considering the internal and external environmental, and topics identified through horizon scanning to identify threats or opportunities that could affect delivery of our strategic objectives and core business."¹⁵

Performance

16. Audit Wales achieved, or was close to achieving, 11 out of 18 Key Performance Indicators (KPI) for the year (13 out of 18 were achieved 2021-22).¹⁶

17. The following KPIs were rated as "improvement required":

- Proportion of audit products delivered by the statutory deadline.
- Proportion of other key audit products delivered in accordance with the planned timetable.
- Proportion of reviewed audits that are delivered in accordance with Financial Reporting Council (FRC) quality standards (Audit Quality). This is a combined score for accounts and performance audit.
- Proportion of stakeholders who said that through Audit Wales's work, they gained useful insight that they would not have acquired otherwise.¹⁷

¹⁴ Finance Committee, RoP, 20 September 2023, paragraph 31

¹⁵ Annual Report and Accounts 2022-23, page 31

¹⁶ Annual Report and Accounts 2021-22, page 18

¹⁷ Annual Report and Accounts 2022-23, page 19

18. The Annual Report notes, for the first time in 2022-23, an independent research company, was used to gather stakeholder feedback. When questioned on the use of an independent research company in 2022-23 to gather stakeholder feedback, the Auditor General explained that, historically, this had been gathered through face-to-face interviews by engagement directors and chief finance officers. He expressed some concern around that methodology, saying that “we wanted to sense-check that by doing third party, completely independent research, which is what we've done this year”.¹⁸

19. He added that:

“The results are marginally down on that previous approach ... But we were delighted by what they showed, because they are still exceptionally high levels in respect of the quality of work, the credibility of our work.”¹⁹

20. However, the Auditor General went on to say that:

“... next year, we'll revert to the old approach” and “repeat this third party independent approach in a few years' time.”²⁰

21. The following KPIs were rated as “significant improvement required”:

- Employee engagement (this indicator was also rated as “significant improvement required” in 2021-22).
- Employee experience (while not directly comparable, this indicator has been rated significant improvement required since 2020-21).
- Proportion of trainees achieving first-time passes in Professional and Advanced level examinations with the Institute of Chartered Accountants in England and Wales.²¹

22. When addressing the KPIs on staff engagement requiring “significant improvement”, the Auditor General emphasised the effect of “personal and professional changes and pressures that were bearing on people coming out of

¹⁸ Finance Committee, RoP, 20 September 2023, paragraph 61

¹⁹ Finance Committee, RoP, 20 September 2023, paragraph 61

²⁰ Finance Committee, RoP, 20 September 2023, paragraph 62

²¹ [Annual Report and Accounts 2022-23, page 21](#)

the pandemic”.²² Going on to say that there was also “a very significant backlog of work that built up through the pandemic”.²³

23. He also drew attention to staff concerns around pay and remuneration and stated that:

“We have some serious difficulties in recruiting and retaining staff, and, of course, every time a member of staff leaves, that adds pressure on those who remain.”²⁴

24. The Auditor General noted it was those “cocktail of issues” and “a sense that the senior leadership of the organisation was not sufficiently engaged and sighted on tackling those things”,²⁵ which were causing concern to staff.

25. In light of the lower proportion of trainees achieving first-time passes in Professional and Advanced level examinations, the Executive Director of Audit Services explained that she believed this was the result of a “myriad of reasons”. She stated that many of the trainees joined at a “difficult time” during the pandemic meaning that study was provided online “which was good but probably not quite as good as it had been previously”.²⁶ The Executive Director of Audit Services also expressed concern around the lack of working experience trainees had received.²⁷

26. In response, she explained Audit Wales has completely reviewed the scheme “to see if there’s something we need to do differently”, such as staggering exams.²⁸

27. The Auditor General also commented the link with resourcing challenges:

“... without our pipeline of trainees, we would be in a far worse position, because it’s very, very difficult to recruit externally in the current market. So, growing our own talent that we hope to keep at Audit Wales... is really important.”²⁹

28. The Committee was also told that resourcing pressures were a factor which had impacted some KPI results:

²² Finance Committee, RoP, 20 September 2023, paragraph 37

²³ Finance Committee, RoP, 20 September 2023, paragraph 37

²⁴ Finance Committee, RoP, 20 September 2023, paragraph 37

²⁵ Finance Committee, RoP, 20 September 2023, paragraph 37

²⁶ Finance Committee, RoP, 20 September 2023, paragraph 55

²⁷ Finance Committee, RoP, 20 September 2023, paragraph 56

²⁸ Finance Committee, RoP, 20 September 2023, paragraph 57

²⁹ Finance Committee, RoP, 20 September 2023, paragraph 58

“So, for instance, our desire to improve our position in terms of the timeliness of delivery of our audit, which is reflected in some of our key performance indicators, we're struggling on that front because of the resourcing pressures that we face.”³⁰

Delivery of Work Programme

29. Audit Wales says the 2022-23 work programme was “substantially completed” in line with its targets. It outlines delivery against a “challenging backdrop”,³¹ impacting both it and audited bodies, highlighting a number of issues, including:

- high levels of demand for professional services staff resulting in volatility in recruitment market;
- increasing audit quality expectations of the work of auditors;
- different ways of working in a post-pandemic environment; and
- financial pressures that impact the public sector and the whole economy.

30. All but one (Betsi Cadwaladr University Health Board) of Audit Wales’s audits of NHS bodies’ accounts were completed by the target of 17 June 2022.

31. Local government audits were completed later than in previous years due to a technical issue, relating to the treatment of infrastructure assets. A revised target was agreed with the Welsh Government of 31 January 2023 for the completion of audits: 72 per cent of audits achieved that. Where the target was not achieved, Audit Wales say this was a result of varying local circumstances rather than any single issue impacting its audited bodies or itself. This issue was mentioned by the Executive Director of Audit Services last year.³²

32. When questioned on missing some statutory deadlines, the Auditor General emphasised that there were “two main drivers” which accounted for the lower performance. The first was related to an issue with infrastructure assets which were “completely outside our control and was affecting the whole of the UK, not just Wales”.³³ The second was attributed to resourcing pressures:

³⁰ Finance Committee, RoP, 20 September 2023, paragraph 32

³¹ Annual Report and Accounts 2022-23, page 24

³² Annual scrutiny of the Wales Audit Office and the Auditor General for Wales 2022, paragraph 105

³³ Finance Committee, RoP, 20 September 2023, paragraph 64

“... what the infrastructure assets issue did was actually to mask the pressure that we're under to meet deadlines. This year, I don't think we will meet all of our deadlines for local government. We will miss many by several months. And that goes to the heart of the resourcing pressures that we're under...If we haven't got the staff, we can't do the work.”³⁴

33. The Auditor General went on to compare the current situation in Wales with that of local government in England, stating that the National Audit Office estimate that:

“... anything up to 1,000 audits are outstanding across between 300 and 400 bodies, some of them dating back to 2015. We're nowhere near that in Wales, I'm pleased to say, but I think when we start to miss our deadlines by a matter of months, it's a signal that we're at the top of a very slippery slope...the concern then is not about Audit Wales not meeting a KPI, it's the consequence of an absence of timely audit that you see manifested in the failures that you're seeing across the board in local government in England now.”³⁵

Workforce

Staff Survey

34. Audit Wales conducted its staff survey in October 2022 (76 per cent completion rate), based on the core questionnaire used in the Civil Service People Survey (CSPS). The Annual Report highlights a drop in the overall engagement score from 64 per cent to 60 per cent and notes:

“At a thematic level our survey results in 2022 indicated a drop in employee satisfaction across a number of areas when compared to the previous year's scores.”³⁶

35. Last year, the Committee commented on the staff survey results, saying:

“... we are disappointed with the results of the staff survey, namely the categories relating to employee engagement and

³⁴ Finance Committee, RoP, 20 September 2023, paragraph 64

³⁵ Finance Committee, RoP, 20 September 2023, paragraph 65

³⁶ [Annual Report and Accounts 2022-23, page 49](#)

*experience, leadership and change, and organisational objectives and purpose.*³⁷

36. In response to questions on this year's results, the Auditor General stated that the Executive Leadership Team (ELT) and the Board plan to focus on three areas going forward: leadership, resourcing and pride in the organisation.

*"On leadership, Kate alluded to one thing: to increase our clarity of leadership and leadership message. We're in the second tranche of a big wave of staff engagement events. On resourcing, we undeniably still face a lot of pressure, but we have recruited as best we can. We've looked to develop and promote staff from within, and we've shuffled our resources around internally to bring staff from performance audit and corporate teams to support their colleagues in accounts work where the statutory deadlines primarily meet."*³⁸

37. On this point, the Annual Report states that the ELT's plan to focus its efforts on the three critical areas will "augment work already being delivered through our People and Organisational Development strategy".³⁹

Staff Engagement

38. The Annual Report notes the way in which Audit Wales has been engaging with staff during the year. It details the launch of a new staff newsletter and publication of regular blogs which are posted by members of the Board and the ELT. It also states that it has hosted all-staff briefings and question and answer sessions for key organisation-wide projects and that it has undertaken an "interim temperature check survey"⁴⁰ and deep-dive engagement to better understand staff views and drive improvement. The Annual Report describes how feedback has been gathered through surveys and focus groups to inform changes such as the design of offices and new travel plan and that there are regular "information cascades"⁴¹ to line managers.

39. The Annual Report notes that, in September 2022, Audit Wales launched a staff Wellbeing Strategy which is designed around three themes of wellbeing which are "at the centre of our aims for Audit Wales"⁴² – Work Well, Live Well and

³⁷ Annual scrutiny of the Wales Audit Office and the Auditor General for Wales 2022, paragraph 67.

³⁸ Finance Committee, RoP, 20 September 2023, paragraph 38

³⁹ Annual Report and Accounts 2022-23, page 50

⁴⁰ Annual Report and Accounts 2022-23, page 49

⁴¹ Annual Report and Accounts 2022-23, page 49

⁴² Annual Report and Accounts 2022-23, page 38

Mean Well. It is supported by a delivery plan, including activities and support for staff and managers including training, vlogs, seminars, and online advice. Audit Wales has also introduced a Wellbeing Champion role, with 18 staff undertaking this role across the organisation.

40. On the progress made since the implementation of the strategy, the Executive Director of Corporate Services said:

"... we've been in place a year; we think it's a good time now to take stock, so we're just about to start formally engaging and consulting staff and the wellbeing champions to identify what's worked well, what could perhaps be strengthened further, and we're due to report back to our remuneration committee in March of next year."⁴³

Accommodation

41. In March 2023, Audit Wales moved offices from its old premises on Cathedral Road in Cardiff to a new base in Capital Quarter. A second Supplementary Estimate was approved to allow for funding to facilitate the relocation of the offices.

42. When asked to explain the capital underspend that had occurred in 2022-23, the Executive Director of Corporate Services said:

"... when the Finance Committee supported our Cardiff office move last year, I think one of the things that you said to us was that you'd expect us to carry out the move as cost-effectively as possible, and we very much took that on board with the move. In the end, we came in about £270,000 under budget, and we did that through a range of measures: smart procurement, an agreement of rent-free periods with the landlord, we recycled a lot of furniture and equipment from the old office, and we also vired money from our other capital budgets to the office move so that we could keep the costs down as much as possible."⁴⁴

43. Last year, the Committee recommended that Audit Wales provide further details on how lessons learned from the Travel Allowance changes the previous year would be applied to the Cardiff office relocation. Given the continuing low scores reflected in the staff survey relating to how well change is managed within

⁴³ Finance Committee, RoP, 20 September 2023, paragraph 50

⁴⁴ Finance Committee, RoP, 20 September 2023, paragraph 110

the organisation, the Committee asked Audit Wales whether it had sought feedback from staff on how it had managed the Cardiff office move.

44. The Executive Director of Corporate Services described how it had focused on staff engagement when preparing for the re-location of their offices. He emphasised the role staff from across the organisation had in shortlisting properties and participating in design workshops, commenting on how the office had been designed to respond to “how staff needs are evolving”.⁴⁵ The Committee also heard how wellbeing champions had been consulted to create spaces that would “support our staff’s wellbeing” as well as an all-staff team session:

“... to explain what was happening, to gather further views, so it's been an ongoing dialogue, so I think staff have felt rather than the office move being done to them, it has been done with them.”⁴⁶

45. The Executive Director of Corporate Services expanded on this, saying:

“We've certainly sought feedback from staff following the office move and the feedback has been extremely positive, both about the new environment—so, really positive about the way it supports our business need—but also the way in which it was done, the way in which we engaged with staff, and that's something that we've taken the learning from and we've applied it to a smaller move, which has just happened in north Wales when we moved our office from Abergele to Llandudno Junction.”⁴⁷

Staff Turnover

46. Annual staff turnover was slightly higher than in 2021-22, at 10.56 per cent compared to 10.09 per cent. The Annual Report notes:

“Much of our turnover is in respect of graduate trainees and apprentices employed on fixed-term contracts coming to an end and being replaced with new starters. During 2022-23 we also saw an increase in the number of our qualified audit staff leaving the organisation.”⁴⁸

⁴⁵ Finance Committee, RoP, 20 September 2023, paragraph 42

⁴⁶ Finance Committee, RoP, 20 September 2023, paragraph 43

⁴⁷ Finance Committee, RoP, 20 September 2023, paragraph 44

⁴⁸ [Annual Report and Accounts 2022-23, page 91](#)

47. When questioned on staff turnover rates during oral evidence, the Auditor General acknowledged that, at a rate of over 15 per cent over the previous 12 month period, it was “higher than standards for the industry, generally, and for us, comparatively, it's much, much higher than we're used to”.⁴⁹

48. He also alluded to the higher remuneration offered by other public and private sector bodies, as a particular challenge faced by Audit Wales, as well as “departures to the private sector”. The Auditor General stressed that:

“... in the last six months or so, I think we've probably lost half a dozen or so of our best staff to the private sector, primarily, across the border in England... This is a reflection of the weaknesses in the system in England finally being addressed by the UK Government investing some more money in that space. The private firms, therefore, are expanding and recruiting very aggressively.”⁵⁰

49. In its written submission to the Committee on figures relating to staff turnover, Audit Wales provides details of the roles of those who have left the organisation. It notes that 25 members of staff have left the Audit Services area of the organisation in the past year. Of those 25 members of staff, 16 were qualified accountants. Since the Annual Report was published, a further two qualified members of staff have left the organisation.⁵¹

Staff Pay

50. In her opening statement, the Chair of the Board made reference to the challenges Audit Wales have experienced with staff recruitment and retainment, emphasising the loss of staff to the private sector. She spoke about the importance of staff feeling valued in relation to their “ability to commit to the cost-of-living payment” and the impact this has had on retaining staff:

“Whilst money is not necessarily a motivator, the lack of feeling valued can be a demotivator...”⁵²

51. The Auditor General elaborated on this, making reference to the potential impact industrial action may have on the organisation, specifically in its ability to meet KPI targets. He said:

⁴⁹ Finance Committee, RoP, 20 September 2023, paragraph 99

⁵⁰ Finance Committee, RoP, 20 September 2023, paragraph 100

⁵¹ [Letter from Audit Wales, 2 October 2023](#)

⁵² Finance Committee, RoP, 20 September 2023, paragraph 26

“we've already lost several hundred days of input from staff. We have to strike a balance. Staff have a right to take the action, and we have to respect that, but, undeniably, it does feed through into the resourcing pressures that we've discussed at length, and the knock-on impact is that it makes it harder for us to catch up, harder to meet the statutory deadlines for our work, and so forth.”⁵³

52. In November 2022, the Committee received correspondence on staff pay from the Prospect and Public Services and Commercial (PCS) unions. The letter stated that both unions were “in dispute” with the Board over the pay award for 2022-23. Last year, the Committee expressed that:

“... it would be inappropriate for us to take a view on the issues raised by the trade unions, as they relate to operational matters that are the responsibility of the Audit Wales Executive Leadership Team and Board.”⁵⁴

53. When asked whether Audit Wales had resolved the issues from 2022-23 and how subsequent negotiations with trade unions were progressing, the Executive Director of Corporate Services said:

“No, we've not. Both trade unions are still in dispute with us over the 2022-23 pay award. As Adrian set out earlier, that was 3 per cent that we awarded to staff. What they've made clear to us is that they are seeking a £1,500 cost-of-living payment, in line with what's been seen at Welsh Government and a range of other public bodies. They've said if we're in a position to make that payment, then they would suspend the industrial action. But, at the moment, we don't have the funding for that, and so we anticipate that, unless that changes, the dispute will continue.”⁵⁵

Audit Quality

54. The Annual Report says the quality of Audit Wales’s work is of “paramount importance”.⁵⁶ In 2022-23, it says it has continued to invest in this area, including through the implementation of new standards and auditing approaches, and new

⁵³ Finance Committee, RoP, 20 September 2023, paragraph 110

⁵⁴ [Annual scrutiny of the Wales Audit Office and the Auditor General for Wales 2022, paragraph 210](#)

⁵⁵ Finance Committee, RoP, 20 September 2023, paragraph 127

⁵⁶ [Annual Report and Accounts 2022-23, page 28](#)

requirements and arrangements around audit quality management. It explains the introduction of the new standards will be augmented by a programme of learning and development throughout 2023-24.

55. In oral evidence, the Auditor General remarked on the application of new auditing quality standards, explaining that:

“... in a year's time we will see the first reviews where we have taken a fundamentally different approach in all aspects of our audit.”⁵⁷

56. Audit Wales missed its performance target relating to quality, as it did last year, which is a combined score for both quality of financial audit (100 per cent) and for performance audit (67 per cent). The Committee explored this performance last year when the Executive Director of Corporate Services said “in the last year alone, we've doubled the amount of external quality assurance of our accounts work”.⁵⁸

57. In commenting on this year's missed performance target, the Executive Director of Audit Services said:

“You'll see that all of the accounts reviews met the required standard that we set ourselves, which is a 1 or a 2. A 3 in the QAD, the quality assurance department of the Institute of Chartered Accountants in England and Wales, requires improvement. And if they assess as a 3, that's where we don't count it as meeting our target.

We had one performance audit review that had a 3 in that space.”⁵⁹

When asked whether the issues identified in assessing audit quality were significant, the Executive Director of Audit Services said that she, as well as the Auditor General and Chair were “very pleased” and that the quality committee was “comfortable”⁶⁰ with the results.

58. The Executive Director of Audit Services added that quality is “the absolute bedrock of everything that we do” and that “quality will always trump the

⁵⁷ Finance Committee, RoP, 20 September 2023, paragraph 72

⁵⁸ [Annual scrutiny of the Wales Audit Office and the Auditor General for Wales 2022, paragraph 43](#)

⁵⁹ Finance Committee, RoP, 20 September 2023, paragraph 68

⁶⁰ Finance Committee, RoP, 20 September 2023, paragraph 69

timeliness, because we have to do the work properly and in accordance with standards”.⁶¹

59. Audit Wales also mentions, in its Annual Report, the developments around the future of the UK audit profession. It says it has had a series of conversations with the Treasury and the Welsh Government on potential developments, including the possibility of the quality of Audit Wales work becoming subject to oversight by a committee of the Senedd.⁶² This issue was also Committee discussed with Audit Wales during its scrutiny last year.⁶³

60. When questioned on further conversations Audit Wales have had with the Treasury and Welsh Government regarding on this matter during the year, the Auditor General said such a development is “almost inevitable”, adding that:

“The time will come where this committee or another committee within the Senedd is likely to be asked to take on that role. But we’re not seeing any signs of it being enforced legislatively, so I would suggest it’s something that you and we just need to keep a watching brief on.”⁶⁴

61. He went on to say it would be an “enormous addition to your workload” and that he didn’t “think we should do it unless we have to do it”.⁶⁵ The Auditor General intends to keep monitoring the position and make sure that the committee is well sighted.

Governance

62. The Annual Report says the WAO Board meets at least six times a year. The Board has two advisory committees: the Audit and Risk Assurance Committee and the Remuneration and HR Committee.

63. In 2022-23, the Board completed a self-assessment of its effectiveness, considering the results in December 2022. The review concluded that the Board was operating “effectively and cohesively in the delivery of its functions”.⁶⁶ The review made recommendations to develop and improve, the Board’s:

⁶¹ Finance Committee, RoP, 20 September 2023, paragraph 71

⁶² [Annual Report and Accounts 2022-23, page 36](#)

⁶³ Finance Committee, RoP, 9 November 2022, paragraph 387

⁶⁴ Finance Committee, RoP, 20 September 2023, paragraph 75

⁶⁵ Finance Committee, RoP, 20 September 2023, paragraph 75

⁶⁶ [Annual Report and Accounts 2022-23, page 64](#)

- monitoring of performance, risk, finances and resources using an integrated performance report; and
- engagement with stakeholders, both internal and external.

64. The Board developed an action plan to address the key areas identified for improvement and agreed to conduct a further self-assessment of its effectiveness during 2023-24. The Board Committees also conducted self-assessments, with no areas for concern highlighted.

65. The Auditor General also chairs an Executive Leadership Team (ELT), which oversees and monitors the implementation of the Annual Plan. In addition, Audit Wales operates a 'Staff Panel'. The Annual Report notes membership of the Staff Panel was refreshed in February 2023.

66. Audit Wales has appointed TIAA as its internal auditors for the three years 2022-23 to 2024-25. Previously this role was undertaken by PricewaterhouseCoopers. Three internal audit reports were issued by TIAA, as well as one follow-up report. One of those reports, relating to internal stakeholder engagement was classified "limited assurance", another, relating to management information: performance management was "advisory". In terms of internal stakeholder engagement, the internal audit observations are:

*"Issues were identified within the culture and lack of engagement between areas of Audit Wales's organisational structure. While messages are being issued appropriately, improvements are required to define and standardise their delivery, using an appropriate platform to ensure that staff engage with the material that is relevant to them."*⁶⁷

67. In response to recommendations made by TIAA in its report, the Committee heard that, on those classified as 'limited assurance', there were "three that stand out",⁶⁸ which were being addressed by the executive leadership team:

- Communication and engagement by the senior leadership team with colleagues in the organisation;
- Communication of information and guidance around audit and corporate work; and

⁶⁷ Annual Report and Accounts 2022-23, page 68

⁶⁸ Finance Committee, RoP, 20 September 2023, paragraph 79

- Approach to the staff survey.

68. On the organisation's approach to the staff survey, the Executive Director of Corporate Services explained that:

*"... the approach we'd previously taken with the civil service people survey... wasn't giving us the sort of richness of information that we needed, the timeliness of information we needed, to really respond to and to address staff concerns... So, what we've now got with our new staff survey is an approach that is far more dynamic, it's a lot more focused, and will allow us to tailor the survey much better, keeping the same baseline KPIs for reporting purposes, but enabling us to delve much more into what is really concerning staff."*⁶⁹

Risk Management

69. The Annual Report outlines several strategic risks that have "particularly engaged the time of the Board and Executive Leadership Team through the reporting period",⁷⁰ including:

- being able to effectively demonstrate value for money in how the business is run;
- managing workload pressures and supporting staff resilience and wellbeing;
- Audit Wales's ability to recruit and retain the required audit staff with the necessary skills at all grades, taking account of local, national and international market shortages;
- ensuring Audit Wales's quality management arrangements comply with new quality management standards and its audit work remains in line with best professional practice;
- the risk that staff are less chargeable than profiled in budgets; and
- cybersecurity, IT infrastructure and ensuring business continuity.

70. While the Annual Report does not detail specific risks by their categorisation, it provides information on the number of risks in each category. This includes

⁶⁹ Finance Committee, RoP, 20 September 2023, paragraph 81

⁷⁰ [Annual Report and Accounts 2022-23, page 73](#)

three risks categorised as 'likely' and with a 'major' impact. In 2021-22, there were no risks in this category – nor in the more significant 'highly likely' and 'severe' categories.

71. In his evidence to the Committee, the Auditor General stated that:

“the No. 1 strategic risk for us is around resourcing and staffing ... every other risk ... is in some way linked to that.”⁷¹

72. When asked specifically about the actions Audit Wales were taking to mitigate the strategic risks of the organisation identified in the Annual Report, the Auditor General said:

“... we have a whole framework of measures that we take to try to ensure audit quality. It begins with our recruitment and development and training of our staff. It builds on that through the tools that we ensure are available to staff to ensure that they're following best practice in their work. And, finally, it also has a layer of assurance built in from the scrutiny of our audit quality committee, the board and the leadership team. So, it's a complete framework that is designed to ensure that our audit work is of the highest possible quality.”⁷²

Financial Management and Efficiencies

73. The Annual Report says Audit Wales delivered savings of almost £1.5 million, compared to £1.4 million set out in its Estimate. Net revenue was underspent by £140,000 (0.6 per cent). It also cites savings associated with the travel allowance change and Cardiff office move, which it says was delivered for “a significantly lower cost than was originally estimated”.⁷³ The total funding that will be returned to the Welsh Consolidated Fund (WCF) is £509,000.⁷⁴

74. The Annual Report also details the establishment of a Financial Sustainability Review group, which has a remit to identify additional savings for 2023-24 and future years. The Auditor General and the Chair of the Board wrote to the Committee providing more details on the remit of the group and what it has delivered so far, explaining that “it seeks to reduce our costs without adversely

⁷¹ Finance Committee, RoP, 20 September 2023, paragraph 84

⁷² Finance Committee, RoP, 20 September 2023, paragraph 93

⁷³ Annual Report and Accounts 2022-23, page 48

⁷⁴ Annual Report and Accounts 2022-23, page 93

affecting the quality of our audit delivery, our ability to generate income, or staff wellbeing.”⁷⁵

75. Audit Wales outlines capital investment of £555,000, including £351,000 for its office move. The overall capital cash sought for the year was £885,000 (following a request for an additional £575,000 in Audit Wales’s Second Supplementary, relating to its Cardiff office move).⁷⁶

Accounts

Outturn

76. Audit Wales gross resource expenditure was £24.6 million. Its net cash requirement was £8.9 million. Its income for the year was £14.3 million, which is £828,000 less than estimated.

77. Last year, the committee noted that Audit Wales did not intend to return any of the funding allocated for National Insurance (NI) which was no longer required following the reduction in employers’ national insurance contributions. The Committee recommended last year that:

“... Audit Wales returns the unspent funding for National Insurance contributions from 2022-23 to the Welsh Consolidated Fund and adjusts the baseline for 2023-24 accordingly.”⁷⁷

78. In a written response to the recommendations in the Committee report, Audit Wales outlined the likely value of the funding to be returned, alongside increases in other costs.⁷⁸ When probed on this issue during oral evidence, the Executive Director of Corporate Services confirmed that as a result of National Insurance funding being returned, the baseline for future years had been altered accordingly.

79. The Committee also heard that spending associated with the National Fraud Initiative was lower than expected “because we weren’t able to do all that we had hoped to do, and so we’ve returned the funds that we’ve not used”.⁷⁹

⁷⁵ Letter from Audit Wales, 2 October 2023.

⁷⁶ Annual Report and Accounts 2022-23, page 48.

⁷⁷ Annual scrutiny of the Wales Audit Office and the Auditor General for Wales, November 2022, page 61.

⁷⁸ Letter from Audit Wales to Chair of the Finance Committee.

⁷⁹ Finance Committee, RoP, 20 September 2023, paragraph 117.

Fee Income

80. Audit Wales were estimating fee income associated with audit fees of £14.3 million, but have delivered £13.2 million, £1.1 million lower. The Annual Report states that this is due to “Reduced fee income associated with staff vacancies”. Income associated with grant certification was £234,000 higher than estimated at £1.0 million, which “Reflects additional work completed in year”⁸⁰. Audit fee income is higher than in 2021-22.

81. In written evidence to the Committee, the Auditor General and Chair of the Wales Audit Office reiterated staff vacancies was the primary reason for reduced fee income, but that sickness absence and industrial action were also contributory factors. In addition, they state that:

“we have made a significant amount of investment in mandatory training, for which we do not generate income, reflecting the new audit approach in both Financial Audit and Performance Audit. This unavoidably added to the significant backlog in audit work we already faced and which is proving extremely challenging given the recruitment and retention pressures we highlighted at the Finance Committee meeting.”⁸¹

82. Financial audit of local government remains the largest area of income at £5.2 million, with an additional £2.2 million income for performance audit of local government. Audit of this sector equates to just over half of Audit Wales’s income.

Other Accounts Information

83. The accounts outline that receivables are net of £77,000 in expected credit losses, up from £33,000 in 2021-22. Additionally, Audit Wales report a loss of £3,500 associated with the operation of a salary sacrifice scheme for leased cars, incurred in 2022-23.

84. Audit Wales wrote to the Committee to elaborate on these credit losses further, concluding that “It is normal practice for them to be accounted for in this way”.⁸²

85. In relation to the losses associated with the salary sacrifice scheme, Audit Wales explained that this had occurred due to “A technical issue with the

⁸⁰ Annual Report and Accounts 2022-23, page 94

⁸¹ Letter from Audit Wales, 2 October 2023

⁸² Letter from Audit Wales, 2 October 2023

software operated by the provider [which] meant that some staff had been undercharged for vehicles” but that “Audit Wales agreed to meet costs for these staff for 3 months, which we felt was fair to those staff who had entered into the lease agreements in good faith”.⁸³

Committee View

86. The Committee was encouraged by remarks made by the Chair of the Board on her initial observations of the organisation during her first six months in post. We note her comments around the professionalism of the organisation; that it places a very strong emphasis on the quality of its work; and the value stakeholders place on their work. We also welcome how Audit Wales has delivered its plan and objectives in 2022-23. The Committee welcomes the publication of Audit Wales’s work programme for a three-year period, and its aim to provide strategic clarity to stakeholders, and we are pleased that this has been well-received.

87. Whilst the Committee recognises the ongoing resourcing pressures the organisation is contending with and the impact this is having on its staff, we are disappointed that Audit Wales requires significant improvement in its employee engagement and experience targets again this year. It is regrettable that these issues recur from one year to the next and work is clearly needed in this area to turn things around. In last year’s report, the Committee expressed concern about these targets and recommended that Audit Wales includes details of its performance against the previous Key Performance Indicator target for employee engagement and employee experience alongside its revised targets in 2022-23.⁸⁴ The Committee would echo these sentiments again. The Committee acknowledges the actions taken already by Audit Wales to tackle these concerns and are encouraged by attempts to realise the objectives of the staff wellbeing strategy. We also recognise that consultation with staff and wellbeing champions is taking place to gauge how well the strategy is working, and welcome that approach. However, the Committee would like further detail on how the strategy, and other activities, are being measured and whether they are having a positive impact on staff.

88. In terms of change management, the Committee is encouraged that lessons have been learnt from previous projects, and that those lessons have been put into practice around the relocation of Audit Wales’s Cardiff Office. The Committee welcomes the way Audit Wales has sought to engage with staff from across the

⁸³ Letter from Audit Wales, 2 October 2023

⁸⁴ Annual scrutiny of the Wales Audit Office and the Auditor General for Wales, November 2022, page 7.

organisation to design and implement the project, and is interested to receive more detail on the feedback it has received from staff on the processes followed.

89. The Committee notes that a different approach has been utilised in 2022-23 to gain stakeholder feedback. Whilst we acknowledge that giving anonymity to stakeholders by using external partners to gather responses is likely to lead to different results, the Committee is concerned that using a different methodology year-on-year will impact on the integrity of score comparability and make it more difficult to understand any issues arising. We note the Auditor General's positive response to the approach taken this year, but also that the results were not as good as the previous year. We are particularly keen to understand how they will compare to next year's results when Audit Wales reverts to its previous process of recording feedback, and we ask for further updates on this issue.

90. The Committee recognises the challenges faced by Audit Wales to recruit and retain qualified audit staff and acknowledge the negative impact of departures to the private sector. The Committee is also concerned with the ongoing risks identified with staffing and the high levels of turnover rates, particularly in relation to qualified staff. We recognise that Audit Wales is proactively addressing these issues and taking steps such as developing staff within the organisation and prioritising resource to support colleagues in meeting statutory deadlines. However, the Committee needs to be assured that such work is effective and therefore asks for further information about its long-term approach to staff recruitment and retention to be provided.

91. The Committee notes that Audit Wales has implemented new standards and auditing approaches, and new requirements and arrangements around audit quality management. We are pleased with the emphasis placed by Audit Wales on the quality of its services and that the situation in Wales is far better than in England. The Committee also welcomes the sentiments of the Executive Director of Audit Services' view that quality is "the absolute bedrock of everything that we do".⁸⁵ We also note that the upcoming review by the Quality Assurance Department (QAD) may identify more issues due to the introduction of new standards, and the Committee is interested in the outcomes of the reviews as a result.

92. The Committee is concerned at the drop in the proportion of trainees achieving first-time passes in their exams, particularly given the issues already raised regarding retention and recruitment. Audit Wales has indicated that it is reviewing the scheme and engaging with the trainees, which the Committee

⁸⁵ Finance Committee, RoP, 20 September 2023, paragraph 71

accepts will be essential in order to gain a better understanding of these issues. Whilst the Committee recognises the challenges caused by the pandemic and remote working, and the particular impact this has on trainees, we would welcome further details on how the organisation intends to change the scheme. The Committee believes that the trainee programme is of fundamental importance to the organisation, as it seeks to address staffing pressures. Although the Committee recognises that many of these pressures are caused by external factors, we want to make sure that the trainee scheme is as effective as possible. We are therefore interested to receive more detail on how Audit Wales is evaluating changes to the trainee scheme to ensure its success.

93. The Committee agrees with remarks made by the Auditor General that Audit Wales is facing a “cocktail of issues”⁸⁶ which are contributing to missing KPI targets. We are also mindful of the potential impact that this may have on Audit Wales meeting future statutory deadlines and are concerned at the long-term implications of a backlog of work, caused by the pandemic. The Committee is concerned by comments made by the Auditor General that technical issues which resulted in Audit Wales missing some of its statutory deadlines this year, are masking underlying resourcing pressures which are likely to be an issue beyond 2022-23. We are keen to understand the extent to which these pressures are likely to occur in future and how they are being managed.

94. In relation to National Insurance, the committee welcomes the commitment made by Audit Wales that, by returning the fund to the WCF for this financial year, the baseline for future years has been altered accordingly.

95. The Committee notes that Audit Wales spent less than expected on the National Fraud Initiative and that the funds have been returned to the WCF. The Committee is interested to understand the intended purpose of those funds, why they weren’t used and whether there are any knock-on effects for future years.

Recommendation 1. The Committee recommends that Audit Wales provides details of how it is evaluating the steps taken to improve performance in relation to employee engagement and employee experience.

Recommendation 2. The Committee recommends that Audit Wales provides information on the feedback received from staff on its Cardiff office relocation and how that change was managed.

⁸⁶ Finance Committee, RoP, 20 September 2023, paragraph 37

Recommendation 3. The Committee recommends that Audit Wales provides details on the outcomes of its staff wellbeing strategy, including when it expects the impact of the strategy to be reflected in the staff survey results.

Recommendation 4. The Committee recommends that Audit Wales provides details of how it intends to capture stakeholder feedback to ensure meaningful year-on-year comparison. The Committee recommends that Audit Wales provides more information on:

- how it is reprioritising resources internally to meet its statutory deadlines in the short-term;
- what it is doing in the long-term to overcome the strategic risks of missing statutory deadlines that are posed by resourcing and staffing concerns; and
- progress in implementing new auditing quality standards and how it is being assessed.

Recommendation 5. The Committee recommends that Audit Wales provide details of staff turnover rates and how they compare year-on-year.

Recommendation 6. The Committee recommends that further information is provided on the review of Audit Wales's trainee scheme and its impact on workforce planning.

Recommendation 7. The Committee recommends that Audit Wales explains why it has returned funds allocated for the National Fraud Initiative to the Welsh Consolidated Fund.

3. Audit Findings Report – Year Ended 31 March 2023

96. The Audit Findings Report⁸⁷ summarises the key findings of the auditors of the WAO, RSM UK Audit LLP ('RSM'), in connection with the audit of the financial statements of Audit Wales in respect of the year ended 31 March 2023. This is a requirement under Schedule 1 to the Act.⁸⁸

97. The audit explored risks including:

- Revenue recognition – WIP and deferred income
- Management override of internal controls
- Regularity
- Adoption of IRFS 16⁸⁹

98. RSM does not raise any issues in its report in the Annual Report and Accounts.⁹⁰

Revenue Recognition

99. The audit identified £225,000 of unadjusted misstatements. This relates to 'Revenue recognition – WIP and deferred income'.

100. Due to the implementation of a new time recording system, Audit Wales could not calculate the cost to complete as per the previous year's methodology. RSM calculated this figure, resulting in a judgemental misstatement of £225,000. However, Audit Wales noted the judgemental nature of the calculation, and did not propose to make the change.

101. The Committee heard during oral evidence that, following lengthy discussions with RSM on the matter, they were satisfied that this was down to an accounting estimate – and not an 'unadjusted misstatement'.

⁸⁷ RSM UK Audit LLP - Audit Findings Report - Year Ended 31 March 2023

⁸⁸ Public Audit (Wales) Act 2013, paragraph 28(3) of Schedule 1

⁸⁹ RSM UK Audit LLP - Audit Findings Report - Year Ended 31 March 2023

⁹⁰ Annual Report and Accounts 2022-23, page 96

“There are different ways of calculating that cost-to-complete estimate, and we had taken a different approach to the ones that RSM would’ve used.”⁹¹

Quorum

102. For the third year in a row, RSM identify issues with quorum which occurred, at three meetings during 2022-23.⁹² At the September 2022 and January 2023 a decisions were deferred to the following meeting. However, in February 2023 the two members recused themselves and took observer status. RSM say:

“Previous legal advice on similar matters concluded that the requirement per the [Public Audit Wales Act 2013] is for the majority of non-executive members to be “present” rather than “present and voting”. The advice recommended that moving forward, the Wales Audit Office updates its procedures to ask one or more employee members not to attend each meeting if needed, to ensure that there is a majority of non-executive members present.”

103. However, it goes on to say:

“... given employee board members were still physically present during the discussions, there is a risk that any decisions may be invalidated by the presence of employee members (although they did leave the meeting for the decision and voting).”⁹³

104. The Chair of the Board was asked whether she believed those meetings were conducted within the requirements of the Public Audit (Wales) Act 2013. She stated that:

“One formal was not quorate, and we asked two employee members to attend only as observers, and they were not present for the decision making. So, apart from that, it was two strategic meetings; no decisions were taken... I’m satisfied.”⁹⁴

⁹¹ Finance Committee, RoP, 20 September 2023, paragraph 122

⁹² [Audit Wales Board minutes](#)

⁹³ [RSM.UK Audit LLP - Audit Findings Report - Year Ended 31 March 2023](#)

⁹⁴ Finance Committee, RoP, 20 September 2023, paragraph 119

Adjusted Misstatements

105. RSM outline three areas where misstatements were made, but adjusted:

- Reclassification of accruals.
- Bad debt provision increased to provide for overdue debt from 2019 which has not yet been collected.
- Updating of the IFRS 16 lease adjustment for the rent-free periods in the Capital Quarter lease and in recognising the Abergele lease which had >12 months outstanding at the point of transaction (1 April 2022).

106. The Committee was told by the Executive Director of Corporate Services, that he was not concerned by these items. He said of the three adjustments Audit Wales were asked to make:

“two were reclassifications, and one was around an additional bad debt that we'd identified during the course of the audit. They're fairly routine things that would be picked up during the course of one of our audits, for example, so I don't think there were any particular issues of concern. And we would always look to adjust misstatements wherever we can, even if they're below the materiality level.”⁹⁵

Committee View

107. The Committee acknowledges the concerns raised by RSM in its Audit Findings Report relating to Board quorum and notes the assurances provided by the Chair of the Board that no formal decisions were taken while the Board was inquorate.

⁹⁵ Finance Committee, RoP, 20 September 2023, paragraph 124

4. Annual Plan 2023-24 and Interim Report 2022-23

108. The Act requires the Auditor General and the Chair of the Board to jointly prepare an Annual Plan and at least one Interim Report each year.⁹⁶

109. The Annual Plan 2023-24⁹⁷ outlines the programmes of work for the year and was laid on 31 March 2023.

110. The Interim Report⁹⁸ provides an assessment of the extent to which the Auditor General and WAO are delivering on the objectives and priorities set in the Annual Plan 2023-24 and provides information on key performance indicators. The Interim Report was laid before the Senedd on 25 October 2023.

Annual Plan 2023-24

111. Audit Wales published its Annual Plan in April 2023. It outlines its priorities for the year to March 2024, as well as information on its long-term ambitions and KPIs. The Annual Plan begins by saying “The outlook for public finances in Wales is bleak”. Audit Wales says it is:

“... not immune to the financial pressures faced by the rest of the public sector. We are undertaking a financial sustainability review to ensure the business is operating in the most efficient and effective way possible.”⁹⁹

112. In terms of its value for money work, Audit Wales says its value for money programme will reflect “some of the biggest challenges facing the country”¹⁰⁰. In relation to the timetable for the delivery of Audit Wales’s annual accounts audit work, the Annual Plan says the pandemic, “combined with other resourcing pressures”,¹⁰¹ has had an impact and that it will be dealing with the legacy of this through 2023-24 and beyond.

113. The Annual Plan discusses issues relating to recruitment and retention. It references new auditing requirements and changes to how audits are resourced,

⁹⁶ [Public Audit \(Wales\) Act 2013](#)

⁹⁷ [Annual Plan 2023-24](#)

⁹⁸ [Interim Report, October 2023](#)

⁹⁹ [Annual Plan 2023-24, page 5](#)

¹⁰⁰ [Annual Plan 2023-24, page 4](#)

¹⁰¹ [Annual Report and Accounts 2022-23, page 32](#)

mentioned in its 'fee scheme'¹⁰² last year. It outlines "competition from the wider accounting and audit profession", where Audit Wales says it has seen "pay rates increasing markedly",¹⁰³ particularly in the private sector. It goes on to say:

*"We also face possible further disruption to our resourcing, and our income generation, through any ongoing industrial action involving our staff."*¹⁰⁴

114. The Annual Plan goes on to detail potential additional work to be undertaken by Audit Wales. It refers to the implications of the possible extension of the wellbeing duty to eight bodies, which was discussed with the Committee during its scrutiny session on 9 November 2022.

115. It also refers to audit work at the new Citizen Voice Body for Health and Social Care and monitoring developments in regard of the Commission for Tertiary Education and Research.

116. The Annual Plan includes the KPIs for the year.

Interim Report

Delivery of work programme

117. The Interim Report states that the delivery of accounts work has been a priority over the first six months of the year and that "NHS and Central Government accounts have been delivered by the deadlines set".¹⁰⁵ The Report also includes information on Audit Wales's performance against its KPIs, to 30 September 2023. Its KPI relating to "Proportion of audit products delivered by the required statutory deadline" shows delivery of 95.8 per cent against a target of 100 per cent. Highlighting the exception of Betsi Cadwaladr University Health Board.

118. Audit Wales identifies resourcing as a key strategic risk for the organisation and that meeting deadlines to complete audit of accounts, remains a challenge:

*"... resourcing pressures have meant that the delivery of local government sector accounts will be later than predicted and this will have a knock-on impact on the delivery timetable for 2023-24 accounts."*¹⁰⁶

¹⁰² Fee Scheme 2023-24

¹⁰³ Annual Plan 2023-24, page 10

¹⁰⁴ Annual Plan 2023-24, page 10

¹⁰⁵ Interim Report, October 2023, Page 4

¹⁰⁶ Interim Report, October 2023, Page 4

119. During oral evidence, the Executive Director of Audit Services explained that the situation with local government audits was more variable, saying:

“I’m currently anticipating that of the 40 local government bodies, we will complete around 25 of those by the statutory deadline... which is not where we would want to be. But for all the reasons that we’ve discussed—staff turnover, a new auditing standard, the backlog, still, from COVID—that’s the position that we’re in.”¹⁰⁷

120. When asked to which extent staff turnover was impacting on completing work by its statutory deadlines, the Executive Director of Audit Services said:

“It’s huge. You can imagine that it’s not even the level of vacancies that you’re carrying, and we’re carrying more vacancies than we would want to carry, and we’re struggling to recruit to those vacancies; it’s who you lose, as well... [what] we’re losing is staff with considerable experience, and of course... an audit could be 400 days, and if... you’ve got one audit lead... they do 150 days, they do the planning, they start the interim work and then they leave, there is obviously then the knock-on impact.”¹⁰⁸

121. The Interim Report says Audit Wales’s ELT and Directors have “explored ways to increase capacity to get our accounts work back on track”. To address some of the challenges relating to resourcing, the Interim Report notes that Audit Wales has introduced overtime, recruited placement students and diverted staff resource from across the organisation.¹⁰⁹

122. The Executive Director of Audit Services elaborated on this, saying:

“We are looking at ways in which we can bring in additional staff, retain the staff that are qualifying... to move through the work a little bit faster, to catch up on some of this backlog. But as it stands... we will be starting the 2023-24 audits much later than we would like to, which will have an impact, then, on delivery timescales for next year. We need to be able to break the cycle, really.”¹¹⁰

¹⁰⁷ Finance Committee, RoP, 9 November 2023, paragraph 117

¹⁰⁸ Finance Committee, RoP, 9 November 2023, paragraph 119

¹⁰⁹ [Interim Report, October 2023, Page 13](#)

¹¹⁰ Finance Committee, RoP, 9 November 2023, paragraph 121

Progress in 2023-24 so far

123. The Interim Report sets out 16 priority areas for action in 2023-24. Within that, actions include embedding new audit approaches and standards and working with audited bodies to set out delivery timetables.

124. It also details two “significant”¹¹¹ pieces of independent stakeholder research undertaken between February and May 2023. It included “questions in a regular Welsh omnibus survey”,¹¹² as well as online surveys and more in-depth qualitative interviews with stakeholders, conducted by an independent company. Audit Wales states in its report that it was “extremely pleased with the positive results”.¹¹³

125. The Interim Report also outlines progress in matters relating to staff. It says ELT introduced a new approach to communicating its key messages. It also mentions a task and finish group developing a “One Audit Wales”¹¹⁴ culture.

126. Audit Wales state that it has moved away from the CSPS and that its new approach to understanding employee experiences “enables greater flexibility and scope for engagement”.¹¹⁵ The report stipulates that some key questions from the CSPS will be taken into the new approach to ensure previous results can be tracked. A cross organisation implementation group has been established to “embed the system and design the first survey”,¹¹⁶ which will take place in the autumn.

127. When asked by the Committee to explain the change in approach and how they will support Audit Wales’s ambition to develop a one Audit Wales culture, the Chair of the Board said it would:

“... enable us to do that benchmarking against previous surveys to see how things have moved on, but it also is going to be shorter and more punchy in the way that it does that... staff have talked about... weariness in terms of the length of some of the survey activity they had to do. It's got questions in it on how teams work together, leadership, management.”¹¹⁷

¹¹¹ Interim Report, October 2023, Page 16

¹¹² Interim Report, October 2023, Page 16

¹¹³ Interim Report, October 2023, Page 16

¹¹⁴ Interim Report, October 2023, Page 22

¹¹⁵ Interim Report, October 2023, Page 22

¹¹⁶ Interim Report, October 2023, Page 22

¹¹⁷ Finance Committee, RoP, 9 November 2023, paragraph 125

128. She went on to say that, although the survey was currently open, early indications suggested that:

“... it's going to be an incredibly valuable tool to us, and I think we're in a position as an organisation where it will provide an important baseline against which we can begin to track the impact of the activities we have been doing, and we are tackling, in terms of well-being.”¹¹⁸

129. The KPIs in the Interim Report also illustrate that the “Proportion of trainees achieving first-time passes in their Professional and Advanced level examinations with the Institute of Chartered Accountants in England and Wales”,¹¹⁹ is also higher than reported in the Annual Report and Accounts 2022-23.¹²⁰ Performance to 30 September 2023 shows 80 per cent of trainees are achieving first-time passes, compared to 68.4 per cent, although this is still below the target of 90 per cent.

130. The Interim Report says feedback from the Cardiff office move has been “universally positive”¹²¹ and it is applying lessons learned to the relocation of its north Wales office, scheduled for September 2023. The Interim Report also outlines a review of travel centres for staff.¹²² A consultation with staff closed in September 2023 and feedback “has been positive”.¹²³

131. The Interim Report also outlines national value-for-money examinations and studies that are in progress or to be started during the remainder of 2023-24. In light of resourcing issues, the Committee asked whether all the examinations were likely to go ahead. The Auditor General said that the report:

“... is an accurate reflection of where we think we are and can be. That said, undeniably, the resource pressure that we're experiencing in our accounts work is reflected in the areas of the organisation that deliver the value-for-money studies work. And one practical exemplification of that is that we are having to take any qualified staff in VFM studies teams out of those in order to support colleagues delivering the statutory work around accounts. So, you're absolutely right: it is squeezing our capacity, but that remains our most up-to-date reflection of

¹¹⁸ Finance Committee, RoP, 9 November 2023, paragraph 128

¹¹⁹ [Interim Report, October 2023, Page 29](#)

¹²⁰ [Annual Report and Accounts 2022-23, page 22](#)

¹²¹ [Interim Report, October 2023, Page 8](#)

¹²² [Interim Report, October 2023, Page 9](#)

¹²³ [Interim Report, October 2023, Page 9](#)

*what we think is reasonable to deliver in our work programme.*¹²⁴

Committee View

132. The Committee recognises that Audit Wales continues to face pressures in terms of its staff and workload, which reflect wider experiences across the public sector. The Committee is particularly concerned about the impact that high levels of staff turnover is having on Audit Wales's ability to fulfil its statutory duties, particularly in terms of the loss of experienced staff. We also note this is likely to create a greater backlog of work going into 2024-25.

133. The Committee recognises the efforts to address workload issues, and the efforts of Audit Wales around the culture of the organisation. We also note that Audit Wales has moved away from the CSPS and is interested in the new approach it will apply to understand employee experiences. Despite this, we are concerned about the sustainability of the current situation and ask for further information on the impact this pressure is having on staff wellbeing, as well as on Audit Wales's capacity to support staff training and continued professional development.

Recommendation 8. The Committee recommends that Audit Wales provides updates on the impact that high levels of staff turnover is having on its ability to meet statutory deadlines for audit work and what it is doing to mitigate these challenges.

Recommendation 9. The Committee recommends that Audit Wales provides updates on:

- the activities it is undertaking to improve staff wellbeing and how this is reflected in the staff survey;
- how it is providing staff with training and continued professional development; and
- how its new staff survey compares to the previous approach, which used the Civil Service People Survey.

¹²⁴ Finance Committee, RoP, 9 November 2023, paragraph 133

5. Estimate of the income and expenses for the year ended 31 March 2025

134. The Estimate of the income and expenses for the year ended 31 March 2025 (“the Estimate”)¹²⁵ was jointly prepared by the Auditor General and the Chair of the Board and laid before the Senedd on 27 October 2023, in accordance with Section 20(1) of the Act.¹²⁶

135. Under Standing Orders, the Auditor General and WAO are required to lay their joint estimate of income and expenses before the Senedd no later than 1 November. Standing Order 20.22 states:

“The responsible committee [Finance Committee] under Standing Order 18.10(i) must consider and lay before the Senedd, no later than 22 November, a report including the estimate, with any modifications which the responsible committee, having consulted and taken into account any representations made by the Auditor General and the Wales Audit Office, considers appropriate.”¹²⁷

Context

136. In May 2019, the previous Finance Committee issued a Statement of Principles to bodies directly funded from the WCF (directly funded bodies (DFBs)) to consider when formulating budget requests.¹²⁸

137. In July 2021, the Committee agreed that DFBs should continue to follow the current Statement of Principles¹²⁹ when preparing their budget documentation.

138. On 12 July 2023, the Minister for Finance and Local Government wrote to the Committee setting out the various factors to inform the forward financial planning for DFBs as they prepare their budgets for the 2024-25 financial year, saying:

“... our plans for this year and indicative plans for 2024-25 represent a very tight budgetary situation. The prospects for further allocations from the UK Government seem very limited

¹²⁵ [Part 1 – Budget ambit – Estimate 2024-2025](#)

¹²⁶ [Public Audit \(Wales\) Act 2013](#)

¹²⁷ [Standing Orders of the Welsh Parliament, Standing Order 20.22](#)

¹²⁸ [Statement of Principles for directly funded bodies, May 2019](#)

¹²⁹ [Statement of principles, July 2021](#)

and ongoing price rises are causing mounting pressures on all the public services funded by the Welsh Government's budget.”¹³⁰

139. In its supporting information, Audit Wales says that the Minister's letter “made it clear that there is little growth in cash terms in the Welsh Government's indicative plans for 2024-25”. It says the pressure on public finances “makes the work of Audit Wales all the more essential” and notes that for 2024-25 Main Expenditure Group allocations are “just 1.4% higher in cash terms than for 2023-24”.¹³¹ The Auditor General referred to the Minister's letter during discussions with Committee and stated:

“... the proposal before you is for an increase in our baseline funding of 5.9 per cent resource, and I'm conscious that, if you read the estimate this year, it has a slightly different tone and focus to previous years. That, in part, is very much reflective of the Minister's letter. We're very cognisant of the pressure and context that she describes, and, indeed, you'll see in the estimate that we've delivered some very significant cost reductions and efficiencies in the last few years, and we continue to do so.”¹³²

140. The Committee heard that, in the context of the pressures on public finances:

“There has never been a more important time for us to be gaining value for money out of every pound of public money that we spend, or for you as Senedd Members to have the assessment that we can provide on how finances are being managed in the public sector, and wider governance issues as well.”¹³³

Overview

141. At the request of the previous Finance Committee, following scrutiny and modification of the Estimate for 2020-21,¹³⁴ the Estimate 2024-25 is presented in two parts:

¹³⁰ [Letter from the Minister for Finance and Local Government, 12 July 2023](#)

¹³¹ [Part 2 - Supporting information - Estimate 2023-2024, Page 5](#)

¹³² Finance Committee, RoP, 9 November 2023, paragraph 8

¹³³ Finance Committee, RoP, 9 November 2023, paragraph 9

¹³⁴ [Letter from the Finance Committee \(Fifth Senedd\) - Modified Estimate of the Income and Expenses for the Year Ended 31 March 2021 and Fee Scheme 2020-21, 15 January 2020](#)

- Part 1 - Budget ambit
- Part 2 - Supporting information.

142. Audit Wales present the Estimate as an increase to its “baseline call on Welsh Consolidated Fund (WCF) funding in 2024-25” of 5.9 per cent. It says there is “no increase in cash” compared to its initial Estimate 2023-24.¹³⁵

143. Audit Wales says the three main drivers for the increase to the baseline call on WCF, which are:

- Staff pay;
- Expansion of the apprentice and graduate trainee schemes; and
- The April 2024 increase in employer pension contributions.

144. In terms of staff pay, the Estimate says it:

“... seeks funding to address more immediate and acute pressures that threaten our ability to deliver the expectations of the Senedd. These include addressing the recruitment, retention and morale challenges resulting from pay uplifts over the last two years below those seen in the rest of the public sector; and the aggressive competition for staff that we face from the private sector, primarily in England.”¹³⁶

145. And in regard of the trainee scheme it says:

“This Estimate reflects the need for investment in recruitment, training and development of the professionally qualified staff needed for the long-term sustainability of Audit Wales.”¹³⁷

146. Around 34 per cent of Audit Wales’s budget is funded from the WCF, with the remainder funded from fees.¹³⁸

147. Including activity funded by fees but excluding capital and movements in capital, Audit Wales proposed expenditure for 2024-25 is £26.625 million resource and £26.093 million cash, an increase of £2.350 million resource (or 9.7 per cent) or £2.178 million cash (or 9.1 per cent) compared to 2023-24. Income from fees is

¹³⁵ [Part 2 - Supporting information - Estimate 2023-2024, Page 3](#)

¹³⁶ [Part 1 - Budget ambit - Estimate 2024-2025](#)

¹³⁷ [Part 1 - Budget ambit - Estimate 2024-2025](#)

¹³⁸ [Part 2 - Supporting information - Estimate 2023-2024, Page 22](#)

estimated to increase by £1.343 million (or 8.3 per cent), in both cash and resource terms, to £17.476 million, compared to 2023-24.

148. Audit Wales proposed a Supplementary Estimate 2023-24 in August 2023,¹³⁹ which was considered by the Committee on 20 September 2023.¹⁴⁰ The comparisons made by Audit Wales do not reflect the additional resources sought in the Supplementary Budget for 2023-24.

149. The Committee asked the Chair of the WAO Board how it obtains assurance that the budget is reasonable, and what challenge the Chair and the WAO Board offer during preparation of the Estimate. In response, she explained that the Board:

“... contribute to the direction of travel, but also to explore some of the assumptions that underpin the final estimate as it's prepared, to make sure that we're comfortable with the estimate so that I can sign it confidently in terms of presenting it to you.”¹⁴¹

150. She went on to say:

“... I can assure you that I'm satisfied that the budget proposal is reasonable in the circumstances and I certainly support the priorities that are set out in this estimate. As Adrian has very clearly said, staff have to be our priority; we have to have sufficient, highly trained, qualified, motivated staff to be able to deliver the service that we think that Wales deserves ...

I can assure you that scrutiny has taken place within the Wales audit office. I support the estimate as it's presented.”¹⁴²

151. To better understand the overall levels of cash and resource being requested in 2024-25, the Committee asked Audit Wales to explain the difference between the level of increase in resource and cash. The Executive Director of Corporate Services went on to describe that there were two factors which contributed to the higher figure for resource:

“The first one relates to the international financial reporting standards 16 costs associated with our new offices in Capital

¹³⁹ [Supplementary Estimate 2023-24, August 2023](#)

¹⁴⁰ [Finance Committee Agenda, 20 September 2023](#)

¹⁴¹ Finance Committee, RoP, 9 November 2023, paragraph 15

¹⁴² Finance Committee, RoP, 9 November 2023, paragraphs 17-18

*Quarter. This is the way in which we now account for lease assets. We account for the lease over the whole of its lifetime, over the whole 10-year period, and we equalise the costs in each of those 10 years. But, as part of the deal for the new office, we have a rent-free period in our Cardiff office, so it means we need less cash than we need resource in the first year of the lease. The second reason for the difference is the one that I've just mentioned before around the cash requirement to cover the release of the dilapidations provision to make full and final settlement following the move out of Cathedral Road. And we won't require that in 2024-25; that'll be settled.*¹⁴³

Baseline

152. In resource terms, Audit Wales is requesting funding of £9.459 million. This compares to £8.452 million in 2023-24. Before adjustments to baseline, this is an increase of £1.0 million or 11.9 per cent.

153. The net cash requirement requested by Audit Wales for 2024-25 is £9.127 million. This compares to £8.642 million for 2023-24. This is an increase of £485,000 or 5.6 per cent before adjustments to the baseline.

154. Audit Wales adjusts its 'baseline' to remove certain items of expenditure. The Auditor General says this is to provide "a meaningful year-on-year comparison".¹⁴⁴ This year, those items include:

- £130,000 cyclical funding related to activity associated with the National Fraud Initiative (NFI); and
- £354,000 reduction associated with Travel Allowance changes.

155. When the above items are excluded, the increase in funding in resource terms is £523,000 and in cash terms is £1,000.

156. Exhibit 1 of Audit Wales's supporting information outlines the changes in its call on the WCF in 2024-25.¹⁴⁵ This includes a figure for non-cash movements of £522,000 to the baseline change for cash.

¹⁴³ Finance Committee, RoP, 9 November 2023, paragraph 37

¹⁴⁴ Finance Committee, RoP, 9 November 2023, paragraph 21

¹⁴⁵ **Part 2 - Supporting information - Estimate 2023-2024, Page 4**

National Fraud Initiative

157. The baseline budget includes £150,000 related to activity associated with the NFI. Funding for the NFI is provided through the WCF, meaning participating public bodies in Wales do so free of charge. Without this funding, Audit Wales says the costs of this work would need to be passed on directly to participating bodies through fees. Audit Wales say this could result in a significant reduction in number of bodies who take part.¹⁴⁶

158. Every other year, the costs of the NFI increase to cover payments to the Cabinet Office for data checking. The total funding for the NFI in 2024-25, which is a year of increased costs, is proposed to be £280,000, an increase of £133,000 compared to 2023-24. The proposed funding includes £3,000 for an ongoing increase in the cost of audit work, based on fee rate and staff time. However, the expectation is that the amount sought will reduce by £130,000 in 2025-26.

159. In presenting its Estimate, Audit Wales include the increased costs associated with alternate year increases/reductions outside of its baseline budget. Which is an approach it has taken in the past.¹⁴⁷

160. In 2022-23, expenditure on the NFI was underspent and funding was returned to the WCF.¹⁴⁸ When questioned about whether the funding provided for 2024-25 would deliver the full programme, the executive Director of Audit Services said that she expected to “spend the money in 2023-24”, and work was ongoing:

“... on a data-matching pilot on general practitioner registration. We're also doing some data analytical work on community pharmacy as well. And we would be looking next year to do something similar in the analytical fraud space as well. So, the short answer is, no, we're not anticipating a similar problem occurring this year and next year.”¹⁴⁹

Travel Allowance

161. Audit Wales has committed to paying back £708,000 of funding utilised to support the upfront payment associated with Travel Allowance changes, which

¹⁴⁶ Part 2 - Supporting information - Estimate 2023-2024, Page 25

¹⁴⁷ Part 1 - Budget ambit - Estimate 2023-2024

¹⁴⁸ Finance Committee, RoP, 20 September 2023, paragraph 116

¹⁴⁹ Finance Committee, RoP, 9 November 2023, paragraphs 17-18

was provided via the WCF.¹⁵⁰ In its Estimate, Audit Wales has set the repayment of this funding outside of its baseline budget.

162. The value of this adjustment was a reduction of £354,000 in the 2023-24 budget. For 2022-23, £354,000 was returned to the WCF via Audit Wales's First Supplementary Budget.¹⁵¹

163. Audit Wales confirmed to the Committee that it has paid back in full the £708,000 funding from the WCF, and hence the Estimate does not include a related adjustment. The year covered by the Estimate, 2024-25, will therefore be the first year after this period of reduced funding, as such there is no adjustment to remove £354,000 from the baseline. The Auditor General explained:

*"There's no more further repayment needed. The £354,000 is not an increase in our budget. It is the sum that we have been repaying over the last two years, but there are still ongoing costs for us of the travel scheme and adjustments we've had to make in the light of that. So that has always needed to be included in the baseline figure."*¹⁵²

164. He went on to say:

*"For this year, below the line, we also have the adjustment from the payback that we've been making in the last two years around the travel allowance. We've kept it there for exactly the same reason. It would be misleading to have included that in the baseline over the last two years and now. From now on, it will simply be rolled into the baseline."*¹⁵³

165. Audit Wales also confirmed to the Committee that the changes would result in ongoing savings of £200,000 per year from 2024-25, and would be reflected in future Estimates and Fee Schemes.¹⁵⁴

Movements in Working Capital

166. The Committee has previously requested information from Audit Wales on its 'movements in working capital' and that it details any adjustments made to its resource Estimate at year end to account for increases or reductions to the value

¹⁵⁰ [Part 2 - Supporting information - Estimate 2024-2025, Page 4](#)

¹⁵¹ [Supplementary Estimate 2022-23, June 2022](#)

¹⁵² Finance Committee, RoP, 9 November 2023, paragraph 34

¹⁵³ Finance Committee, RoP, 9 November 2023, paragraph 22

¹⁵⁴ Finance Committee, RoP, 9 November 2023, paragraph 32

of year-end debtors, creditors and provisions. Audit Wales has included an amount of £200,000 for this purpose in 2024-25, compared to £550,000 in 2023-24, which it says is to “allow a normal contingency for year-end movements”.¹⁵⁵ The Executive Director for Corporate Services said it was “impossible” to predict at the start of the year what movements in debtors, creditors and provisions will be.¹⁵⁶

167. Last year, Audit Wales said the figure of £550,000 for movements in working capital was associated with normal year end changes, but also the requirement to use part of its provision for dilapidations associated with its Cardiff office move.¹⁵⁷ The supporting information to the 2023-24 Estimate said:

“Provision for this has been built up in our accounts over a number of years and hence no additional resource cover is required. A maximum cash requirement of £550,000 has been included in our Estimate with any unused cash being returned to WCF.”¹⁵⁸

168. The supporting information for the 2024-25 Estimate contains a table in the appendices: “Revenue budget 2024-25”.¹⁵⁹ This table identifies the values of movements in working capital for both 2023-24 and 2024-25. It shows a reduction of £350,000 as part of the year-on-year change figures, associated with cash. There is no value associated with movements in working capital for resource. This figure is presented alongside the year-on-year change for total expenses, total income, capital and the figure for the total to be funded from the WCF.

169. The Committee challenged Audit Wales on the presentation of the figures in its Estimate and asked for clarification of the approach taken to arrive at the totals provided, particularly in terms of the cash change. The Committee noted there were different ways the funding change could be interpreted, including the total change compared to the previous year; the change taking account of the one-off dilapidations funding in 2023-24 and, the change taking into account the baseline adjustments. In response, the Auditor General said:

“By far the most meaningful one is the 5.9 per cent increase in resource... We have this issue each year, I think, with having to present to you what we describe as the baseline, because in any ordinary year we have the biannual national fraud initiative

¹⁵⁵ [Part 2 - Supporting information - Estimate 2024-2025, Page 21](#)

¹⁵⁶ Finance Committee, RoP, 9 November 2023, paragraph 26

¹⁵⁷ [Letter from Audit Wales to Chair of the Finance Committee](#)

¹⁵⁸ [Part 2 - Supporting information - Estimate 2023-2024, Page 27](#)

¹⁵⁹ [Part 2 - Supporting information - Estimate 2024-2025, Page 31](#)

moneys coming in, coming out. So, we keep that below the line so as to give you a meaningful year-on-year comparison.”¹⁶⁰

170. When asked to specify whether the £350,000 one-off costs for dilapidation purposes would be rolled into Audit Wales’s ongoing budget, the Executive Director of Corporate Services confirmed that this would not be the case. The Executive Director stated that only £200,000 would be rolled over:

“We’re not rolling that forward; what we’re rolling forward is the £200,000, the standard notional sum.”¹⁶¹

171. The Committee asked if the reduction from £550,000 to £200,000, between the 2023-24 and 2024-25 Estimate would offset the overall increase outlined in the budget, and the percentage increase outlined in the Estimate. The Executive Director of Corporate Services responded:

“It doesn’t affect the percentage increase, it’s just simply something to help us manage our cash position during the year because of those unexpected movements that we might have. You can’t predict at the start of the year what your debtors, creditors and provisions are going to look like in 12 months’ time.”¹⁶²

Operating Costs

Staff Pay

172. Audit Wales says a rise in pay for its staff is necessary because:

“...increases at Audit Wales over the last two years have lagged behind those elsewhere in the public sector in Wales and the cost of living.”¹⁶³

173. Audit Wales says it needs to “start to bring our pay scales in line with others, and to stem the departure of staff to better paid parts of the public sector and to the private sector”. It intends to compensate staff for the “shortfall” over the past two years with a 3 per cent pay uplift and to award 5 per cent for an “estimated” pay uplift in 2024-25.¹⁶⁴

¹⁶⁰ Finance Committee, RoP, 9 November 2023, paragraph 21

¹⁶¹ Finance Committee, RoP, 9 November 2023, paragraph 28

¹⁶² Finance Committee, RoP, 9 November 2023, paragraph 101

¹⁶³ [Part 2 - Supporting information - Estimate 2023-2024, Page 3](#)

¹⁶⁴ [Part 2 - Supporting information - Estimate 2023-2024, Page 6](#)

174. The Estimate does not set out the cash value of the increase associated with the pay award. Overall staff costs, which included costs funded via fee income will be £23.444 million in 2024-25, in both cash and resource terms. Audit Wales say:

“According to the Office for National Statistics, average annual growth in regular pay for May to July 2023 was 7.8% overall and 6.6% for the public sector – as compared to 4% for Audit Wales staff.”¹⁶⁵

175. The Estimate goes on to state that:

“Other public audit bodies have awarded higher pay rises to their staff. The National Audit Office increased staff pay by 3% and 6.5% and Audit Scotland have offered their staff 5.4% and 6% respectively in the last 2 years. Pay increases this year for staff in the civil service, local government, NHS and other parts of the public sector all exceed that at Audit Wales.”¹⁶⁶

176. The supporting information also notes, as part of Travel Allowance changes, Audit Wales agreed to an uplift of £900 to all salary points, except those for trainees and apprenticeships whose salaries were adjusted in 2022-23, separate from any pay award, from April 2024.¹⁶⁷ An uplift for these purposes was previously discussed with Committee.¹⁶⁸ Audit Wales added this would be funded from the potential savings from the changes to the Travel Allowance Scheme.

177. The Committee asked for further information on the total cash value of pay awards in 2024-25 for the elements funded via the Welsh Consolidated Fund and how the level of increases proposed had been calculated. The Auditor General confirmed that:

“So, the total value—. I think, if you look at the figures in appendix 1, that's where you'll see the total staff costs for the organisation. The increase is £2.4 million for the coming year. Of that, around £1.6 million will reflect the proposed uplift in salaries for next year, and the share of that that is apportioned to the WCF will be around a third, so £540,000 or so, and the remainder obviously reflected in our fees.”¹⁶⁹

¹⁶⁵ Part 2 - Supporting information - Estimate 2023-2024, Page 5

¹⁶⁶ Part 2 - Supporting information - Estimate 2023-2024, Page 6

¹⁶⁷ Part 2 - Supporting information - Estimate 2023-2024, Page 6

¹⁶⁸ Finance Committee, RoP, 10 November 2021, paragraph 92

¹⁶⁹ Finance Committee, RoP, 9 November 2023, paragraph 40

178. He went on to say:

“... we've benchmarked ourselves against our counterpart UK audit bodies, the Welsh Government and the Welsh civil service, the NHS and local government over the last two years, and we have lagged behind all of those bodies and sectors in each of those years... We think a 3 per cent increase is a reasonable one to reflect the degree of lag over the last couple of years; it certainly wouldn't put us back at the top of that group, but it would put us more in line with them. And a further 5 per cent uplift we feel is reasonable in the current economic circumstances and what we're seeing and hearing in the wider sector, cognisant of exactly where we started this conversation—what is reasonable and affordable in the context of the overall pressures on the public purse.”¹⁷⁰

179. Audit Wales says it is experiencing a “higher turnover rate than ever before” at over 15 per cent in 2022-23 and that it needs to offer a “meaningful increase in pay” to “catch up with the increases seen in other parts of the public sector and to increase our competitiveness with the private sector”.¹⁷¹

180. In relation to the recruitment and retention of qualified auditors and how pay awards would be applied to staff, the Committee heard that:

“At this stage, we've not decided that... we've yet to receive formal requests from either of our trade unions, but I anticipate that we will, and, obviously, we'd be very interested to hear their views on exactly that point—whether their preference is to see an across-the-board uplift for all staff or to focus on particular grades or skills. Alongside that, we have commissioned some work from a specialist pay review body called QCG, who specialise in the regulatory sector, so the intention behind that is to get some further data on whether there are cases to be made for particular settlements.”¹⁷²

181. The Committee went on to query whether Audit Wales had sought feedback from staff who were leaving the organisation, to understand their reasons for

¹⁷⁰ Finance Committee, RoP, 9 November 2023, paragraph 44

¹⁷¹ [Part 2 - Supporting information - Estimate 2023-2024, Page 13](#)

¹⁷² Finance Committee, RoP, 9 November 2023, paragraph 47

doing so. The Auditor General explained that exit interviews were offered to all staff, although not all take up that offer. He said:

“For those who have been leaving to private sector firms, pay and career progression is undoubtedly one of the pressures. Across the wider group, it's fair to say that people leave and move on for a variety of different reasons—lifestyle choices, family pressures, caring responsibilities, all sorts of things—but pay and career progression is undoubtedly in the mix, yes.”¹⁷³

182. When asked whether Audit Wales were satisfied that the uplifts outlined in its Estimate, would resolve recruitment and retention pressures within the organisation, the Auditor General stated:

“We will not be at a level where we can compete with the baseline remuneration that's offered by some of the other firms, but, in our view, this not only will take us to a better position where staff will see and recognise, essentially, more comparability, certainly with their peers in the wider public sector, but I think for us it's also about the signal that it sends to staff about how we and the Senedd value them and value their work.”¹⁷⁴

183. The Chair of the Board supported these comments, saying:

“I think this is an opportunity to reset in terms of that and make sure that staff realise they are valued and the work they do is important.”¹⁷⁵

184. Audit Wales has also proposed making a £1,500 cost of living payment to staff in 2023-24, via a Supplementary Budget¹⁷⁶, which was considered by the Finance Committee in September 2023 and will go before the Senedd for approval in February 2024.

¹⁷³ Finance Committee, RoP, 9 November 2023, paragraph 49

¹⁷⁴ Finance Committee, RoP, 9 November 2023, paragraph 53

¹⁷⁵ Finance Committee, RoP, 9 November 2023, paragraph 54

¹⁷⁶ [Supplementary Estimate 2023-24, September 2023](#)

Trainee Scheme

185. Audit Wales operates an ongoing programme of graduate and apprenticeship opportunities at Audit Wales. It currently employs around 60 trainees and apprentices. Funding from the WCF supports:

- Secondments to Welsh public sector bodies;
- Improving social diversity and inclusion within the workforce;
- Funding an annual conference for public sector trainees across Wales; and
- Training costs for the graduate training programme, which would otherwise be collected from fees.

186. The supporting information says investment in the trainee scheme is aimed at strengthening, and widening, “the pipeline of financially qualified talent to help meet the needs of Audit Wales and the wider public service”.¹⁷⁷ Audit Wales is proposing to increase funding for this area by £220,000.

187. Additional funding will enable Audit Wales to increase the number of graduates and apprentices recruited each year. It will also be used for outreach and marketing and to “broaden the training experience”. It also says it will make “some practical changes to the design of the programme to reduce the loss of newly qualified staff shortly after qualification”.¹⁷⁸

188. The supporting information notes that the benefit of the changes to the programme will not be seen for “some years”¹⁷⁹ as schemes run over a number of years.

189. In 2023-24 Audit Wales increased the amount of funding for the programme by £50,000 to reflect expected increased costs of training for graduate trainees. The supporting information says the additional costs have been less than expected and the related funding sought will reduce by £30,000. However, an additional £50,000 has been included to fund pay increases for staff supported by the scheme, meaning the overall increase in this area is £240,000 (from £630,000 to £870,000).

¹⁷⁷ Part 2 - Supporting information - Estimate 2024-2025, Page 3

¹⁷⁸ Part 2 - Supporting information - Estimate 2023-2024, Page 15

¹⁷⁹ Part 2 - Supporting information - Estimate 2023-2024, Page 15

190. The Executive Director of Audit Services explained that the additional funding would go towards recruiting three trainees and a work placement opportunity.¹⁸⁰

191. On the issue of staff retention, the Committee asked about the actions Audit Wales were taking to encourage staff to stay in the organisation. The Executive Director of Audit Services said:

*"I think all the feedback we've had suggests that we're a good employer...we try to recruit people who not only want to be accountants, but want to work in the public sector, and I think we carry that on through their training, which is why, historically, we've been very good at retaining trainees as qualified accountants."*¹⁸¹

192. She also went on to address some of the feedback Audit Wales had received from newly qualified staff leaving the organisation and suggested that the lack of certainty when approaching the end of their fixed-term contract, was a factor:

*"One of the things that we're trying to do now is to actually give them that certainty earlier. So, for example, for the cohort due to leave us next September, we're looking at how many vacancies will we have....they want certainty, and I can understand that."*¹⁸²

193. WCF funding is also used to run Audit Wales's Good Practice Exchange (GPX), which is provided free of charge to public bodies and the third sector across Wales. Funding for this area is increasing in line with proposed fee increases in 2024-25.

194. The costs of the GPX in 2023-24 was £575,000 and is proposed to increase by £36,000 to £611,000, in 2024-25.

195. In response to the Committee's query about why Audit Wales's funding for both 'audit work not funded through fees' and the Good Practice Exchange is increasing in line with the proposal for fees, the Auditor General stated that:

"... we treat staff who are delivering our GPX programme in the same way as other staff, where we recover the full cost,

¹⁸⁰ Finance Committee, RoP, 9 November 2023, paragraph 57

¹⁸¹ Finance Committee, RoP, 9 November 2023, paragraph 57

¹⁸² Finance Committee, RoP, 9 November 2023, paragraph 58

*including overheads, through fees, and we treat our GPX staff in exactly the same way. So, that's why they're increasing.*¹⁸³

Employer Pension Contributions

196. Audit Wales notes a valuation of the Civil Service Pension Scheme is undertaken every four years, which provides the information required to set employer contribution rates. The 2020 valuation report has been published and at the end of September 2023, employers were notified of the new contribution rates that will be paid from April 2024. It goes on to say:

*“Following the transition of all active members to alpha on 1st April 2022 it has been agreed that the previous salary-based structure is no longer appropriate. A flat rate employer contribution will therefore be introduced.”*¹⁸⁴

197. Audit Wales says changes to the discount rate mean the cost of providing benefits has increased and the average employer contribution rate will increase to 28.97 per cent.

198. In 2019-20, Audit Wales’s Supplementary Budget¹⁸⁵ requested an additional £732,000 for increased employer pension contribution costs.

199. Audit Wales says this cost will be “just over”¹⁸⁶ £90,000. It says that this cost will be met centrally by the Treasury, noting a Ministerial Statement from 30 March 2023. £20,000 of this cost will be met from WCF. The balance will be met from increased fees to audited bodies.

200. When questioned on whether Welsh Government had confirmed funding was available to support this cost, the Executive Director of Corporate Services said:

*“There's been a signal from the Treasury that the funding will be available. That's flowed through to Welsh Government and then on to bodies like ourselves. Of course, we don't know the detail yet of the Welsh Government budget, but I understand that that'll be confirmed later this month with the November budget statement.”*¹⁸⁷

¹⁸³ Finance Committee, RoP, 9 November 2023, paragraph 63

¹⁸⁴ [Part 2 - Supporting information - Estimate 2024-2025, Page 15](#)

¹⁸⁵ [Supplementary Estimate 2019-20, May 2019](#)

¹⁸⁶ [Part 2 - Supporting information - Estimate 2024-2025, Page 6](#)

¹⁸⁷ Finance Committee, RoP, 9 November 2023, paragraph 84

Audit work not funded through fees

201. Audit work funded via the WCF makes up the largest area of WCF funding in the Estimate. In 2024-25 this is proposed to increase by £314,000 to £4.535 million. The additional costs account for funding of National Value Examinations and Studies and Local Government Studies, including duties relating to the Well-being of Future Generations (Wales) Act 2015¹⁸⁸ for relevant central government bodies. The Estimate also describes support for the Public Accounts and Public Administration Committee (PAPAC) and wider Senedd.

202. It is suggested that this funding will increase in line with the proposed increase in fee rates. An additional £41,000 is identified associated with the proposed extension of the Well-being of Future Generations (Wales) Act 2015¹⁸⁹ to additional bodies, including transitional costs. The Estimate says, “We anticipate this baseline annual cost would then be recurring each year through the 2025-2030 reporting cycle, uplifted as appropriate in line with our wider Estimate”.

203. On this point, the Committee enquired whether Audit Wales had sought any discussion with the Future Generations Commissioner about costs and whether additional funding would be made available to his office for the related purposes. The Committee heard:

“... we speak regularly, and certainly our offices also liaise very frequently. And on this issue, I've been talking a lot with the Welsh Government as well about the cost implications of the proposals to expand the Act.

As for the commissioner's own funding, he's funded in an entirely different way; he's funded directly from the Welsh Government. I know he will have been speaking to the Welsh Government about the cost implications for him of the extension, but I'm afraid I'm not privy to the outcome of those conversations.”¹⁹⁰

204. Last year, Audit Wales proposed switching some of its funding associated with local performance audit work from being fee funded to being funded via the WCF. The Committee recommended that, if Audit Wales wished to pursue the proposed switch, it should provide further information on the queries raised by

¹⁸⁸ Well-being of Future Generations (Wales) Act 2015

¹⁸⁹ Well-being of Future Generations (Wales) Act 2015

¹⁹⁰ Finance Committee, RoP, 9 November 2023, paragraphs 65 and 66

the Welsh Government and progress of those discussions, as these happen.¹⁹¹ However, the supporting information notes that Welsh Government has not been able to confirm its support for this proposal and Audit Wales have decided not to pursue the switch.¹⁹²

Running Costs

205. Contribution to running costs makes up £2.853 million of the total call on the WCF in resource terms. This is a reduction from the previous year of £70,000. These are costs which “cannot reasonably be charged to audited bodies through fees”.¹⁹³

206. In 2024-25, Audit Wales will reduce its cash call on the WCF by £100,000 reflecting a rent-free period within its Cardiff office lease.

207. The Committee sought assurances that, when the rent-free period comes to an end, it should not expect to see an increase in costs for 2025-26 for this purpose. In response, the Executive Director of Corporate Services stated that a change in costs would not be expected in the forthcoming year and that:

“Accounting treatment requires us to account for the cost of the lease in equal installments over the lifetime of the lease—that’s over a 10-year period. So, the resource budget for each of those 10 years is unchanged. I mentioned earlier that we’ve got these rent-free periods in the first full year of the lease, so our cash requirement is lower the first year; it’ll be higher the next year. The costs of the lease remain the same for the lifetime of the lease.”¹⁹⁴

Capital

208. Audit Wales sets out its capital requirement for multiple years, from 2023-24 to 2027-28. Audit Wales suggests its ICT investment has now moved toward annualised licence or service arrangements and therefore does not foresee such significant capital investment being required.

209. Audit Wales proposes £310,000 capital funding for 2024-25. This is split £200,000 for Audit Wales’s Change Programme and £110,000 for its ICT strategy.

¹⁹¹ [Annual scrutiny of the Wales Audit Office and the Auditor General for Wales 2022, recommendation 13](#)

¹⁹² [Part 2 - Supporting information - Estimate 2024-2025, Page 28](#)

¹⁹³ [Part 2 - Supporting information - Estimate 2023-2024, Page 28](#)

¹⁹⁴ Finance Committee, RoP, 9 November 2023, paragraph 86

210. Last year the Committee recommended Audit Wales provide a breakdown of how specific elements of its capital funding will be spent.¹⁹⁵ In response, Audit Wales said:

“The funding for the remainder of our 5-year rolling capital programme is indicative at present, and more detail will be provided as we work through the delivery plan for our strategy in future Estimates.”¹⁹⁶

211. Audit Wales has provided a comparable level of information on capital in its 2024-25 Estimate as it did in its 2023-24 Estimate. When asked by the Committee to explain how the £310,000 capital funding requested in its Estimate would be allocated, the Auditor General responded saying:

“... of that £310,000, about £110,000 will be our information and communications technology programme and the vast majority of that being routine replacement of laptops on a rolling basis. The remaining £200,000—we have an extremely small capital budget—is our assessment of what is reasonable to do: some further work on the estate, some of the systems development that we have in mind.”¹⁹⁷

212. In relation to its Change Programme, Audit Wales specify two projects in its Estimate. These relate to “future workplaces” and “our Digital Strategy”.¹⁹⁸

213. With its Digital Strategy, Audit Wales intends to invest in:

- completing the development of the new audit platform for Financial and Performance audit;
- on-going development of the website; and
- improvements to management information systems.

214. With regards to its future workplaces, Audit Wales state that this has been its “most significant change project to date”.¹⁹⁹ Following office relocations in Cardiff and north Wales, Audit Wales will review its accommodation in Penllergaer in

¹⁹⁵ [Annual scrutiny of the Wales Audit Office and the Auditor General for Wales 2022, recommendation 18](#)

¹⁹⁶ [Audit Wales response to Annual scrutiny of the Wales Audit Office and the Auditor General for Wales 2022](#)

¹⁹⁷ Finance Committee, RoP, 9 November 2023, paragraph 90

¹⁹⁸ [Part 2 - Supporting information - Estimate 2024-2025, Page 20](#)

¹⁹⁹ [Part 2 - Supporting information - Estimate 2024-2025, Page 20](#)

2024-25. It says this may result in a Supplementary Estimate for IFRS 16 purposes only.

215. During oral evidence, the Executive Director of Corporate Services expanded on this, saying:

“Penllergaer is the final part of our estates review and we'll be looking to board to make a decision as to what to do about our west Wales accommodation next springtime. That would allow around about a year before the move would actually have to happen. So, we'd either have to move out of Penllergaer by March 2025 or make a decision to extend, renew, that lease.”²⁰⁰

216. He went further to say:

“Nearer the time, we'll be looking at whether or not we would need additional funding for that. There is that IFRS 16 adjustment that would certainly be necessary to account for such a move, but anything that we did is likely to be on the sort of scale of what happened in north Wales, which was relatively small, rather than what we saw in Cardiff, which was more substantial.”²⁰¹

Fee Scheme

217. Around 66 per cent of Audit Wales's expenditure is funded through fees. Audit Wales has provided a Draft Fee Scheme alongside its Estimate²⁰² and is proposing an average increase to its fee rates of 6.4 per cent. This is higher than the fee increase in 2023-24, which was 4.8 per cent.²⁰³

218. Audit Wales states that it needs to “recognise cost of living pressures on our staff and have made provision for pay increases in line with the rest of the public sector”. It also outlines provision for increases associated with employer contributions to the Civil Service Pension Scheme. It says it continues to make “significant investment”²⁰⁴ in audit quality in response to recent UK-wide reviews of audit and new professional standards.

²⁰⁰ Finance Committee, RoP, 9 November 2023, paragraph 92

²⁰¹ Finance Committee, RoP, 9 November 2023, paragraph 93

²⁰² [Draft Fee Scheme 2024-25](#)

²⁰³ [Fee Scheme 2023-24](#)

²⁰⁴ [Part 2 - Supporting information - Estimate 2024-2025. Page 35](#)

219. Audit Wales consulted all audited bodies and other stakeholders on its proposed fee rates and fee scales for 2024-25, in September 2023. It received 18 responses. Audit Wales notes that audited bodies highlighted that they are facing similar cost pressures with no associated increase in funding. Some also questioned whether there would be a reduction in fees following the implementation of the new auditing standard. On this point, the Committee heard that:

“... the board took a decision to increase our savings target from £260,000 to £400,000. That would have reduced the increase, but we've just talked about that increase in employer pension contributions of £90,000 that we've had to account for, so this increase in savings target has meant that we haven't had to increase fees any more, but we've had to retain them at that originally proposed rate.”²⁰⁵

220. The Draft Fee Scheme notes audits for accounts ended 31 March 2023 and subsequent years will be carried out under a revised auditing standard (International Standard on Auditing (ISA) 315, “Identifying and Assessing the Risks of Material Misstatement”), as set out in Audit Wales Fee Scheme for 2023-24.²⁰⁶ It goes on to say:

“The revised standard has had significant and far-reaching impacts on how auditors undertake audit risk assessments and therefore on the overall audit.”²⁰⁷

221. During oral evidence, the Committee heard about the impact of the new auditing standards. The Executive Director of Audit Services, stated that:

“... we increased the costs of our audit work last year to take account of the new auditing standard, which required a higher skill mix, and therefore, the audit itself was more expensive. Our experience now that we've started to implement this revised standard has been that our estimate was pretty right, actually—we weren't far off. There are some cases where the cost of the audit has been more than we estimated; there are equally some audits where there will be a refund to the audited body

²⁰⁵ Finance Committee, RoP, 9 November 2023, paragraph 111

²⁰⁶ [Draft Fee Scheme 2024-25](#)

²⁰⁷ [Draft Fee Scheme 2024-25](#)

*because we were able to bring the audit in under the projected cost as well.*²⁰⁸

222. When asked about how the ongoing evaluation of the Fee Scheme, she elaborated further, saying:

*“... we're still taking stock of this year, we're going to keep the audit approach as it is next year... but, as part of that, there may be some efficiencies because it's the second year that the teams are doing this, so, obviously, there's learning there as well. Of course, the beauty of the regime that we're in is that should we come in under the estimated cost, we have to refund that additional money to the audited bodies. So, I don't anticipate any huge changes for 2024-25 in terms of cost, but we are still keeping a watching brief, to the extent that if we come in under, we always return that money to the audited body.”*²⁰⁹

Committee View

223. The Committee welcomes that Audit Wales has developed its budget proposals for 2024-25 in a way that acknowledges the Minister for Finance and Local Government’s assessment of the level of funding available for publicly funded bodies, taking into account the pressure on public finances. We therefore conclude that the Estimate 2024-25 is reasonable and proportionate.

224. However, following last year’s scrutiny,²¹⁰ the Committee was clear in its recommendations that Audit Wales considers improving the presentation of its Estimate for the purposes of clarity and transparency. The Committee requires precision in terms of the increases requested year-on-year in both cash and resource terms, but the presentation again this year has been challenging. While the Committee accepts the Auditor General’s views on the level of increase, it is clear that there is an unsatisfactory level of interpretation in the overall figures. The Committee recognises that Audit Wales’s funding model differs from that of other DFBs, and that its fee income introduces additional complexities in the way the Estimate is presented, but it is disappointing that recommendations put forward by the Committee last year have not resulted in a clearer presentation this year. As a result, we request that Audit Wales provides more transparency in the breakdown of its costs and savings in each of its budget areas, and for this to be

²⁰⁸ Finance Committee, RoP, 9 November 2023, paragraph 113

²⁰⁹ Finance Committee, RoP, 9 November 2023, paragraph 114

²¹⁰ [Annual scrutiny of the Wales Audit Office and the Auditor General for Wales 2022, recommendations 11, 12 and 18](#)

directly linked to the figures it provides in requesting its net cash requirements from the WCF.

225. Where there may be savings within budget lines, or for items that no longer require funding, Audit Wales should demonstrate these reductions separately to any proposed increases in funding for other budget lines. It should be clear to the Committee where Audit Wales is proposing reallocating funding or where the costs of an item are offset by reductions elsewhere in the budget. This should be done specifically for the WCF elements of Audit Wales's funding, and it should be straightforward for readers of the Estimate and supporting information to identify changes in the WCF funded elements of Audit Wales budget across budget lines. The Estimate must also be clear if increases or decreases in funding requested, in both cash and resource terms, is impacted by changes associated with one-off or time limited costs.

226. The lack of clarity around the exact funding requested means that the figures for year-on-year changes are open to a level of interpretation, this in turn introduces an element of uncertainty about the level of change requested when comparisons are made with the previous year. It also means the Committee spends much of its time scrutinising the overall presentation of the Estimate, rather than the Estimate itself. The Committee is grateful for explanations provided during oral evidence, which went some way in providing clarification, but it is important for wider transparency, as well as to assist others wishing to explore the Estimate, for this level of detail to be provided in the Estimate document or supporting information.

227. The Committee also believes that, particularly in relation to the one-off payment associated with dilapidation costs for 2023-24, Audit Wales could be clearer in the way it illustrates movements in working capital and its impact on the overall level of cash increase demonstrated in the Estimate. Furthermore, the Committee notes the explanation around the £200,000 movements in working capital and acknowledges the explanation that it is "impossible" to predict at the start of the year what movements in debtors, creditors and provisions will be. To help understand how this element of the budget is used, the Committee therefore requests that historic information about the outturn of this budget is provided, to enable some context as to the variability in the requirement.

228. The Committee notes that Audit Wales has provided information on its capital investment up until 2027-28. While the Committee is satisfied with the capital request for 2024-25, agreement of this Estimate is not agreement to future year's capital requests. The Committee is keen to understand in more detail the

allocation of the £310,000 for capital and how this has been allocated to individual projects.

229. The Committee is unclear about the cash allocation of “around £100,000”²¹¹ funding associated with a rent-free period for its Cardiff office in 2024-25. We would welcome further details about how the funding is being utilised. The Estimate suggests that the total cost of the ten-year lease is reflected in the resource budget, however, the Committee seeks assurances that this will not result in an increase in cash when the rent-free period comes to an end.

230. The Committee welcomes Audit Wales's work to deliver changes in relation to its Travel Allowance. The Committee notes that 2024-25 is the first year after the repayment of the funding utilised as part the implementation of those changes. As such, the Committee considers this an appropriate moment to reflect on the change and understand what that it has delivered in the context of the expectations Audit Wales had when it initiated that change.

231. The Committee is sympathetic to the continued challenges facing Audit Wales around the recruitment and retention of staff and echo our earlier comments acknowledging the negative impact departures to the private, and other public sectors are having on the organisation. It supports its proposals to award staff with a pay award relating to a pay “shortfall over the last two years”²¹² as well as a 5 per cent estimated uplift in 2024-25 and a £900 uplift from April 2024 to all salary points. We also acknowledge that Audit Wales says it is proposing this increase in funding to bring salaries in line with other public sector bodies and to “stem the departure of staff to better paid parts of the public sector and to the private sector”. The Committee would be interested to know how the funding associated with pay awards is applied and whether it will be targeted to certain grades and roles or at an organisation-wide level. Furthermore, we would be keen to receive an update on any discussions between Audit Wales, Trade Unions and specialist pay review bodies on this matter, and details of how it has come to its decision.

232. The Committee is concerned with the levels of more experienced staff leaving the organisation and will be keen to understand whether the pay awards proposed in the Estimate result in a positive effect on staff turnover. In the meantime, we are encouraged to hear the steps Audit Wales is taking to mitigate some of these pressures by investing and expanding its trainee scheme. The

²¹¹ Part 2 - Supporting information - Estimate 2024-2025, Page 16

²¹² Part 2 - Supporting information - Estimate 2024-2025, Page 6

Committee is also interested to know more about the action being taken to retain newly qualified staff.

233. The Committee notes the proposed increase in Audit Wales's fees for 2024-25 as a result of introducing new auditing standards and is encouraged to hear that its estimate for these revenues last year were relatively accurate. Nonetheless, the Committee is interested in receiving further information on any continuing evaluation Audit Wales is making of its fee scheme.

234. We also note that the lessons learnt during the first year of implementing new auditing standards may result in some efficiencies. We also welcome that under the Public Audit (Wales) Act 2013,²¹³ funding is returned to the audited body, when audit work has been completed under its projected cost.

Recommendation 10. The Committee recommends that Audit Wales alters the presentation of future Estimates to make clear the total value of WCF funding and the value of changes to that funding by:

- detailing both increases and decreases in budget lines separately;
- specifying the budget area to which changes relate and reasons for the change; and
- making clear the split between the work funded from the WCF and work funded from fees.

Recommendation 11. The Committee recommends that Audit Wales provides information on the £522,000 for non-cash movements in Exhibit 1 of its supporting information and includes a breakdown of this figure into constituent elements of its Estimate.

Recommendation 12. The Committee recommends that Audit Wales confirms that funding for dilapidations in 2023-24 was a one-off charge and provides further information on the interaction of the year-on-year change in movements in working capital and the overall change in the year-on-year change for total funding to be provided from the WCF, with specific reference to the table "Revenue budget 2024-25"²¹⁴ in the appendices to its supporting information.

²¹³ Public Audit (Wales) Act 2013

²¹⁴ Part 2 - Supporting information - Estimate 2024-2025, Page 31

Recommendation 13. The Committee recommends that Audit Wales includes more information on movements in working capital in future Estimates, including detailing their purpose and to what each movement relates to.

Recommendation 14. The Committee recommends that Audit Wales provides further detail and a breakdown of how specific elements of its capital funding will be spent in 2024-25 and also includes the same level of detail in all future Estimates.

Recommendation 15. The Committee recommends that further information is provided to explain how cash associated with the rent-free period at its new Cardiff Offices is being utilised in 2024-25, and to provide assurances that there will not be a request for an increase in cash associated with the rent-free period ending.

Recommendation 16. The Committee requests Audit Wales provides information on the final costs and benefits of the changes to its Travel Allowance, including the total costs of implementing the changes; the costs/savings associated with replacement arrangements; and the costs/savings associated with any other related changes such as the uplift in staff salaries.

Recommendation 17. The Committee recommends that Audit Wales continues to seek ways to manage the pay increases it proposes awarding to staff within its existing budget.

Recommendation 18. The Committee recommends that Audit Wales provides regular updates on:

- how the funding associated with staff pay awards will be applied across grades;
- the budgetary impact of any decisions taken in relation to staff pay;
- consultations taking place with Trade Unions and specialist pay review bodies; and
- the intended impact of the pay awards on staff turnover.

Recommendation 19. The Committee recommends that Audit Wales provides an update on the expanded trainee scheme, including its associated costs, and information on the proportion of newly qualified staff remaining in the organisation.

Recommendation 20. The Committee recommends that Audit Wales provides regular updates on how it is evaluating the impact of its fee increases associated with its new auditing standards.

Annex A: List of oral evidence sessions.

The following witnesses provided oral evidence to the committee on the dates noted below. Transcripts of all oral evidence sessions can be viewed on the [Committee's website](#).

Date	Name and Organisation
20 September 2023	<p>Adrian Crompton, Auditor General for Wales, Audit Wales</p> <p>Dr Kathryn Chamberlain, Chair of the Wales Audit Office Board, Audit Wales</p> <p>Kevin Thomas, Executive Director of Corporate Services, Audit Wales</p> <p>Ann-Marie Harkin, Executive Director of Audit Services, Audit Wales</p>
9 November 2023	<p>Adrian Crompton, Auditor General for Wales, Audit Wales</p> <p>Dr Kathryn Chamberlain, Chair of the Wales Audit Office Board, Audit Wales</p> <p>Kevin Thomas, Executive Director of Corporate Services, Audit Wales</p> <p>Ann-Marie Harkin, Executive Director of Audit Services, Audit Wales</p>

Annex B: Estimate of Income and Expenses for Audit Wales
for the year ended 31 March 2025



Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2025

October 2023

Jointly prepared and laid before the Senedd under
Section 20(1) of the Public Audit (Wales) Act 2013

Dr Kathryn Chamberlain

Chair, Wales Audit Office

Adrian Crompton

Auditor General for Wales

Audit Wales
1 Capital Quarter
Tyndall Street
Cardiff CF10 4BZ

For each financial year, Section 20 of the Public Audit (Wales) Act 2013 requires the Auditor General and the Wales Audit Office jointly to prepare an estimate of the income and expenses of the Wales Audit Office and to lay that estimate before the Senedd 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 Senedd 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 Senedd 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.

We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

Mae'r ddogfen hon hefyd ar gael yn Gymraeg. This document is also available in Welsh.

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Foreword

Audit Wales exists to give the Senedd and the people of Wales confidence in a high-performing and accountable public sector. It provides transparency and accountability for taxpayers and their elected representatives. It provides public bodies with accurate and reliable financial information with which to plan and manage their services and finances effectively.

Our value for money work is vital to robust parliamentary accountability through the Senedd Public Accounts & Public Administration, Finance and other Committees. We audit the accounts and governance of over 800 public bodies across Wales, providing the principal means of assurance about how public money in Wales is being managed from the Welsh Government itself to the smallest community council, through almost every area of public service delivery.

Public audit provides the Senedd, public bodies and the public with independent assessment of the use and management of public money and early warning of problems. When the quality or timeliness of audit reduces, the risks of waste, fraud, and mismanagement increase.

The Minister for Finance and Local Government set out the challenges for public sector spending in Wales in her letter of 12 July 2023 – noting that for 2024-25 Main Expenditure Group allocations are just 1.4% higher in cash terms than for 2023-24.

We recognise this pressure on the public finances. Indeed, it is that pressure that makes the work of Audit Wales all the more essential. The need for value for money from every pound of public spending, and for trusted, timely assessment of the state of financial management and governance in the Welsh public sector, has never been greater. It is the responsibility of the Auditor General and the Wales Audit Office Board to make clear to the Senedd what is needed to provide that through a strong, sustainable, independent public audit office. Without such an office, the risk of failing to make best use of those scarce resources is greatly increased. And the cost to the public purse of the weaknesses that quickly arise as a result, far outweigh the cost of maintaining a properly resourced, high quality public audit regime. The total cost of delivering the independent assurance and insight of Audit Wales represents a little over 1 penny for every £10 spent on devolved public services in Wales.

This Estimate reflects the need for investment in recruitment, training and development of the professionally qualified staff needed for the long-term sustainability of Audit Wales. It also seeks funding to address more immediate and acute pressures that threaten our ability to deliver the expectations of the Senedd. These include addressing the recruitment, retention and morale challenges resulting from pay uplifts over the last two years below those seen in the rest of the public sector; and the aggressive competition for staff that we face from the private sector, primarily in England.

We are acutely aware of our responsibility to other parts of the public sector to contain our own operating costs and the fees we charge, provided that does not risk audit quality and the assurance we can provide. To help offset increasing staff costs, we are taking difficult decisions to reduce our non-staff expenditure. We have moved to smaller, cheaper offices in both South and North Wales, significantly reduced our travel and associated costs, and removed financial allowances previously paid to staff. Through our Financial Sustainability Review, we have an established mechanism to challenge our operating model and for identifying any further opportunities for savings and efficiencies. For 2024-25 we have once again set challenging savings targets from both staff vacancy management and other areas of expenditure.

Taking all this into account, our Estimate allows for an increase in our baseline call on WCF for Audit Wales of 5.9%. An average increase in our fee rates of 6.4% is allowed for in the draft Fee Scheme appended to the Estimate.

Our [Annual Report and Accounts for 2022-23](#) sets out our record of achievement for the last financial year. In April this year we laid our [Annual Plan for 2023-24](#) at the Senedd. This Estimate secures funding for our forward priorities for 2024-25 and provides indicative funding requirements to 2028-29. Our Annual Plan for 2024-25 will be laid before the Senedd before March 2024.

We look forward to discussing our Estimate with the Finance Committee in due course.



Dr Kathryn Chamberlain
Chair, Audit Wales



Adrian Crompton
Auditor General for Wales

Budget Ambit 2024-25

Estimated budget requirements of the Wales Audit Office for the year ending 31 March 2025

- 1 Under Section 125 of the Government of Wales Act 2006, Ministers must move a Budget Motion in the Senedd 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.
- 2 In respect of the services and purposes of the Wales Audit Office and the Auditor General in the year ending 31 March 2025, 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.
- 3 These requirements, which due to the variability of income streams can only be estimates, are summarised in **Exhibit 1**.
- 4 Details of how we propose to use this funding to deliver public audit in Wales in 2024-25 are set out in our supporting information.

Exhibit 1: summary of the estimated 2024-25 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 and the Auditor General and on the administration of the Wales Audit Office:	
• Revenue	9,149
• Capital	310
Accruing resources from fees and charges for audit, grant certification and related services; other recoveries of costs associated with the functions of the Auditor General or Wales Audit Office; miscellaneous income such as from publications, conferences, provision of administrative, professional and technical services and recoveries of costs incurred for a third party – all for use by the Wales Audit Office on the discharge of the functions of the Auditor General and on related services and the administration of the Wales Audit Office.	17,476
Net cash requirement from the WCF to meet the net amounts falling due for payment in the year by the Wales Audit Office.	9,127

- 5 **Exhibit 2** provides a reconciliation of the Wales Audit Office's total resource request with its net cash requirement for the year ended 31 March 2025.

Exhibit 2: reconciliation of resource requirement to cash drawing requirement from the WCF

	£'000
Net request for resources – revenue and capital	9,459
Non-cash adjustment – depreciation	(280)
Non-cash adjustment – IFRS16 Depreciation and interest	(356)
Lease rental payments	104
Non-cash adjustment – movements in working capital	200
Net cash requirement from the WCF to meet the net amounts falling due for payment in the year by the Wales Audit Office	9,127



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Rydym yn croesawu gohebiaeth a
galwadau ffôn yn Gymraeg a Saesneg.