

## Public Accounts Committee

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Meeting Venue:  
**Committee Room 3 – Senedd**

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Meeting date:  
**2 October 2012**

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Meeting time:  
**09:00**

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Cynulliad  
Cenedlaethol  
Cymru

National  
Assembly for  
Wales



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### Agenda

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**Private briefing (9.00 – 9.30)**

**1. Introductions, apologies and substitutions (9.30 – 9.35)**

**2. Auditor General for Wales's Annual Report and Accounts 2011–2012 (9:35 – 10:15)** (Pages 1 – 130)

PAC(4) 19–12 – Paper 1 – Auditor General for Wales's Annual report and Accounts 2011–2012

PAC(4) 19–12 – Paper 2 – Additional information on the Auditor General for Wales's Annual report and Accounts 2011–2012

PAC(4) 19–12 – Paper 3 – RSM Tenon report

**3. Advice from the Auditor General for Wales on the Welsh Government's response to A Picture of Public Services (10:15 – 10:25)** (Pages 131 – 134)

PAC(4) 19–12 – Paper 4 – Advice from the Auditor General for Wales

**4. Motion under Standing Order 17.42 to resolve to exclude the public from the meeting for the following business:**

Items 5 to 7.

**5. Handling of Wales Audit Office report on Health Finances (10:25 – 10:35)** (Pages 135 – 185)

**6. Forward Work Programme – autumn 2012 (10:35 – 10:45) (Pages 186 – 191)**

**7. Auditor General for Wales's Annual Report and Accounts 2011–2012 – Committee's consideration (10:45 – 11:00)**



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

# Auditor General's Annual Report and Accounts 2011-12



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This annual report and accounts has been prepared in accordance with paragraph 13 of Schedule 8 of the Government of Wales Act 2006 in a form directed by the Treasury.



# HIGHLIGHTS

Issued reports on the accounts of over **800** public bodies in Wales

## **8 NATIONAL REPORTS**

Looking at value for money in key areas of public spending

## **28 ANNUAL IMPROVEMENT REPORTS**

On local government bodies and carried out structured assessments at all health boards and NHS trusts

**40** Local government grant schemes certified, worth over £3 billion and involving over 800 individual claims, and resulting in adjustments of

**£1.6 MILLION**

**110,000**

Page views of our Good Practice Exchange website

National Fraud Initiative resulted in public bodies detecting and preventing fraud and error totalling

**£6 MILLION**

with a cumulative impact since the initiative was commenced in Wales of more than

**£22 MILLION**

**£1 MILLION**

Overall savings achieved in our budget through cost reduction and greater efficiency

Reduced business travel by over

**100,000 MILES**

Reduced CO<sub>2</sub> emissions by nearly

**10%**

Reduced our production of waste by

**22%**

# FOREWORD BY THE AUDITOR GENERAL FOR WALES



This has, in many ways, been an encouraging year for the Wales Audit Office. While, there are challenges still to be faced, there is much to confirm that we are supporting public services in Wales, and providing valued and independent assurance to citizens. Many of our stakeholders have told us that their confidence in us is high and, in a comprehensive survey, the public has told us that they trust our independent judgments on the services they receive.

Our approach has been to be flexible and supportive of public bodies, without compromising the rigour of our scrutiny of public spending. We will continue to support them in securing safe and effective services for Wales – in a period of unprecedented financial constraint.

Our financial audit work has again provided the foundation of our audit programme and of our ability to offer assurance to citizens. The planned programme of performance audit work has been punctuated by additional reviews, such as work related to the River Lodge Hotel, Llangollen, that needed to be conducted swiftly and sensitively.

We have also been responsive to the Public Accounts Committee's agenda and to new opportunities to work collaboratively with other audit bodies. This emphasis on demand-led work clearly influenced the studies produced last year, but we are continuing to work with public services as they seek to manage resources and secure improvement, providing both timely critique and support to learning. I hope that events such as our recent conference will help reinforce the role audit can play in encouraging accountability alongside innovation and well-managed risk-taking.

At the time of issuing this report the Welsh Government has published its Public Audit (Wales) Bill. Whilst I welcome the intention behind the Bill there are elements within it that need further work to ensure that audit independence and employee rights are properly safeguarded.

Just as other public bodies grapple with the need to make resources go further, we will continue to seek to do more with less, working harder as well as smarter. My staff have secured the successes outlined in this report and I continue to value their skills, experience and commitment above all other resources available to us. I know they share my determination that we will continue to make a positive impact on the lives of the people of Wales.

A handwritten signature in black ink, appearing to read 'I. Jones', is positioned in the lower-left quadrant of the page.



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# ABOUT US

The Auditor General and the auditors he appoints in local government are the statutory external auditors of most of the Welsh public sector. They are responsible for the annual audit of the majority of public money spent in Wales, including the £14 billion of funds that are voted to Wales annually by the Westminster Parliament. Elements of this funding are passed by the Welsh Government to the NHS in Wales (over £5 billion) and to local government (nearly £4 billion).

The Auditor General and his staff together form the Wales Audit Office, which was established in April 2005. The Auditor General is the Accounting Officer for the Wales Audit Office and is personally responsible for its overall organisation, management and staffing as well as its procedures in relation to financial and other matters.

The staff of the Wales Audit Office deliver approximately two-thirds of our annual audit work. The Auditor General contracts out the remainder to private sector accountancy firms (currently these are Grant Thornton UK LLP, KPMG Europe LLP, PricewaterhouseCoopers LLP, UHY Hacker Young LLP, BDO LLP and Mazars LLP).



Welsh Housing Quality Standard review team  
 Matt Mortlock, Claire Food-Page,  
 Gwilym Bury and Justine Morgan

## What we do

As external auditors, we independently examine whether public resources are being managed wisely and are properly accounted for. We carry out this work on behalf of the public and in the public interest.

Our audit work adds value to society by:

- delivering timely assurance on the stewardship of public money and assets;
- providing useful insight, particularly on the extent to which people's needs are being met and on their experiences and concerns; and
- identifying clearly where and how improvements can be made to the provision of public services.

The Auditor General has issued a code of practice which prescribes the way in which auditors of local government bodies are to carry out their functions, and promotes best professional practice. The Auditor General has voluntarily expanded and adopted this code so that it also applies to his audit work in health and central government.

Four principles underpin our work. Being:

- Public focused
- Independent
- Proportionate (providing just the level of audit that is needed)
- Accountable

## Who we work with

Our role is to provide independent assurance that public money is being spent in people's best interests. We work with:

- The people of Wales
- The National Assembly, chiefly through its Public Accounts Committee
- The Welsh Government
- Public service providers in Wales and their representative bodies
- Other relevant inspectorates and regulators

# OUR WORK THIS YEAR

Each year, we deliver a broad and varied programme of external audit work. It includes audits of accounts, value for money examinations and studies, local government assessments, certification of grant claims, anti-fraud exercises and granting approvals to the Welsh Government to draw down funds.

In this section, we provide an outline of the audit work we delivered last year and highlight some of the impact that it has made.



Flintshire Audit team  
Simon Monkhouse, Bob Hughes, Arwel Owen, Jessica Hamilton, Amanda Hughes and John Herniman

# FINANCIAL AUDIT

Public bodies must account for the money entrusted to them. The principal way they achieve this is through the production of timely and accurate annual accounts. The focus of our financial audit work is auditing these accounts and providing assurance to the public about the stewardship of public money.

In 2011-12, we issued reports on the accounts of approximately 840 public bodies in Wales. These included the Welsh Government and its sponsored bodies, NHS trusts and health boards, unitary authorities, fire and rescue authorities, national park authorities, police and probation authorities and trusts, pension funds, and town and community councils.

With one minor technical exception, we did not need to 'qualify' any audit opinions to reflect incorrect accounting practice by public bodies in Wales. However, auditors often suggested significant amendments to bodies' draft accounts to ensure they were presented correctly, and made many recommendations to those responsible for the management and oversight of the accounts.

In addition to accounting issues, auditors often have to deal with and respond to a variety of issues that they identify from their work or are brought to their attention by members of the public. This year we reviewed a number of issues and made recommendations for improvement on a wide range of subjects.

We take the quality of our audit work seriously and undertake an annual programme of quality assurance reviews. These reviews are concerned with ensuring that audits are conducted rigorously in accordance with professional standards. Our review programme is also designed to ensure that audits are conducted efficiently and that the audit process adds value for audited bodies. A number of the reviews for 2010-11 audits were undertaken by the National Audit Office and the Northern Ireland Audit Office to provide an additional level of challenge to our work.

Another integral part of our quality approach is sharing good practice. We do this internally, to ensure we learn from each other to improve our audit work, and externally to help audited bodies improve their arrangements for producing accurate, timely and well-supported accounts.



## Summary report of Local Authority Accounts 2010-11

In February 2012, we published a new type of report which brought together the results of audit of accounts work across all local government bodies for the previous financial year, and highlighted common themes and issues.

The report points to 2010-11 as being a challenging year for local government bodies in terms of preparing accounts. The most significant challenge was the adoption of International Financial Reporting Standards which required substantial changes to accounting practices and the presentation of the financial statements.

Our work concluded that local authorities generally coped well with the big changes required to the preparation and presentation of their accounts. Financial accounts and supporting papers were generally well-prepared and submitted on time. Unqualified audit opinions were issued on all but one set of accounts.

However, many of the accounts required some form of amendment following audit. In total, material and other adjustments of £613 million were made to balance sheets and £502 million to statements of comprehensive income and expenditure.

Our work also identified that, due to a lack of definitive guidance in some areas, inconsistent accounting approaches are still being taken in areas such as the valuation of council houses and the treatment of voluntary schools. We will continue to work with the Society of Welsh Treasurers Chief Accountants Group and the Chartered Institute of Public Finance and Accountancy to identify a more consistent approach.

We intend to publish a summary report of our work on local government accounts on an annual basis, alongside similar summary reports on our work in the NHS and central government sectors.

# PERFORMANCE AUDIT



## National reports

During 2011-12, we published eight national reports which examined value for money in key areas of public spending, often from a 'whole-system' or 'cross-cutting' perspective, where public spending is examined irrespective of who delivers the services. The work we did and the impact of a selection of these reports is described in the following section.

Our reports provide the foundation for the work of the National Assembly's Public Accounts Committee in its role of ensuring that proper and thorough scrutiny is given to Welsh Government expenditure. The Committee made specific inquiries into issues of interest or concern arising from our reports, and reported and made recommendations on its findings.

Public Participation in Waste Recycling  
Andy Phillips



## Public Participation in Waste Recycling

Our recent national study *Public Participation in Waste Recycling*, published in February 2012, asked if the Welsh Government and local authorities are doing enough to maximise public participation in recycling.

We found that recycling in Wales is increasing as more people participate, but there remain substantial barriers to the implementation of the national *Towards Zero Waste* strategy. We concluded that, left unaddressed, these barriers will hinder further longer-term improvements.

So far, the recycling performance of Wales is good, and we consider that the Welsh Government's target for each local authority to recycle 70 per cent of municipal waste by 2024-25 is a significant but achievable challenge.

However, the greater challenge to reduce the absolute amount of waste produced in Wales is critical to the success of the national waste strategy, and is likely to be far more difficult than achieving a high recycling rate.

As part of our work on this study, we surveyed and then met each local authority waste manager to discuss recycling plans and their opinion on their authority's preparations to meet targets. A follow-up shared learning event for these and other interested parties is planned.



Adult Mental Health Services: Follow-up Report  
Steve Ashcroft

## Adult Mental Health Services: Follow-up Report

In this follow-up study we found that there has been clear progress in improving adult mental health services in Wales since 2005, when we published our baseline review of service provision. However, some important gaps and inequalities in the services provided remain, which reflect the mixed success that the Welsh Government, NHS bodies, and councils have had in removing key barriers to change. These organisations also now face new challenges in further developing services during a period of financial restraint.

As part of the follow-up study we gathered evidence from service users, NHS bodies and social services teams.

The results of our work are being used by the Welsh Government in revising and updating its mental health strategy. We have also widely disseminated our findings to Welsh Government officials and health board national mental health groups and networks, in an effort to help focus and shape the improvement agenda.

'I would like to take this opportunity to thank Wales Audit Office staff for the role they played in connection with the programme and in acting as a 'critical friend' to the process. This included:

- being prepared to spend time with myself and colleagues, briefing us on key issues at the establishment of the programme board, which in turn helped us to identify the priorities for the programme;
- presenting audit findings at a number of formal programme board and subgroup meetings, thereby helping us to identify the key issues to which we needed to turn our attention; and
- sharing the learning emerging from user survey work with health board colleagues in a manner that meant they could take lessons back to their organisations.'

Feedback quote from the former National Director for the Mental Health Programme Board



## A Picture of Public Services 2011

This report provided an overview of the unprecedented real terms budget cuts that public services face over the current spending period and examined the particular challenges facing individual sectors, notably the NHS and local government.

The report highlighted the leadership challenges facing public services. In particular we identified the need to engage with the public, who can often be sceptical and worried about changes to services they rely on, and to engage staff in making transformation work at the same time as they are facing reductions in job numbers and a pay freeze. *A Picture of Public Services 2011* was broadly welcomed as a timely and

helpful analysis and encouraged extensive political debate. In particular, discussions focused on the need for radical reform of the NHS and also on the need for more effective workforce planning in response to reductions in public sector employment. Following publication of the report, the Public Accounts Committee launched an inquiry, taking evidence from the Welsh Government, Welsh Local Government Association and the NHS Confederation.

There has been wide and substantial interest in the report, with online perusal of its content from 25 different countries.



## Guide to cost reduction

Our online guide to cost reduction sets out a framework for making and implementing decisions to reduce costs, and includes practical examples from Wales and further afield. It also draws together research and guidance from a range of sources, and signposts the reader to further advice.

The areas covered include:

- engaging the public and staff in setting priorities and identifying areas for savings;
- establishing a strategic and realistic approach to efficiency savings and priority based budgeting that takes account of the impacts on citizens and other services; and
- addressing the challenges of putting tough choices into practice and learning from experience.

More information on the guide can be found on our Good Practice Exchange website.



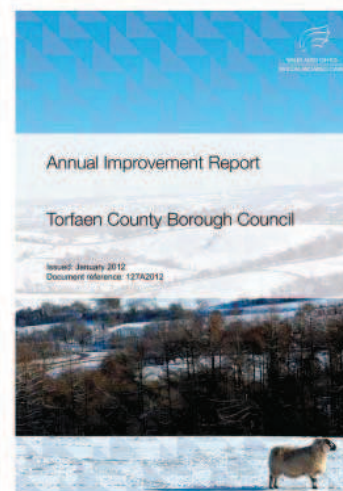
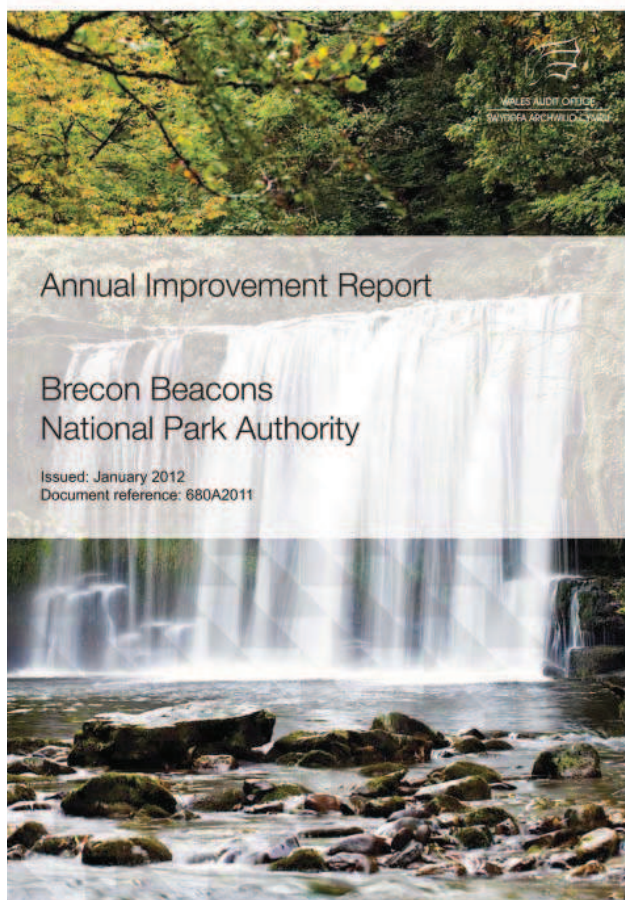
## Progress in Delivering the Welsh Housing Quality Standard

The Welsh Government introduced the Welsh Housing Quality Standard (WHQS) in 2002. Our report, published in January 2012, highlights that, while many tenants have seen substantial improvements in the quality of their housing, the Welsh Government's original aim that all social housing would achieve the WHQS by the end of 2012 will not be met.

We found that the Welsh Government had not acted swiftly enough to support and monitor progress, and had not put an effective framework in place to demonstrate value for money. The report calls on the Welsh Government to explore the full range of policy options available to help overcome the barriers to achievement of the WHQS, and emphasises general lessons for the Welsh Government in terms of policy development, monitoring and evaluation.

Our work drew on a wide evidence base, including the results of a Welsh Government monitoring exercise, our own survey of and visits to social housing landlords, workshops with tenant representatives and analysis of the costs associated with stock transfer.

In March 2012, Wales Audit Office staff participated in a workshop at the Chartered Institute of Housing's *TAI 2012* conference in Cardiff to discuss the report's findings and recommendations.



'I would like to take this opportunity to thank you for your constructive advice and support in formulating our approach and the plan itself which is much appreciated.'

Feedback quote from a unitary authority chief executive

'Local government values the ability of the Auditor General to speak without fear or favour and his independence from any political interference or from government is of fundamental value.'

Feedback quote from the Chief Executive of the Welsh Local Government Association

## Local government improvement assessments

Each year we conduct improvement assessments and report on how well Welsh unitary authorities, fire and rescue authorities, and national parks are making arrangements for improving the delivery of their services and other functions.

The results of our improvement assessment work, together with summaries of all other relevant work of the Wales Audit Office and other regulators, were published in 28 separate annual improvement reports in early 2012. The reports attracted considerable media interest.

We made statutory recommendations to seven unitary authorities requiring them to prepare a statement of action within 30 days of receipt of our report. We also made proposals for improvement at all authorities in areas identified

as requiring attention, including performance reporting, governance arrangements and public engagement. We are continuing to follow up both our recommendations and our proposals for improvement, and will report back to authorities on their progress.

We also consulted with local government on proposals to amend our improvement assessment approach. For 2012-13 we will introduce a rolling programme of in-depth corporate assessments, based on a four-year cycle. We are continuing to work with the Welsh Local Government Association and others to ensure that robust self-assessment and external scrutiny make complementary contributions to the overall assessment of local government's performance.

Pembrokeshire Special Inspection team  
Huw Rees, Gwilym Bury, Dave Rees,  
Susan Morgan and Ena Lloyd



## Special Inspection of Pembrokeshire County Council

In September 2011, the Auditor General announced his intention to conduct a special inspection into corporate governance arrangements at Pembrokeshire County Council. The Auditor General took the decision following the publication of two critical reports from Her Majesty's Inspectorate for Education and Training in Wales (Estyn) and the Care and Social Services Inspectorate Wales (CSSIW) on matters relating to the safeguarding of children and young people.

Our team published its report on 30 January 2012. We found that, whilst the Council displayed some positive attributes in relation to its culture and operating environment, too much informality and a lack of consistently effective challenge had weakened accountability. Improvements were needed to ensure that the Council can maintain adequate political and managerial oversight and appropriately hold people to account.

In response to our inspection the Council put in place an action plan to address our recommendations. Since then, we have carried out a review of the Human Resources function to further examine shortcomings in policy and practice identified by CSSIW and Estyn. We are due to report on the findings of this work at the end of July 2012. In addition, a full re-inspection of our governance work had been planned for October 2012. However, in June 2012 Ministers expressed concern at the rate of progress that the Council was making on issues raised by the CSSIW, Estyn and Wales Audit Office reports. Following a request from the Minister for Local Government and Communities, the Auditor General has decided to bring forward our re-inspection to the summer with a view to reporting by the end of September 2012.



## Local health work

We carried out a detailed programme of local performance audit work at health boards and NHS trusts during 2011. This included undertaking a second year of 'structured assessments'. We examined the progress that NHS bodies have made in addressing the areas of development we had identified in 2010 in relation to their governance and financial management arrangements.

It was clear that NHS bodies were making progress in the areas where auditors had identified problems. However, whilst many NHS bodies were managing to secure significant savings, achieving cost containment and all the savings identified in cost improvement plans was proving to be a real challenge. Our report on *Health Finances* published in July 2012 considers these issues in more detail.

We also conducted an integrated review of the progress in developing unscheduled care services and services for patients with chronic conditions. In particular, we looked at the progress in managing demand on hospital services, and in developing alternatives to hospital admission.

Information governance and IT infrastructure also featured in our local programmes of performance audit work, in the form of data quality audits and reviews of NHS bodies' arrangements to deal with major disruptions to IT systems.

## Police authority audit

Following our 2010 joint report *Sustaining Value for Money in the Police Service*, we conducted a series of follow-up reviews in 2011 in collaboration with Her Majesty's Inspectorate of Constabulary at all Welsh police authorities. We jointly arranged our work throughout 2011, to avoid duplication and minimise the impact of visits to authorities.

Police forces in Wales continue to face significant financial pressure, with potential implications for frontline policing and other public services they work with in Wales. Our 2011 reviews focused on progress in delivering efficiency savings and service transformation whilst maintaining frontline policing services. Our reports highlight that, overall, police authorities in Wales are meeting the challenges they face, with clear plans and a good track record of financial management.

# GRANT CERTIFICATION WORK, AND REQUESTS TO DRAW FROM THE WELSH CONSOLIDATED FUND

## Certification of grant claims and returns

Grants are a key source of funding in Wales, and, compared to England, much more use is made of grants as a funding mechanism. When making grant awards, funders set conditions requiring recipients to use the money only for the agreed purposes and under strict controls.

If requested to do so, the Auditor General must make arrangements for certifying claims and returns in respect of grants paid or subsidies made.

In 2011-12, we certified 40 local government schemes, worth over £3 billion and involving over 800 individual claims. As a result of our work, one in four of those claims had to be adjusted (to correct an error) or qualified (to report a disagreement or an uncertainty over part of the expenditure claimed). The gross value of adjustments was £1.6 million and the potential value of qualifications was £30 million. We also certified European structural funds claims from the Welsh Government and its sponsored bodies with a total value of around £300 million for the year.

## Grants Management in Wales national report

In November 2011, we published our *Grants Management in Wales* report. The report brought together auditors' collective insight from our claim certification and other work since the Wales Audit Office was established in 2005.

In the report we highlighted lessons from previous high-profile cases and reiterated that local government's administration of grants continues to be very poor, apart from at a small number of exemplar authorities. We also made a number of recommendations to funders.

We held a number of grants management shared learning events in June 2012, for unitary authorities' community development and regeneration officers and their voluntary sector counterparts from the county voluntary councils, and we then fed the key learning points back to the Welsh Government.

In 2012-13 we will publish a national report on the current round of European structural funding, examining the arrangements that the Welsh Government has put in place to administer the Convergence and Competitiveness programmes and evaluating their impact.



## Scrutiny of requests to draw from the Welsh Consolidated Fund

The Welsh Consolidated Fund (WCF) is the main conduit for the receipt and distribution of money for the Welsh public sector. The vast majority of the money paid into the fund is provided by the UK Government, as authorised by the UK Parliament. The Auditor General's approval is needed for all payments out of the fund. This entails checking that proposed payments are in accordance with legislation and, where applicable, National Assembly budget motion authority.

The sums of money involved are large – over £1 billion a month during 2011-12. We completed the processing of most WCF requests on the same day that we received them, and dealt with any discrepancies in requests as a priority.

# DATA MATCHING

## The National Fraud Initiative

In May 2012, we published the findings of the National Fraud Initiative (NFI) 2010-11. The NFI is run every two years to match data across organisations and systems in order to help public bodies identify potentially fraudulent or erroneous claims and transactions.

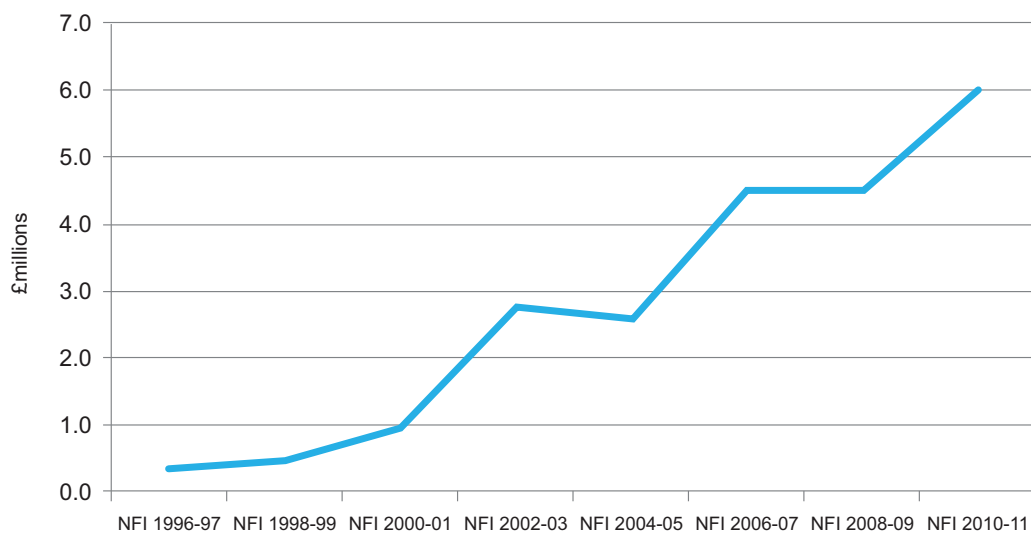


Since we reported on the NFI 2008-09, NFI has resulted in Welsh public bodies detecting and preventing fraud and error totalling a further £6 million, with a cumulative impact since the initiative was commenced in Wales of more than £22 million. The frauds identified included false claims for housing benefit, public sector pensions and council tax discounts. NFI matching resulted in the revocation of 2,016 ineligible council tax discounts and identified savings of £2.9 million (including forward savings) for the public purse in respect of council tax discounts awarded to people not entitled. The exercise also resulted in the cancellation of 1,135 blue badge parking permits and 5,522 concessionary travel permits where there was no ongoing eligibility. Fifty-four individuals were prosecuted for fraud offences.

### Case study example

Conwy County Borough Council investigated a match between housing benefit and payroll data. The match indicated that a claimant was in receipt of housing, council tax and incapacity benefit. The claimant had not declared that he was in employment. The Council investigated the case jointly with the Department for Work and Pensions. The claimant admitted failing to declare his employment income. The resulting overpayment was in excess of £11,500. The Council and the Department for Work and Pensions has taken action to recover the overpayment. A prosecution is pending.

### NFI reported savings in Wales £million



# WORKING WITH OTHERS TO SHARE LEARNING



Patient Nutrition team  
Delyth Lewis, Gabby Smith, Kate Febry,  
Dave Thomas, Malcolm Latham, Steve Lisle and Phil Jones

## Helping promote good patient nutrition in hospital

Following the publication of our national report *Hospital Catering and Nutrition* in March 2011, we continued to support service improvement and the sharing of good practice in this area. We published two related leaflets in 2011-12. The first, *Eating Well in Hospital – What you should expect*, is aimed at providing patients and carers with important information about how food and nutritional needs should be met during a stay in hospital. The content of this successful leaflet has now been incorporated into most of the local health board and trust information given to patients about their stay in hospital. A second leaflet highlights the key questions that health board members should be asking of their local service to obtain assurance that these services are following national guidelines and recognised best practice.

To promote the sharing of good practice, we also held a shared learning seminar in September 2011. The event brought together over 60 delegates from across NHS Wales, including a mix of practitioners from all the different disciplines involved in hospital catering and patient nutrition, to share their experience on delivering the national report's recommendations.

'Came away with several new ideas that I hope I can use or adapt to improve things locally.'

'Opportunity to talk with other professionals across Wales. We are all facing similar challenges but finding different solutions. It was great to share this!'

### Feedback quotes from delegates

## NHS board and audit committee development sessions

During 2011, we ran a programme of interactive development workshops with audit committee and board members of NHS bodies in Wales. The approach was initially employed successfully at Aneurin Bevan Health Board, and was then rolled out at most other health boards in Wales.

The workshops made use of real life case studies to highlight what effective models of governance and board assurance look like, and what can happen when these controls are not in place and things go wrong.

On a linked theme, and in collaboration with Healthcare Inspectorate Wales, we also facilitated a development day for board secretaries of NHS bodies. The outputs will be used by the Board Secretaries Group to further develop effective board assurance frameworks within the NHS in Wales.

‘On behalf of the Audit Committee I wanted to thank you for leading the recent governance development workshop, which was extremely well received and added considerable value to improving our management arrangements. As we discussed at the meeting, for the Health Board the workshop has benefits wider than the Audit Committee because of the way our committees are structured; therefore we would like you to repeat the workshop for the rest of our Board members. Once again, thank you for your time and a very stimulating and thought-provoking workshop.’

Feedback quote from a health board director

## Governance training for Communities First partnerships

Following some high-profile financial control and governance failures involving the Communities First programme, the Welsh Government asked us to deliver a series of training sessions for Communities First partnerships in 2011 to highlight the importance of good governance.

The sessions were open to individuals who were members of partnerships, and offered a key insight into what good governance means for them, and what they can do to improve the governance arrangements within their partnership. The sessions also provided an opportunity for members to ask some key questions relating to governance and share good practice with their peers.

The sessions were delivered between May and November 2011 and were well received by attendees. As a result, further sessions have been requested to accompany the roll out of the new Communities First programme from 2012 onwards.

‘Well presented, informal and interactive.’

‘Interesting – covered lots of subjects that are of use to me and to the organisation that I work with.’

Feedback quotes from delegates



## Providing added value to National Assembly Members

A large proportion of Welsh public money – over £4 billion each year – is spent on buying products or services from other organisations, or ‘procurement’.

In 2011-12, the National Assembly’s Business and Enterprise Committee established a task and finish group to explore how a revised EU public procurement directive might impact on public procurement in Wales, and to seek to influence the reform of EU public procurement policy.

We were invited to provide commentary to the Group to inform its work. Brief presentations were provided, as follows:

- an overview of the current EU framework for procurement and the potential impact of proposed changes;
- an overview, based on our audit experience, of the main areas that public bodies in Wales have experienced difficulties in complying with the current framework; and
- our observations on how the current framework impacts on value for money, and on some of the inherent tensions that exist within the framework.

## Providing added value to the Welsh Government

During 2011-12 our staff continued to provide input to the Welsh Government that goes beyond our core audit work (without compromising our independence). Examples included:

- undertaking an audit review, commissioned by the Department for Education and Skills, of local authority processing of student finance applications;
- undertaking an audit review, commissioned by the Department for Local Government and Communities, of local authority unsupported borrowing and reserves;
- providing commentary to the ongoing Director General for Health and Social Services’ review of NHS governance;
- taking an observer role on the Grants Management Project Board; and
- contributing to Accounting Officer, Corporate Governance Committee and other Welsh Government training events.



# The **Good Practice** Exchange Y **Gyfnwidfa Arfer** Da



## Arfer Da **Cymru** Good Practice **Wales**

### Identification and transfer of good practice

One of the methods by which we promote improvement in public services is through the identification and transfer of good practice. Our Good Practice Exchange (GPX) is a web-based resource, freely available to anyone. We also deliver targeted face-to-face activities, typically shared learning seminars, which enable the rapid exchange of knowledge and learning between people from across the public services.

During 2011-12 we delivered a number of shared learning seminars including on hospital catering and patient nutrition, and on promoting attendance at work (in collaboration with a number of partners). These activities, along with others, continue to generate case studies which are shared through our GPX.

There were approximately 110,000 page views of the content of our GPX website in 2011-12. We are currently in the process of reviewing and enhancing the GPX with the aim of launching an updated version with improved capabilities in 2013. To enhance the accessibility of our good practice material, and to complement it with good practice case studies from further afield, we are also continuing to work with the web portal [goodpracticewales.com](http://goodpracticewales.com).

## Joint working

We are committed to working with and building on the existing co-operation between the UK national audit agencies to enhance the efficiency and effectiveness of public audit. We regularly work with colleagues at Audit Scotland, the Northern Ireland Audit Office, the Audit Commission and the National Audit Office on joint projects and to share information and knowledge. In 2011-12, we contributed to a report published recently by the National Audit Office that highlights key trends and variations in the delivery of healthcare across the four nations of the UK.

In January 2011, the four main inspection, audit and regulation bodies in Wales – Estyn, the Care and Social Services Inspectorate Wales, Healthcare Inspectorate Wales and the Wales Audit Office – signed a strategic agreement with key objectives for better collaborative working. In 2011-12, in support of those objectives, we jointly:

- developed and launched the 'Inspection Wales' website;
- agreed an information sharing protocol and plan for the development of a secure tool for staff to use to share information;
- identified and agreed the national review topics for collaboration between the inspectorates during 2012-13;
- developed a joint working element of the induction training programme for each inspectorate; and
- held a seminar meeting between the heads of the inspectorates and the Directors General from the Welsh Government to discuss areas of mutual interest and concern.

## International work

From time to time we represent Wales on the international stage in relation to our work. Our international work provides the opportunity to further develop our knowledge of accountancy and audit techniques and acquire skills that are necessary to deliver our work. But, we are mindful that all such activities should support our business strategy, should be self-financing and should not be undertaken to the detriment of our core audit work in Wales.

Two of our staff have worked with the National Audit Office in 2011-12 on the audit of United Nations organisations. The two staff members worked on a number of assignments in various countries as part of a longer-term agreement to support this work.

The Wales Audit Office is also established as a public sector audit agency with skills that are transferable to other countries. During the year, delegations from a number of overseas public sector entities, including from China, Canada, Ethiopia and Lithuania, visited our offices to learn about governance arrangements in Wales and our approach to public audit. This year we developed this further by arranging a successful inward secondment for a member of staff from the National Audit Office of Malta to learn about our approach to performance audit.

Accounting and auditing standards are now organised on a global basis. During 2011-12, we responded to six international consultations on those standards, helping to shape the future development of both accountancy and public audit on the wider stage.

# RESPONDING TO ISSUES THAT HAVE BEEN BROUGHT TO OUR ATTENTION

Correspondence from the public, elected representatives and others that raises concerns about public business can inform our work programme by identifying issues for further investigation. It is our policy to respond to public concern promptly and in a fair, objective and professional manner.

In 2011-12, in response to one particular case of correspondence, we commenced a review into how the Welsh Government managed its relationship with the All Wales Ethnic Minorities Association (AWEMA).

The Public Interest Disclosure Act (PIDA) came into force in 1998 to protect employees who want to raise a concern, about something happening in work, in a diligent manner. Under PIDA, the Auditor General and the auditors he appoints in local government are recognised as 'prescribed persons' who can receive

disclosures from individuals employed by audited bodies in respect of the proper conduct of public business, value for money, fraud and corruption in relation to the provision of public services.

To deal promptly and effectively with such concerns, the Auditor General has put arrangements in place so that individuals can raise their concerns in confidence with trained and experienced staff. In the 2011 calendar year, six disclosures were received from employees or former employees of audited bodies via our whistle-blowing arrangements and were subject to further investigation.

The Auditor General also reports to the Serious Organised Crime Agency any instance of dealings in the proceeds of crime (money laundering) that he or his staff encounter during the course of their work.

## Clydach and Mawr Community Councils – public interest reports

In December 2011, following investigation of concerns raised by appointed auditors and a member of the public, we published two reports in the public interest highlighting failures in governance arrangements and inadequacies in financial management at two community councils in South Wales over a six-year period.

The reports identified that during the period the clerk of both Councils failed to discharge his responsibilities in relation to the financial management of the Councils and failed to maintain proper accounting records.

The failures at Clydach and Mawr are two headline examples amongst several major irregularities identified by auditors at town and community councils

in recent years. In addition, an unacceptably large number of councils do not ensure their returns are completed and sent to the auditor on time or fail to respond appropriately to audit queries. Consequently, we are not satisfied that the sector as a whole has adequate and effective governance arrangements in place at present.

The Auditor General has recently consulted on proposals for enhanced audit arrangements for town and community councils in Wales. The proposed new arrangements include all councils being subject to a more detailed audit at least once every five years. The new approach would seek to provide more robust assurance that the sort of failures identified in Clydach and Mawr do not continue to occur.

# FUTURE FOCUS FOR OUR WORK



# OUR FORWARD PROGRAMME OF VALUE FOR MONEY STUDIES

In January 2012, we presented a briefing paper to the National Assembly's Public Accounts Committee providing details on the broad programme of studies that we are currently engaged in and that we expect to result in published reports by the end of 2012-13. A summary of these projects is provided below:

**NHS finances** – examining the ways in which the NHS has achieved financial balance in the past and the short, medium and long-term challenges facing the NHS as it seeks to achieve financial balance in an environment of real terms funding reductions.

**2007-13 European Union structural funding** – examining progress in delivering the Convergence and Competitiveness programmes and assess whether they are on track to deliver their expected benefits, alongside examining the arrangements that the Welsh Government has put in place to administer the programmes and evaluate their impact.

**Informing healthcare** – examining whether the Informing Healthcare programme was set up for success and the progress being made to deliver the intended benefits.

**NHS consultant contract benefits realisation** – this report will bring together the findings from local audit work to consider the effectiveness of job planning arrangements for consultants in delivering the intended benefits of the consultant contract.

**Healthcare across the UK** – we are contributing to a project led by the National Audit Office, and also involving Audit Scotland and the Northern Ireland Audit Office, to examine differences in healthcare structures, priorities, performance and outcomes across the four nations of the UK.

**Civil emergencies in Wales** – this report will examine how well the Welsh public sector is placed to address emergency planning issues and to implement the Civil Contingencies Act 2004.

**Education of looked-after children** – this report will examine whether the actions taken by the Welsh Government and local authorities have been sufficient to improve significantly the educational outcomes for looked-after children.

**Operations of the Forestry Commission Wales in relation to Ffynone and Cilgwyn Woodlands (follow-up work)** – this study will examine the progress made by Forestry Commission Wales and, where applicable the Welsh Government, in implementing the various recommendations in all four previous Wales Audit Office and Public Accounts Committee reports.

**Continuing healthcare** – this report will examine the progress made by health boards and their partners in implementing the Welsh Government’s continuing healthcare framework.

**Child and adolescent mental health services (follow-up work)** – this follow-up report will examine, in collaboration with Healthcare Inspectorate Wales, whether appropriate steps have been taken to remove or minimise risks identified in a previous report.

**Responding to financial constraints** – this study will review how local authorities are using their finances to achieve improvement in this challenging economic climate.

**Procurement of consultancy services** – by identifying areas where public bodies can make more efficient and effective use of consultants, this study aims to highlight opportunities for co-ordination and collaboration, identify examples of good practice, and help inform the delivery and development of national strategies in these areas.

**Welsh Government location strategy** – this study will examine the delivery of Phase I of the programme to identify whether the Welsh Government delivered the programme’s objectives in a way that is sustainable and provides value for money.

In light of the Welsh Government’s emerging policy agenda, and taking into consideration how our work programme aligns with the work of other audit, inspection and regulatory bodies, our proposals for new work to start in 2012-13 include the following topic areas:

- Young people not in employment, education or training
- Medicines management
- Welsh Government arrangements for working with the third sector
- Supply teachers
- Public sector workforce planning and managing workforce reduction
- Grants to farmers

## Our corporate strategy

We are in the final stages of drafting a new corporate strategy for the Wales Audit Office. The strategy will include our overall aim and key objectives, a medium-term financial strategy and workforce strategy, and an outline of our anticipated programme of work for the next three years.

The strategy will also identify the key areas of improvement work we will undertake to achieve our key objectives, and how we will monitor and report on our performance.

## Implications of the Public Audit (Wales) Bill

The Public Audit (Wales) Bill was published by the Welsh Government on 9 July 2012. While there is no immediate impact on the day-to-day activities of the Wales Audit Office, the Bill contains a number of important implications for the way in which the Wales Audit Office is structured, our future work plans and the development of our strategy.

The stated intention behind the Bill is to 'strengthen the governance and accountability arrangements of the Wales Audit Office without restricting the Auditor General's crucial independence to examine whatever subjects he chooses'. Key features currently include:

- establishing the Wales Audit Office as a body corporate with a board;
- transferring all staff to the employment of the Wales Audit Office under terms and conditions that are broadly in line with Welsh Government staff; and
- setting out the relationship between the Wales Audit Office and the Auditor General.

The process leading to the enactment of the legislation may take the best part of a year.

## Our equality objectives

In April 2012 we published a *Strategic Equality Plan* which sets out the key things we intend to do through our work in order to help eliminate discrimination, promote equality of opportunity and foster good relations.

Our equality objectives in terms of our future external work include seeking and taking account of the views of people who represent the interests of protected groups in deciding what value for money work we will undertake, the coverage of that work and in devising fieldwork for such projects.

## Sustainable development examinations

In July 2011, the senior management team held a session with the Welsh Government's Director General of Sustainable Futures to discuss how we can best contribute to the sustainable development agenda in Wales through our audit work. We convened a task and finish group to consider the practical implications for public audit of plans to adopt sustainable development as the central organising principle of government and public bodies in Wales.

The work of this group is informing the Welsh Government's proposals for a Sustainable Development Bill, including a proposal to give the Auditor General a duty to carry out sustainable development examinations.

## Providing assurance on new police structures

From November 2012, directly elected police and crime commissioners are replacing police authorities in Wales. Police and crime commissioners will be responsible for maintaining an efficient and effective police force within their area, and for holding chief constables to account for the delivery of police and crime plans. To ensure these transitional arrangements run smoothly, we are continuing to work with Her Majesty's Inspectorate of Constabulary to provide assurance on the new police structures.

# OUR ORGANISATION



# OUR PEOPLE

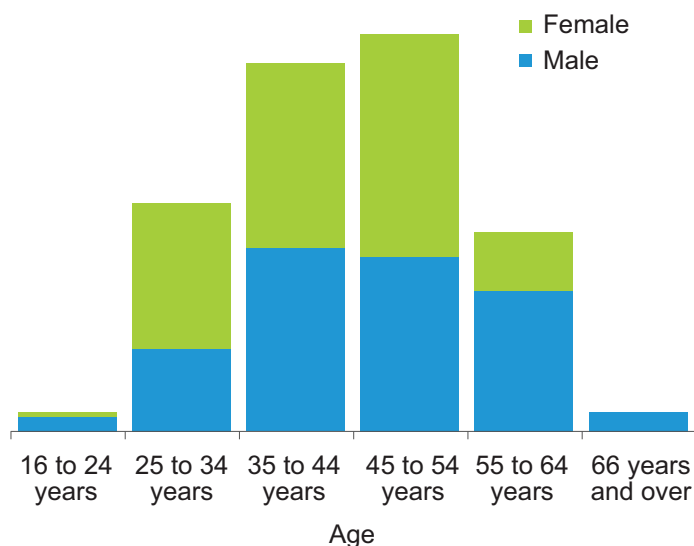
Our skilled and professional workforce is essential to providing a high quality public audit service to the people of Wales. At the 2011-12 year-end, the Auditor General directly employed 254 staff (219 permanent whole-time equivalents).

## Demographics

The median age of all Wales Audit Office employees as of 31 March 2012 was 45 years, the same as for civil service employees in 2011<sup>1</sup>. Less than two per cent of staff were aged less than 25 years, compared to around five per cent for the UK public sector as a whole and around 15 per cent in the private sector<sup>2</sup>.

In April 2012, we conducted a diversity monitoring survey, to which around two-thirds of all Wales Audit Office employees responded. Of those that replied to the survey, 4.9 per cent classified themselves as belonging to an ethnic grouping other than 'white', compared to the 2009 population estimate for Wales of 4.1 per cent<sup>3</sup>. Sixty per cent declared themselves as Christians and 28 per cent indicated 'no religion'.

## Age and gender of employees

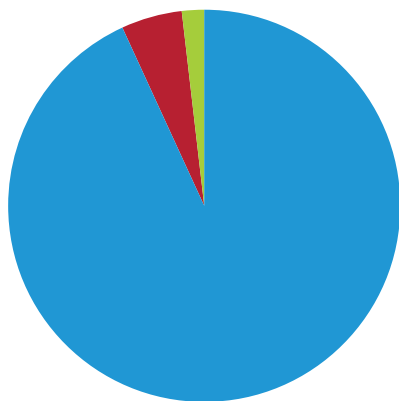


<sup>1</sup> Source: Annual Civil Service Employment Survey

<sup>2</sup> Source: *Estimating differences in public and private sector pay – 2012*, Office of National Statistics

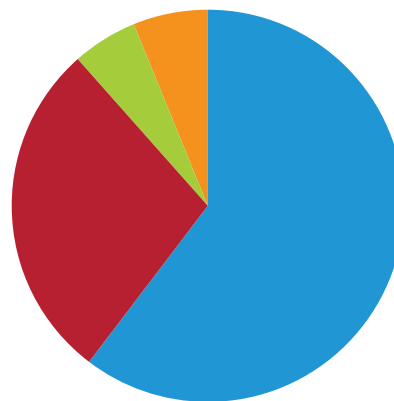
<sup>3</sup> Source: Stats Wales website

## Declared ethnic grouping



- White
- Other ethnic group
- No reply

## Declared religion and belief



- Christian (all denominations)
- No religion
- Other religion
- Do not wish to declare/no reply

## Equality, diversity and dignity at work

The Auditor General aims to promote equal opportunities and human rights, both as an employer and through his statutory functions. He seeks not only to fulfil relevant statutory obligations, but also to encourage good practice so that current and potential employees are treated positively and consistently.

Similarly, the Auditor General fully supports the right of all people to be treated with dignity and respect at work, and is committed to providing a work environment that values the diversity of all people (both our own staff and those with whom we come into contact during our work) and is free from all forms of harassment and bullying.

In 2011-12, we established an internal equality interest group consisting of a cross-section of staff with interests in representing the views of persons with protected characteristics. The group has an ongoing role in informing the development and assessment of new and revised office policies and procedures, including our recently published *Strategic Equality Plan*.

## Turnover

Our turnover rate in 2011-12 was broadly equivalent to the median labour turnover rate for those public service organisations that responded to the 2011 CIPD annual resourcing and talent planning survey (8.5 per cent).

Year	2009-10	2010-11	2011-12
Turnover	2.76%	12.36%	8.30%

## Audit trainee and audit technician recruitment

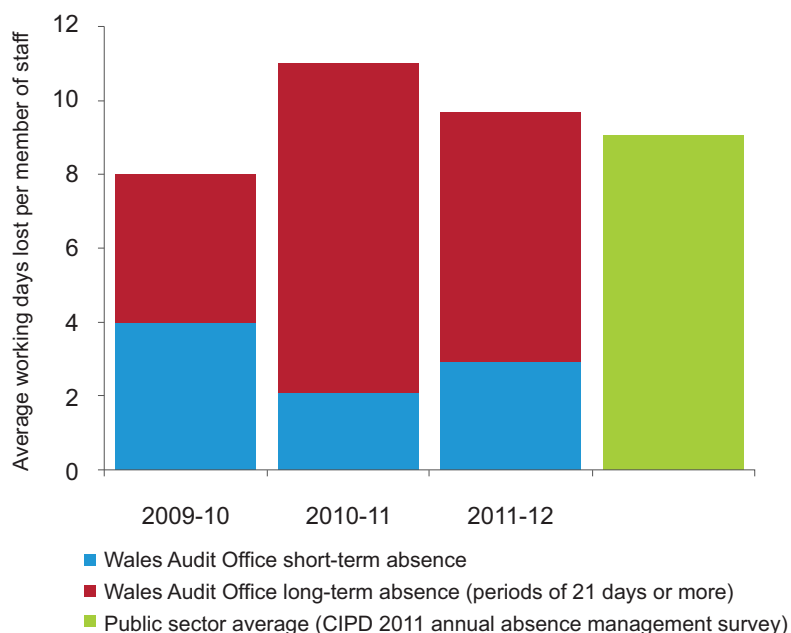
As a professional audit body and accredited training provider with three professional accountancy bodies<sup>4</sup>, the Wales Audit Office is committed to a rolling programme of trainee and technician recruitment.

We appointed six audit trainees and three audit technicians in October 2011, and have recently recruited a further three trainees and four technicians who are due to commence their training contracts in September 2012. Through our annual recruitment campaigns we aim to attract the highest possible calibre of candidate.

Trainees and technicians undertake work experience whilst studying for a recognised professional accounting qualification. During their training, they spend time working with various audit teams within the financial audit and performance audit streams of the Wales Audit Office, making a key contribution to our overall success.

## Absence and attendance management

There was a 12 per cent reduction in the average working days lost per member of staff during 2011-12 with the most significant improvement in the number of days lost through periods of long-term absence (24 per cent).



This reduction was achieved in part through adopting a more structured and proactive approach to sickness absence management, including through early occupational health intervention, supporting staff more effectively during difficult periods of ill health, the use of return-to-work interviews and phased return programmes, and providing line managers with more detailed information, training and support in managing sickness absence.

<sup>4</sup> The Institute of Chartered Accountants in England and Wales (ICAEW), the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Association of Chartered Certified Accountants (ACCA).

## Well-being

During 2011-12, we participated in a variety of national well-being and health promotion campaigns to encourage a healthy lifestyle and a good work-life balance amongst our staff.

An employee assistance programme is also available, which provides staff and family members with free professional advice and emotional support via telephone counselling 24 hours a day, seven days a week, as well as access to specialist advisers.

## Learning and development

Last year we continued to deliver a comprehensive programme of ongoing learning and development activity to support our staff in the delivery of their work. Some of the training was designed and delivered in-house, but where appropriate and cost-effective, external training support was sourced to deliver training to our bespoke requirements and usually on our premises.

We launched the second phase of our *Ignite* leadership and management development programme in March 2012. The programme focuses on achieving results through effectively managing and motivating teams, and combines classroom activity with case study fieldwork.

The Wales Audit Office also continued to actively encourage and support applications from staff to participate in the Public Service Management Wales annual summer schools.

In 2011 we established an internal staff group to review our current performance appraisal system and to highlight areas for improvement. Following research and discussions with a sample of high-performing private, public and third sector organisations, the group has proposed a number of improvements to our system, and work is underway to roll out a revised performance appraisal system for the 2012-13 financial year.

## Employee engagement

The Wales Audit Office recognises the importance and benefits of effective employee engagement.

In early 2012 we undertook a staff survey using the same methods we had used in 2010. The approach included requesting narrative and self-interpretation from participants. This has proved to be a powerful tool in allowing us to identify the key issues staff have identified and take a measure of how they feel about working for the Wales Audit Office. More importantly, it helps point towards improvement priorities and provides insight into how these might be delivered.

A number of 'cultural change' issues have arisen out of the 2012 survey, particularly in relation to employee engagement and empowerment, alongside a need to review the effectiveness of some key business processes.

Work is now in hand to address these issues, drawing upon external support.

We have also been working with representatives of the Welsh Government to help establish an Employee Engagement Movement across Wales, as part of our contribution to sharing knowledge and expertise. We recently hosted an event which included representatives from a number of organisations which have been recognised for their excellence in employee engagement.

No disclosures were received under our internal Whistle-blower's Charter during 2011-12, which sets out the arrangements for Wales Audit Office employees to raise concerns about conduct or wrongdoing.

# SUSTAINABLE DEVELOPMENT



Sustainable development is about meeting the needs of the present without compromising the ability of future generations to meet their own needs. We are committed to embedding sustainable development in all of our audit work, and also in the way we ourselves work as an organisation.

Over the past year, we have worked hard to further embed sustainable development in the way we run our business in a wide range of ways.

## Reducing our impact on the environment

In 2011-12, we achieved re-accreditation at Level 3 of the Groundwork Wales Green Dragon Environmental Standard at all of our primary offices, in recognition of our environmental management system and procedures. In 2012-13 we aim to progress to Level 4 of the Standard.

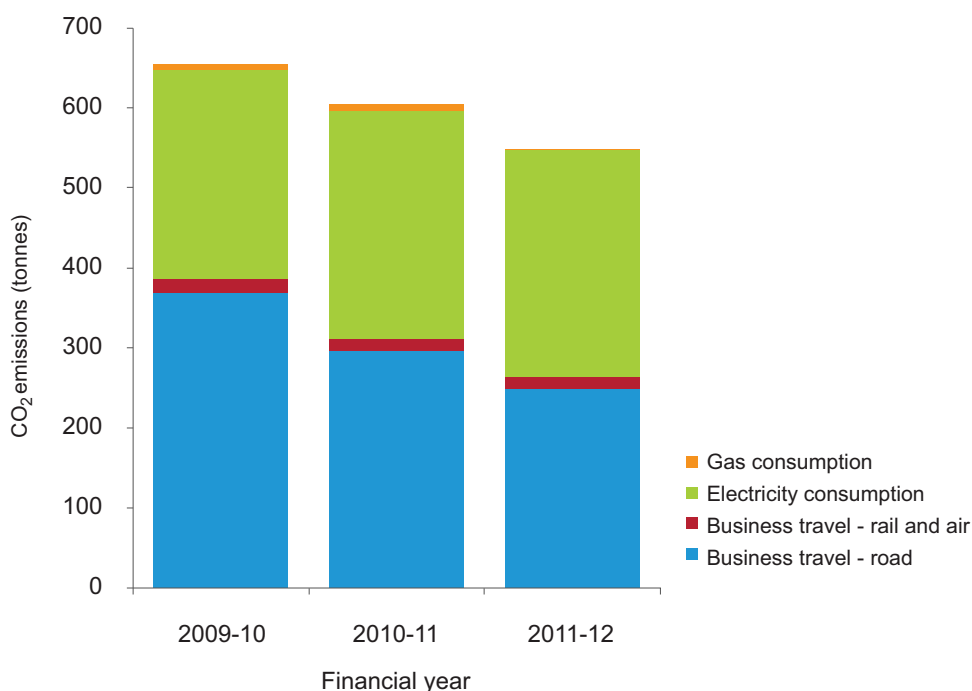
In 2011-12 we made significant progress in reducing our environmental impact:

- We invested in new video conferencing equipment and successfully rolled out desktop conferencing software. Our use of video (including desktop) conferencing for the year subsequently increased by a further 42 per cent (following on from a 67 per cent increase in 2010-11).

- We reduced our car journeys by 114,467 miles; equivalent to a 15.9 per cent reduction in CO<sub>2</sub> emissions in one year, and nearly a one-third reduction since 2009-10.
- We reduced our gas and electricity use by an amount equivalent to a reduction of 8,807 kg in CO<sub>2</sub> emissions or three per cent.
- We reduced our annual production of waste by 22 per cent, and by nearly a third since 2009-10. In tandem, last year we reduced the proportion of our waste sent to landfill by nearly five per cent.
- Whilst our consumption of paper increased slightly on the previous year, it remains significantly below 2009-10 levels (17.3 per cent). All the paper we purchase is recycled stock.

We also appointed a number of staff environmental 'champions' to help drive forward environmental and sustainability initiatives, and have produced an internal newsletter promoting sustainability measures.

## Greenhouse gas emissions



## Sustainability report

Year	2011-12	2010-11	2009-10	Variance between 2010-11 and 2011-12	Variance between 2009-10 and 2011-12
<b>Water consumption</b>					
Water consumption (m <sup>3</sup> )	1,643 <sup>5</sup>	1,606	2,142	2.3%	-23.3%
Water supply costs (£)	2,703	2,365	4,408	14.3%	-38.7%
<b>Paper consumption</b>					
Paper consumption (reams)	2,465	2,445	2,980	0.8%	-17.3%
Paper supply costs (£)	5,989	5,627	5,687	6.4%	5.3%
<b>Waste</b>					
Total non-hazardous waste (kg)	108,387	139,207	160,670	-22.1%	-32.5%
Recycled paper and cardboard	13,455	15,820	22,800	-14.9%	-41.0%
Recycled cans, glass, plastics	21,170	22,792	23,372	-7.1%	-9.4%
Reusables eg. mobile phones	84	1,385	16	-93.9%	425.0%
Landfill	73,678	99,210	114,482	-25.7%	-35.6%
Landfill (% of total waste)	68.0	71.3	71.3	-4.6%	-4.6%
Hazardous waste (kg)	0	0	0	0.0%	0.0%
Total disposal costs (£)	9,447	13,934	10,730	-32.2%	-12.0%
<b>Greenhouse gas emissions</b>					
Total CO <sub>2</sub> emissions (kg)	548,810	604,394	654,869	-9.2%	-16.2%
Attributable to business travel	264,562	311,339	386,104	-15.0%	-31.5%
By car	249,184	296,179	367,269	-15.9%	-32.2%
By rail and air	15,378	15,160	18,835	1.4%	-18.4%
Attributable to energy consumption	284,248	293,055	268,765	-3.0%	5.8%
Electricity	283,534	285,388	260,558	-0.6%	8.8%
Gas	714	7,667	8,207	-90.7%	-91.3%
Total expenditure on business travel (£)	213,394	223,606	292,743	-4.6%	-27.1%
Total energy expenditure (£)	56,828	52,011	40,729	9.3%	39.5%

<sup>5</sup> Estimate due to billing period

## Efficiency and savings

Public sector bodies are required to demonstrate efficiency and value for money, and the Wales Audit Office is no exception. We are committed to leading by example and to ongoing review and challenge of our expenditure and working practices to ensure we deliver our work efficiently and cost-effectively.

The overall level of savings that we achieved in our budget in 2011-12 through cost reduction and greater efficiency is £1 million (see Financial Review section for further information).

## Efficiency of our estate

This year we undertook an assessment of the efficiency of our estate in line with Cabinet Office guidance. Performance indicators are provided at three separate levels. The higher level indicator calculates the overall efficiency expressed as the cost per Whole Time Equivalent (WTE) employee. Each subsequent level provides detail as to the composition of the preceding level.

We are currently around five per cent less efficient than the Welsh Government<sup>6</sup> overall in our use of estate, but 20 per cent more efficient than the UK Government<sup>7</sup>. We will look to make further improvements in this area, particularly in our cost efficiencies over the next few years.

Overall efficiency (cost per WTE) £3,667	Cost efficiency (cost per m <sup>2</sup> ) £260	Rent per m <sup>2</sup> £132
		Rates per m <sup>2</sup> £57
		Other costs <sup>8</sup> per m <sup>2</sup> £71
	Space efficiency (area per WTE) 13.4 m <sup>2</sup>	Area per workstation 14.1 m <sup>2</sup>
		Workstations per WTE 0.95

<sup>6</sup> As per the Welsh Government report *State of the Estate 1 April 2010 to 31 March 2011*.

<sup>7</sup> As per the HM Government report *The State of the Estate in 2011*.

<sup>8</sup> Including service charges and the costs of internal repair and maintenance, security, cleaning, energy, water and sewerage.



The Wales Audit Office Race for Life team

## Community and charity work

The Wales Audit Office recognises the benefits that community and charity work by staff can bring to the wider community and applauds its staff for their individual efforts. Staff can apply the skills they have developed in the workplace and can develop new skills, whilst improving their morale, physical health and work-life balance.

Subject to operational requirements we support employees who wish to undertake community or charity activities such as community care work, environment work and conservation projects, fundraising for community projects and charities, and the administration of public events. Staff are also able to participate in a 'give as you earn' scheme.

In 2011-12 our staff held a number of internal events to raise cash for charity, including in memory of a colleague who sadly lost a battle with cancer.



## Working with the third sector

*Ignite*, our leadership development programme, includes a live case study exercise, working with a charity or other third sector organisation. The case study typically includes intensive service review and solving particular challenges.

In March 2012, our *Ignite* participants worked with Business in the Community, a business-led charity that focuses on promoting responsible business practice, and works with companies to connect them with the local community to tackle social and environmental issues.

In addition, in early 2012, we contacted a range of third sector bodies that represent people with protected characteristics and sought their views on our draft equality objectives and *Strategic Equality Plan*.

'The *Ignite* programme provided an intense and focused assessment of a potential new model for delivery of Business in the Communities services. In leading up to the week of the analysis and feedback, the Wales Audit Office were thorough and professional and gave an excellent overview of how the programme would be delivered and what would be expected of the team.

During participation, we benefited from a strong team providing focused attention on a specific issue and effectively seeking accurate input and feedback from our agreed targeted stakeholders. Upon completion of the report and the presentation of findings, we found the analysis incisive, astute and relevant providing fresh thinking to how we take things forward.'

Feedback quote from the Wales Director of Business in the Community



Publishing and Communications team  
Jo Perfect, Llio Rhys, Sarah Cosgrove, Rhian Power,  
Michael Jones, Ben Parker and Keiren David

# OPENNESS AND TRANSPARENCY

We are committed to demonstrating openness and transparency in the way we operate as a business and how we communicate with the public.

The Auditor General has adopted the Model Publication Scheme prepared and approved by the Information Commissioner. The Scheme commits us to making certain information routinely available to the public – for further information please see our website.

In the 2011-12 financial year, we received 47 requests for information. We processed 91 per cent of these requests within the statutory deadline. We received one request for internal review, which we concluded in 17 working days. We were not subject to any reviews in 2011-12 by the Information Commissioner.

# FINANCIAL REVIEW



# FINANCIAL OUTCOME

The work of the Wales Audit Office is funded from a variety of sources, including financing from the Welsh Consolidated Fund (WCF), audit fees earned from audited bodies and contributions from contractor firms.

The financial results of the Wales Audit Office for 2011-12 are summarised as follows:

	<b>2011-12</b>	<b>2010-11</b>
	<b>£'000</b>	<b>£'000</b>
<b>Income and resources</b>		
Audit and inspection fees: Local government	13,213	13,391
NHS	4,029	4,181
Central government	1,669	1,604
WCF*	5,403	5,047
Other income	27	258
<b>Total income</b>	<b>24,341</b>	<b>24,481</b>
<b>Expenditure</b>		
Staff costs	14,855	16,086
Bought-in services	3,507	3,379
Other operating costs	5,354	2,993
Corporation tax	(23)	13
<b>Total expenditure</b>	<b>23,693</b>	<b>22,471</b>
Surplus generated in year	648	2,010
Prior-year adjustments	0	(1,336)
Payable to the WCF	(1,945)	(629)
Difference between WCF resource and cash	(100)	0
General fund balance brought forward	162	117
General fund balance carried forward	(1,235)	162

\* Includes £550,000 which was used to only fund spending of £96,000 under the voluntary exit scheme.

The overall surplus generated in the year can be identified from the accounts as follows:

	<b>2011-12</b>	<b>2010-11</b>
	<b>£'000</b>	<b>£'000</b>
Financing from the WCF	5,403	5,047
Statement of Comprehensive Net Expenditure	(4,755)	(3,037)
Net surplus generated in year	648	2,010
Prior year adjustment	0	(1,336)
Net surplus after prior year adjustment	648	674

The main sources of funding during 2011-12 are shown in the following chart. Further information on our income can be found in Notes 2 and 3 to the accounts.

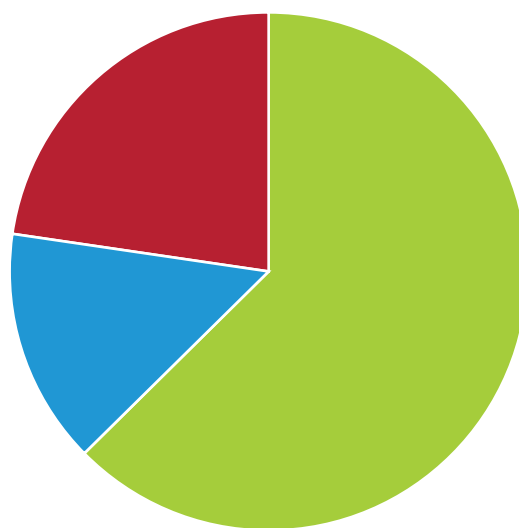
The Wales Audit Office uses these funds to pay our staff and to provide the necessary support to enable those staff to undertake their work. The main areas of expenditure in the year are shown in the following chart. Further information on our expenditure can be found in Notes 4, 6 and 7 to the accounts.

Funding



- Local government audit
- Local government grant certification
- NHS audit
- Central government audit
- LG performance
- NHS performance
- Value for money work
- Activities funded by WCF

Expenditure



- Staff costs
- Bought-in services
- Other operating costs

## Commentary on reported results

Against total income of some £24.3 million for 2011-12, we generated a net operating surplus of £648,000 or 2.7 per cent (after setting aside funds of £2,605,000 for potential tax liabilities (as disclosed in Note 15) (2010-11: against total income of £24.5 million we generated a net operating surplus of £2,010,000 which was largely used to fund prior year adjustments of £1,336,000).

A number of factors have allowed us to generate this level of surplus in the year, including:

- A reduction in normal annual operating expenditure of £1.0 million, arising from a programme of active cost management and changes in Wales Audit Office working practices.
- Increases to income streams of £1.4 million arising from additional work that we were required or commissioned to undertake during the year.
- An underspend of £0.45 million against the 2011-12 Supplementary Budget Motion approval of £0.55 million to fund the voluntary exit scheme. The uptake of this scheme was lower than expected. As a consequence, the scheme cost £0.35 million, of which £0.25 million was funded from existing Wales Audit Office resources (as set out in our supplementary estimate) and therefore only £0.1 million of the supplementary estimate was needed to fund this scheme. The unspent element of the supplementary estimate reverts to the WCF, rather than being retained by the Wales Audit Office.

We have reported in previous years' annual reports and estimates that discussions with Her Majesty's Revenue and Customs (HMRC) have been ongoing for a number of years regarding the Auditor General's VAT status. In addition, in the past year we have identified some concerns about the tax status of travel expenses paid to some groups of employees. We are also in discussion with HMRC regarding this issue.

Based on external professional advice, we have included a provision of £2.6 million in the accounts in respect of these potential tax liabilities.

We have previously indicated that we would probably need either to obtain further funding from the WCF or else to increase our audit fees to meet any significant liability that might arise in respect of the Auditor General's VAT status. However, through the successful management of our finances, we have been able to absorb this liability without the need to seek any additional resource.

The financial statements have been prepared on a going concern basis as, although the Statement of Financial Position shows a net deficit of £1,235,000 at 31 March 2012 (£162,000 at 31 March 2011), we are satisfied that we will have sufficient funds to meet our liabilities as they fall due.

## Accountability to the National Assembly

As reported in the Summary of Resource Out-turn, a cash sum of £1.945 million is payable to the WCF.

## Our financial management

During 2011-12, we enhanced our financial management arrangements by improving the alignment of budget management and operational responsibilities, as well as improving the management information provided to budgetholders. We plan to continue to develop our financial management arrangements through:

- providing further guidance and training to staff;
- developing arrangements to improve our cash flow forecasting;
- greater co-ordination of financial and business planning across the Wales Audit Office;
- further improvements in our management information; and
- increasing our short-term capacity to support the delivery of these improved financial management arrangements.

We are also currently developing a medium-term financial strategy which will support us in our planning through to 2016.

## Risk and uncertainties

The public sector continues to face unprecedented challenges to the scale, scope and financing of its operations. We are responding to these challenges through seeking continued savings and efficiencies to contain our audit fees and demands on the WCF as far as possible. Through our ongoing workforce planning, we are seeking to ensure that we have the right number of staff with the right skills to undertake high-quality work in an efficient manner. We will consider further voluntary exit schemes where these can support us in achieving this objective.

As explained above, we have included provisions in the accounts for potential historical VAT and PAYE liabilities. These liabilities have been calculated in accordance with independent professional advice provided to the Wales Audit Office. We remain in discussions with HMRC regarding these issues and so we are not currently able to conclude with certainty as to whether these liabilities will crystallise, and if they do, whether they will do so at the level of provision included in the accounts.

## Prompt payment of suppliers

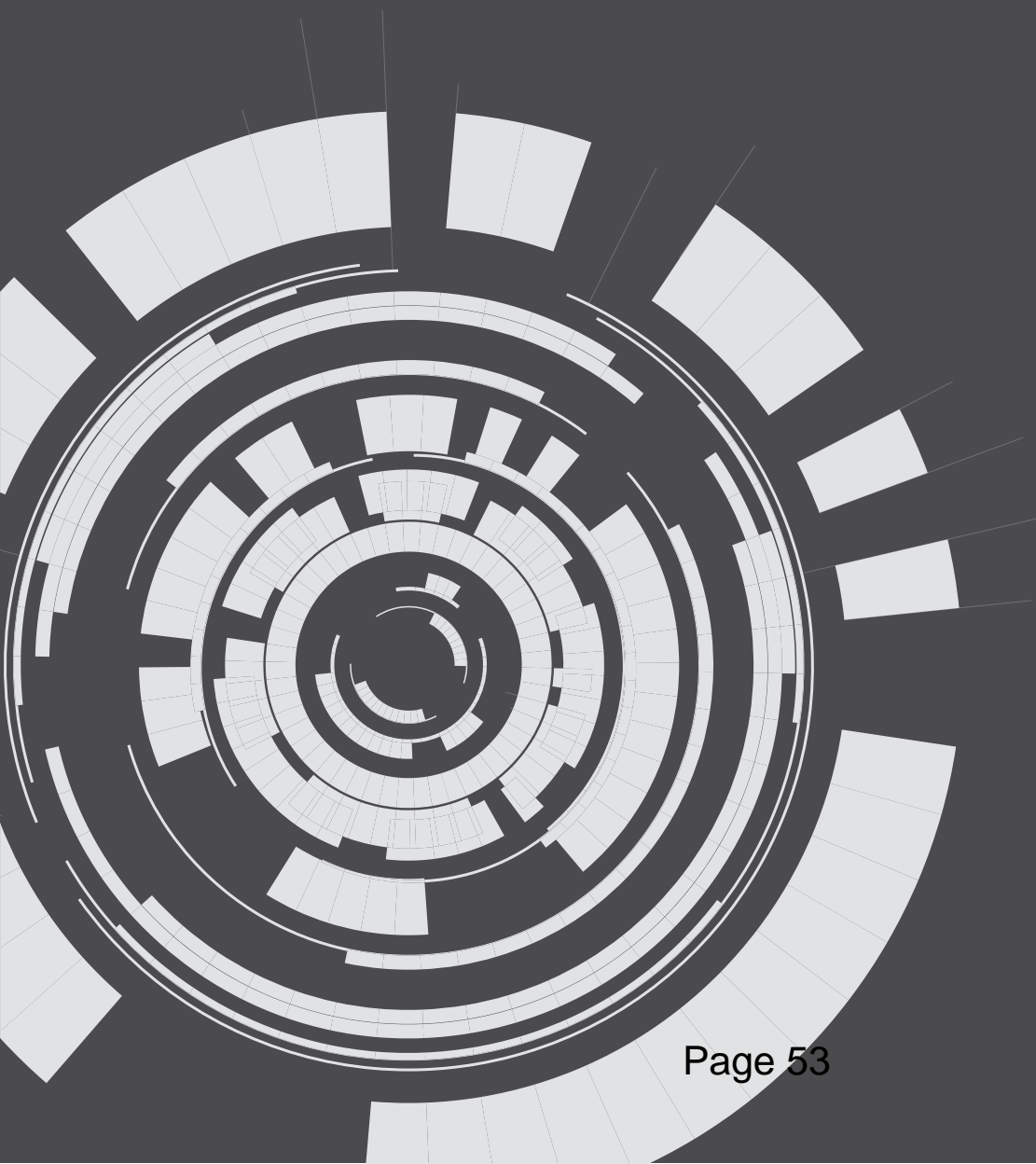
The Auditor General observes the principles of the Better Payment Practice Code and is committed to paying all undisputed invoices from suppliers within 30 days. In the 12-month period to 31 March 2012, 97.8 per cent of undisputed invoices were paid within 30 days (2010-11: 96.1 per cent).

## Auditors of the Wales Audit Office

The National Assembly appointed RSM Tenon as the external auditor of the accounts of the Auditor General for a three-year period commencing 2011-12.

All relevant audit information has been made available to the external auditors. The Auditor General has taken steps to make himself aware of any relevant audit information and has ensured that the external auditors were aware of that information.

# STATEMENTS OF ACCOUNTS



# REMUNERATION REPORT

## REMUNERATION POLICY

### Auditor General for Wales

The Auditor General's remuneration is determined by the National Assembly, and in accordance with the Government of Wales Act 2006 is met from the Welsh Consolidated Fund (WCF). However, for enhanced transparency the remuneration of the Auditor General is disclosed in this Remuneration Report.

### Committee members

The remuneration of the non-executive members of the Audit and Risk Management Committee (ARMC), Remuneration Committee and the Resources Committee is determined by the Auditor General.

### Wales Audit Office staff

The Auditor General is permitted by legislation to appoint such staff as he considers necessary for assisting him in the discharge of his duties. The remuneration of members of the Executive Committee is determined by the Auditor General. The remuneration terms for other staff of the Wales Audit Office are set by the Wales Audit Office's Executive Committee. Remuneration of all members of staff is subject to consultation with trade unions under a collective agreement.

### The Auditor General's governance committee framework

The Auditor General, as the Accounting Officer for the Wales Audit Office, has established a non-executive led governance committee framework comprising a Shadow Board (the Board) to support and advise him in providing leadership and strategic direction in the Wales Audit Office. The Board advises the Auditor General as it thinks appropriate in the exercise of his functions and monitors the implementation of actions in respect of those functions. The Board met for the first time on 23 March 2012.

The Auditor General had previously established three governance committees covering Audit and Risk Management, Resources, and Remuneration which are regarded as sub-committees of the Board and each of those committees operates within its own terms of reference.

## Audit and Risk Management Committee

The ARMC provides objective and impartial counsel to the Auditor General in the discharge of his responsibilities for the proper management of risk, control and governance and the provision of associated assurance within the Wales Audit Office.

## Remuneration Committee

The Remuneration Committee provides objective and impartial counsel to the Auditor General in the discharge of his responsibilities for issues relating to the remuneration of Wales Audit Office staff. The Committee was established in July 2011 with the first formal meeting held in October 2011.

## Resources Committee

The Resources Committee provides objective and impartial counsel to the Auditor General in discharging his responsibilities in respect of resource management within the Wales Audit Office. The Committee was established in July 2011 with the first formal meeting held in October 2011.

# REMUNERATION DETAILS

## Auditor General for Wales

The Auditor General's salary costs are a direct charge on the WCF and are not therefore paid through the Wales Audit Office. The current Auditor General, Mr Huw Vaughan Thomas, was appointed by Her Majesty the Queen and took office on 1 October 2010 for a non-renewable period of eight years. Ms Gillian Body served as Auditor General between 12 February 2010 and 30 September 2010.

Gross salary cost of the Auditor General during 2011-12 was £150,000 (2010-11: £142,850 - Mr Huw Vaughan Thomas: £75,000 and Ms Gillian Body: £67,850) and employers' pension cost was £20,700 (2010-11: £27,838 - Mr Huw Vaughan Thomas: £11,350 and Ms Gillian Body: £16,488).

Mr Huw Vaughan Thomas has opted to contribute to a partnership pension account (a form of personal stakeholder pension to which an employer contributes). Total contributions to this account during 2011-12 were £22,425 (including employer contributions of £20,700 and member contributions of £1,725) (2010-11: £12,833 ie. employer contributions of £11,350 and member contributions of £1,483).

The following information in the Remuneration Report is subject to audit.

## Senior management

The Executive Committee is chaired by the Auditor General and additionally during 2011-12 comprised:

	<b>Date of appointment to Wales Audit Office or precursor organisation</b>	<b>Date of appointment to post</b>	<b>Date of termination</b>	<b>Contract</b>
<b>Gillian Body<sup>1</sup></b>	02/09/1981	01/12/2009	N/A	Permanent
<b>Anthony Barrett</b>	24/01/2001	01/12/2009	N/A	Permanent
<b>Kevin Thomas</b>	26/10/1992	01/12/2009	N/A	Permanent

<sup>1</sup> Ms Gillian Body served as Auditor General between 12 February 2010 and 30 September 2010.

Each member of the Executive Committee is subject to a performance review which is conducted on a half-yearly basis. The notice period for each member is 12 weeks. Early termination, other than through misconduct, would result in the individual receiving compensation on loss of office.

## Senior managers' remuneration details

The following table sets out remuneration information in relation to members of the Executive Committee, other than the Auditor General.

	Year to 31 March 2012				Year to 31 March 2011 Restated			
	Salary	Benefits in kind (being leased cars, expenses and fuel scale charge)	Total	Pension contribution	Salary	Benefits in kind (being leased cars, expenses and fuel scale charge)	Total	Pension contribution
	Bands of £5,000	To nearest £100	Bands of £5,000	Bands of £2,500	Bands of £5,000	To nearest £100	Bands of £5,000	Bands of £2,500
<b>Gillian Body</b>	115-120	0	115-120	27.5-30.0	55-60	0	55-60	12.5-15.0
<b>Anthony Barrett</b>	110-115	18,900	130-135	27.5-30.0	110-115	20,100	130-135	27.5-30.0
<b>Kevin Thomas</b>	95-100	21,600	120-125	22.5-25.0	95-100	23,500	120-125	22.5-25.0
<b>Band of highest-paid director's total remuneration (£'000)</b>	130-135						130-135	
<b>Median total (£)</b>	42,612						42,400	
<b>Remuneration ratio</b>	3.109						3.125	
<b>Auditor General total remuneration (£'000)</b>	150						150	
<b>Median total (£)</b>	42,612						42,400	
<b>Remuneration ratio</b>	3.52						3.54	

As disclosed in Note 15 and 19, the accounts include a provision and contingent liability for a potential PAYE settlement with Her Majesty's Revenue and Customs (HMRC) in respect of the Wales Audit Office not operating PAYE over certain expense payments made to some groups of staff. The provision includes taxation and National Insurance contributions in respect of expenses paid to Kevin Thomas and Anthony Barrett and the grossed up value of the fuel scale benefit charge. The Wales Audit Office is meeting the tax liabilities in respect of the additional benefits arising as a result of the PAYE review.

Prior year figures have been restated to include expenses and fuel scale charges where relevant.

No bonuses were paid to any members of staff.

## Senior management pension details

	Real increase in pension at 60	Real increase in lump sum	Pension at 31 March 2012	Lump sum at 31 March 2012	Total accrued pension at 31 March 2011	Increase in transfer value	CETV at 31 March 2012	CETV at 31 March 2011
	Bands of £2,500	Bands of £2,500	Bands of £5,000	Bands of £5,000	Bands of £5,000	£000's	£000's	£000's
<b>Gillian Body</b>	0-2.5	0-2.5	50-55	160-165	40-45	0	981	922
<b>Anthony Barrett</b>	0-2.5	-	25-30	-	25-30	1	383	338
<b>Kevin Thomas</b>	0-2.5	-	35-40	-	30-35	11	461	413

The actuarial factors used to calculate Cash Equivalent Transfer Values (CETVs) were changed during 2011-12. The CETVs at 31 March 2011 and 31 March 2012 have both been calculated using the new factors, for consistency. The CETV figures at 31 March 2011 differ from the corresponding figures in last year's Remuneration Report, which were calculated using the previous factors.

## Cash equivalent transfer values

The CETV is the actuarially capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. It is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service Pension arrangements and for which the Civil Superannuation Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

## The real increase in the value of cash equivalent transfer values

The real increase in CETV reflects the increase effectively funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

## Committee members

The Committee members' remuneration details are as follows:

	ARMC		Remuneration Committee		Resources Committee		Total	
	2011-12 £	2010-11 £	2011-12 £	2010-11 £	2011-12 £	2010-11 £	2011-12 £	2010-11 £
<b>Peter Laing – Chairman<sup>1</sup></b>	7,250	11,650					7,250	11,650
<b>Professor David Hands<sup>2</sup></b>	3,804	5,000					3,804	5,000
<b>Haydn Warman</b>	5,000	5,000					5,000	5,000
<b>Denver Lynn<sup>3</sup></b>	Nil	Nil					Nil	Nil
<b>Rosamund Blomfield-Smith<sup>4</sup></b>	1,250	5,000	5,083	Nil			6,333	5,000
<b>Michael Heap<sup>5</sup></b>			3,750	Nil			3,750	Nil
<b>Dr Elizabeth Haywood<sup>5</sup></b>			3,750	Nil			3,750	Nil
<b>Canon David Stanton<sup>5</sup></b>			3,750	Nil			3,750	Nil
<b>Dr Michael P Brooker<sup>6</sup></b>	1,250	5,000			5,083	Nil	6,333	5,000
<b>Steven Burnett<sup>5</sup></b>					3,750	Nil	3,750	Nil
<b>Dr Arun Midha<sup>5</sup></b>					3,750	Nil	3,750	Nil
<b>Mary Champion<sup>5</sup></b>					3,750	Nil	3,750	Nil
<b>Total</b>	<b>18,554</b>	<b>31,650</b>	<b>16,333</b>	<b>Nil</b>	<b>16,333</b>	<b>Nil</b>	<b>51,220</b>	<b>31,650</b>

- <sup>1</sup> Mr Laing receives £7,250 as Chair of this Committee. He received additional remuneration during 2010-11 included in the figures above for further work commissioned by the Auditor General.
- <sup>2</sup> Professor Hands withdrew from the Committee on 4 January 2012.
- <sup>3</sup> Mr Lynn is a Director working for the Northern Ireland Audit Office. He received no remuneration from the Wales Audit Office for his membership of this Committee.
- <sup>4</sup> Mrs Blomfield-Smith was a member of the ARMC until July 2011 when she became a member of the Remuneration Committee and was subsequently appointed Chair in August 2011.
- <sup>5</sup> New committee members were appointed on the 1 July 2011.
- <sup>6</sup> Dr Brooker was a member of the ARMC until July 2011 when he became a member of the Resources Committee and was subsequently appointed Chair in August 2011.

Contracts for committee members are initially for two or three years and can be extended for a further term subject to satisfactory performance and/or mutual consent. No committee member may serve for more than seven years. Committee members are able to claim for their travel and expenses in addition to the above fees; the personal tax liability relating to such payments is settled by the Wales Audit Office under a PAYE Settlement Agreement with HMRC.



Huw Vaughan Thomas  
Auditor General for Wales and Accounting Officer  
19 July 2012

# STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

Under paragraph 13(1) of Schedule 8 to the Government of Wales Act 2006, HM Treasury has directed the Auditor General to prepare for each financial year a Statement of Accounts in the form and on the basis set out in the Accounts Direction. A new direction was obtained for the 2010-11 Statement of Accounts and remains in force. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Auditor General and of the income and expenditure, changes in taxpayers' equity and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual (FReM) and in particular to:

- observe the Accounts Direction issued by HM Treasury including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgments and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the FReM have been followed, and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on a going concern basis.

The Auditor General is designated as the Accounting Officer of the Wales Audit Office under paragraph 16(1) of Schedule 8 to the Government of Wales Act. The Auditor General's responsibilities as Accounting Officer, including responsibility for the propriety and regularity of the public finances for which he is answerable; for the keeping of proper accounts; for prudent and economical administration; for the avoidance of waste and extravagance; and for the efficient and effective use of all the available resources are set out in the *Memorandum for the Accounting Officer of the Wales Audit Office* issued on 2 November 2010 by the Public Accounts Committee of the National Assembly under paragraph 16 of Schedule 8 to the Government of Wales Act 2006.

# ANNUAL GOVERNANCE STATEMENT 2011-12

## Scope of responsibility

As the Accounting Officer I am personally responsible for the overall organisation, management and staffing of the Wales Audit Office. I must ensure that the Wales Audit Office has a high standard of financial management and that its financial systems and procedures promote the efficient and economical conduct of business and safeguard financial propriety and regularity.

I must also establish appropriate arrangements to receive formal comments and advice on the quality and operation of the Wales Audit Office's governance arrangements, including via independent external contribution and particularly with regard to matters of risk and control and to my behaviour and that of my staff.

The full scope of my responsibilities is described in the *Memorandum for the Accounting Officer of the Wales Audit Office* issued on 2 November 2010 by the Public Accounts Committee of the National Assembly.

## The purpose of the governance framework

The governance framework is designed to preserve my independence as Auditor General and to balance that independence with my accountability for the public money I spend.

As Auditor General I am the external auditor of, or appoint auditors to, most public bodies in Wales. I also examine how those bodies manage and spend public money, including whether they achieve value in delivering services. In fulfilling this role I am independent of both the National Assembly and of the Welsh Government.

As Accounting Officer I am accountable to the Public Accounts Committee of the National Assembly (and to the House of Commons Committee of Public Accounts). The Public Accounts Committee examines my annual estimate of income and expenses and appoints my external auditor.

The Wales Audit Office is defined by statute as the Auditor General and his staff. It is not a legal entity: all legal powers, rights and duties are vested in the Auditor General. However, I cannot realistically take every business decision and I have established mechanisms to exercise authority on my behalf.

The governance framework comprises the systems, processes, culture and values by which the Wales Audit Office is directed and through which it is accountable for its activities. The framework enables the Wales Audit Office to monitor the achievement of its strategic objectives and to evaluate whether those objectives have led to the delivery of economic, efficient and effective services.

The system of internal control is a significant part of the governance framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives. It therefore provides reasonable rather than absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Wales Audit Office's policies, aims and objectives, to evaluate the likelihood of those risks being realised, the impact should they be realised and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Wales Audit Office for the year ended 31 March 2012 and up to the date of approval of the annual report and accounts and accords with Treasury guidance.

My aim is to manage the business of the Wales Audit Office in a manner that takes account of the risks we face using appropriate control systems. My governance framework is established in internal guidance which is subject to review and is currently being updated to account for my revised arrangements which are continuing to evolve as I prepare the organisation for anticipated legislative change.

## The governance structure

The arrangements I put in place to manage the Wales Audit Office and to secure effective scrutiny of its operations are entirely at my discretion as Auditor General. Shortly after my appointment in 2010, I announced, to the Public Accounts Committee, my intention to establish a new structure encompassing more extensive independent input. In presenting my plans, I endorsed the Independent Commission for Good Governance in Public Services' principles of good governance which are:

- focusing on the organisation's purpose and on outcomes for citizens/service users;
- performing effectively in clearly defined functions and roles;
- developing the capacity and capability of the governing body to be effective;
- taking informed, transparent decisions and managing risk;
- promoting values for the whole organisation and demonstrating good governance through behaviour; and
- engaging stakeholders and making accountability real.

The arrangements now in place are intended to move the Wales Audit Office towards compliance with the government's Code of Good Practice for Corporate Governance insofar as its requirements are relevant and practical given the current legislative framework.

## Executive Committee

For the period covered by this report, my vision and objectives were established in my corporate strategy 2009-12. I have delegated my authority for its delivery to three assistant auditors general. Together we form the Executive Committee which I chair. The Committee is the vehicle through which I make strategic and policy decisions and is responsible for monitoring key strategic risks and for ensuring that they are managed effectively with appropriate mitigating controls in place. The Committee also sets the organisational values that govern the Wales Audit Office's activities and the behaviour of its staff.

In 2011-12 the Executive Committee met on 23 occasions, an average of twice in each calendar month. It received a range of information to support its activities. During the year, the Committee benefited from more timely reporting of project delivery and other information necessary for the effective management of strategic and operational risks.

Towards the end of the year I strengthened the planning and management information function to support, and facilitate co-ordination between, the components of my corporate performance management framework. I expect this new arrangement to generate further efficiencies in the collation and analysis of management information for the Executive Committee and the Shadow Board.

The assistant auditors general are accountable to me for delivering their approved objectives as described in my annual operational plan and for ensuring that effective arrangements are in place to manage the risks in their areas of the business. They each lead a management team of directors or service managers to whom they allocate responsibility for delivering specific projects, tasks and services and for managing risks.

During the year I improved the clarity of reporting lines within the three main business areas – the financial audit practice, the performance audit group and the corporate enabler services – and ensured that budget holder responsibilities are aligned accordingly.

## Governance committees

In 2011-12 my intention to enhance the arrangements for independent non-executive oversight of the Wales Audit Office's operations was fully realised with the introduction of two new governance committees for Remuneration and Resources respectively. They now operate alongside the ARMC which has been in place since 2005.

In combination, these committees provide objective and impartial counsel that helps me to discharge my responsibilities for the proper management of risk, control and governance and the provision of associated assurance within the Wales Audit Office, including in respect of the remuneration of staff and the management of resources.

The chairs of the governance committees each have a right of access, and may report matters of concern, directly to the Chair of the Public Accounts Committee. The Head of Internal Audit and the external auditor each have free and confidential access to the ARMC, including via a private session at each committee meeting.

These enhanced arrangements were my immediate response to the weaknesses inherent in the previous regime and I am continuing to develop them to ensure that the Wales Audit Office is prepared for the legislative changes implied by the draft Public Audit (Wales) Bill.

During 2011-12, I refocused the remit of the ARMC ensuring that it has the capacity to deliver its core functions effectively. The Committee met four times and received a regular throughput of work that allowed it to challenge the Wales Audit Office's control environment and advise me on any necessary improvements. In particular, it considered eight substantive reports prepared by the Head of Internal Audit, including the annual reviews of core financial systems and reviews of IT security, payroll and pensions and financial procedures.

The Committee's input was particularly important in respect of its challenge of my draft 2010-11 Statement of Accounts following the weaknesses identified in previous years in the process of compiling them and in their material misstatement of the Wales Audit Office's financial position between 2005 and 2010. The Committee's detailed review confirmed the much improved arrangements in place to compile the Statement of Accounts, including the introduction of formal internal peer and technical review processes to ensure that they comply with financial reporting and other regulatory requirements.

Also during 2011-12, the Committee's membership reduced from six to four as a consequence of the establishment of the new governance committees. Two members transferred to those committees following an open recruitment process. One further member withdrew from the Committee in January. The process to recruit a replacement has been completed since the end of the financial year.

I completed appointments to the Remuneration and Resources Committees in May 2011 in line with the principles of the Office of the Commissioner for Public Appointments. Members attended two induction sessions – in June and September – and their first meetings in October. The commencement of business midway through the financial year necessarily restricted the committees' ability to offer comprehensive advice across the full range of my responsibilities as Accounting Officer. However, both committees approved their terms of reference and their work programmes into 2013.

The Remuneration Committee met five times, including a special meeting at which it received a briefing from the trades unions representing Wales Audit Office staff. The Committee's advice aided my settlement of pay negotiations with staff representatives for 2012-13 and is informing further work to refine the Wales Audit Office's pay and performance arrangements.

The Resources Committee met twice during the year. It has a varied portfolio of responsibilities and considered the Wales Audit Office's workforce planning model, advised on management's business case for improving HR/payroll systems and reviewed the Wales Audit Office's plans to further improve its ICT disaster recovery arrangements.

## The Shadow Board

Since I established the new governance structure, the Welsh Government has consulted on draft legislation which it believes will strengthen and improve the Wales Audit Office's accountability and governance arrangements. Those proposals incorporate provisions for the establishment of the Wales Audit Office as a corporate body managed by a predominantly non-executive board.

In advance of that consultation I established a Shadow Board designed to prepare the Wales Audit Office for the anticipated outcome of the draft Public Audit (Wales) Bill. The Board advises me on the Wales Audit Office's strategic aims and objectives and on the deployment of financial and other resources to achieve them. The Board, which I chair, comprises the chairs of the three governance committees and the assistant auditors general who sit on my Executive Committee.

Though not yet effected in legislation, I consider the three governance committees to be sub-committees of the Board and arrangements are in hand to ensure that the cycle of business supports effective and efficient decision-making.

The Board met for the first time at the end of March 2012 when it adopted its terms of reference that require it to support and advise me in discharging my responsibilities as Accounting Officer.

The Board also agreed at its first meeting the management information it will receive at each quarterly meeting and the performance appraisal arrangements for non-executive members of the Board and governance committees which I am now implementing.

For the Board and its committees I maintain a register of members' interests that captures information from their declarations of independence collected annually and any additional information during the year from declarations at Board and committee meetings. This ensures that potential conflicts of interest are identified in advance of meetings where practicable and action taken to mitigate them.

The table below shows attendance at Board and committee meetings in 2011-12:

	Executive Committee	Shadow Board	ARMC	Remuneration Committee	Resources Committee
<b>Number of meetings held</b>	23	1	4	5	2
<b>Non-executive directors:</b>					
Dr Arun Midha					2
Professor David Hands <sup>1</sup>			2		
Canon David Stanton				5	
Denver Lynn			4		
Dr Elizabeth Haywood				4	
Haydn Warman			4		
Mary Champion					2
Michael Heap				5	
Dr Michael Brooker <sup>2</sup>		1	2		2
Peter Laing		1	4		
Rosamund Blomfield-Smith <sup>3</sup>		1	1	5	
Steve Burnett					2
<b>Wales Audit Office<sup>4</sup></b>					
Anthony Barrett	22	1	3		
Gillian Body	22	1	3		
Huw Vaughan Thomas	22	1	4	2	2
Kevin Thomas	21	1	3	4	2

<sup>1</sup> Professor Hands withdrew from the Committee on 4 January 2012.

<sup>2</sup> Dr Brooker was a member of the ARMC until July 2011 when he became a member of the Resources Committee and was subsequently appointed chair in August 2011.

<sup>3</sup> Mrs Blomfield-Smith was a member of the ARMC until July 2011 when she became a member of the Remuneration Committee and was subsequently appointed Chair in August 2011.

<sup>4</sup> The Accounting Officer and Wales Audit Office staff are not members of the governance committees. They attend as necessary to brief the committees or to take their advice.

## Capacity to handle risk

The Executive Committee is responsible for managing risk in the Wales Audit Office. The ARMC scrutinises the Wales Audit Office's risk management arrangements.

My aim is to manage the business of the Wales Audit Office in a manner that takes into account the risks we face using appropriate control systems. This objective is embedded in our working methods including defined governance procedures, quality control policies, financial management and the identification and management of risks.

I am continuing to develop and enhance the corporate performance management framework that provides me, my Executive Committee, Board and managers with appropriate and timely management information to allow us to identify and respond to emerging risks.

The public sector faces unprecedented challenges to the scale, scope and financing of its operations over the coming years. To ensure that the Wales Audit Office responds appropriately to these challenges I am developing a new corporate strategy which will drive business planning and help to better define accountabilities within the Wales Audit Office. There has been a necessary delay in completing the strategy as I consider the implications of the draft Public Audit (Wales) Bill for future operations.

## The risk and control framework

Given the nature of our business, we approach areas of professional audit judgment, regularity and propriety and financial management from a low-risk tolerance perspective.

I employ a large number of qualified accountants and other professionally qualified persons who are bound by the ethical requirements of their professional bodies. The Wales Audit Office conforms with International Standards on Auditing. In particular, the International Standard on Quality Control 1 is applied to all our financial audit engagements.

Control over the quality of audits is facilitated through our audit process and the hierarchical supervision provided within individual projects. We also have a system of internal and external reviews. The results of these reviews are reported to the Executive Committee. These controls apply both to work undertaken by staff of the Wales Audit Office and to private sector firms contracted to undertake work for me.

The Executive Committee maintains a corporate risk register which identifies strategic and operational risks that could affect the achievement of the Wales Audit Office's aims and objectives. The Committee is alert to the need to keep these risks under review and to deal appropriately with changing circumstances as they arise. The summary risk register is a standing agenda item at the second committee meeting in each month; the Committee reviews the detailed risk register every quarter, in advance of its consideration by the ARMC and in future the Board.

The Executive Committee engaged positively with, and provided updates and changes to, the corporate risk register throughout the year.

## Statement of information risk

Together with the staff of the Wales Audit Office I have privileged and wide-ranging access to data and information to support the discharge of the audit function and to ensure that my reports are factual, accurate and complete. The Wales Audit Office has a duty to respect this privileged access and to ensure that the personal information entrusted to it is safeguarded properly.

In discharging this duty, the Wales Audit Office has an Information Security Policy which:

- a sets out the obligations of all employees in relation to the use of Wales Audit Office ICT facilities;
- b outlines the legal requirements for processing data;
- c highlights key security responsibilities for staff;
- d sets out the arrangements for routine monitoring to check staff compliance with the law and Wales Audit Office policy;
- e sets out the Wales Audit Office's arrangements to monitor policy compliance; and
- f explains how staff can obtain further support and guidance and how security incidents should be reported.

Failure to comply with this policy may lead to investigation and other action in accordance with the Wales Audit Office's Disciplinary Policy.

There were no personal data related incidents reportable to the Information Commissioner's Office in 2011-12.

## Review of performance and effectiveness

As Accounting Officer I am responsible for reviewing the effectiveness of the system of internal control. My review is informed by the work of the Head of Internal Audit, by Wales Audit Office managers who are responsible for developing and maintaining the internal control framework and by the external auditors through comments in their management letter.

The Head of Internal Audit reports regularly on the management of key business risks and the effectiveness of the Wales Audit Office's system of internal control. Management has accepted his recommendations for improvement and takes action to address them.

As part of their work on the 2010-11 Statement of Accounts, the external auditor reviewed the work of Internal Audit and concluded that it complies with the Government Internal Audit Standard. They also recommended that Internal Audit should produce an improvement plan using the HM Treasury Internal Audit Quality Assessment Framework (IAQAF). In 2011-12, the Head of Internal Audit conducted an IAQAF self-assessment which contributed to the development of an initial improvement plan. From 2012-13, and annually thereafter, the Executive Committee and governance committee members have been invited to assess Internal Audit using the IAQAF. The results will inform the Internal Audit strategy and annual plan and the improvement plan.

Having established my new governance structure I am developing my arrangements for reviewing the effectiveness of the Board and committees and their contribution to the open and accountable transaction of business. I expect to implement these arrangements on an interim basis during 2012-13 pending the passage of the Public Audit (Wales) Bill and the implementation of its provisions.

The work of my executive and governance committees is supported by my private office which delivers a range of activities to provide assurance that the work of the Wales Audit Office is undertaken to appropriate quality standards and that its systems of risk, control and governance are operating effectively.

## Significant issues

In 2011-12 the Head of Internal Audit concluded that, as in previous years, the Wales Audit Office's systems are capable of delivering effective internal control and risk management. However, specific and significant deficiencies in the operation of internal controls were identified which showed that systems were not operating effectively. He concluded that it is vital that the weaknesses identified are quickly and effectively addressed by management.

The internal audit opinion was informed by the following weaknesses:

- a further development and improvement of financial management and management accounts is essential;
- b the Wales Audit Office is at risk of incurring financial penalties for non-compliance with employment tax regulations;
- c policies, procedures and guidance for staff need to be refreshed and generally updated in line with new governance and management structures; and
- d there is scope to improve the system of compliance with procedures governing contracts and procurement.

## Financial management and management accounts

The new management accounts arrangements introduced during the year provide a good foundation to assist the Executive Committee in managing the Wales Audit Office's use of resources, supporting the Auditor General in discharging his responsibilities as Accounting Officer. However, the Head of Internal Audit concluded that further improvements are required to the management accounts and other reports to ensure that accurate, consistent and timely information is available to the Executive Committee.

In 2011-12 I realigned the budgetary control and reporting arrangements to reflect the responsibilities of each of my assistant auditors general. Further work is required to ensure that those arrangements are carried through the rest of the Wales Audit Office and to strengthen the capacity of the Finance team following the departure of the Head of Finance.

In addition, I commissioned the development of a budget handbook that supports these new arrangements and have established a working group, to develop and implement further improvements in line with good practice.

## Employment tax regulations

The nature of the Wales Audit Office's business means that, for reasons of operational efficiency, its staff work at a wide range of locations across Wales. In 2011-12 it became clear that, over time some staff may, for tax assessment purposes, have established permanent places of work at locations other than their normal place of business and that payments for expenses incurred in travelling to those locations should have been subject to tax.

My staff have been working with my independent tax advisors to establish the nature and scope of any breach of the regulations and I have made provision in my accounts to cover the estimated liability they have identified to date. We are currently in discussion with HMRC in order to resolve the matter and to ensure that the Wales Audit Office is compliant with tax regulations.

## Policies, procedures and guidance

The Wales Audit Office had operated a system of matrix management for project and service delivery since its establishment in 2005. This approach blurred the organisation's lines of accountability, leading to some confusion in responsibilities and reporting arrangements.

In 2011-12 I clarified responsibilities and reporting lines within the Wales Audit Office, completing the final element of that process – the restructure of the Performance Audit Group – in the final quarter of the year.

In addition, the evolving nature of my enhanced governance arrangements as I prepare the Wales Audit Office for the prospect of the new corporate structure envisaged in the Public Audit (Wales) Bill means that the policies, procedures and guidance that support operations must be subject to ongoing review and revision.

The policies, procedures and guidance needed to support these governance arrangements are not fully up-to-date. Operational and business plans are in place for a phased process of updating them, including to develop new ones where appropriate during 2012-13.

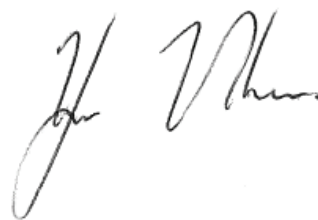
## European Union tendering thresholds

The Head of Internal Audit reported that the Wales Audit Office has in place policies and procedures governing contracts and procurement and responsibilities for checking that the controls established are operating as approved. However, he also reported that there is scope to improve the system of compliance to ensure that the procedures are being followed.

I recognise the need to ensure clarity in procurement procedures and in the allocation of related responsibilities, including appropriate monitoring against OJEU thresholds. I will be ensuring that these matters are covered in standing financial instructions.

## Next steps

I have accepted the findings of the Head of Internal Audit and managers are committed to implementing his specific recommendations during 2012-13. Management is maintaining a database of Internal Audit recommendations against which it is monitoring progress and on which it will be reporting annually to the ARMC. Internal Audit will review management's progress report.



Huw Vaughan Thomas  
Auditor General for Wales  
and Accounting Officer

19 July 2012

# INDEPENDENT AUDITOR'S REPORT TO THE NATIONAL ASSEMBLY FOR WALES

We certify that we have audited the financial statements of the Auditor General for Wales for the year ended 31 March 2012 under the Government of Wales Act 2006. These financial statements comprise the Summary of Resource Outturn, the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Cash Flow Statement, the Statement of Changes in Taxpayers' Equity, and related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2011/12 Government Financial Reporting Manual.

This report is made solely to the parties to whom it is addressed in accordance with the Government of Wales Act 2006 and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the National Assembly for Wales for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of the Auditor General for Wales and the Auditor

As explained more fully in the Statement of the Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We are also responsible for giving an opinion on the regularity of expenditure and receipts.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts, disclosures, and regularity of expenditure and receipts in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Auditor General for Wales' circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view, in accordance with the Government of Wales Act 2006 and the directions made thereunder by the Treasury, of the state of affairs of the Auditor General for Wales at 31 March 2012 and of the net resource outturn, the net cash requirement and the comprehensive net expenditure, changes in reserves and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2011/12 FReM; and
- have been properly prepared in accordance with the Government of Wales Act 2006 and directions made thereunder by the Treasury.

## Opinion on regularity

In our opinion in all material respects, the expenditure and income shown in the financial statements have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform with the authorities that govern them.

## Opinion on other matters

In our opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Government of Wales Act 2006 and directions made thereunder by the Treasury; and
- the information included in the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which we report by exception

We have nothing to report in respect of the following matters where we are required to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- We have not received all the information and explanations we require for our audit; or
- the Governance statement does not comply with relevant Treasury guidance.

## Report

We have no observations to make on these financial statements.

RSM Tenon Audit Limited  
20 July 2012

Registered Auditors  
Vantage  
Victoria Street  
Basingstoke  
Hampshire  
RG21 3BT

# SUMMARY OF RESOURCE OUT-TURN FOR THE YEAR ENDED 31 MARCH 2012

	2011-12						2010-11	
	ESTIMATE			OUT-TURN			Net total out-turn compared with budget	OUT-TURN
	Gross expenditure	Income	NET TOTAL	Gross expenditure	Income	NET TOTAL		
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Revenue	12,857	(8,024)	4,833	12,767	(8,024) <sup>1</sup>	4,743	90	3,907
Capital	20		20	3		3	17	27
Prior period adjustment							0	544
Supplementary	550		550	97		97	453	
<b>TOTAL RESOURCES</b>	<b>13,427</b>	<b>(8,024)</b>	<b>5,403</b>	<b>12,867</b>	<b>(8,024)</b>	<b>4,843</b>	<b>560</b>	<b>4,478</b>
<b>NET CASH REQUIREMENT (see reconciliation below)</b>			<b>5,303</b>			<b>3,358</b>	<b>1,945</b>	<b>4,445</b>

<sup>1</sup> Income of £8,334,000 has been abated by £310,000 to £8,024,000 to align with our estimate. The £310,000 is included in the Net Cash Requirement table below and increases the amount repayable to the WCF.

## Reconciliation of Total Resources to Net Cash Requirement

		2011-12		2010-11
	Estimate £'000	Out-turn £'000	Variances £'000	Out-turn £'000
<b>Total resources (as above)</b>	5,403	4,843	560	4,478
<b>Adjustments:</b>				
Non-cash items (depreciation)	(200)	(121)	(79)	(108)
Movements in working capital other than cash	100	(1,054)	1,154	619
Income in excess of estimate		(310)	310	
Prior year adjustment				(544)
<b>2011-12 cash funding</b>	4,753			
<b>2011-12 supplementary funding<sup>1</sup></b>	550			
<b>Total net cash requirement (as above)</b>	5,303	3,358	1,945	4,445

<sup>1</sup> In the 2010-11 accounts there was a balance payable to the WCF of £629,000. In 2011-12 supplementary funding of £550,000 was agreed which allowed the Wales Audit Office to retain this element of the cash with the remaining balance of £79,000 repaid to the WCF in 2011-12.

The above Summary of Resource Out-turn summarises the Wales Audit Office's achieved position against those elements of the budget of the Wales Audit Office that are subject to approval by budget motion of the National Assembly. Namely, the amount of resources and cash that can be drawn down from the WCF and the amount of income generated from NHS, central government, local government grants work and sundry sources that can be retained.

## Reconciliation of Resource Out-turn to net expenditure

	2011-12 Out-turn	2010-11 Out-turn
<b>Total resources</b>	4,843	4,478
Income in excess of estimate	(310)	
Capital expenditure in excess of estimate		(27)
Non-supply income	(10,604)	(11,521)
Non-supply expenditure	10,826	10,651
Prior period adjustment		(544)
<b>Net expenditure</b>	4,755	3,037

The following table summarises where the figures in the tables above have been derived from the corresponding figures within the Statement of Accounts, and provides a breakdown of how those figures have been apportioned to the Summary of Resource Out-turn.

	Note	Total £'000	Included in Summary of Resource Out-turn £'000	Not included in Summary of Resource Out-turn £'000
Income (fees)	2	17,616	8,307	9,309
Income (grant)	2	1,295		1,295
Other operating income	3	16	16	-
Bank interest		11	11	-
Total income per Statement of Accounts		18,938	8,334	10,604
Less income in excess of estimate		(310)	(310)	-
<b>Total income in Summary of Resource Out-turn</b>		<b>18,628</b>	<b>8,024</b>	<b>10,604</b>
Expenditure	2	23,716	12,890	10,826
Corporation tax		(23)	(23)	
<b>Total expenditure in summary of resource out-turn</b>		<b>23,693</b>	<b>12,867</b>	<b>10,826</b>
Depreciation	7	276	121	155
Movements in working capital	Cash Flow Statement	2,396	1,054	1,342
Capital additions	8 and 9	7	3	4

The movement in working capital in the above table is the net of the movements in receivables (£426,000), payables (£288,000) and provisions (£2,258,000) shown in the Cash Flow Statement.

### **Analysis of income payable to the Consolidated Fund**

As set out above, in the year we received £310,000 income in excess of the £8,024,000 we were permitted to retain.

### **Explanation of variances**

- 1 The net underspends above arise from the savings and efficiencies achieved in the year (as outlined in the Financial Review) including:
  - A reduction in normal operating expenditure of £1.0 million, arising from a programme of active cost management and changes in Wales Audit Office working practices.
  - Increases to income streams of £1.4 million arising from additional work we were required or commissioned to undertake.
  - An underspend of £0.45 million against the supplementary approval received for 2011-12 of £0.55 million to fund the voluntary exit scheme. The uptake of this scheme was lower than expected. As a consequence the scheme cost £0.35 million of which £0.25 million was funded from existing Wales Audit Office resources (as set out in our supplementary estimate) and therefore only £0.1 million of the supplementary estimate was needed to fund this scheme.
  - In the year the Wales Audit Office set aside a provision of £2.6 million for potential tax liabilities which have reduced the surplus accordingly.

### **Summary of cash payable to the Welsh Consolidated Fund**

Arising from the operations of the Wales Audit Office for the 2011-12 financial year, the sum of £1,945,000 is payable to the WCF.

**The notes that follow on pages 80 to 99 form part of these financial statements.**

# STATEMENT OF COMPREHENSIVE NET EXPENDITURE FOR THE YEAR ENDED 31 MARCH 2012

	Note	Year to 31 March 2012 £000	Restated year to 31 March 2011 £000
<b>Expenditure</b>			
Staff and associated costs	4	14,855	15,992
Bought-in services	6	3,507	3,379
Other operating costs	7	5,354	2,993
	2	<u>23,716</u>	<u>22,364</u>
<b>Income</b>			
Audit fee income	2	17,616	17,340
Inspection grant	2	1,295	1,836
Other operating income	3	16	156
		<u>18,927</u>	<u>19,332</u>
<b>Net expenditure</b>		<b>(4,789)</b>	<b>(3,032)</b>
Interest (payable)/receivable		11	8
Corporation tax (payable)/recoverable		23	(13)
<b>Net expenditure after tax and interest</b>		<b>(4,755)</b>	<b>(3,037)</b>
<b>Other comprehensive expenditure</b>		0	0
<b>Total comprehensive net expenditure for the year</b>		<b>(4,755)</b>	<b>(3,037)</b>

The notes that follow on pages 80 to 99 form part of these financial statements.

There were no discontinued operations, acquisitions or disposals during the period nor any unrecognised gains or losses.

The year to 31 March 2011 has been restated to reflect secondment income reducing the staff costs in Note 4 rather than as a separate income stream in Note 3.

# STATEMENT OF FINANCIAL POSITION AT 31 MARCH 2012

	Note	31 March 2012 £000	31 March 2011 £000
<b>Non-current assets</b>			
Property, plant and equipment	8	631	746
Intangible assets	9	218	442
<i>Total non-current assets</i>		<u>849</u>	<u>1,188</u>
<b>Current assets</b>			
Trade receivables and work in progress	10	1,223	1,606
Other receivables	11	522	562
Cash and cash equivalents	12	6,667	4,016
<i>Total current assets</i>		<u>8,412</u>	<u>6,184</u>
<i>Total assets</i>		<u>9,261</u>	<u>7,372</u>
<b>Current liabilities</b>			
Trade payables and other current liabilities	13	2,433	1,671
Deferred income	14	2,279	3,329
Provisions for liabilities and charges	15	3,134	458
WCF (see Summary of Resource Out-turn)		1,945	629
<i>Total current liabilities</i>		<u>9,791</u>	<u>6,087</u>
<i>Total assets less current liabilities</i>		(530)	1,285
<b>Non-current liabilities</b>			
Provisions for liabilities and charges	15	705	1,123
<i>Total non-current liabilities</i>		<u>705</u>	<u>1,123</u>
<i>Assets less liabilities</i>		<u>(1,235)</u>	<u>162</u>
<b>Taxpayers' equity</b>			
General reserve		(1,235)	162
<i>Total reserves</i>		<u>(1,235)</u>	<u>162</u>

The notes that follow on pages 80 to 99 form part of these financial statements.



Huw Vaughan Thomas  
Auditor General for Wales and Accounting Officer  
19 July 2012

# STATEMENT OF CASH FLOWS

## FOR THE YEAR ENDED

### 31 MARCH 2012

	Note	2011-12 £000	2010-11 £000
<b><i>Cash flows from operating activities</i></b>			
Comprehensive net expenditure		(4,755)	(3,037)
Non cash: depreciation	7	276	265
(Increase)/decrease in trade and other receivables	10,11	426	319
Increase/(decrease) in trade and other payables	13,14	(288)	(1,286)
Increase/(decrease) in provisions	15	2,258	(551)
<b>Net cash outflow from operating activities</b>		<u>(2,083)</u>	<u>(4,290)</u>
<b><i>Cash flows from investing activities</i></b>			
Purchases of property, plant and equipment	8	(7)	(5)
Purchases of intangible assets	9	0	(59)
Reclassification to revenue	8	67	
<b>Net cash outflow from investing activities</b>		<u>60</u>	<u>(64)</u>
<b><i>Cash flows from financing activities</i></b>			
Received from the WCF		4,753	5,074
Repaid to the WCF for 2010-11		(79)	
<b>Net financing</b>		<u>4,674</u>	<u>5,074</u>
<b>Movements in cash and cash equivalents</b>	12	<u>2,651</u>	<u>720</u>

In the 2010-11 accounts there was a balance payable to the WCF of £629,000. In 2011-12 supplementary funding of £550,000 was agreed which allowed the Wales Audit Office to retain this element of the cash with the remaining balance of £79,000 surrendered to the WCF in 2011-12.

**The notes that follow on pages 80 to 99 form part of these financial statements.**

# STATEMENT OF CHANGES IN TAXPAYERS' EQUITY FOR THE YEAR ENDED 31 MARCH 2012

	£000
<b>Balance at 31 March 2010</b>	(1,246)
<b>Changes in taxpayers' equity in 2010-11</b>	
Total comprehensive expenditure	(3,037)
WCF finance	5,074
Payable to the WCF	(629)
<b>Balance at 31 March 2011</b>	<u>162</u>
<b>Changes in taxpayers' equity in 2011-12</b>	
Total comprehensive expenditure	(4,755)
WCF finance	5,303
	<u>710</u>
Payable to the WCF <sup>1</sup>	(1,945)
<b>Closing balance at 31 March 2012</b>	<u>(1,235)</u>

<sup>1</sup> As reported in the Summary of Resource Out-turn for the year ended 31 March 2012.

The notes that follow on pages 80 to 99 form part of these financial statements.

# NOTE 1: ACCOUNTING CONVENTIONS AND POLICIES

## Statement of Accounting Policies

These financial statements have been prepared in accordance with the 2011-12 FReM, issued by the relevant authorities. The financial statements have been prepared on a going concern basis as although the statement of financial position shows a net deficit of £1,235,000 at 31 March 2012 we believe that we will have sufficient funds to meet our liabilities as they fall due. The net deficit has arisen because of the significant provisions that we have been required to make and which may result in an additional cash requirement in future years.

The accounting policies contained in the FReM apply EU-adopted International Financial Reporting Standards as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Auditor General for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Auditor General are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

- (i) The accounts are prepared under the historical cost convention, modified to account for the revaluation of property, plant and equipment and intangible assets where material to their value to the business by reference to their current costs, in a form directed by HM Treasury, under paragraph 13(1) of Schedule 8 of the Government of Wales Act 2006. They are presented in British pounds which is the functional currency of the Wales Audit Office and are rounded to the nearest £1,000.
- (ii) Gross fee income and other operating income are recognised on the value of chargeable work exclusive of VAT.

- (iii) Operating income, whether derived from direct government grant or fees generated from audited bodies, is credited to the year of account in which the work is done. Income received in advance of the work being done is classed as deferred income (see xi). Work done in advance of income received is classed as work in progress (see ix). Funding drawn from the WCF is not direct government grant and is credited directly to taxpayers' equity.
- (iv) Costs incurred on audit work (ie, staff and contractor firm costs) have been directly attributed to the relevant income streams. Other expenditure is charged firstly against unallocated funding from the WCF and then, to the extent that funds are available, attributed to income streams in direct proportion to income levels.
- (v) The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme to which both employee and employer contribute. The Auditor General recognises the expected cost of providing pensions on a systematic and rational basis over the period during which the Wales Audit Office benefits from employees' services by payment to the PCSPS of the amounts calculated on an accruing basis.
- (vi) Operating lease rentals are charged on a straight-line basis over the lease term. Lease incentives received are recognised in the Statement of Comprehensive Net Expenditure as an integral part of the total lease expense. Where the Wales Audit Office enjoys the benefit of rent-free periods in leases, that benefit is credited evenly over the period from the inception of the lease until the first rent review.

(vii) Intangible assets, which are software licences, are stated at amortised historic cost. The assets are amortised on a straight-line basis over the shorter of the term of licence or useful economic life. Amortisation is calculated from the date the intangible asset commences its useful life.

(viii) Depreciation is provided on all property, plant and equipment assets calculated to write off the cost, less estimated residual value, of each asset in equal annual instalments over its expected useful life as follows:

Furniture and fittings	10 years
Computer equipment	3 years
Office equipment	5 years

Under the Auditor General's capitalisation policy, individual and grouped computer equipment and software in excess of £5,000; other equipment in excess of £1,000 and office refurbishments are capitalised. Depreciation is calculated from the date the asset commences its useful life.

(ix) Receivables and work in progress are valued at estimated realisable value. Work in progress relates to amounts due on completed work where the fee is yet to be invoiced or where work done falls into different account periods. This is stated at full cost less provision for foreseeable losses and amounts billed on account. A provision for impairment of trade receivables is established when there is evidence that the Wales Audit Office will not be able to recover all amounts due in accordance with contracts.

(x) A provision for future leasehold property dilapidations is established in the Statement of Financial Position. This is built up through an annual dilapidations charge, calculated by applying an annual dilapidation rate to the floor area of the leased assets.

(xi) Deferred income comprises fee income that has been invoiced but not yet recognised. This is calculated by assessing the percentage completion of projects, recognising that proportion of invoiced fee income as revenue in the period with unrecognised, invoiced income being treated as deferred income.

(xii) The preparation of the financial statements requires various estimates and assumptions to be made that affect the application of accounting policies and reported amounts. All such estimates and judgments are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected.

The most significant areas of estimation and critical judgments are:

- Provisions for redundancies and severances are based on projections of expected future pension payments. In line with accounting standards, the provision is recognised in full in the year that the obligating event occurred, assuming that it is probable that a transfer of economic benefits is required and that this can be reliably estimated.
- Work in progress is valued at the percentage of completion of unbilled work. Deferred income is calculated based on an assessment of project completion, as explained above.
- Tax provisions are based on professional advice received.

(xiii) Events after the Statement of Financial Position date that may require disclosure or adjustment in accordance with the requirements of International Accounting Standard (IAS) 10 are considered up to the date on which the accounts are authorised for issue. This is interpreted as the date on which the Independent Auditor's report is signed.

# NOTE 2: ANALYSIS OF NET EXPENDITURE BY SEGMENT

The income, financing and costs of the Wales Audit Office's activities for 2011-12 are summarised in the following table:

	LG audit	LG grant certification <sup>1</sup>	NHS audit <sup>1</sup>	Central government audit <sup>1</sup>	LG performance	NHS performance <sup>1</sup>	Central government performance <sup>1</sup>	Value for money work funded by the WCF	Other activities funded by the WCF	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Income and financing</b>										
Fees	5,453	2,609	2,343	1,667	3,856	1,686	2			17,616
Grant					1,295					1,295
WCF finance								1,951	3,452	5,403
<b>Total</b>	<b>5,453</b>	<b>2,609</b>	<b>2,343</b>	<b>1,667</b>	<b>5,151</b>	<b>1,686</b>	<b>2</b>	<b>1,951</b>	<b>3,452</b>	<b>24,314</b>
<b>Expenditure</b>	<b>6,088</b>	<b>2,609</b>	<b>2,343</b>	<b>1,667</b>	<b>4,738</b>	<b>1,321</b>	<b>0</b>	<b>1,951</b>	<b>2,999</b>	<b>23,716</b>
	(635)	0	0	0	413	365	2	0	453	598

<sup>1</sup> Income and expenditure of these segments are included in the Summary of Resource Out-turn.

## Reconciliation to Statement of Comprehensive Net Expenditure

	£000
Per above analysis	598
WCF resource	(5,403)
Corporation tax recoverable	23
Interest receivable	11
Other income	16
Per Statement of Comprehensive Net Expenditure	<u>(4,755)</u>

Figures for 2010-11 restated are as follows:

	Local government audit	Local government grant certification	NHS	Central government	Activities funded by the WCF	Total
	£000	£000	£000	£000	£000	£000
<b>Income and financing</b>						
Audit fees	9,685	1,870	4,181	1,604		17,340
Grant	1,836					1,836
WCF finance					5,047	5,047
Total	11,521	1,870	4,181	1,604	5,047	24,223
Expenditure	(10,651)	(1,459)	(3,697)	(1,604)	(5,047)	(22,458)
	870	411	484	0	0	1,765

Figures for 2010-11 have not been restated and so do not agree to the Statement of Comprehensive Net Expenditure. The reason for not restating is that these figures form the basis for the Summary of Resource Outturn and subsequent restatement to the WCF.

#### Reconciliation to Statement of Comprehensive Net Expenditure

	<b>£000</b>
Per above analysis	1,765
WCF resource	(5,047)
Corporation tax	(13)
Interest receivable	8
Other income	250
Per Statement of Comprehensive Net Expenditure	<u>(3,037)</u>

In 2010-11 the presentation of the estimate paper differed and it did not specify how the WCF funding would be allocated. Accordingly for 2010-11 financing from the WCF has not been allocated against specified activities. In addition in the presentation of 2011-12 figures the local government, NHS and central government work has been further divided to show whether it is performance audit or financial audit work to better reflect the current working practices within the Wales Audit Office.

# NOTE 3: OTHER OPERATING INCOME

	Year to 31 March 2012 £000	Restated Year to 31 March 2011 £000
Legal costs reimbursed	0	3
Sundry income	16	153
	<u>16</u>	<u>156</u>

The year to 31 March 2011 has been restated to reflect secondment income reducing the staff costs in Note 4 rather than as a separate income stream in this note.

# NOTE 4: STAFF AND ASSOCIATED COSTS

	Year to 31 March 2012 £000	Restated Year to 31 March 2011 £000
<b>(i) Staff costs</b>		
Staff salaries	10,029	10,702
Non executive committee member fees <sup>1</sup>	51	32
Social security costs	1,243	1,045
Pension costs	2,051	2,135
	<u>13,374</u>	<u>13,914</u>
Car scheme	681	684
Subscriptions and other benefits	33	48
	<u>14,088</u>	<u>14,646</u>
Audit and inspection contractors	728	887
	<u>14,816</u>	<u>15,533</u>
Redundancy, early retirement and severance costs	105	553
Less monies received in respect of outward secondments	(66)	(94)
Net staff costs	<u>14,855</u>	<u>15,992</u>

<sup>1</sup> As cited in the Remuneration Report.

The year to 31 March 2011 has been restated to reflect secondment income reducing the staff costs in Note 4 rather than as a separate income stream in Note 3.

More detailed information in respect of the remuneration and pension entitlements of the senior management is shown in the Remuneration Report on pages 54 to 59.

Wales Audit Office staff are eligible to join the PCSPS. This is an unfunded multi-employer defined benefit scheme but the Wales Audit Office is unable to identify its share of the underlying assets and liabilities. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)).

Employer contribution rates are based on salary levels and contribution rates vary between 16.7 per cent to 24.3 per cent (2010-11: 16.7 per cent to 24.3 per cent). Total employer contributions amounted to £2,047,000 (2010-11: £2,129,000). The scheme's actuary reviews employer contributions every four years following a full scheme revaluation. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. During the year, one employee took advantage of this option (2010-11: one).

	<b>Year to 31 March 2012</b>	<b>Year to 31 March 2011</b>
<b>(ii) Staff numbers</b>		
Average number of full-time-equivalent, UK-based, permanent staff employed during the year	223	228
Audit and inspection contractors (average number of full-time equivalents in year)	17	17

The Wales Audit Office uses a number of temporary audit and inspection contractors at certain times in the year to meet demand for resources at peak times.

# NOTE 5: REDUNDANCIES, EARLY RETIREMENTS AND SEVERANCES

The Wales Audit Office operated voluntary severance schemes during both 2010-11 and 2011-12. These schemes were the result of workforce planning and have resulted in reductions to the staffing cost base of the Wales Audit Office. The cost of the scheme in 2011-12 was £346,673 and is in accordance with Civil Service Compensation Scheme rules and approved by the Cabinet Office. The costs of the scheme in 2011-12 were met in part by means of supplementary funding drawn from the WCF, as approved by the National Assembly.

A number of employees entered into approved exit packages during 2011-12 and 2010-11 as summarised below:

Exit package cost band	2011-12			2010-11		
	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
Less than £10,000					1	1
£10,000 – £25,000		1	1		2	2
£25,000 – £50,000		2	2		5	5
£50,000 – £100,000		2	2		1	1
£100,000 – £150,000		1	1		6	6
£200,000 – £250,000						
£300,000 – £350,000					1	1
£700,000 – £750,000						
Total	0	6	6	0	16	16

Of the six people who were approved for voluntary exit in 2011-12, five had leaving dates in 2012-13. The costs of all six packages are included within the staff costs (Note 4) and the provisions (Note 15).

Early retirement and departure costs have been paid in accordance with Wales Audit Office policy, which has been agreed with recognised trade unions. The additional costs that are not met by the PCSPS are met instead by the Wales Audit Office and are recognised in these financial statements.

## NOTE 6: BOUGHT-IN SERVICES

	Year to 31 March 2012 £000	Year to 31 March 2011 £000
Payments to private accountancy firms	3,393	3,264
Research and other consultancy costs	114	115
	3,507	3,379

These costs relate to services bought in by the Auditor General that directly relate to audit, inspection or research functions.

## NOTE 7: OTHER OPERATING COSTS

	Year to 31 March 2012 £000	Year to 31 March 2011 £000
Accommodation		
- Rent lease costs	376	402
- Other costs	393	369
Supplies and services	3,626 <sup>1</sup>	1,227
Recruitment and transfers	31	33
Depreciation	276	265
Audit fee payable to Audit Scotland	3	25
Audit fee payable to RSM Tenon	23	0
Professional fees	105 <sup>2</sup>	251
Travel and subsistence	408	448
Training	140	226
Increase/(decrease) in provision for bad debts	(27)	(253)
	5,354	2,993

<sup>1</sup> Supplies and services for 2011-12 includes provisions of £2.6 million.

<sup>2</sup> Professional fees represent legal and other professional fees.

# NOTE 8: PROPERTY, PLANT AND EQUIPMENT

	Furniture and fittings	Information technology	Office equipment	Total
	£000	£000	£000	£000
<i>Cost</i>				
At 31 March 2011	920	260	32	1,212
Additions	7	0	0	7
Disposals	(37)	(53)	0	(90)
Reclassified to revenue	(67)	-	-	(67)
Reclassified from intangible assets	0	0	80	80
At 31 March 2012	823	207	112	1,142
<i>Depreciation</i>				
At 31 March 2011	302	140	24	466
Provided in period	104	17	19	140
Disposals	(35)	(53)	0	(88)
Reclassified to revenue	(27)	-	-	(27)
Reclassified from intangible assets	0	0	20	20
At 31 March 2012	344	104	63	511
<i>Net book value</i>				
At 31 March 2012	479	103	49	631
At 31 March 2011	618	120	8	746
<i>Asset financing</i>				
Owned	479	103	49	631

	<b>Furniture and fittings</b>	<b>Information technology</b>	<b>Office equipment</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<i>Cost</i>				
At 31 March 2010	918	884	36	1,838
Additions	7	1	0	8
Disposals	(5)	0	(4)	(9)
Reclassified to intangible assets	0	(625)	0	(625)
At 31 March 2011	920	260	32	1,212
<i>Depreciation</i>				
At 31 March 2010	214	332	24	570
Provided in period	91	142	4	237
Disposals	(3)	(0)	(4)	(7)
Reclassified to intangible assets	0	(334)	0	(334)
At 31 March 2011	302	140	24	466
<i>Net book value</i>				
At 31 March 2011	618	120	8	746
At 31 March 2010	704	552	12	1,268
<i>Asset financing</i>				
Owned	618	120	8	746

In the opinion of the Auditor General, there is no material difference between the net book value of assets at current values and at their historical cost.

# NOTE 9: INTANGIBLE ASSETS

Intangible assets are software licenses.

	<b>Total £000</b>
<i>Cost</i>	
At 31 March 2011	804
Additions	0
Disposals	(9)
Reclassified to office equipment	(80)
At 31 March 2012	<u>715</u>
<i>Amortisation</i>	
At 31 March 2011	362
Provided in period	164
Disposals	(9)
Reclassified to office equipment	(20)
At 31 March 2012	<u>497</u>
<i>Net book value</i>	
At 31 March 2012	<u>218</u>
At 31 March 2011	<u>442</u>

	<b>Total £000</b>
<i>Cost</i>	
At 31 March 2010	120
Additions	59
Reclassified from IT assets	625
At 31 March 2011	<u>804</u>
<i>Amortisation</i>	
At 31 March 2010	0
Provided in period	28
Reclassified from IT assets	334
At 31 March 2011	<u>362</u>
<i>Net book value</i>	
At 31 March 2011	<u>442</u>
At 31 March 2010	<u>120</u>

# NOTE 10: TRADE RECEIVABLES AND WORK IN PROGRESS

	<b>31 March 2012 £000</b>	<b>31 March 2011 £000</b>
<b>Trade receivables</b>		
– Central government	96	91
– Local government	141	495
– NHS	248	402
– External to government	6	0
<b>Work in progress</b>		
– Central government	408	355
– Local government	199	211
– NHS	125	52
	<u>1,223</u>	<u>1,606</u>

A provision for impairment of trade receivables has not been required in 2011-12.

Bad and doubtful debt provisions (these are netted against the appropriate class of debtor in the above analysis):

	<b>31 March 2012 £000</b>	<b>31 March 2011 £000</b>
Opening provision	27	280
Provision made/(released) in the year	(27)	(253)
Closing provision	<u>0</u>	<u>27</u>

# NOTE 11: OTHER RECEIVABLES

	<b>31 March 2012 £000</b>	<b>31 March 2011 £000</b>
Other receivables	46	104
Prepayments and accrued income	474	453
Loans to employees	2	5
	<u>522</u>	<u>562</u>

Amounts falling due after one year included in the above figures:

	<b>31 March 2012 £000</b>	<b>31 March 2011 £000</b>
Included in other debtors:		
– Housing relocation scheme: advances to staff	<u>0</u>	<u>3</u>

The receivables balances in Notes 10 and 11 can be analysed into the following categories:

	<b>31 March 2012 £000</b>	<b>31 March 2011 £000</b>
Central government bodies	583	845
Local government bodies	487	744
NHS bodies	308	456
Balances with bodies external to government	367	123
	<u>1,745</u>	<u>2,168</u>

# NOTE 12: CASH AND CASH EQUIVALENTS

	<b>2011-12</b> <b>£000</b>	<b>2010-11</b> <b>£000</b>
Balance at 1 April	4,016	3,296
Net change in cash and cash equivalents	<u>2,651</u>	<u>720</u>
Balance at 31 March	<u>6,667</u>	<u>4,016</u>

	<b>31 March</b> <b>2012</b> <b>£000</b>	<b>31 March</b> <b>2011</b> <b>£000</b>
Current account	5,672	3,060
Euro account	3	1
Global Sterling Fund	992	955
	<u>6,667</u>	<u>4,016</u>

The Current account includes an overnight interest bearing facility. The Euro account is maintained to simplify occasional overseas transactions.

The Global Sterling Fund is provided by the RBS Group. This fund aims to protect capital balances even in times of financial instability within the financial markets, whilst offering a wholesale money market return. The fund is structured to ensure that the highest credit ratings are maintained, namely AAA rated or equivalent with Standard & Poor, Fitch and Moody rating agencies.

# NOTE 13: TRADE PAYABLES AND OTHER CURRENT LIABILITIES

	<b>31 March 2012 £000</b>	<b>31 March 2011 £000</b>
Trade payables	224	47
VAT	451	330
Taxation and social security costs	360	0
Accrual for holiday entitlement not yet taken	619	696
Other accruals <sup>1</sup>	779	598
	2,433	1,671

<sup>1</sup> The bulk of the other accruals relate to accrual of trade payable invoices received post year-end. Also within the other accruals figure is £54,883 for lease adjustments pertaining to a rent-free period amortised over the five-year life of the lease. A figure of £210,669 for the March pension contributions is included within other accruals for the year-end 31 March 2012; in 2010-11 these contributions were paid prior to year-end.

All trade payables are falling due within one year.

# NOTE 14: DEFERRED INCOME

	<b>31 March 2012 £000</b>	<b>31 March 2011 £000</b>
Deferred income	2,279	3,329
	<u>2,279</u>	<u>3,329</u>

In accordance with accounting standards, we are required to assess the percentage completion of projects and recognise that proportion of expected fee income as revenue in the period. Deferred income represents income that has been billed but not yet recognised.

Deferred income at 31 March 2011 included a sum of £280,000 that has been refunded to audited bodies since that date.

The payable balances in Notes 13 and 14 can be analysed into the following categories:

	<b>31 March 2012 £000</b>	<b>31 March 2011 £000</b>
Central government bodies	1,051	125
Local government bodies	1,482	1,686
NHS bodies	815	1,567
Public corporations	0	0
Balances with bodies external to government	1,364	1,622
	<u>4,712</u>	<u>5,000</u>

# NOTE 15: PROVISIONS FOR LIABILITIES AND CHARGES

	Dilapidations	Early retirement and severance	HMRC	Totals
	£000	£000	£000	£000
<b>31 March 2011</b>	118	1,463	0	1,581
Provided in year	28	225	2,605	2,858
Provisions utilised in year	0	(600)	0	(600)
<b>31 March 2012</b>	146	1,088	2,605	3,839

The Wales Audit Office uses HM Treasury's discount rate of 2.8 per cent in real terms to calculate this balance (2010-11: 1.8 per cent).

Analysis of expected timing:

Not later than one year	32	497	2,605	3,134
Later than one year and not later than five years	17	516		533
Later than five years	97	75		172
<b>Totals</b>	146	1,088	2,605	3,839

The dilapidations provision represents an estimate of the costs the Wales Audit Office may incur in making good its leased properties at the end of the leases. Dilapidations are calculated by applying an annual dilapidation rate to the floor area of the leased asset.

The early retirement and severance provisions represent the future liability of the Wales Audit Office in respect of members of staff who have left under redundancy, early retirement and severance schemes.

The HMRC provision relates to:

- underpayment of PAYE tax and national insurance contributions to contractors who have provided services to the Wales Audit Office during the period 1 April 2005 to 31 March 2012;
- underpayment of PAYE tax and national insurance contributions in respect of expenses paid to some Wales Audit Office staff; and
- an estimated liability following resolution of a longstanding query with the HMRC regarding the Auditor General's VAT status.

# NOTE 16: OPERATING LEASES

There were revenue commitments at 31 March 2012 in respect of non-cancellable car leases which expire:

	<b>31 March 2012 £000</b>	<b>31 March 2011 £000</b>
Within one year	17	51
Within one to five years	373	419
	<hr/> 390 <hr/>	<hr/> 470 <hr/>

There were revenue commitments at 31 March 2012 in respect of office accommodation leases which expire:

	<b>2012 £000</b>	<b>2012 Number of properties</b>	<b>2011 £000</b>	<b>2011 Number of properties</b>
Within one year			0	0
From one to five years	109	1	231	3
Over five years	4,048	2	4,293	1
	<hr/> 4,157 <hr/>	<hr/> 3 <hr/>	<hr/> 4,524 <hr/>	<hr/> 4 <hr/>

Office accommodation leases are subject to periodic rent reviews.

# NOTE 17: LOSSES AND SPECIAL PAYMENTS

## Special payments

A number of employees entered into agreements to leave under voluntary and early retirement schemes during 2011-12 and 2010-11, as disclosed in Notes 4(i) and 5.

## Losses

There were no disclosable losses in 2011-12.

# NOTE 18: DERIVATIVES AND FINANCIAL INSTRUMENTS

IAS 32 *Financial Instruments: Disclosure and Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement* require disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Owing to the nature of the Auditor General's activities and the way in which the operations are financed, the office is not exposed to a significant level of financial risk. Although the Auditor General can borrow funds, the office has not been required to do so in this financial year. The Auditor General can also invest surplus funds, which is done through an overnight interest bearing account and in the Global Sterling Fund (see Note 12). These activities do not give rise to any significant financial risk.

## Liquidity risk

Given the nature of our business, our tolerance of risk in areas of financial management is low. In light of this attitude, and the backing of the WCF, the Auditor General is not exposed to significant liquidity risks.

## Interest rate risk

The Auditor General's financial assets and liabilities, with the exception of investment income, are not exposed to interest rate risk.

## Foreign currency risk

The Auditor General's exposure to foreign currency risk is negligible as only very small forward purchases of foreign currency are made in connection with foreign travel and other associated costs such as hotels. Also, any fees generated from foreign work or secondments are translated when received. Any exchange differences are recorded in the Statement of Comprehensive Net Expenditure for the year in arriving at the operating surplus.

## Credit risk

The Wales Audit Office's clients are mainly the Welsh Government and its sponsored and related public bodies. The Wales Audit Office is therefore not exposed to any material credit risks.

## Fair values

There is no difference between the book values and fair values of the Auditor General's financial assets and liabilities as at 31 March 2012 (31 March 2011: nil).

# NOTE 19: CONTINGENT LIABILITY

The Auditor General has written to HMRC requesting confirmation that Wales Audit Office operational staff continue to meet the definition of being 'geographically based' for tax purposes. We are currently awaiting a response. It is not possible to ascertain whether any liability will crystallise, nor what the likely quantum of such a liability might be. Were a significant liability to crystallise, the Auditor General may need to obtain funding from the WCF or from additional audit fees to meet that liability.

# NOTE 20: RELATED PARTY TRANSACTIONS

The Auditor General is a corporation sole established under statute and has had a number of material transactions with the WCF and with his audited bodies and the bodies audited by his appointed auditors.

During the year, no members of the non-executive committees, nor key members of staff nor their related parties had undertaken any material transactions with either the Auditor General or the Wales Audit Office.

The following disclosure relates to staff, or their related parties, that are in a position of influence resulting from being elected to, receiving remuneration from, or being appointed to any organisation, for example:

- where the Auditor General appoints the auditor or inspects the body;
- where there are specific statutory responsibilities to co-operate eg, Care Quality Commission;
- that is a central government department; and
- that is a provider or receiver of significant services to or from the Auditor General.

Committee Member	Position held in year ending 31 March 2012
Peter Laing	Received remuneration from central government in relation to a number of tribunals
Dr Michael P Brooker	Non-Executive Director of the Natural Environmental Research Council
Steven Burnett	On the Board of Liverpool Women's Foundation Trust
Dr Arun Midha	Lay observer at Royal College of Veterinary Surgeons Independent member of National Advisory Board, Welsh Government Independent Chair of retrospective continuing healthcare reviews, Welsh Government Member of the Health Professions Council Non-Executive Director Sustainable Futures Corporate Governance Committee Adviser to Swansea University Member of Professional Conduct Committee, Bar Standards Board Member Appeals Committee, Pharmaceutical Council Member of Clinical Excellence Awards Committee (Wales) Vice-Chair Ysgol Plasmawr Governors Assessor Queen's University Prizes for Further and Higher Education
Dr Elizabeth Haywood	Chair of WCVA Services Ltd Receives remuneration from Caerphilly County Borough Council

Staff member	Position held in year ending 31 March 2012
Alison Butler	Husband is the Director of Finance and Corporate Affairs of the National Leadership and Innovations Agency in Healthcare and Director of Finance and Corporate Services of the NHS Wales Shared Services Partnership
Gary Biggin	Wife is the Director of the Welsh NHS Confederation and a Non-Executive Director of Linc-Cymru Housing Association
John Weston	Wife is employed as a Principal Officer in Swansea Council
Mike Usher	Wife provides consultancy on an EU-funded project which is managed by NLIAH
Nick Selwyn	Wife is the Chief Executive of Taff Housing Association
Louise Fleet	President and Director of the Golf Union of Wales which receives significant funding from Sports Wales



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Date: 26 September 2012

Our ref: HVT/1726/hcj

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Mr Darren Millar AM  
Chair of the Public Accounts Committee  
National Assembly for Wales  
Cardiff Bay  
Cardiff CF99 1NA

Dear Darren

### **AUDITOR GENERAL'S 2011-12 ANNUAL REPORT AND ACCOUNTS**

I laid my Annual Report and Accounts for 2011-12 before the National Assembly for Wales on 27 July 2012.

Following discussions between our respective offices regarding these, I set out below further information which I hope will be useful to the Public Accounts Committee in considering these documents.

In particular, I provide further information regarding the following elements reported in my Annual Report and Accounts:

- Financial Outturn 2011-12;
- Annual Governance Statement;
- Note 15: HMRC provision (£2,605,000); and
- Cash management.

I hope this information is helpful and look forward to discussing my Annual Report and Accounts with the Committee on 2 October 2012.

Direct Line: 029 2032 0510

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E-mail: [huw.vaughan.thomas@wao.gov.uk](mailto:huw.vaughan.thomas@wao.gov.uk)



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## Financial Outcome 2011-12

The Financial Review in my Annual Report and Accounts (supported by Note 2 to the accounts) provide a detailed breakdown of my income and expenditure in 2011-12. Total income and resource was £24,341,000 (£24,481,000 in 2010-11) and expenditure was £23,693,000 (£22,471,000 in 2010-11). This resulted in a surplus generated in year of £648,000 (£2,010,000 in 2010-11) before the cash repayment of £1,945,000.

In my commentary on the accounts, I state that a number of factors had allowed us to generate this level of surplus in 2011-12 including:

- increases to income streams of £1.4 million; and
- a reduction in normal annual operating expenditure of £1.0 million.

I thought it would be helpful to the Committee if I provided further information in respect of each of these factors.

### Additional Income (£1.4 million)

- The additional income disclosed in the accounts arose from a number of sources, including:
- £0.4 million - additional income on grants certification which arose from the clearance of a backlog of outstanding grant claims by some local authorities.
  - £0.2 million - income is recognised as we charge time to an audit, which usually spans two financial years. As such, additional income can arise where we carry out more audit work than anticipated in the first of the two financial years (2011-12). There will be a consequent reduction in income in the following financial year (2012-13).
  - £0.4 million - additional unplanned work which we were required or commissioned to undertake at audited bodies. Examples include the Pembrokeshire CBS Special Investigation, additional audit work at Neath Port Talbot County Borough Council, Blaenau Gwent County Borough Council additional Corporate Inspection, and the Caldicot and Wentlooge Special Investigation.
  - £0.1 million - secondment income relating to WAO staff working with other public bodies.
  - £0.1 million – only £0.1 million of the £0.55 million supplementary income approved by the National Assembly in 2011-12 for the Voluntary Exit scheme was needed. Although the total cost of the scheme was £346,000, we were able to fund £246,000 from the WAO's original 2011-12 budget.
  - £0.2 million – arising from additional work carried out by the audit firms carrying out work on behalf of the Auditor General under Framework Contracts approved in 2007

This combination of additional income sources is unprecedented and is unlikely to be repeated in 2012-13 and future years. For example, additional unplanned audit work (third bullet point above) was £180,000 more than the average of the previous three years, and as far as we are aware, Local Authorities have now cleared their backlog of grant claims (first bullet point above).

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### **Efficiency and savings (£1 million)**

The 2011-12 budget included an amount of £0.5 million for restructuring of the Performance Audit Group. However, the restructuring was delayed into 2012-13, with the consequent funding requirement impacting upon the 2012-13 budget. In addition, a further favourable variance of £0.55 million arose as a result of significant under spends by budget holders. An analysis of the under spend has identified that it arose for a variety of reasons including:

- budget holders actively trying to minimise costs and identify efficiencies, for example, by looking for lower cost service providers. One example of this is in Business Services where over £50,000 was saved on a range of office related contracts; and
- changes in WAO working practices which have given rise to reduced expenditure, for example reduced legal costs arising through central management of legal advice, and deferring non urgent expenditure, for example on training and IT equipment purchases.

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## Annual Governance Statement

The Annual Governance Statement included in my Annual Report and Accounts, stated that, as set out in the Statement on Internal Control in previous years, the Head of Internal Audit had concluded that the Wales Audit Office's systems are capable of delivering effective internal control and risk management. However, the Head of Internal Audit had noted specific and significant deficiencies in the operation of internal controls which showed that systems were not operating effectively. He concluded that these deficiencies needed to be addressed quickly and effectively by management. In particular, the Statement noted that:

- further development and improvement of financial management and management accounts is essential;
- the Wales Audit Office is at risk of incurring financial penalties for non-compliance with employment tax regulations;
- policies, procedures and guidance for staff need to be refreshed and generally updated in line with new governance and management structures; and
- there is scope to improve the system of compliance with procedures governing contracts and procurement.

Management has accepted the recommendations made by the Head of Internal Audit and work is ongoing to address each of them. The progress being made is reported to the WAO's Audit and Risk Management Committee on a quarterly basis. However I thought it might be helpful to the Committee if I were to provide additional information on the background to, and the work being carried out to, address each issue.

### **Further development and improvement of financial management and management accounts**

During 2012-13, we have continued to improve our financial management procedures and our financial reporting mechanisms. Following the restructuring of the Performance Audit Group in April 2012, staff have now been allocated to work in smaller teams which are responsible for estimating the amount of chargeable work that can be delivered in any given period. This has led to more accurate profiling of audit work, which is now incorporated in the monthly reports that are considered by the Executive Committee, on a monthly basis. This information is also reported to the Shadow Board.

We have also created an additional temporary post in the Finance Department to further improve the quality of our financial management information. In order to ensure greater consistency between project delivery details which are derived from our time recording system, and our monthly management accounts which are produced by Finance, we have transferred responsibility for the production of the monthly Corporate Performance Management Framework (CPMF) reports from the operational parts of the business to the Finance team.

### **The Wales Audit Office is at risk of incurring financial penalties for non-compliance with employment tax regulations**

I explain in further detail below, the current situation regarding employment tax issues.

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**Policies, procedures and guidance for staff need to be refreshed and generally updated in line with new governance and management structures**

An Internal Audit review of the Wales Audit Office's financial procedures in January 2012 concluded that a number of improvements can be made to those procedures to ensure that all of the principles of Managing Welsh Public Money (MWPM) and good practice are followed. Specifically, the report recommended that there was a need to:

- clarify the roles and responsibilities of WAO staff with financial management responsibilities; and
- update and approve WAO's Financial Policies as Standing Financial Instructions.

We are reviewing and updating various of our policies, corporate notices and codes and updating as Standing Financial Instructions as required. This work is taking longer than anticipated due to the uncertainty surrounding the proposed new legislation and will need to be reviewed in the light of the draft Public Audit (Wales) Bill, when enacted.

**There is scope to improve the system of compliance with procedures governing contracts and procurement**

In January 2012, the Head of Internal Audit identified a need to improve our procurement procedures in order to minimize the risk of non-compliance with internal and EU procurement processes. This issue has now been addressed.

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### Note 15: HMRC provision (£2,605,000)

The HMRC provision contained in Note 15 to my accounts is made up as follows:

	<b>£'000</b>
VAT	2,392
Employment status	165
PAYE re two AAGs	48
	<u>2,605</u>

As I outline below, we are faced with a number of tax uncertainties arising from historical practices, all of which date from the creation of the Wales Audit Office in 2005 and to arrangements inherited from our predecessor organisations. In deciding whether to include a provision in the accounts for each of these issues, and if so at what level, my staff took the following approach:

- They formally sought views from our professional advisers as to whether in their view (on the facts as they were known at that time) it was appropriate to include provisions in the accounts and if so at what level.
- That advice was reviewed by my staff, who concurred with the professional advice received, and prepared a briefing paper for my Executive Committee recommending that the accounts contain provisions at the level recommended in the professional advice. My Executive Committee considered and accepted this advice.
- My Financial Audit Technical Group Director undertook a review of the process followed and prepared a report for my Audit and Risk Management Committee, which supported the conclusions reached by my staff in preparing the accounts.
- My Audit and Risk Management Committee was presented with a briefing outlining the above process and it in turn recommended to me approval of the accounts with provisions as set out above.
- In signing the accounts, I accepted the advice of my professional advisers, staff, Executive Committee and Audit and Risk Management Committee that taxation provisions of £2,605,000 should be recognised.
- My external auditor also agreed with the approach taken, as evidenced through their management letter and unqualified audit opinion.

I set out below an explanation of the background to these issues, but as I am sure you will appreciate, these are technically complex areas. My staff are engaged in active and constructive dialogues with HMRC in order to resolve each of these issues in the most cost effective way for the public purse.

It is not possible to be entirely clear what level of resource and cash I may need to discharge these liabilities until each of the issues has been resolved. I have included a substantial provision in the accounts for 2011-12, but owing to timing differences between the making of

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this provision and when I may need to discharge any liabilities, I have returned to the Welsh Consolidated Fund cash of £1.945 million. Should these, and any other additional, liabilities fall due for payment, I will need to fund them through a combination of fee increases, funding from the Welsh Consolidated Fund and cost savings.

#### **VAT (£2,392,000)**

This is a long standing issue, which has been reported in every Auditor General estimate paper, and annual report and accounts, since the creation of the Wales Audit Office in 2005. There is correspondence dating back to 9 September 2004, which seeks clarification on this issue.

The issues are two-fold: the VAT status of the Auditor General and the VAT status of work undertaken on behalf of the Auditor General

#### **VAT status of the Auditor General**

Primary EU legislation provides that bodies "governed by public law" are not subject to the same VAT regime as other organisations. This provision is not directly reproduced in UK legislation. Rather, UK legislation (VAT Act 1994) contains the following separate provisions:

- section 33 allows bodies undertaking a function ordinarily carried out by a local government body, and having the power to draw their funding directly from local taxation, to recover VAT on certain activities; and
- section 41 allows "government departments" to recover VAT incurred in specific circumstances.

It was uncertain whether my office was subject to either of these provisions and I sought clarification from HMRC on this question. On 29 March 2012 the HMRC Policy Unit confirmed that neither of these provisions applied to me.

#### **VAT status of work undertaken on behalf of the Auditor General**

Following resolution of my VAT status, the second question that needs to be resolved is that of the VAT status of my work. On the formation of the Wales Audit Office, the existing VAT treatments of the National Audit Office and the Audit Commission continued to be applied to our work. This approach was followed with the knowledge of HMRC.

It is possible however that HMRC may seek to argue that the VAT treatment adopted for some activities was incorrect, and that as a consequence I recovered too much VAT. I am in correspondence with HMRC explaining why I do not believe that this is the case. My arguments focus on both the technical VAT classification of my work and on the fact that I believe HMRC was aware of the treatment, and indeed approved the approach being followed on several occasions.

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### **Employment status (£165,000)**

We have identified a small number of contractors who we believe HMRC may argue should have been treated as self-employed rather than employed. This is a complex area of tax legislation with a series of common law tests having been developed over time to determine the tax status of individuals. In our situation, these individuals were often engaged to undertake a small specific piece of work, but the volume of that work increased over time leading to a situation where their tax classification may have changed from one of "self-employed" to "employed". We have introduced new procedures to strengthen the monitoring of these engagements, to identify when such a change may be about to occur, and to take appropriate action in that event. The final settlement with HMRC may be at a lower level than the provision of £165,000 as HMRC may be willing to offset tax paid by the individuals on this income against the WAO's liability.

### **Taxation of travel and subsistence expenses (£48,000)**

The nature of the work of my audit staff means that they are expected to travel to different audited bodies and offices across Wales. For operational purposes, my staff are allocated to a notional travel base within Wales from which they can claim travel and subsistence costs. We do not reimburse travel expenses for journeys between home and these notional travel bases. In 2007, we obtained clearance from HMRC that audit staff could be classified a "geographically based" for tax purposes. As a consequence of this status, any payments for travel and subsistence in undertaking business journeys can be made free of tax and national insurance. More recently, my staff have been reviewing the travel patterns of all groups of staff. This review has indicated that a number of groups of staff may have developed patterns of working that HMRC may argue do not satisfy the criteria for them to be regarded as geographically based. In particular, some members of my staff are of necessity basing themselves at audited body sites for large periods of time (HMRC guidelines contain a 40% threshold) or are travelling to audited body sites on a regular basis. HMRC may seek to argue that these groups of staff have established permanent places of work at these audited body sites, and that some staff may have established two such permanent places of work. If this were the case HMRC will probably argue that payments for journeys to these sites should have been taxed.

I intend to robustly challenge any assertion by HMRC that these expense payments should have been taxed, as the very nature of our work requires my staff to spend large periods of time working at audited bodies. I am aware that other Welsh public bodies and another UK audit agency have experienced similar difficulties

It is not possible at present to specify the potential level of liability that may arise as a consequence of this issue. I have made disclosure to HMRC requesting their confirmation that the clearance provided in 2007 remains valid, but have yet to receive a response on this specific query. On the basis of professional advice, as outlined above, I have not included any provision in my accounts for this potential issue.

My accounts do however include a provision of £48,000 in respect of liabilities regarding two of my Assistant Auditor Generals, who are based in North Wales. Following a specific review of their travel patterns we concluded that it was probable that HMRC would successfully argue that

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they had both established permanent places of work in Cardiff, in addition to their current Ewloe bases, and that as a consequence their travel, hotel and meals when visiting Cardiff were taxable. The Wales Audit Office is an all-Wales organisation and I do not consider that staff should necessarily have to relocate to Cardiff. As a consequence, I consider that it is appropriate for the Wales Audit Office to bear these tax costs.

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## Cash management

I have three primary sources of cash: the Welsh Consolidated Fund, audit fees and WPI grant from the Welsh Government. It is essential in my view that these different streams of cash are managed and accounted for separately and that, for example, I am not seen to be using fees from audited bodies to finance expenditure covered by my estimate. The expenditure funded through the estimate is largely staff costs, which are incurred on a regular basis throughout the year. As a consequence, I draw down cash approved through the estimate process in regular monthly instalments.

As at 31 March 2012, my accounts show a cash holding of £6,667,000 with cash of £1,945,000 being shown as payable to the Welsh Consolidated Fund, effectively giving a net cash availability figure of £4,722,000. This figure of available cash essentially underpins the following balances:

- Deferred Income - £2,279,000 (this is audit fees I have received in advance of work being undertaken, under monthly billing arrangements I have with audited bodies); and
- Provisions - £3,839,000 (Note 15).

The deferred income balance is fully supported by the cash I hold, but only part of the provisions are cash backed by net available cash. This shortfall is reflected in the deficit of £1,235,000 in my Statement of Financial Position at 31 March 2012, which I am required to balance taking one year with another.

It is in the very nature of provisions that timing differences may arise between their recognition in accounts and the point at which cash becomes payable. This timing difference between the recognition of the expenditure and the potential defrayment of cash was a contributory factor to the £1,945,000 of cash I have paid into the Welsh Consolidated Fund. Should the liabilities in my accounts become payable, I expect to have to request additional cash to enable me to settle the resulting liability.



**HUW VAUGHAN THOMAS**  
AUDITOR GENERAL FOR WALES

# RSM Tenon Audit

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**WALES AUDIT OFFICE**  
**SWYDDFA ARCHWILIO CYMRU**

Report to those charged with Governance  
for the year ended 31 March 2012

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## Appendices

Letter of Representation

This report is part of a continuing dialogue between the Wales Audit Office (WAO) and ourselves and is therefore not intended to cover every matter discussed during the course of the audit. For this reason, the report is intended for the sole use of the organisation. We do not accept responsibility to any person acting in an individual capacity, and do not accept responsibility for any reliance that third parties may place on the report.

It should be noted that the primary objective of our audit is to express an opinion on the truth and fairness of the resource accounts as a whole. An audit does not examine every operating activity and accounting procedure in the WAO, nor does it provide a substitute for management's responsibility to maintain adequate controls over the WAO's activities. Our work is not designed therefore to provide a comprehensive statement of all weaknesses or inefficiencies that may exist in the WAO's systems and working practices, or of all improvements that could be made.

## 1 EXECUTIVE SUMMARY

### 1.1 PURPOSE

The purpose of this report is to record the overall results of our work and in accordance with ISA 260 to assist those charged with governance and internal management by commenting on those matters that came to our attention during the course of the audit. These matters cover:

- Independence
- Materiality and Audit approach
- Comments on the accounting policies and practices, which have been used to prepare the resource accounts
- Summary of adjusted and unadjusted errors in the financial statements
- Suggestions for improvement to the Wales Audit Office's (WAO) accounting and financial control systems

In future years we will include a follow up of prior year recommendations.

We would like to thank the finance team for all their assistance throughout the audit process.

### 1.2 INDEPENDENCE

In accordance with auditing standards we can confirm that any relationships that may bear on the firm's independence and the objectivity of the audit engagement director and audit staff were assessed and communicated at the planning stage of our audit.

### 1.3 AUDIT APPROACH AND MATERIALITY

Our planning materiality, which we discussed with the Audit and Risk Management Committee (ARMC), was calculated at £100,000.

This level was reviewed during the audit fieldwork and in the light of the revised operating result we propose increasing our adjusting materiality to 10% of the reported total comprehensive net expenditure excluding the exceptional VAT provision.

The proposed revised adjusting materiality is £235,000. We are required to report any potential adjustments identified during the course of our audit work, unless they are clearly trifling.

### 1.3 AUDIT APPROACH AND MATERIALITY (CONTINUED)

For the purposes of this report we have taken clearly trifling as being adjustments less than £10,000. A summary of our audit adjustments is included in Section 3.1 to this report. The potential adjustments identified which remained unadjusted are included in Section 3.2.

### 1.4 ACCOUNTING POLICIES AND PRACTICES

In preparing the resource accounts, the WAO opts to comply with the Financial Reporting Manual (FRoM). The FRoM is based on International Financial Reporting Standards and these have been adapted, interpreted or extended to meet the needs of public sector organisations.

The accounting policies are assessed on an annual basis to ensure they remain appropriate to the circumstances of the WAO and are being properly applied.

We have reviewed the accounting policies and practices within the WAO and, subject to the comments in Section 2 of this report, are satisfied that they have been suitably applied to the WAO's circumstances.

### 1.4 ACCOUNTING AND FINANCIAL CONTROL SYSTEMS

We have reviewed the reports produced by Internal Audit during the year and have placed reliance on the work of internal audit where appropriate.

In line with Auditing standards we have documented the key systems and controls and performed walkthrough testing to confirm operation of the controls. Section 4 of this report includes some detailed recommendations arising from our review further, together with management's responses to our recommendations for improvement.

### 1.5 MANAGEMENT REPRESENTATIONS

As part of the completion of our audit work we seek written assurances from the Accounting Officer on aspects of the accounts and in particular judgements and estimates made. The draft letter in accordance with the ISA is appended to this report.

1.6 AUDIT RISKS IDENTIFIED AT PLANNING

The following notes the outcome of our work on the audit risks communicated to you at planning.

<i>Issue</i>	<i>Audit risks</i>	<i>Outcome</i>
<p>Correct cost allocation between local authority activity and central government / NHS activity</p>	<p>The cost allocation is key to determining the budget and presenting the outturn position</p>	<p>In the draft cost allocation management had used the cash requirement as WCF income rather than the actual net resource bid.</p> <p>In addition the direct cost allocation in the draft cost allocation is only based on the chargeable time of the productive employees. As a result 50% of staff costs have been included as overhead expenses and allocated on an income basis. The direct costs have then been adjusted to take out training time which is borne by the WCF. As the direct costs only include chargeable time this is incorrect. We recommend that the direct costs are adjusted to include 90% of actual direct employment costs and 10% allocated to the WCF income stream (assuming 10% is an appropriate allocation to the general running of the office).</p> <p>Residual overheads have been allocated on a pro-rata basis based on turnover. However the overheads have first been allocated to the WCF income stream to bring the net position to nil on this income stream. From our review of the funding estimate and in particular the table on page 17, this implies that overheads should be met by fee income rather than the estimate.</p> <p>Based on the draft figures before provision adjustments, if the above areas are adjusted the net amount repayable to the fund is £1,859k against the WAO calculated amount of £1,868k. As by its nature this is an estimated amount we have not proposed an adjustment in this respect but recommend that the WAO review the basis for apportioning costs in future years.</p> <p>There are further improvements which could be made to the cost allocation in respect of identifying direct costs and these are detailed in Section 2.</p>
<p>Consistent and appropriate accounting policies in respect of income and WIP</p>	<p>There is a risk that WIP and the associated income / surplus position is not correctly stated</p>	<p>We identified some non-material adjustments to WIP and have included our extrapolated adjustment as a potential adjustment in Section 3 (£18k).</p> <p>We identified some areas where the income recognised was in excess of the budget fee. Management have informed us that these are in respect of over-runs which the clients are obligated to pay for. At the point of our audit these over-runs had not been invoiced and therefore we have included these as a specific representation.</p>

<p>Unrecorded liabilities and provisions</p>	<p>There is a risk that certain liabilities or provisions may be understated or incorrectly calculated</p>	<p>The holiday pay accrual had been overstated due to the inclusion of pension contributions. Per the CSPA rules payment in lieu of annual leave is not pensionable. The prior year impact of this adjustment was c.£116,000 and is therefore not considered to represent a fundamental error for prior year re-statement. The accounts have been adjusted in the current year to correct the closing accrual.</p> <p>The accounts include dilapidations provisions in respect of the leased premises. These have been based on the net present value of estimated final costs. The provision is then being spread over the period of the lease. We consider that some of the liabilities will not relate to general wear and tear but would relate to work undertaken when the premises were initially occupied.</p> <p>We do not have any figures to enable us to calculate the impact that this would have on the provision but have estimated that the provision could be understated by between £60k and £120k. This is not individually material to our audit opinion and has been considered as part of our overall assessment of adjustments and does not impact our audit opinion.</p> <p>Given the potential impact of this adjustment we have included a grade 1 recommendation for management to re-visit their estimation basis over the current year.</p>
<p>Calculation of the enhanced pension provision</p>	<p>There is a risk that the pension provision may be misstated</p>	<p>Some calculation errors have been made on the enhanced pension accrual in prior years which have been carried through into the current year resulting in an overstatement of the enhanced pension provision. This has been adjusted in the current year. The prior year impact of the overstatement has been estimated at £174k. Whilst significant this is not considered a fundamental error and therefore no prior year restatement has been proposed.</p>
<p>Completeness of the bad debt provision</p>	<p>The bad debt provision may be misstated</p>	<p>We had identified one debt which is outside of payment terms and where subsequently instalment payments have been missed. The latest instalment for this debt has recently been met and therefore no adjustment has been proposed for this amount as it is less than £10k.</p>

<p>Significant work has been performed in the year to quantify VAT and PAYE liabilities which may have arisen from historic liabilities</p>	<p>The VAT and PAYE provisions may be misstated</p>	<p>Provisions have been included and appropriately disclosed in line with the latest guidance from the external consultants.</p> <p>The total PAYE liability has been estimated at £213k and the VAT liability at £2,392k.</p> <p>The Office has not exceeded its supply estimate in the year or its cash estimate and therefore this does not impact our regularity opinion. The inclusion of the liability will result in the Office showing a deficit position on its statement of financial position. The National Assembly have been made aware through the annual estimate that an additional liability may arise but have not yet been asked for formal approval of the VAT payment.</p> <p>The WAO are confident that this amount will be approved and therefore are satisfied that it is appropriate to prepare the financial statements on a going concern basis. A specific representation confirming this has been included in the letter of representation.</p>
<p>Historically there have been errors in the method of accounting for public funding</p>	<p>The income and expenditure account may be misstated</p>	<p>No significant matters noted during the course of our work although we recommend that the office re-visit the methods of cost allocation.</p>
<p>This is our first year of appointment and we have not audited the opening balances</p>	<p>Opening balances may be misstated</p>	<p>During the course of our work we identified some adjustments to prior year figures which have been summarised in Section 3. These total £217k and are not considered fundamental errors and therefore no prior year restatement is required.</p>

## 2 ACCOUNTING POLICIES AND PRACTICES

### 2.1 INTRODUCTION

The following matters were discussed with management during the course of the audit.

### 2.2 FIXED ASSETS

Under IAS 16 any costs which can be considered directly attributable in bringing an asset to its present and working condition are eligible to be capitalised as part of the cost of the asset. This includes salary and other staff costs incurred as a direct result.

During the office move to the Cathedral Road a number of staff costs were capitalised (at £123k). Whilst a number of these costs were indeed eligible for capitalisation, we have identified approximately £67k which related to general internal costs of management planning meetings which cannot be considered directly attributable.

We have raised this as a potential adjustment in section 3.2 of this report. Whilst this is an historic error we do not consider it to be material to the accounts and have not proposed a prior period adjustment.

### 2.3 WORK IN PROGRESS AND DEFERRED INCOME ACCOUNTING

The accounting policies adopted by the WAO in relation to the recognition of audit fee income and the associated balances of work in progress and deferred income are consistent with those of 2010/11.

Fee income is recognised as project work is completed in order to reflect the expenditure incurred in reaching a certain stage of completion. This income is recognised irrespective of amounts invoiced to date, which are reflected in the period end balance of either work in progress or deferred income.

Nothing has come to our attention to indicate that the accounting policies have not been applied consistently in this regard, and we are satisfied that the approach is compatible under the provisions of the FReM.

As part of our testing we identified that 'efficiency gains' were being recognised on central government and NHS work. The Auditor General is permitted to retain any surplus arising from local government fees (other than grant certification work) but

is required to pay any surplus on central government or NHS work back into the Welsh Consolidated Fund. WAO Finance have taken advice from colleagues in the AGW Private Office and are satisfied that it is appropriate to retain these efficiency gains. See extract from advice below;

*"The requirement to only charge costs only applies to grant certification and certain request studies. (There is also a requirement not to charge more than full cost in respect of certain agreement and other request studies.). For the audit of accounts, outside local government, AGW "may charge a fee". There is no statutory restriction on the shape of that fee.*

*For local government, the fee is in accordance with the scale of fees set by the AGW. Again, there is no statutory restriction on the shape of the fee scales, other than the fees must be the same regardless of whether the audit is done by AGW staff or a firm. (There is also a requirement to consult on fee scales, and there is provision for WG to set scales in place of the AGW's. Both these features are aimed at preventing excessive fees, but they don't restrict fees to full cost.)"*

Currently the efficiency gains are modest and may represent 10% of the fees. On this basis we consider it appropriate to retain these gains. Should the efficiency gains significantly increase we recommend that the fee structure is reviewed to ensure that it remains appropriate.

### 2.4 AGW REMUNERATION

As in previous years the AGW salary has been disclosed in the remuneration report but has not been grossed up and included in the accounts. This approach differs from the approach recommended by the National Audit Office but as full disclosure has been made of remuneration we are satisfied that the approach adopted gives a true and fair view.

### 2.5 COST ALLOCATIONS

As noted above in the key risk section there are improvements which could be made to the current method of cost allocation. This is key in determining amounts to be repaid to the WCF. Currently only direct salary costs are allocated on the basis of chargeable time. There are other direct employment costs such as the car scheme (c.£600k) and travel and subsistence costs (c.£400k) which are not currently allocated directly to projects. We recommend that the WAO undertakes a review of its costs and identifies a mechanism for allocating all direct costs against jobs. This will give greater visibility over the actual underlying costs of performing audits.

### 3 ADJUSTED AND UNADJUSTED ERRORS

#### 3.1 ACTUAL AUDIT ADJUSTMENTS

The following adjustments were processed during the course of our audit:

	<i>Total</i>
	£'000
<b>Total comprehensive net expenditure for the year per draft accounts</b>	<b>(2,358)</b>
PAYE estimated liability	(213)
VAT provision	(2,392)
Holiday pay accrual	113
Enhanced pension adjustment	130
Release of bad debt provision	4
Capitalised staff costs	(40)
<b>Revised operating cost per resource accounts</b>	<b>(4,756)</b>
<b>Supply Estimate</b>	<b>4,853</b>

### 3.2 POTENTIAL AUDIT ADJUSTMENTS

The following potential adjustments were identified which were greater than clearly trifling. We have defined 'clearly trifling' as below £10,000.

	2012 £'000	2011 and prior £'000's
Incorrectly capitalised staff costs	-	(67)
WIP adjustments	(18)	-
Increase in bad debt provision	-	-
Remove pension from holiday pay accrual	-	116
Overstatement of enhanced pensions	-	168
Net VAT debtor (balance sheet only: c£13k)	-	-
<b>Net impact</b>	<b>(18)</b>	<b>217</b>

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The 2011 and prior column quantifies the cumulative brought forward impact of the errors identified. This is below materiality and not fundamental to the true and fair view and no prior year adjustment is proposed.

## 4 ACCOUNTING AND FINANCIAL CONTROL SYSTEMS

### 4.1 INTRODUCTION

The action plan below summarises our recommendations for improving the effectiveness of the WAO's accounting and financial control systems:

	Subject	Grade
1	Authorisation of expense claims	1
2	Amendments to standing data	1
3	Authorisation of credit notes	1
4	Re-invoicing of trade debtors	2
5	Dilapidations provision	1
6	Confirmation of goods / service received	3
7	Work in progress	3

We have used the following grading system to indicate the significance of the matters we have raised and the priority that we believe should be given to our recommendations:

- Grade 1:** We believe these observations are particularly significant and that management should take action within the agreed timescales.
- Grade 2:** These observations are significant but of a lower priority than Grade 1 observations. We believe that action needs to be taken over the course of the next 12 months.
- Grade 3:** Observations that merit attention but are less significant than Grade 1 and 2 observations.

4.2 ISSUES NOTED

<b>1</b>	<b>Authorisation of expense claims</b>	<b>Grade: 1</b>
<b>Issue</b>		
<p>WAO operates a self-certification policy regarding staff expense claims. The WAO expenses claims in the year total in excess of £400k and best practice is for all claims to be authorised by a line manager. During the course of our work we did not identify any material over-claims however there is a risk of errors not being identified and also a reputational risk to the WAO.</p>		
<b>Recommendation</b>	<b>Management response</b>	<b>Action by whom</b>
<p>We recommend that the WAO implements a policy of hierarchical expenses authorisation whereby staff expenses are secondarily authorised by a more senior employee (such as an audit manager) prior to being processed.</p>	<p>Agreed. The recent review of travel and subsistence expenses has highlighted a need to introduce an improved expenses system which includes a facility for line manager authorisation. This system is unlikely to be in place before the end of this financial year. In the meantime, we will consider ways in which we can build checks into the current system.</p>	<p><i>Group Director Resources</i></p> <p><b>Deadline</b></p> <p><i>New system to be in place by 31 March 2013. Current system to be amended by 30 September 2012.</i></p>

<b>2</b>	<b>Amendments to standing data</b>		<b>Grade: 1</b>
<b>Issue</b>			
<p>During our consideration of the WAO's systems of internal control, we identified that the payroll clerk is able to amend standing data (e.g. bank account details) which would not then be picked up on the payroll exception reports that are run. Without proper authorisation controls there is a risk that changes to standing data could be made and salary diverted. We did not identify any impropriety during our audit work.</p>			
<b>Recommendation</b>		<b>Management response</b>	<b>Action by whom</b>
<p>We recommend that the exception reports are updated such that changes in standing data (e.g. bank account details, addresses, employee names etc.) are flagged each month for investigation.</p>		<p>Agreed. An evaluation of our current HR/Payroll system by an independent consultant has also highlighted a risk relating to the ability of the payroll officer and other system administrators being able to change standing data. We will ensure that this risk is addressed as part of the procurement and implementation of any new system. In the meantime we will ensure that exception reports are produced monthly and checks are undertaken to ensure the appropriateness of any changes to standing data.</p>	<p><i>Group Director Resources until appointment of Finance Manager who will then take on responsibility</i></p> <p><b>Deadline</b></p> <p><i>Immediate</i></p>

<b>3</b>	<b>Authorisation of credit notes</b>	<b>Grade: 1</b>	
<b>Issue</b>			
<p>During our consideration of the WAO's systems of internal control, we identified that there is no formal process by which credit notes are authorised. Either of the sales ledger employees could raise a credit note, potentially incorrectly, without this being picked up. Credit note authorisation is considered a key sales ledger control to prevent fraud or error.</p>			
<b>Recommendation</b>		<b>Management response</b>	<b>Action by whom</b>
<p>We recommend that a process is put in place whereby the finance manager performs a review of all credit notes posted at the end of each month. This would allow for potentially abnormal credit notes to be investigated in a timely manner.</p>		<p>Agreed. Checks will be performed monthly</p>	<p><i>Group Director Resources until appointment of Finance Manager who will then take on responsibility</i></p> <p><b>Deadline</b></p> <p><i>Immediate</i></p>

<b>4</b>	<b>Re-invoicing of trade debtors</b>		<b>Grade: 2</b>						
<p><b>Issue</b></p> <p>During our consideration of trade debtors we identified an instance whereby an overdue debt had been credited and then re-invoiced in 3 separate instalments. This had the effect of re-aging the debtor which was subsequently not provided for in the bad and doubtful debts provision.</p>									
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 33%;"><b>Recommendation</b></th> <th style="width: 33%;"><b>Management response</b></th> <th style="width: 34%;"><b>Action by whom</b></th> </tr> </thead> <tbody> <tr> <td style="vertical-align: top;"> <p>We recommend that any instalment plans should be expressly agreed with both the project and finance managers and then tracked separately to ensure that the reporting of the aging profile of trade debtors is not compromised.</p> </td> <td style="vertical-align: top;"> <p><i>Agreed. We will ensure that debts are only reprofiled following agreement by the relevant project manager and tracked separately by Finance.</i></p> </td> <td style="vertical-align: top;"> <p><i>Group Director Resources until appointment of Finance Manager who will then take on responsibility</i></p> <p><b>Deadline</b></p> <p><i>Immediate</i></p> </td> </tr> </tbody> </table>				<b>Recommendation</b>	<b>Management response</b>	<b>Action by whom</b>	<p>We recommend that any instalment plans should be expressly agreed with both the project and finance managers and then tracked separately to ensure that the reporting of the aging profile of trade debtors is not compromised.</p>	<p><i>Agreed. We will ensure that debts are only reprofiled following agreement by the relevant project manager and tracked separately by Finance.</i></p>	<p><i>Group Director Resources until appointment of Finance Manager who will then take on responsibility</i></p> <p><b>Deadline</b></p> <p><i>Immediate</i></p>
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<b>5</b>	<b>Dilapidations provision</b>		<b>Grade: 1</b>
<b>Issue</b>			
<p>The management team are building up a dilapidations provision on a uniform basis across the period of each lease respectively. This provision however covers contractually obligated discounted cost estimates for both structural works (the cost of which should be recognised in full, up front) and more general remedial works (which can legitimately be spread over the period of the lease).</p>			
<b>Recommendation</b>		<b>Management response</b>	<b>Action by whom</b>
<p>We recommend that management estimate the proportion of the costs attributable between structural and remedial works to ensure the provision is as accurate as possible going forward.</p>		<p>Agreed.</p>	<p>Group Director Resources</p> <p><b>Deadline</b></p> <p>31 October 2012</p>

<b>6</b>	<b>Confirmation of goods / services received</b>		<b>Grade: 3</b>						
<p><b>Issue</b></p> <p>From our consideration of the purchasing control system we identified that, where a purchase invoice is received which agrees exactly to a purchase order, no authorisation is sought from the purchaser that the goods have been received. We note that this has not given rise to any cut off errors highlighted by our work. We also note that this has previously been raised by Internal audit as part of their work and that management are satisfied that the current process is appropriate to the nature of their business and the type of goods and services received. However we have raised the point again as a matter of best practice.</p>									
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<b>7</b>	<b>Work in progress</b>	<b>Grade: 3</b>
<p><b>Issue</b></p> <p>During our consideration of work in progress we identified one job where the costs were expected to exceed the fee quoted by £10k. No provision had been made for this foreseen loss. We also identified one instance where the job had been shown as started and income recognised to reflect expected efficiency gains. The work did not start until after the year end.</p> <p>Whilst these appeared to be isolated incidents there is a risk that WIP and revenue could be mis-stated if WIP is not correctly accounted for.</p>		
<p><b>Recommendation</b></p> <p>We recommend that guidance is issued to audit managers at the year end highlighting the common potential issues with year end WIP and confirmation sought from audit managers that these issues have been fully considered in their assessment of the</p>	<p><b>Management response</b></p> <p>Agreed. We will ensure that guidance is issued to audit managers in advance of next year's accounts closedown process.</p>	<p><b>Action by whom</b></p> <p><i>Finance Manager</i></p> <p><b>Deadline</b></p> <p><i>31 March 2013</i></p>

APPENDICES

Dear Sirs

## **FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012**

The Auditor General for Wales is a Corporation sole and references to the Wales Audit Office are to be read as references to the Auditor General for Wales.

I confirm to the best of my knowledge and belief, and having made appropriate enquiries of other senior executives of the Wales Audit Office, that the following representations given to you in connection with your audit of the financial statements for the period ended 31 March 2012 are correct.

The following representations reflect circumstances up to the date of this letter, on which the financial statements were approved, and management's knowledge and intentions regarding the future of the Wales Audit Office.

### **Responsibility for financial statements**

I acknowledge as Auditor General my responsibilities under the Government of Wales Act 2006 for preparing financial statements that give a true and fair view and for making accurate representations to you.

### **Availability of information**

All the accounting records have been made available to you for the purpose of your audit and all transactions undertaken by the Wales Audit Office have been properly reflected and recorded in the accounting records. All other records and related information have been made available to you, including the minutes of all committee meetings, which are a complete and authentic record of the proceedings at those meetings.

### **Related party transactions**

There were no transactions with the WCF and with the audited bodies other than those in the ordinary course of business (fees) requiring disclosure in the financial statements.

### **Use of funds**

- I acknowledge my responsibility, under the requirements of the Government of Wales Act 2006, for ensuring that expenditure disbursed and income received is applied for the purposes intended by the Wales Assembly for Wales and the financial transactions conform to the authorities which govern them.
- To the best of my knowledge and belief I confirm that, in all material respects, the expenditure disbursed and income received during the year ended 31 March 2012 have been applied to purposes intended by the Wales Assembly for Wales and the financial transactions conform to the authorities which govern them.
- Specifically I confirm that it is appropriate for the Office to take efficiency gains on fee paying work.

### **Assets**

#### **1. General**

All assets included in the Statement of Financial Position belong to the Wales Audit Office and except as disclosed in the accounts were free from any charge. All non-current assets belonging to the Wales Audit Office are included.

#### **2. Impairment of non-current assets**

Each non-current asset is worth to the Wales Audit Office at least the amount at which it is included in the Statement of Financial Position, either through continued use by the Wales Audit Office or through the opportunity for sale on the open market.

## Liabilities

### 1. General

All known liabilities of the Wales Audit Office at 31 March 2012 have been included in the balance sheet. All secured liabilities are disclosed.

### 2. Contingent liabilities

The Wales Audit Office had a contingent liability at 31 March 2012 in respect of PAYE on travel and subsistence for geographically based audit staff. This has been fully disclosed in the financial statements. There were no other contingent liabilities at the balance sheet date.

### Accounting estimates

We confirm that all significant assumptions used by us in making accounting estimates, including where applicable those measured at fair value, are reasonable in the circumstances, and appropriately reflect our intentions and our ability to carry out the specific courses of action necessary to justify the accounting estimates and disclosures. The disclosures in the financial statements related to accounting estimates are complete and appropriate.

### Commitments

All commitments of the Wales Audit Office of a material amount, whether of a capital or revenue nature, have either been provided for or noted in the financial statements as appropriate. An adequate provision has been made for any losses, which may be expected to result there from, or from events which had occurred before 31 March 2012.

### Remuneration report

All amounts paid to members of the Wales Audit Office Executive committee have been appropriately included in the Remuneration Report.

All items of personal expenditure paid by the Wales Audit Office on the Executive committee's behalf have either been reimbursed by the individuals concerned or have been treated as benefits in kind.

The benefits in kind in respect of the PAYE settlement will be met by the Wales Audit Office. This has been fully disclosed in the remuneration report.

No member of the Executive committee or their connected persons had any indebtedness (or agreement concerning indebtedness) to the Wales Audit Office at 31 March 2012 or at any time during the year

### Governance Statement

I confirm the Governance Statement within the Annual Report fairly reflects the Wales Audit Office's current position in relation to our compliance with internal control requirements set out in HM Treasury's guidance.

### Fraud and regulation

I acknowledge that the responsibility for the detection of fraud, error and non-compliance with laws and regulations rests with me. I confirm that I am not aware of any known or suspected frauds, error and non-compliance, involving management, employees or third parties which may have a material effect on the financial statements. I confirm that, insofar as I am able to determine, in my opinion the financial statements are not materially misstated as a result of fraud.

In particular I confirm that the Wales Audit Office has made full disclosure of actual or suspected fraud brought to our attention by employees, former employees and other external parties.

I confirm that there has been no possible or actual instance of non-compliance with those laws and regulations which are central to the Wales Audit Office's ability to conduct its business, except as explained to you and as disclosed in the financial statements.

### **Events subsequent to the date of the Statement on Financial Position**

There were no events, transactions or discoveries since the Statement of Financial Position date which:

- would have a material effect on the financial statements, or
- are of such importance to users of the financial statements that they should be disclosed in the financial statements.

### **Going Concern**

I have reviewed likely future developments and there is no reason to believe that the Wales Audit Office will have to cease activities within the foreseeable future as a result of inadequate financial resources or any other foreseeable event within a period of at least 12 months from the date the financial statements are approved. The National Assembly of Wales have been made aware of the potential VAT claim for a number of years and are expecting the WAO to ask for supplementary funding to meet this liability. I confirm that I have no reason to believe that this funding will not be forthcoming.

### **Potential Audit adjustments**

I confirm that I have considered the adjustments, advised to me by you in your management letter (list of adjustments attached to this letter). I confirm that we have considered the adjustments and agreed that the cost of processing the non-material adjustments outweighs any benefit to the users of the accounts.

### **Journal entries**

I confirm that there were actual journal entries processed as a result of your audit to incorporate the adjustments you identified during the audit.

Yours faithfully,

.....

**Auditor General for Wales**



WALES AUDIT OFFICE  
SWYDDFA ARCHWILIO CYMRU

Wales Audit Office / Swyddfa Archwilio Cymru

24 Cathedral Road / Heol y Gadeiriann  
Cardiff / Caerdydd

CF11 9LJ

Date: 21 August 2012

Tel / Ffôn: 029 20 320502

Our ref: HVT/1708/fgb

Fax / Ffacs: 029 20 320600

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Email / Epost: [wales@wao.gov.uk](mailto:wales@wao.gov.uk)

[www.wao.gov.uk](http://www.wao.gov.uk)

Mr Darren Millar AM  
Chair of the Public Accounts Committee  
National Assembly for Wales  
Cardiff Bay  
Cardiff CF99 1NA

Dear Darren

### A PICTURE OF PUBLIC SERVICES 2012

The clerk's letter of 27 June 2012 requested my advice on the response by the Welsh Government to the Committee's report on *A Picture of Public Services 2012*. Overall, the response is positive. The Welsh Government has accepted each of the Committee's recommendations. In some cases the Welsh Government has indicated a timescale for action, which will help the Committee in monitoring whether progress is on track.

In general, the response by the Welsh Government reflects the high level nature of some of the recommendations as well as the fact that in the case of some recommendations, the Welsh Government is already engaged in relevant activity, as evidenced during the Committee's inquiry. In formulating my advice I have therefore taken account of the evidence previously submitted, alongside the response to the Committee's report. There are some areas which would benefit from clarification or further information in order that the Committee can more fully understand what the Welsh Government intends to do in response to the recommendations.

**Recommendations 3, 4 and 5** relate to the challenges facing the NHS. The Welsh Government's response appears reasonable and reports a timetable for action to strengthen accountability and the financial regime. In relation to **Recommendation 5**, the Committee may want to clarify exactly what level of analysis the Welsh Government expects Health Boards to publish alongside plans for transforming services. I suggest that the Committee considers this issue as part of its inquiries on my recent report on Health Finances.

Direct Line: 029 2032 0510

E-mail: [huw.vaughan.thomas@wao.gov.uk](mailto:huw.vaughan.thomas@wao.gov.uk)

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In terms of the remaining recommendations, I would offer the comments below.

- The Welsh Government's response to **Recommendation 1** explains the work underway to improve financial management, with a particular focus on the Financial Leadership Division's work and the Finance Leadership programme. There are areas where the response could more clearly address the recommendation. First, the response refers to monitoring information being available to Finance Leadership Network members; this does not seem to fully address the recommendation that progress be made publicly available. Secondly, the detail in the response appears to be unduly limited to developments within the finance community. The Committee may wish to explore further what the Welsh Government is doing to help build the financial skills and capacity of a wider range of managers and public sector employees.

- The Welsh Government states that it accepts the Committee's **Recommendation 2**, but the detail of its response does not fully reflect that position. The Committee's recommendation calls on the Welsh Government to take 'further' action to encourage local authorities to use their reserves to invest in transformation. The Welsh Government reports that it encourages and supports local authorities to invest in transformation but does not make clear what additional action, if any, it intends to undertake in response to the Committee's recommendation. The Committee may want clarification as to whether the Welsh Government does indeed intend to take further action and what form that action will take.

- The Welsh Government's response to **Recommendation 6** helpfully draws attention to its support for existing methods of identifying and sharing good practice, including our own Good Practice Exchange. It is however less clear on implementation of good practice at a local level. As I point out in my report *A Picture of Public Services 2011*, actually implementing the learning from sharing good practice is probably the greatest challenge. The Welsh Government's oral evidence referred to work being done through the Effective Services for Vulnerable People work-stream of the Public Services Leadership Group to encourage local action. The Committee may wish to find out from the Welsh Government what other activities it is undertaking or supporting to help ensure that good practice is actually adopted and adapted locally.

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- The response to **Recommendations 7 and 8** involves promoting good practice by the Police and Fire and Rescue Authorities, and the Wales Audit Office Guide to Cost Reduction. On **Recommendation 7**, the response includes examples from the Police but none from the Fire and Rescue Authorities. The Committee may want a future update to include examples of how the PSLG is drawing on the experiences of the Fire and Rescue Authorities. In terms of our own Guide to Cost Reduction, we welcome the inclusion of a link on the Finance Leadership Network's website. However, we would emphasise that the Guide is aimed at a broader audience of managers and non executives charged with making and overseeing savings.
- **Recommendation 9** concerns the promotion of methods to understand and re-shape public services from the users' perspective. In terms of the Katka Brigade method, the detailed response, like the Welsh Government's oral evidence, refers to sharing of good practice in helping victims of domestic abuse which was identified using the Katka Brigade method. The Committee may want to find out more about how the Welsh Government is promoting the use of this type of method to diagnose and re-design services. In terms of Lean/ Systems Thinking, when the previous Public Accounts Committee considered the first Picture of Public Services report, the Welsh Government submitted evidence in November 2010, referring to the "establishment" of a LEAN community of practice. The current response, some twenty months later, refers to the "development" of a network. The Committee may wish to find out more about what progress has been made and whether the Welsh Government or Public Service Leadership Group has gone beyond establishing and developing the network and supported it in delivering tangible impacts.
- The Welsh Government's response to **Recommendation 10** is clear in terms of the commitment to involving councillors and developing guidance on governance, but less clear in terms of monitoring. The Welsh Government's response refers to the benefits of collaboration being included in the Measurement Framework developed as part of the Public Services Leadership Group. The Welsh Government has provided an overview of the Measurement Framework in previous written and oral evidence. Nonetheless, the Committee may want further detail as to the status of the Measurement Framework specifically in relation to collaboration: how it will be used by the Welsh Government to monitor progress; and how the information will be used to help manage the roll-out of collaboration as the data emerges showing what works and what does not.
- The Welsh Government has accepted **Recommendation 11** and agreed to provide an update. However, it does not intend to provide the update until June 2013. Waiting until June may impact on the Committee's ability to consider the update ahead of the 2013 summer recess. The Committee's request in April 2012 was for an update "within 12 months". The Committee may therefore wish to request that the Welsh Government provide its update earlier than June.

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I suggest that the Committee considers whether to request further evidence from the Welsh Government in light of my comments at the same time as considering the Welsh Government's update in spring 2013. In the meantime, many of these issues of public service reform are being taken forwards by the Public Services Leadership Group. The Committee may be aware that I sit as an Observer on the overall Group and there is a member of WAO staff as Observer on each of the work-streams. I will bring any significant issues to the Committee's attention, should that be warranted.

Yours sincerely



**HUW VAUGHAN THOMAS**  
AUDITOR GENERAL FOR WALES

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