

Finance Committee

Meeting Venue:

Committee Room 2 – Senedd

Meeting date:

Thursday, 8 May 2014

Meeting time:

09.00

Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales



For further information please contact:

Bethan Davies

Committee Clerk

029 2089 8120

FinanceCommittee@wales.gov.uk

Agenda

1 Introductions, apologies and substitutions (09:00)

2 Papers to note (09:00) (Pages 1 – 3)

3 Wales Audit Office: Consideration of the Fee Scheme, Fee Scales, Annual Plan and Code of Practice (09:05–10:00) (Pages 4 – 63)

FIN(4)-08-14 (paper 1) - Fee Scheme and Fee Scales 2014

FIN(4)-08-14 (paper 2) - Annual Plan 2014-15

FIN(4)-08-14 (paper 3) - Code of Practice

Huw Vaughan Thomas, Auditor General for Wales

Isobel Garner, Chair of the Wales Audit Office

Kevin Thomas, Director of Corporate Services, Wales Audit Office

Steve O'Donoghue, Director of Finance, Wales Audit Office

4 Motion under Standing Order 17.42 to resolve to exclude the public from the meeting for the following business: (10:00)

Item 5 and Item I of the meeting on 14 May 2014

5 Best Practice Budget Process (10:00–10:30) (Pages 64 – 66)
FIN(4)–08–14 (paper 4)

Ian Summers – Committee Advisor

Finance Committee

Meeting Venue: **Committee Room 2 – Senedd**

Meeting date: **Wednesday, 30 April 2014**

Meeting time: **09.00 – 12.08**

This meeting can be viewed on Senedd TV at:

http://www.senedd.tv/archiveplayer.jsf?v=en_300000_30_04_2014&t=0&l=en

Cynulliad
Cenedlaethol
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National
Assembly for
Wales



Concise Minutes:

Assembly Members:

Jocelyn Davies AM (Chair)
Peter Black AM
Christine Chapman AM
Paul Davies AM
Mike Hedges AM
Alun Ffred Jones AM
Ann Jones AM
Julie Morgan AM

Witnesses:

Nicola Evans, Wales Audit Office
Edwina Hart AM, Minister for Economy, Science and Transport, Minister for Economy, Science and Transport
Rob Hunter, Welsh Government
Terry Jones, Wales Audit Office
Kevin Thomas, Assistant Auditor General, Wales Audit Office
Huw Vaughan Thomas, Auditor General for Wales, Wales Audit Office

Committee Staff:

Bethan Davies (Clerk)

Meriel Singleton (Second Clerk)
Claire Griffiths (Deputy Clerk)
Joanest Jackson (Legal Advisor)
Richard Bettley (Researcher)
Helen Jones (Researcher)

TRANSCRIPT

View the [meeting transcript](#).

1 Holiday Caravan Sites (Wales) Bill: Financial Implications of the Bill

1.1 Members considered the briefing paper on the Holiday Caravans Sites (Wales) Bill and agreed that they would not invite the Member in Charge (Darren Millar AM) to answer questions on the financial implications of the Bill unless concerns are raised by Communities, Equality and Local Government Committee during its scrutiny of the Bill.

2 Higher Education Funding: Consideration of the draft report

2.1 The Committee considered and subject to a few minor changes, agreed the draft report.

3 Wales Audit Office: Briefing on new arrangements arising from the Public Audit (Wales) Act 2013

3.1 The Wales Audit Office briefed the Committee on its fees scheme and scales.

4 Introductions, apologies and substitutions

4.1 The Chair welcomed Members and members of the public to the meeting.

5 Papers to note

5.1 The papers were noted.

5.1 Wales Bill: Letter from the Secretary of State for Wales (20 March 2014)

5.2 Welsh Government Supplementary Budget 2013–2014: Letter from the Minister for Finance (14 April 2014)

5.3 Finance Wales Inquiry: Additional information from Finance Wales (April 2014)

5.4 Finance Wales Inquiry: Finance Wales Stakeholder Breakfast Event

6 Finance Wales Inquiry: Evidence Session 5

6.1 The Committee took evidence from Edwina Hart AM, Minister for Economy, Science and Transport on the Finance Wales inquiry.

6.2 The Minister for Economy, Science and Transport agreed to send a note on the following issues:

- Percentage of businesses referred to Finance Wales from the banking and other professional sectors
- Terms of reference for the review being undertaken by Robert Lloyd-Griffiths and an update on the work undertaken to date
- Send a copy of the report on interest rates
- Statistics of categories of business that have received funding from Finance Wales
- Schedule listing the funding sources that contribute to Finance Wales and the expected returns

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

7.1 The Motion was agreed.

8 Finance Wales Inquiry: Consideration of evidence received

8.1 The Committee discussed the evidence received.

Agenda Item 3



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Fee Scheme 2014

Second revision

This is a fee scheme prepared by the Wales Audit Office under section 24 of the Public Audit (Wales) Act 2013. It is the second Fee Scheme published by the Wales Audit Office and applies for the 2014 and subsequent calendar years unless it is revised or remade. This Fee Scheme replaces that approved by the Finance Committee of the National Assembly for Wales on 20 March 2014.

This fee scheme is laid before the National Assembly under section 24(4)(c) of the Public Audit (Wales) Act 2013.

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Introduction

- 1 This fee scheme has been prepared by the Wales Audit Office under section 24 of the Public Audit (Wales) Act 2013 (the Act) ([Appendix 1](#)). The fee scheme, following approval by the National Assembly, will provide the basis on which the Wales Audit Office will charge audit fees.
- 2 This fee scheme replaces that approved by the Finance Committee of the National Assembly on 20 March 2014 as it now includes fee scales for those activities outlined in [paragraph 11](#) for which the Wales Audit Office did not have powers under the Act to prescribe before 1 April 2014.
- 3 In broad terms, the fee scheme sets out:
 - the enactments under which the Wales Audit Office charges audit fees; and
 - the arrangements for setting those fees.
- 4 The Wales Audit Office's arrangements comprise either:
 - fee scales that set out fee ranges for particular areas of audit work ([paragraphs 8 to 11](#)); or
 - fee rates for work not covered by fee scales ([paragraphs 12 to 14](#)).
- 5 Much of the audit work that will be undertaken during 2014-15 relates to the 2013-14 financial year and will be undertaken under the Auditor General's fee charging powers, rather than the Wales Audit Office's powers.
- 6 Audit fees are the main, but not the only, source of the Wales Audit Office's funding. Full information about the Wales Audit Office's funding is contained in annual estimates of income and expenditure which are laid before the National Assembly.

List of enactments

7 **Exhibit 1** sets out the statutory enactments under which the Wales Audit Office may and must charge fees, as at 1 April 2014.

Exhibit 1: Statutory fee charging enactments

Nature of work	Statutory enactments
The Wales Audit Office may charge fees for the following activities	
<ul style="list-style-type: none"> Audit of accounts by the Auditor General (other than local government accounts) 	Section 23(2) Public Audit (Wales) Act 2013
<ul style="list-style-type: none"> Value for money studies undertaken by agreement 	Section 23(3)(a)-(c) Public Audit (Wales) Act 2013
<ul style="list-style-type: none"> Any administrative, professional or technical services to be provided by the Wales Audit Office or the Auditor General by arrangement under section 19 of the Act 	Section 23(3)(d) Public Audit (Wales) Act 2013
<ul style="list-style-type: none"> An extraordinary audit of a local government body 	Section 37(8) of the Public Audit (Wales) Act 2004
<ul style="list-style-type: none"> Data matching exercises A fee scale must be prescribed for this work 	Section 64F(A1) of the Public Audit (Wales) Act 2004
The Wales Audit Office must charge fees for the following activities	
<ul style="list-style-type: none"> Work under the Local Government (Wales) Measure 2009 A fee scale must be prescribed for this work 	Section 27 of the Local Government (Wales) Measure 2009
<ul style="list-style-type: none"> Grant certification services 	Section 23(4)(a) Public Audit (Wales) Act 2013
<ul style="list-style-type: none"> Studies at the request of educational bodies under section 145B of the Government of Wales Act 1998 	Section 23(4)(b) Public Audit (Wales) Act 2013
<ul style="list-style-type: none"> Auditing the accounts of a local government body and undertaking studies by agreement with a local government body A fee scale must be prescribed for the audit of the accounts of local government bodies 	Section 20(A1)(a)-(b) of the Public Audit (Wales) Act 2004
Other fee charging provisions	
<ul style="list-style-type: none"> Benefit administration studies for the Secretary of State. The amount of the fee must be a reasonable amount agreed between the Secretary of State and the Wales Audit Office. 	Section 45 of the Public Audit (Wales) Act 2004
<ul style="list-style-type: none"> Assisting Her Majesty's Chief Inspector for Education and Training in Wales 	Section 41A of the Education Act 1997

Fee scales

- 8 Fee scales are a means of regulating the cost of public audit, through setting limits and by reviewing fees against those limits. Fee scales also provide a framework for auditors to assess the amount of annual audit work necessary and the fee to be charged for that work at a particular audited body.
- 9 The Wales Audit Office is required to prescribe fee scales for:
- work relating to the audit of local government bodies;
 - work under the Local Government (Wales) Measure 2009; and
 - data matching work.¹
- 10 The Wales Audit Office was not able to prescribe these fee scales until 1 April 2014 and hence this fee scheme has been updated to include the fee scales consulted upon and prescribed by the Auditor General in March 2014.
- 11 Fee scales for the audit of 2013-14 accounts and 2014-15 improvement audits and assessments are attached in [Appendix 2](#). [Appendix 2](#) also contains separate fee scales for work conducted at unitary authorities, fire and rescue authorities, national park authorities, police and crime commissioners and chief constables, town and community councils and local government pension funds.

Other fees

- 12 Audit and inspection fees reflect the amount of staff time that will be spent on that audit or inspection. Staff are charged to audits at grade-related hourly rates. In accordance with the Act, these hourly rates have been calculated so as not to recover more than the full cost of carrying out that work. Hourly rates reflect the direct costs of staff plus an appropriate proportion of overheads. Other than as specified elsewhere in this scheme, audit fees will be charged in accordance with the hourly fee rates set out in Exhibit 2. These rates will apply to all work that the Wales Audit Office will charge for from 1 April 2014 except to the extent that the fee scales set out in this scheme regulate the amount to be charged.
- 13 In the case of the provision of administrative, professional or technical services agreed before 1 April 2014, fees will be charged in accordance with the relevant agreement, subject to such fees being capped at the full cost of providing the service.
- 14 Where specialist support or legal or professional advice is required, this will be charged to audited bodies in addition to the cost of Wales Audit Office staff.

¹ Fee scales for data matching work are not currently required as this is biennial work for which fee scales will be included in Fee Scheme 3 later in 2014

Payment of fees

Exhibit 2: Hourly fee rates

Grade	Hourly rate (£ per hour)
Financial audit	
Engagement lead	£162
Audit manager	£111
Team leader	£75
Team member	£56
Trainee	£45
Technician	£30
Performance audit	
Engagement lead	£173
Performance audit manager	£111
Performance audit lead	£93
Performance auditor	£65

- 15 Where audit fees are set and charged in advance, those fees (plus VAT where appropriate) are collected in monthly instalments from audited bodies, unless otherwise agreed.
- 16 Where fees are calculated on a daily basis, those fees (plus VAT where appropriate) are collected on completion of the work or in stage payments as the work progresses.

Public Audit (Wales) Act 2013

– full text of section 24

- 1 The Wales Audit Office must prepare a scheme relating to the charging of fees by the Wales Audit Office.
- 2 The scheme must include the following:
 - a a list of the enactments under which the Wales Audit Office may charge a fee;
 - b where those enactments make provision for the Wales Audit Office to prescribe a scale or scales of fees, that scale or those scales;
 - c where those enactments make provision for the Wales Audit Office to prescribe an amount to be charged, that amount; and
 - d where no provision is made for a scale or scales of fees or for an amount to be prescribed, the means by which the Wales Audit Office is to calculate the fee.
- 3 The scheme may, amongst other things:
 - a include different provision for different cases or classes of case; and
 - b provide for times at which and the manner in which payments are to be made.
- 4 The Wales Audit Office:
 - a must review the scheme at least once in every calendar year;
 - b may revise or remake the scheme at any time; and
 - c must lay the scheme (and any revision to it) before the National Assembly.
- 5 Where the Welsh Ministers prescribe a scale or scales of fees under:
 - a section 64F of the Public Audit (Wales) Act 2004 (fees for data matching); or
 - b section 27A of the Local Government (Wales) Measure 2009 (Welsh Ministers' power to prescribe a scale of fees) to have effect instead of a scale or scales prescribed by the Wales Audit Office, the Wales Audit Office must revise the scheme to include the scale or scales prescribed by the Welsh Ministers instead of those prescribed by the Wales Audit Office.
- 6 If a revision made in accordance with subsection (5) is the only revision to a scheme, it does not require the approval of the National Assembly.
- 7 The scheme takes effect when approved by the National Assembly or, in the case of a revision made in accordance with subsection (5), once it has been laid before the Assembly.
- 8 The Wales Audit Office must publish the scheme (and any revision to it) as soon as reasonably practicable after it takes effect.

Wales Audit Office fee scales from 1 April 2014

Unitary authorities

Fee scale for audit of accounts for unitary authorities

Gross expenditure £000,000	Total fee range £000		
	Minimum	Median	Maximum
100	119	140	160
200	143	168	193
300	159	187	215
400	172	202	232
500	183	215	246
600	192	225	259
700	200	235	269
800	207	243	279
900	213	251	288
1,000	220	258	296
1,100	225	265	304
1,200	230	271	311

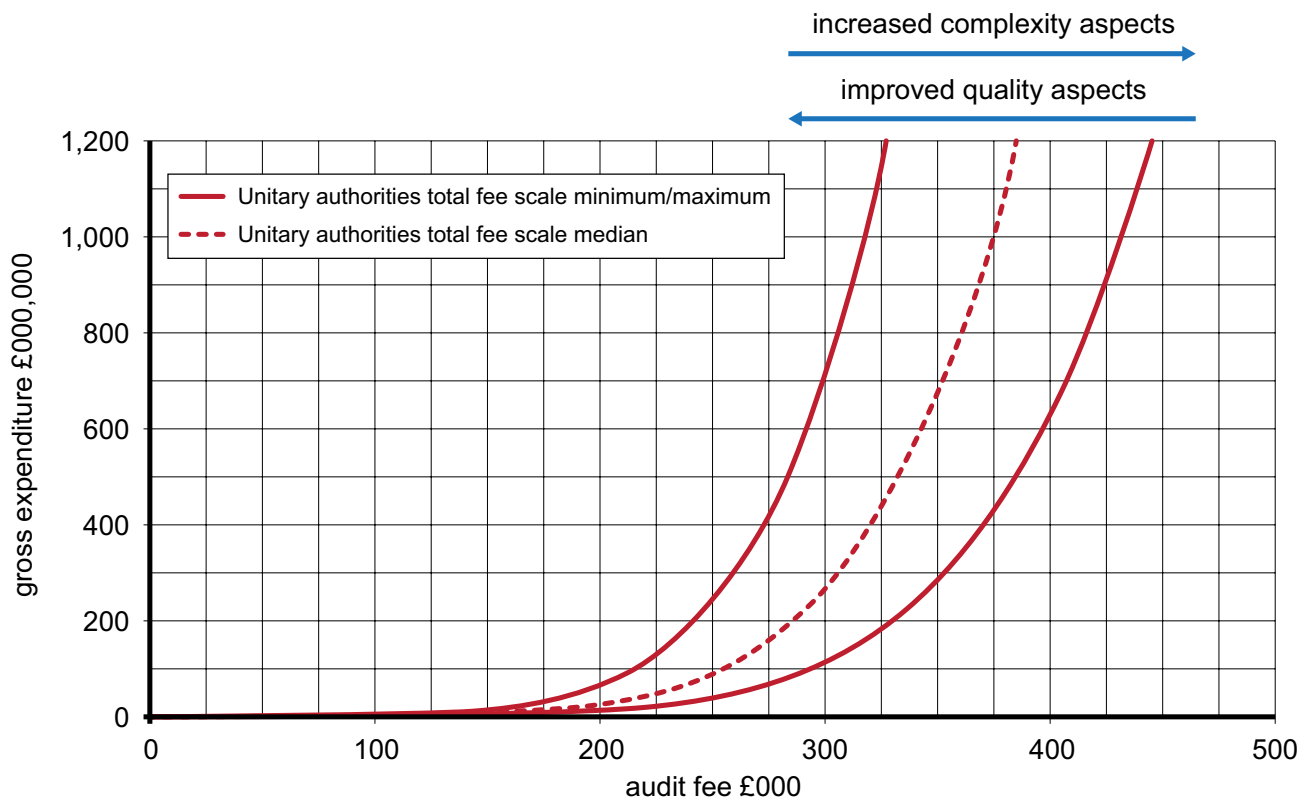
Fee scale for improvement audits and assessments for unitary authorities

All unitary authorities	Total fee range £000		
	Minimum	Median	Maximum
	98	117	136

Total fee scale for unitary authorities

Gross expenditure £000,000	Total fee range £000			
	Minimum	Median	Maximum	2013-14 median
100	217	257	296	196
200	241	285	329	242
300	257	304	351	273
400	270	319	368	298
500	281	331	382	319
600	290	342	395	337
700	298	352	405	353
800	305	360	415	367
900	311	368	424	380
1,000	318	375	432	393
1,100	323	382	440	404
1,200	328	388	447	415

Graphic of total fee scale for unitary authorities



Fire and rescue authorities

Fee scale for audit of accounts for fire and rescue authorities

Gross expenditure £000,000	Total fee range £000		
	Minimum	Median	Maximum
20	34	41	47
40	41	49	57
60	46	55	63
80	50	59	68
100	53	63	72

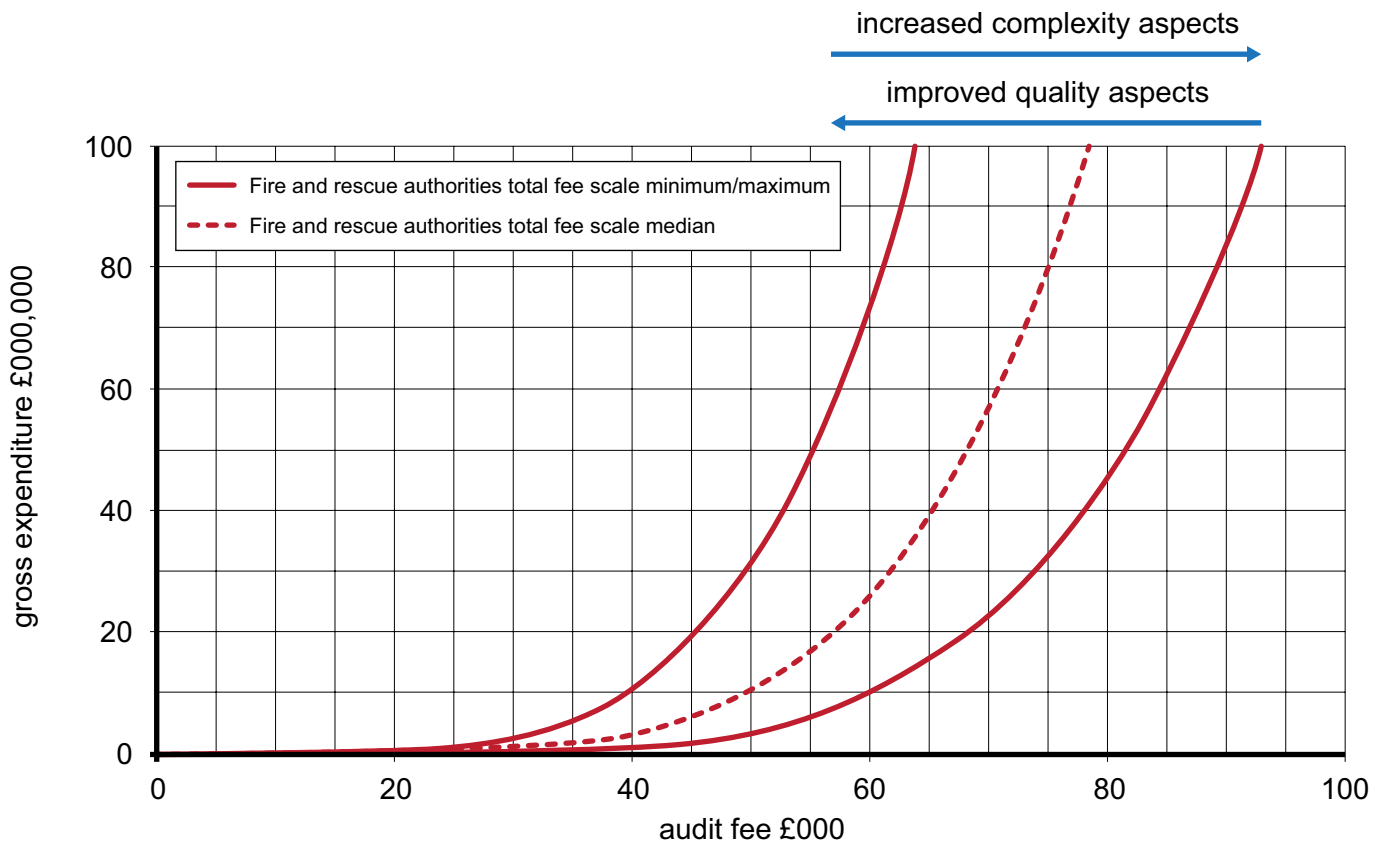
Fee scale for improvement audits and assessments for fire and rescue authorities

All fire and rescue authorities	Total fee range £000		
	Minimum	Median	Maximum
	11	16	21

Total fee scale for fire and rescue authorities

Gross expenditure £000,000	Total fee range £000			
	Minimum	Median	Maximum	2013-14 median
20	45	57	68	48
40	52	65	78	61
60	57	71	84	71
80	61	75	89	79
100	64	79	93	85

Graphic of total fee scale for fire and rescue authorities



National park authorities

Fee scale for audit of accounts for national park authorities

Gross expenditure £000,000	Total fee range £000		
	Minimum	Median	Maximum
2	22	26	29
4	26	31	35
6	29	34	39
8	31	37	42
10	33	39	45

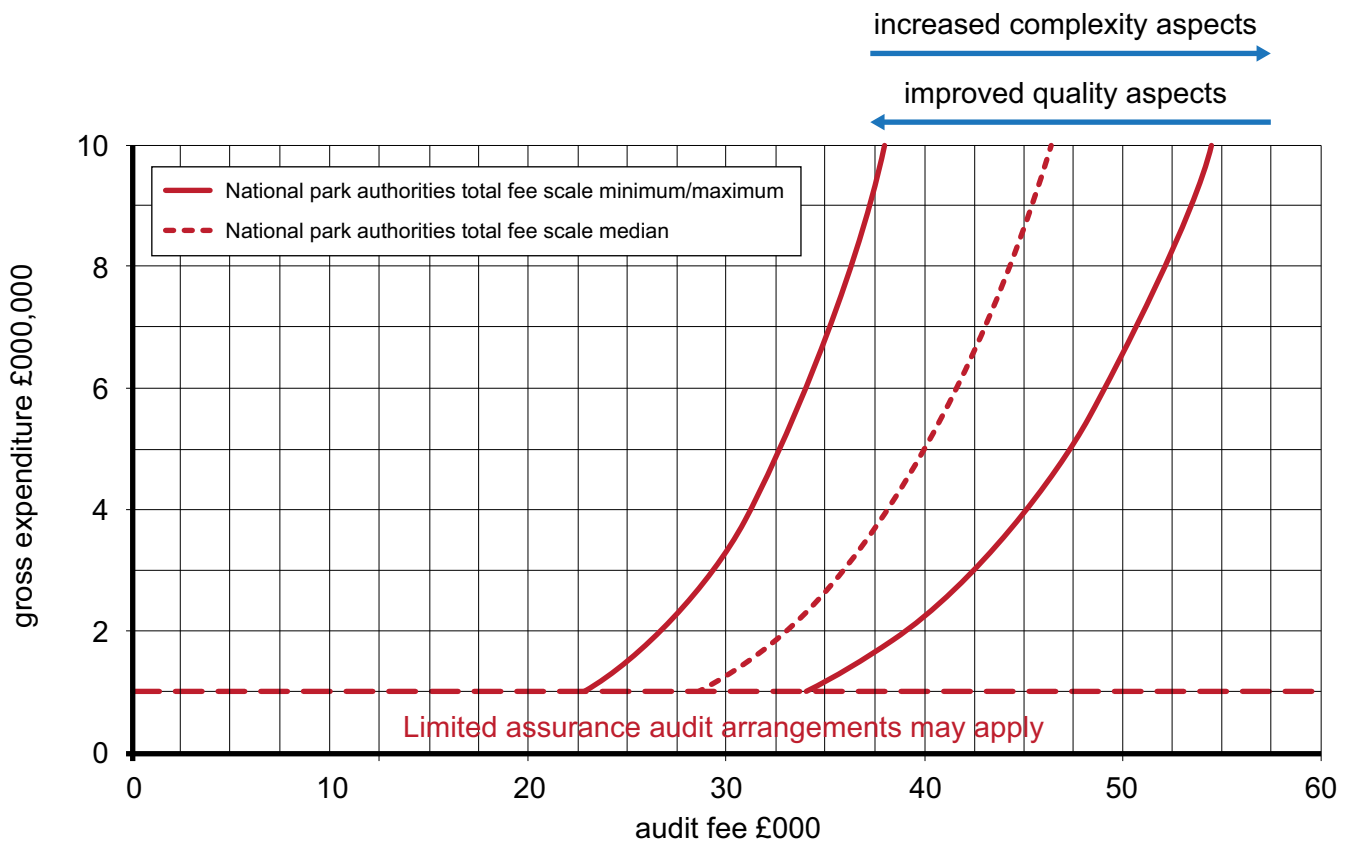
Fee scale for improvement audits and assessments for national park authorities

All national park authorities	Total fee range £000		
	Minimum	Median	Maximum
	5	7	10

Total fee scale for national park authorities

Gross expenditure £000,000	Total fee range £000			
	Minimum	Median	Maximum	2013-14 median
2	27	33	39	23
4	31	38	45	30
6	34	41	49	35
8	36	44	52	39
10	38	46	55	42

Graphic of total fee scale for national park authorities

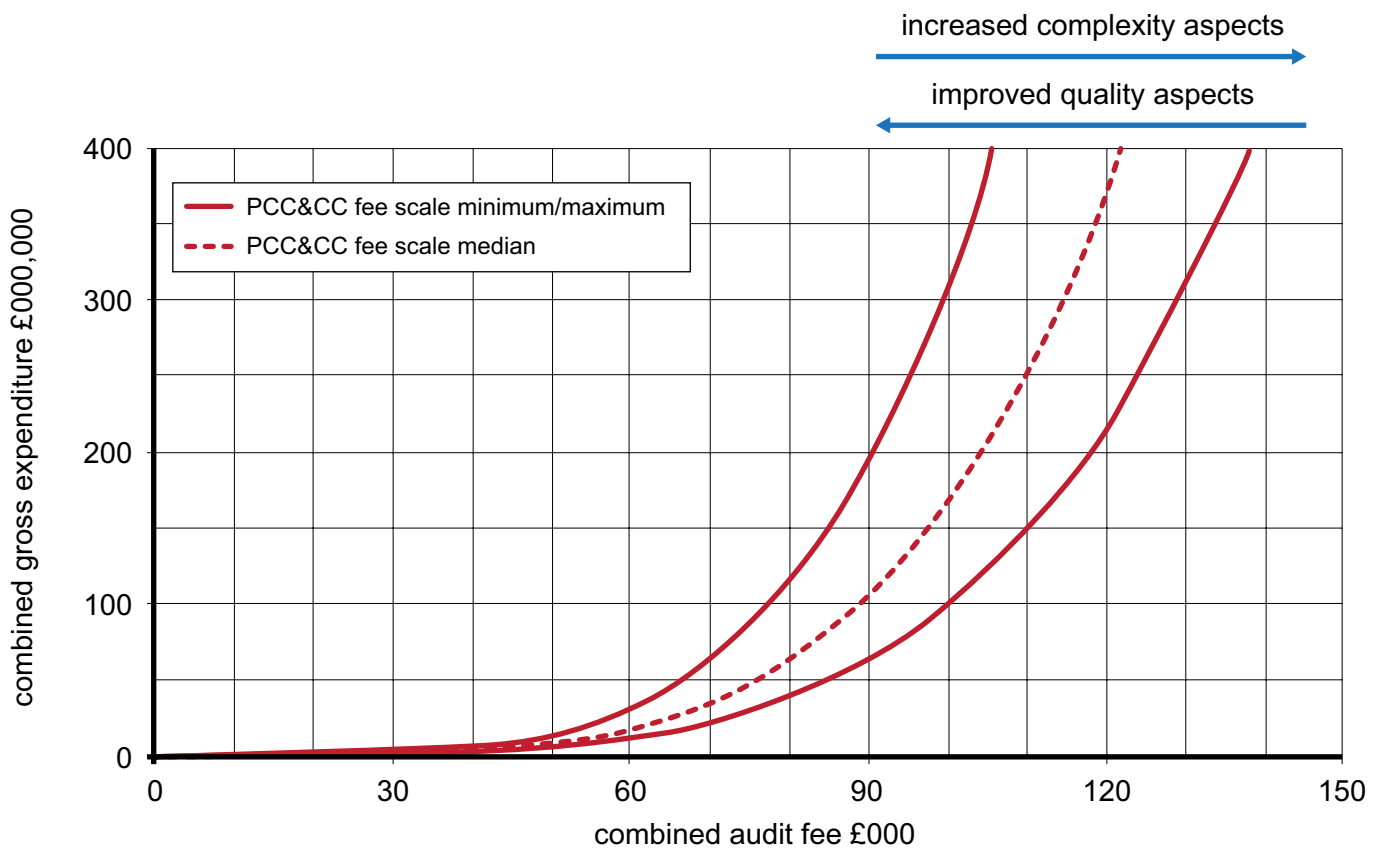


Police and crime commissioners and chief constables

Fee scale for audit of accounts for police and crime commissioners and chief constables

Combined gross expenditure of PCC and CC £000,000	Combined fee range for PCC and CC £000			
	Minimum	Median	Maximum	Estimated median from last year
50	67	76	85	55 to 60
100	78	89	100	73 to 79
150	85	97	110	86 to 93
200	90	104	117	96 to 105
250	95	109	124	105 to 115
300	99	114	129	113 to 123
350	103	118	134	121 to 131

Graphic of fee scale for police and crime commissioners and chief constables



Town and community councils

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

Annual income or expenditure (fees are payable on whichever is the higher each year)	Type of audit	Proposed fee	Fee charged in previous year
£Nil - £1,000	Basic	£30	No fee payable
£1,001 - £5,000	Basic	£80	£60
£5,001 - £10,000	Basic	£175	£130
£10,001 - £30,000	Basic	£205	£150
£30,001 - £60,000	Basic	£295	£310
£60,001 - £100,000	Basic	£350	£425
£100,001 - £200,000	Basic	£415	£575
£200,001 - £300,000	Intermediate	£650	£920
£300,001 - £400,000	Intermediate	£650	£1,100
£400,001 - £500,000	Intermediate	£650	£1,520
£500,001 - £750,000	Intermediate	£920	£2,045
£750,001 - £1,000,000	Intermediate	£920	£2,625

Local government pension funds

Fee scale for audit of accounts for local government pension funds

All pension funds	Total fee range £000			
	Minimum	Median	Maximum	2013-14 median
	30	40	50	28



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Annual Plan 2014-15

Annual Plan of the Auditor General for Wales and the Wales Audit Office for the year ended 31 March 2015

This Annual Plan has been jointly prepared by the Auditor General for Wales and the Wales Audit Office under section 25(1) of the Public Audit (Wales) Act 2013. It is laid before the National Assembly for Wales under section 26 of the Public Audit (Wales) Act 2013.

Huw Vaughan Thomas
Auditor General for Wales

Isobel Garner (Chair), Steven Burnett, David Corner,
Christine Hayes, Peter Price and Huw Vaughan Thomas¹
Wales Audit Office

¹ The Auditor General for Wales is a member of the Wales Audit Office under paragraph 1(2)(b) of Schedule 1 to the Public Audit (Wales) Act 2013 by virtue of his office. The Auditor General for Wales is also, however, a separate legal entity.

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Foreword from the Auditor General for Wales



Welsh public services stand at something of a crossroads, facing decisions that will affect the sustainability of delivery for decades to come. Public audit reports over the last few years have increasingly pointed to the need for redesign and transformation as resources shrink and demand grows. In response to these unprecedented pressures, public audit must focus on areas which provide the most important lessons about what is working and what needs to change. Maintaining public confidence in how public money is spent has never been more important, and I intend to strengthen our focus on governance in the coming year. The recent report of the *Commission on Public Service Governance and Delivery* suggests that many of the messages of previous audit reports are permeating thinking in Wales. It is important then that through my work as Auditor General for Wales I continue to provide prompt and helpful insight into past and future patterns of public spending.

My role as Auditor General is to report on whether:

- public resources are used economically, efficiently and effectively;
- public money is properly accounted for; and
- public services in Wales are improving.

As the independent external auditor of the Welsh public sector, I must be able to rely on those who are assisting in the delivery of my audit programme to do so to the highest professional standards, and equally the Wales Audit Office must demonstrate its good governance and effective stewardship of public resources.

That is why I am delighted to be working with the newly appointed Board under governance arrangements that give appropriate public assurance about the use of resources for public audit, while protecting my audit independence. In line with this Annual Plan, I will continue to benefit from the commitment and professionalism of my colleagues within the Wales Audit Office as I design and report on my audit programme.

Huw Vaughan Thomas

Foreword from the Chair of the Wales Audit Office Board



This year is a period of transition for the Wales Audit Office. Whilst it will continue to focus on helping deliver the Auditor General's audit work to the highest standard, behind the scenes considerable change is taking place.

The Wales Audit Office is now a corporate body with a Board in accordance with the Public Audit (Wales) Act 2013. It comprises members, drawn from a diverse range of backgrounds, who will advise and monitor the Auditor General and provide resources for his work. The Board also includes the Auditor General as Chief Executive. The Board will not be fully constituted until late May 2014 because of the process of electing employee members. Nevertheless progress is well underway in establishing Board mechanisms and relationships and embedding the firm governance arrangements envisaged by the act.

At this early stage, we are looking closely at arrangements to ensure our governance mechanisms are appropriate and well-designed, and that we are a well-run organisation that efficiently and effectively deploys public money. We are also investing time to review jointly with the Auditor General and his Senior Leadership Team, the strategic direction and priorities of the Wales Audit Office so that it can best support and deliver his core aims of providing assurance, offering insight and promoting improvement. We want to see our stakeholders benefit from the work of our organisation, and are intent on helping public bodies in Wales ensure they succeed and deliver the best results for the people they serve, recognising what is good, and sharing best practice.

To this end we are reorganising the Wales Audit Office's senior management structure to strengthen client focus, better target our work and improve engagement with Welsh public bodies.

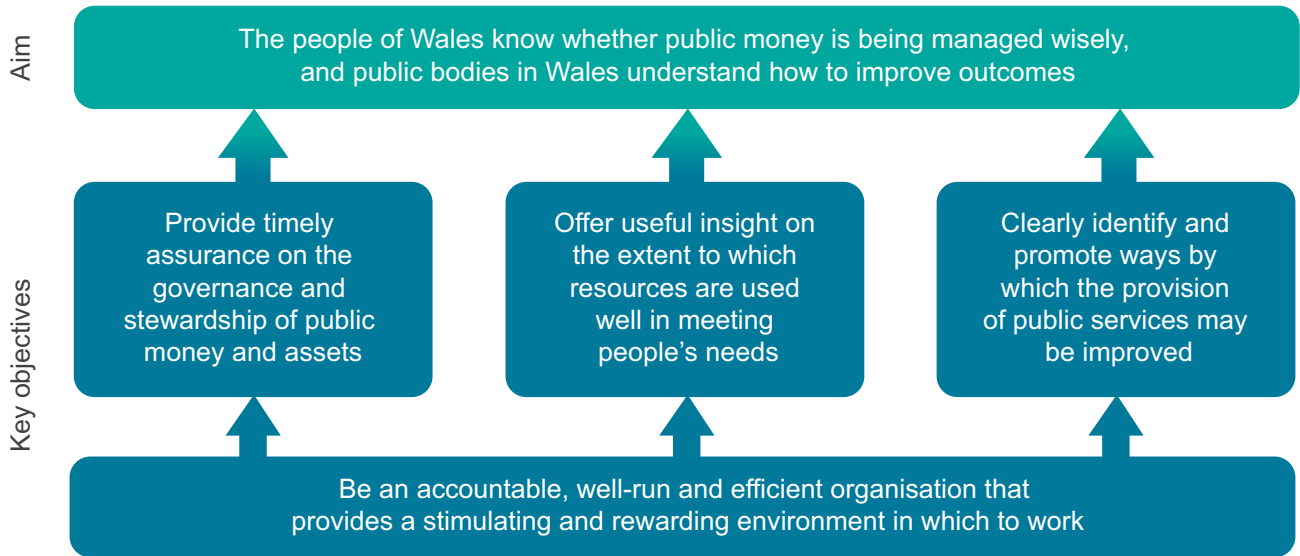
The Board and the entire organisation are embarking on a journey that is exciting, challenging and rewarding. Collectively, we are fully committed to rigorous public audit. Together, we are determined to play our respective roles in delivering this Annual Plan.

Isobel Garner

Strategy for the Auditor General for Wales and the Wales Audit Office 2013-2016

- 1 Our overall aim as an organisation is that: 'The people of Wales know whether public money is being managed wisely, and public bodies in Wales understand how to improve outcomes'. This overall aim is supported by four key objectives for the period 2013-2016 as summarised in [Exhibit 1](#). All of the Auditor General's audit work is designed to support the three objectives of providing assurance, offering insight and identifying and promoting improvement. In order to successfully achieve these three objectives it is imperative that the Wales Audit Office is an accountable, well-run and efficient organisation.
- 2 This strategy was based on our assessment of the external environment at the time of its preparation in 2013. However, that environment is rapidly changing and during the period covered by this plan we shall be considering how to respond to ongoing developments. Of particular significance, with potentially far-reaching effects, are:
 - the proposed 'Future Generations Bill' which intends to place sustainable development duties on most devolved public bodies in Wales; and
 - the Welsh Government's response to the Williams' *Commission on Public Service Governance and Delivery* (the Williams Commission).
- 3 In implementing our strategy we will take account of both the principles and the national sustainable development goals for Wales, which will form the key features of the sustainable development duties to be placed on public bodies in Wales. The principles are likely to include: integration, long term prevention, engagement and collaboration. Organisations will be expected to apply these principles when deciding what outcomes to seek to achieve and in decisions about how to achieve the outcomes.
- 4 Organisations will also have to demonstrate how they have prioritised what they do and how they spend their money in order to achieve their outcomes and contribute to the national sustainable development goals. The proposed goals are:
 - Wales is prosperous and innovative;
 - Wales uses a fair share of natural resources;
 - communities across Wales are safe, cohesive and resilient;
 - people in Wales are healthier; and
 - Wales is a more equal nation.

Exhibit 1 – Wales Audit Office’s aim and objectives



Work of the Auditor General (and his Appointed Auditors)

Overview

- 5 This section describes the work that the Auditor General (and his Appointed Auditors²) plan to undertake in 2014-15 and highlights their main priorities for that year. It covers:
- Financial audit
 - Performance audit
 - Cross-cutting work
- 6 Further information about the statutory functions of the Auditor General (and his Appointed Auditors) is available on the Wales Audit Office's website³.
- 7 The overall quality of our work is of paramount importance to us. To further enhance that quality during the year we will continue to develop our programme of reciprocal peer reviews with other audit agencies and to build on the work we are voluntarily undertaking with the Quality Assurance Department of the Institute of Chartered Accountants in England and Wales. The Auditor General will also continue to work in collaboration with relevant regulators and inspectorates such as Estyn, Healthcare Inspectorate Wales and the Care and Social Services Inspectorate Wales to support the delivery of coordinated, high-quality audit, inspection and regulation across Welsh public services.
- 8 The Auditor General is currently preparing a new Code of Audit Practice to underpin the work that is undertaken on his behalf, which will include an enhanced set of principles to further support the delivery of that work.

² From 1 April 2014, the Auditor General will become the auditor of local government bodies in Wales. Prior to 1 April, the Auditor General appointed auditors to local government bodies.

³ www.wao.gov.uk/about-us

Financial audit

- 9 Our financial audit work, comprises in the main:
- audit of accounts;
 - grants certification; and
 - reactive work in response to information from members of the public and elector challenge and objections.

Audit of accounts

- 10 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 the Auditor General's and appointed auditors' financial audit work is auditing these accounts and providing assurance to the public over the stewardship of public money.
- 11 In 2014-15 the Auditor General and appointed auditors expect to issue reports on the accounts of over 800 public bodies in Wales covering local government, central government and the NHS, which includes over 750 small town and community councils.

Grants certification

- 12 Grants are a key source of funding in Wales. When making grant awards, funders set conditions requiring recipients to use the money for agreed purposes and to put in place 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.
- 13 In 2014-15, the Auditor General expects to certify 32 local government grant schemes, worth over £3 billion and involving over 300 individual claims.
- 14 We will also focus in particular during the year in preparing for changes to the grants regime arising from the introduction of Universal Credit and the new European Programme 2014-2020.

Reactive work

- 15 Legislation provides electors and others with the right to raise concerns with the Auditor General and his Appointed Auditor about the way in which public money is being used. When such concerns are raised, we consider how best to respond to them and how to report the findings of any work we undertake.

Performance audit

- 16 Our performance audit work supports the Auditor General in the discharge of his statutory value-for-money audit and improvement assessment functions. Core performance audit work broadly falls into three business streams:
 - a rolling programme of value-for-money studies undertaken in support of the scrutiny work of the National Assembly's Public Accounts Committee (PAC);
 - NHS health boards and trusts: comprising an annual programme of all-Wales studies of NHS bodies and some local bespoke performance audit projects; and
 - local government (including national parks and the fire and rescue services): comprising an annual programme of improvement assessment work under the Wales Programme for Improvement alongside a programme of studies of local government bodies.

Value-for-money studies

- 17 The Auditor General's rolling programme of value-for-money studies examines issues relating to the economy, efficiency and effectiveness with which the Welsh Government and its sponsored and related public bodies use their resources to discharge their functions.

- 18 In determining his programme of studies, the Auditor General is required to take into account the views of the National Assembly's PAC. His reports provide the foundation for the PAC's own work programme and potentially support the work of other National Assembly committees. The Auditor General and Wales Audit Office staff provide a range of support to the PAC to assist its consideration and further scrutiny of these reports.
- 19 The Auditor General has committed to delivering between 10 to 12 products for consideration by the PAC each year, which include: planned value-for-money reports; all-Wales summaries of local performance audit work; and other miscellaneous reports or briefings arising from across the breadth of audit work undertaken by the Auditor General.
- 20 The priorities for value-for-money studies work in 2014-15 are set out in [Appendix 1](#).
- NHS: annual programme of performance audit work**
- 21 The main components of this work are local value-for-money examinations (that are undertaken across all NHS bodies) including an annual structured assessment that considers the robustness of NHS bodies' arrangements for corporate governance and financial and performance management.
- 22 The main outputs from the value-for-money examinations are local reports for individual NHS bodies. However, they also offer the potential for an all-Wales summary report for presentation to the National Assembly's PAC. Each local audit programme is likely to include a small number of bespoke performance audit projects that relate to issues or risks specific to the individual NHS body.
- 23 The annual programme of health performance audit work for 2014 is outlined in [Appendix 1](#).
- Local government: annual programme of improvement assessment work**
- 24 Under the Local Government (Wales) Measure 2009, the Auditor General is required to undertake an annual programme of improvement assessment work that comprises the following:
- improvement assessments;
 - an audit of authorities' annual improvement plans;
 - progress checks on proposals for improvement and recommendations;
 - audit and testing of authorities' assessments of performance; and
 - audit of performance indicators.

- 25 In addition to this annual programme of work, the Auditor General is undertaking cyclical in-depth corporate assessments of governance arrangements. The Auditor General intends to undertake six such corporate assessments in 2014-15 at the following authorities:
- City and County of Swansea Council
 - Flintshire County Council
 - Isle of Anglesey Council
 - Merthyr Tydfil County Borough Council
 - Monmouthshire County Council
 - Neath Port Talbot County Borough Council
- 26 [Appendix 1](#) sets out a summary of planned and potential local government studies to be undertaken during 2014-15.
- 27 Our planned work in local government in particular will be kept under review as we monitor the Welsh Government's response to the recommendations of the Williams Commission.

Cross-cutting work

- 28 We also carry out further cross-cutting work such as:
- identifying and disseminating good practice; and
 - the National Fraud Initiative (NFI).

Good practice

- 29 The Auditor General's approach to good practice involves the identification and sharing of good practice through a number of means, including the Good Practice Exchange (GPX). The GPX website hosts over 550 case studies and examples of good practice. These cover a wide range of public sector activity and topics including fleet management, delayed transfers of care and the management of sickness absence. The GPX is fed by the Auditor General's and appointed auditors' financial and performance audit work and provides examples of how our audited bodies are dealing with the challenges they face. The website receives an average of 3,000 visits per month. Alongside the GPX the Auditor General facilitates knowledge exchange through shared learning seminars, which bring together individuals from across the Welsh public service to share their knowledge and experience.
- 30 We also support the goodpracticewales.com portal which allows users to search for examples of good practice, case studies and other documents from 20 improvement organisations and other bodies involved in public sector improvement. This web portal gives access to over 3,000 case studies and it receives over 10,000 visits per month.

- 31 The main activities planned for GPX in 2014-15 are:
- incorporating good practice into mainstream activity;
 - developing closer links with other audit and inspection bodies such as Audit Scotland and the Northern Ireland Audit Office and with Improvement Scotland;
 - developing shared learning events with a continued focus on asset management, including buildings management, land and asset transfer and facilities management; and
 - identifying preventative approaches that enable public services to direct their activities towards helping citizens take greater responsibility and reduce the need to use public services.

National Fraud Initiative

- 32 The NFI is a collaborative UK-wide exercise undertaken every two years that matches electronic data within and between public and private sector bodies to prevent and detect fraud. Since its commencement in 1996, NFI exercises have resulted in the identification of more than £22 million of fraud and overpayments in Wales. We plan to publish our 2012-13 report in the summer of 2014.
- 33 The use of data for NFI purposes continues to be controlled to ensure compliance with data protection and human rights legislation. To that end, the Auditor General has prepared a Code of Data Matching that has been approved by the National Assembly to ensure that people's information is protected and processed appropriately.

The Wales Audit Office's work programme

Overview

34 This section outlines the Wales Audit Office's main priorities for 2014-15, including:

- the exercise of its various statutory responsibilities as set out in the Public Audit (Wales) Act 2013 (the Act); and
- work to be undertaken by the Wales Audit Office in pursuance of the underpinning objective set out in our 2013-2016 Corporate Strategy of being an accountable, well-run and efficient organisation that provides a stimulating and rewarding environment to work.

Wales Audit Office's statutory responsibilities

35 The Act sets out a number of statutory responsibilities for the Wales Audit Office including:

- providing resources to the Auditor General (including the provision of the staff, and assets necessary for him to undertake his audit functions);
- monitoring the exercise of the Auditor General's functions;
- charging of fees and the preparation and annual review of the Wales Audit Office Fee Scheme; and
- providing advice to the Auditor General regarding the exercise of his functions.

36 The Wales Audit Office must also produce a Strategic Equality Plan in compliance with the Equality Act 2010.

37 Paragraph 64 sets out the resources to be provided to the Auditor General in 2014-15 and how those resources are to be used in order to undertake the work programmes of the Auditor General and his Appointed Auditor.

Achieving our objective of being an accountable, well-run and efficient organisation

38 A key priority for the Board during 2014-15 will be to ensure a smooth transition to the new Wales Audit Office in accordance with the underpinning objective set out in our 2013-2016 Corporate Strategy of being an accountable, well-run and efficient organisation that provides a stimulating and rewarding environment to work. Specific areas of focus are detailed in paragraphs 39 to 52.

Embedding our new governance arrangements

39 During 2013-14, the Wales Audit Office has been preparing for changes to its governance arrangements resulting from the Act. These arrangements – including the introduction of a new Board and development of supporting governance structures such as a scheme of delegation for the exercise of the Board's functions – will be in place by 1 April 2014 to support the new Board. However there will be a need to review them during 2014-15 to ensure that they are fit for purpose in the light of ongoing experience. The Board will not be fully constituted until late May 2014.

Reviewing staff numbers and skill mix

- 40 During 2014-15, we will be reviewing our staff numbers and skill mix in the light of known and possible future legislative and other changes. Taking into account current and future work programmes, we will continue to invest appropriately in the learning and personal development of our staff to ensure that they have the skills and expertise necessary to undertake authoritative and credible work across the Welsh public sector and beyond.
- 41 Work undertaken as part of our culture change programme in 2013-14 has demonstrated very tangibly the benefits of increased employee engagement with a consequent enabling and empowerment of our staff. Building on this development remains a priority for us in 2014-15.

Use of framework contracts for the supply of audit services

- 42 We will also be seeking to ensure that our use of temporary contractor staff and contractor firms aligns fully with our corporate and workforce strategies. In particular, the expiry of framework contracts for the supply of audit services by contractor firms on 31 March 2015 provides us with an opportunity to examine whether the current arrangements provide value for money.
- 43 Under the existing arrangements, the Auditor General contracts out around 22 per cent of his audit work to six accountancy firms at a total cost of £3.05 million. There are

advantages in this mixed market approach. However these advantages must be viewed in the context of a recent HMRC ruling regarding the Auditor General's VAT status, which will apply equally to the Wales Audit Office from 1 April 2014. This ruling has had the effect of reducing the amount of VAT reclaimable on amounts paid under these framework contracts, resulting in a £600,000 increase in our cost base. One of the first tasks for the new Wales Audit Office Board in 2014-15 will be to consider the extent to which it wishes to contract out work and the contracting model that it wishes to operate.

Improving our systems and processes

- 44 As part of our ongoing drive to be a well-run and efficient organisation, we will continue to simplify our existing systems and processes wherever possible. From 1 April 2014, we will be implementing new HR and expenses systems, our overriding objective being to reduce the amount of transactional activity required by our HR and finance teams, thereby enabling them to concentrate on delivering projects with greater added value to the Wales Audit Office.
- 45 As highlighted in the Wales Audit Office's estimate of income and expenditure for the year ended 31 March 2015, we are also exploring various options for replacing the number of systems that we currently use to plan, manage and record and store our audit work with a single product that can provide consistency of approach and help us to improve the way in which we carry out our work.

46 Responding to issues raised in the Auditor General's Annual Governance Statements included within the Auditor General's Annual Report and Accounts, we will be further refining our financial management information to ensure that it meets the requirements of the new Wales Audit Office Board and our Management Committee. Priorities in 2014-15 include updating our Standing Financial Instructions and our Financial Management Handbook in the light of the new governance arrangements, providing further guidance and training to staff regarding our systems for income recognition and procurement and advancing the timetable for production of our 2013-14 annual accounts by a further 10 working days compared to the previous year.

Create further efficiency in the use of our estate and other assets

47 During 2014-15, we will continue to invest in our estate with a view to making more efficient use of office space and ensuring better use of technology in line with identified good practice. The health and safety of our staff is a key priority for us, and we undertake regular health and safety reviews at all Wales Audit Office offices and locations within client sites to ensure that they are secure and meet health and safety minimum standard requirements. We will continue to undertake a rolling programme of training, testing and review of our business continuity and disaster recovery plans at Wales Audit Office premises to ensure that we are equipped to deal with issues if they occur.

48 The Wales Audit Office has maintained Level 4 Green Dragon environmental accreditation at our offices since first accredited in July 2012, and has performed well against a range of environmental targets including reducing our paper consumption, and reducing our total waste. During 2014-15, we aim to improve our performance against these targets still further, complementing our likely extended sustainable development duties and in readiness for applying for Level 5 Green Dragon accreditation.

49 In his 2012-13 Annual Report and Accounts, the Auditor General reported a continued reduction in our expenditure on business travel (from £223,606 in 2010-11 to £197,284 in 2012-13). Much of this reduction has been achieved by increased use of videoconferencing and Lync facilities.

50 During 2014-15 therefore, as part of our ongoing efficiency programme, we plan to spend £98,000 investing in additional video conferencing equipment, upgrading our internet link to facilitate more efficient data transfer, replacing our existing servers and improving our data storage facilities.

51 Other potential efficiencies supported by improved technology include a possible move to electronic publication of our reports and interactive reporting on our new website, which will enhance users' ability to search and navigate such documents. This will be developed further during 2014-15.

Reviewing our fleet car scheme and travel and subsistence arrangements

52 Following a recent value-for-money review by our external auditors of our fleet car scheme and travel and subsistence car schemes we will be reviewing the cost effectiveness of both schemes in the light of any recommendations made.

Work to be conducted by the Auditor General and the Wales Audit Office jointly

Overview

53 This section summarises the joint obligations placed on the Auditor General and the Wales Audit Office for each financial year.

Joint obligations

54 The Act places the following joint obligations on the Auditor General and the Wales Audit Office (or the Wales Audit Office Chair):

- preparation of an annual estimate: the Auditor General and the Wales Audit Office must jointly prepare an estimate of the income and expenditure of the Wales Audit Office, and lay that estimate before the National Assembly at least five months before the start of the financial year to which it relates;
- preparation of annual and interim reports: the Auditor General and the Wales Audit Office must jointly prepare annual and at least one interim report on the exercise of the functions of both the Auditor General and the Wales Audit Office; and
- preparation of an annual plan: the Wales Audit Office and the Auditor General must jointly prepare such a plan for the following financial year setting out their individual and joint work programmes.

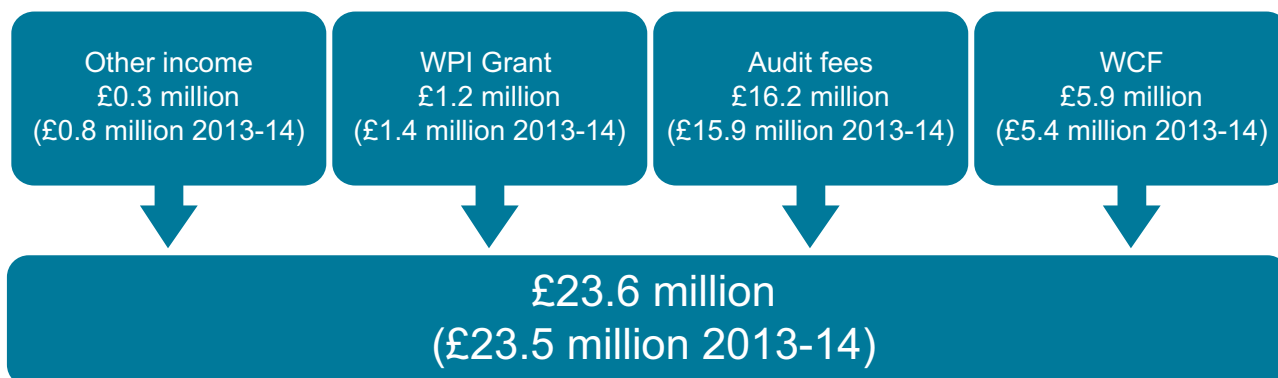
55 All of this work is part of our respective work programmes for 2014-15, and will be completed in accordance with the required statutory timetable. In addition, in early 2015, the Auditor General and the Wales Audit Office will be publishing a joint Business Plan setting out our respective priorities and targets for the period 2014-2017. This will be the first such plan in a rolling three-year business planning cycle and will provide the framework for our future statutory plans and estimates.

Our income and expenditure 2014-15

Overview

- 56 In this section we summarise the resources available to the Wales Audit Office and how we plan to use those resources to support the work programmes of the Auditor General and the Wales Audit Office.
- 57 Total projected income for 2014-15 is estimated at £23.6 million.
- 58 Around 68 per cent of our income comes from audit fees charged to the bodies we audit. This figure can vary year-on-year depending on the level of additional work we are required to undertake, for example in response to concerns raised with the Auditor General (or his Appointed Auditor) or as a result of special inspection work.
- 59 Our fees are calculated in order to ensure that we do not recover more than the full cost of any audit function that we undertake. Further information regarding the basis on which we calculate our fees is set out in the Wales Audit Office Fee Scheme 2014.

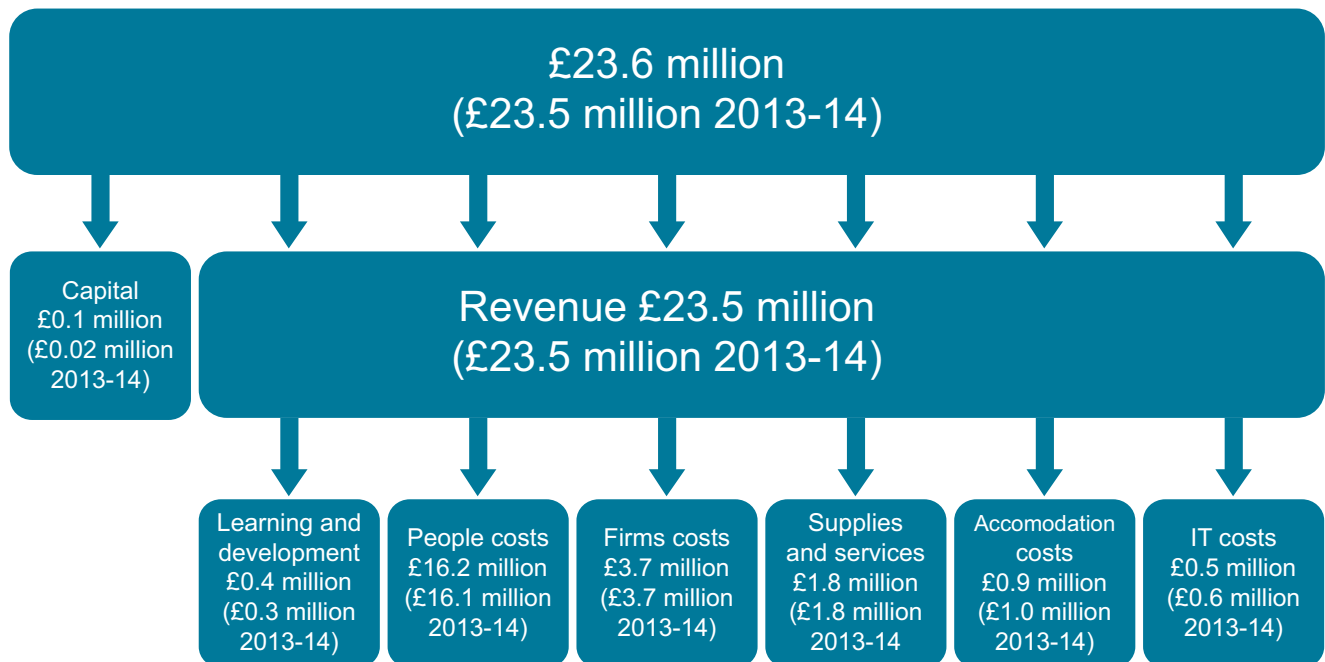
Exhibit 2 – Our income



- 60 The remaining 32 per cent of our income comprises funding from the Welsh Consolidated Fund which is approved by the National Assembly annually (£5.8 million revenue funding and £0.1 million capital funding), Wales Programme for Improvement grant from the Welsh Government (£1.2 million), and miscellaneous income estimated at £0.3 million in 2014-15.
- 61 Our annual budget is calculated in such a way as to ensure that we break even each year, with total estimated revenue expenditure in 2014-15 of £23.5 million, and capital expenditure of £0.1 million.

- 62 Capital expenditure relates to planned investment in our IT infrastructure, including improvements to our internet connection and replacement of servers.
- 63 Additional information regarding our budgeted income and expenditure is set out in the Auditor General's and the Wales Audit Office's joint Estimate for the year ended 31 March 2015, which was endorsed by the Finance Committee on 13 November 2013.

Exhibit 3 – Our expenditure



2014-15 – Resourcing the Auditor General’s work programme

64 Exhibit 4 provides a breakdown of the resources made available to the Auditor General to carry out his work programme. These resources include the salary and associated costs of Wales Audit Office audit staff and payments to the private sector firms which carry out audit work on the Auditor General’s behalf. Other costs are those that can be directly attributed to the two audit practices including technical resources , I.T systems and publishing costs. Exhibit 5 demonstrates how these resources are allocated across audit functions .

Exhibit 4 – Resources made available to the Auditor General

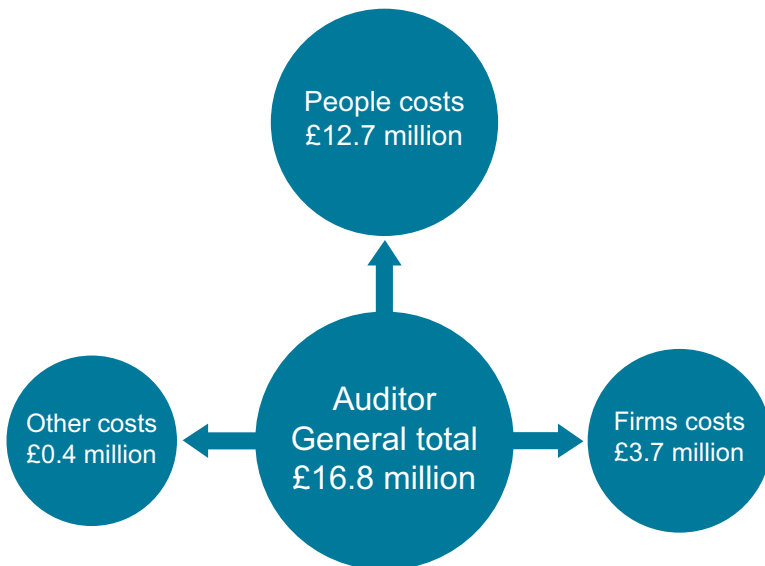
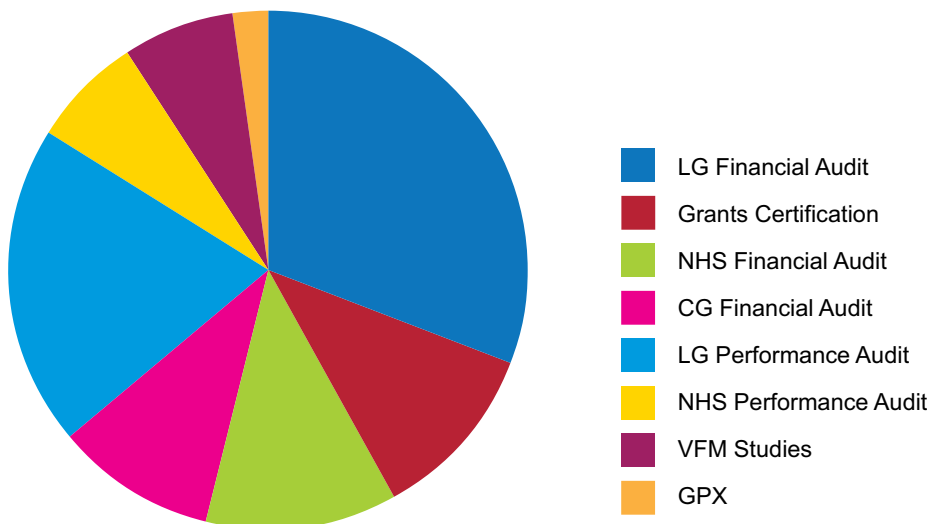


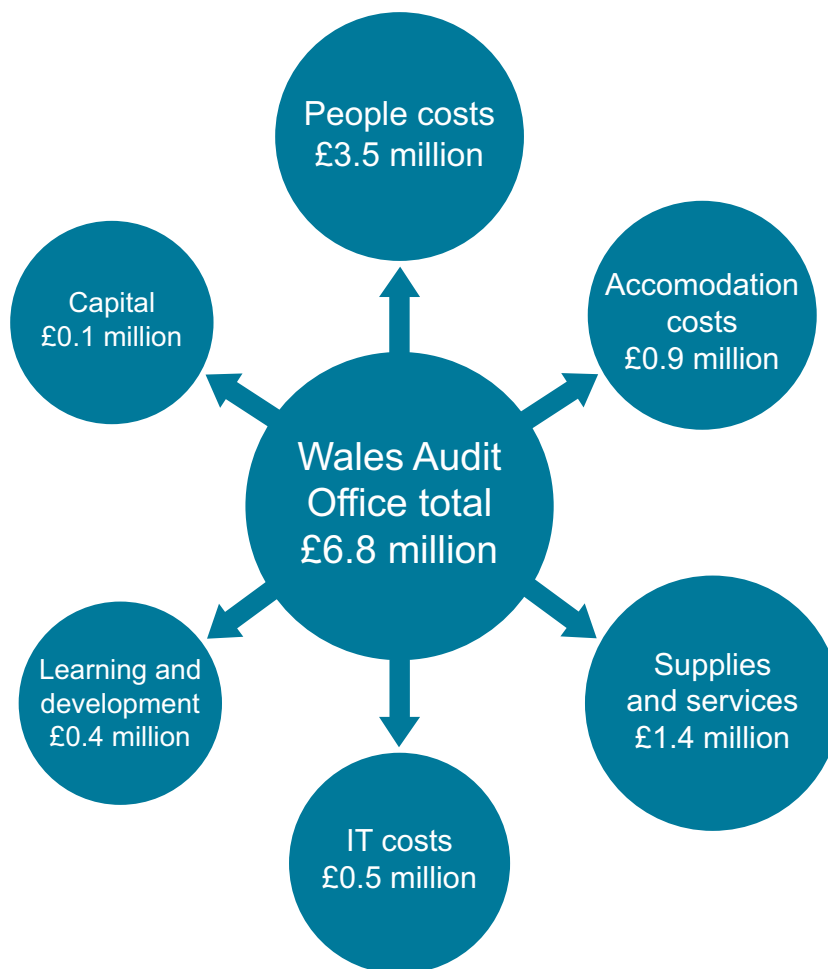
Exhibit 5 – Resources allocated to audit functions



2014-15 – Resourcing the Wales Audit Office

65 Exhibit 6 provides a breakdown of the resources required to support the Wales Audit Office. These resources comprise the salary and associated costs of staff who work in our corporate enabler functions and our audit trainees, as well as accommodation costs, capital and revenue expenditure on IT, investment in learning and development and expenditure on supplies and services. Supplies and services expenditure includes irrecoverable VAT, professional services and communications and publishing costs which cannot be directly attributed to the audit practices.

Exhibit 6 – Resources made available to the Wales Audit Office



Our income and expenditure 2014-15 (compared with 2013-14)

66 In cash terms, our total estimated revenue expenditure in 2014-15 has increased by only £37,000 (0.1 per cent) compared to 2013-14. This represents a real terms cost reduction in our expenditure of some 1.7 per cent between years. We are planning this real terms reduction in our cost base despite a range of inflationary and other cost pressures, including preparatory work for the Future Generations legislation ([paragraphs 2 and 3](#)) and embedding new governance arrangements ([paragraph 39](#)).

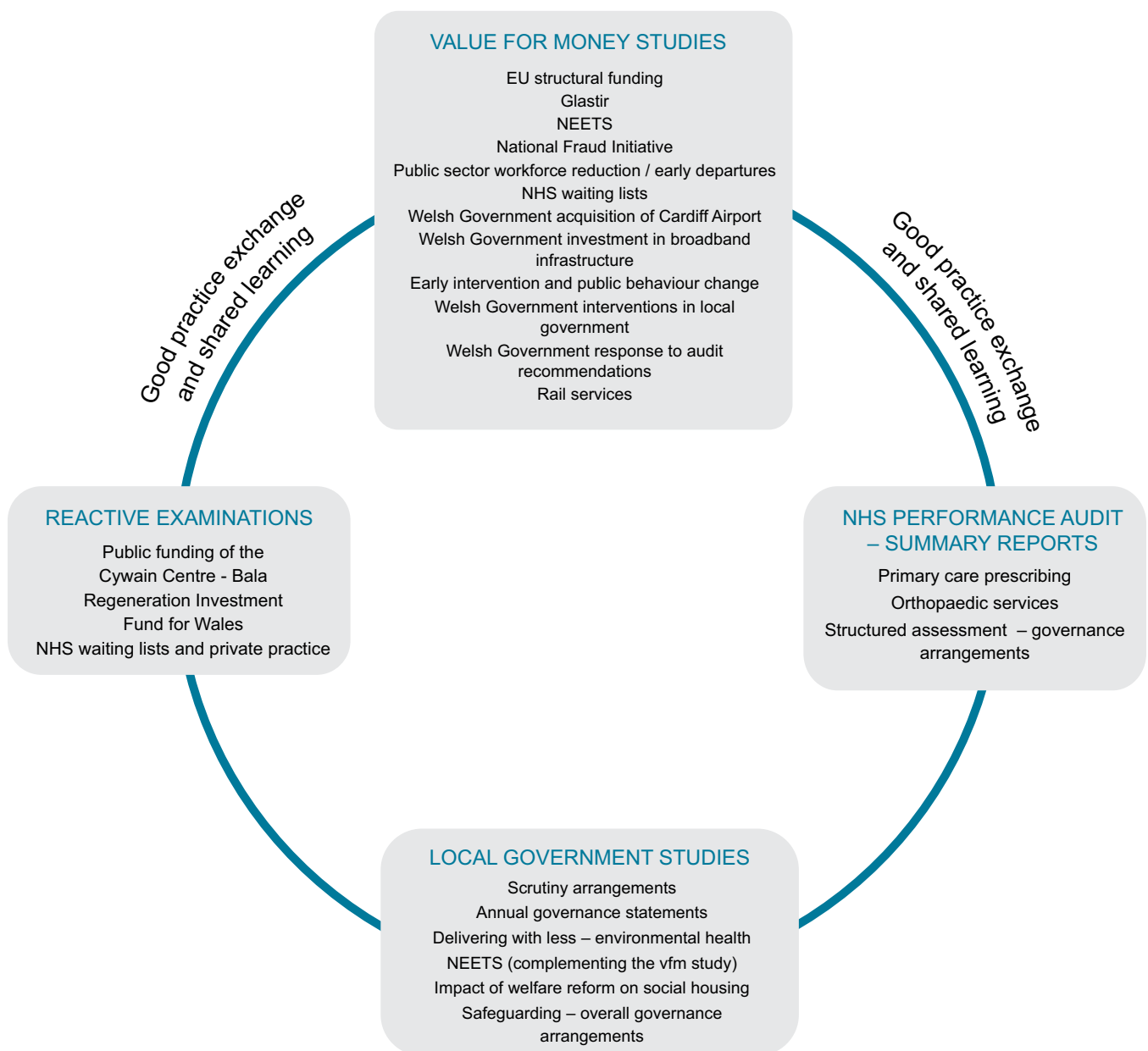
67 This reduction is being made possible by our ongoing efficiency programme which has resulted in a real terms reduction of some £5.6 million or 19.3 per cent between 2009-10 and 2014-15. Efficiency measures implemented to date have included:

- improved staff utilisation rates (ie staff spending more time on productive audit work and less time on ancillary support and non-productive activities);
- changing staff skill mixes; and
- making more efficient use of supplies and services, reducing accommodation and energy costs (despite rising prices) and setting real terms savings targets for individual budget holders.

Appendix 1

National performance audit work programme for 2014-15

The following figure summarises the substantial body of national performance audit work within the Auditor General’s work programme for 2014-15, much of which is already in progress and due to be reported during 2014-15. It includes a stream of reactive examinations, undertaken in response to issues raised with the Auditor General that relate to matters of public concern.



In addition, the Auditor General is consulting on his plans for future national performance audit work as summarised below.

Value-for-money studies

The Auditor General is currently considering and consulting on potential topic areas for future value-for-money studies to start, and potentially in some cases to be reported, in 2014-15. These studies are likely to include a further report on health finances. Details of other potential topic areas are included in a recent briefing paper for the PAC that is available on the [Wales Audit Office website](#)⁴.

NHS all-Wales studies

Annual audit outlines for 2014 are currently being discussed with NHS bodies. The outlines identify the following local health performance audit studies to be undertaken across all NHS bodies in Wales:

- a structured assessment of the robustness of the NHS bodies corporate arrangements to secure efficient, effective and economical use of resources;
- medicines management in the acute sector;
- management of follow-up outpatient appointments;
- an assessment of the impact of reducing budgets on IT infrastructure; and
- support to good practice development.

Following completion of the above all-Wales pieces of work, the Auditor General will consider the appropriateness of producing an all-Wales summary in each of the specific topic areas. A decision will be made early in 2014-15 whether to

produce an all-Wales summary of the local reports delivered under the previous annual audit cycle, on:

- Clinical coding
- Community nursing

Local government studies

The Auditor General is also currently considering the responses to a recent consultation on topics for local government studies to commence during 2014-15. The local government studies programme for 2014-15 is expected to be confirmed during April 2014. The topics consulted upon include:

- A 'delivering with less' review focused on: leisure services; regulatory/enforcement/planning services; or waste.
- A review examining whether councils are effectively supporting older people to live independently, including through joined up working across health and social care.
- An examination of how councils are meeting the needs of gypsies and travellers in Wales, in the context of the Welsh Government's 'Travelling to a Better Future' policy framework.
- An examination of councils' investment in the improvement of transport links, specifically the local highways infrastructure.
- A review of councils' economic development services and their impact in support of a stronger Welsh economy.

In addition, the Auditor General may publish all-Wales overview reports drawing upon local improvement assessment work undertaken under the Local Government (Wales) Measure 2009.

⁴ www.wao.gov.uk/publication/auditor-general%E2%80%99s-programme-value-money-studies-briefing-paper-public-accounts-committee



Code of Practice Governing the Relationship between the Auditor General for Wales and the Wales Audit Office

April 2014

Approved by the National Assembly for Wales on XX XXXX 2014.

This Code of Practice has been jointly prepared by the Auditor General for Wales and the Wales Audit Office under paragraph 1 of Schedule 2 the Public Audit (Wales) Act 2013. It is laid by the Auditor General and the Chair of the Wales Audit Office before the National Assembly for Wales under the same provision.

Huw Vaughan Thomas
Auditor General for Wales

Isobel Garner (Chair), Steven Burnett, David Corner, Christine Hayes,
Peter Price and Huw Vaughan Thomas¹
Wales Audit Office

¹ The Auditor General for Wales is a member of the Wales Audit Office under paragraph 1(2)(b) of Schedule 1 to the Public Audit (Wales) Act 2013 by virtue of his office. The Auditor General for Wales is also, however, a separate legal entity.

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Code of Practice dealing with the relationship between the Auditor General for Wales and the Wales Audit Office

The Public Audit (Wales) Act 2013 requires a Code of Practice to deal with the relationship between the Wales Audit Office and the Auditor General, preserving the independence of that office while providing for robust standards of governance.

The 2013 Act also requires the Wales Audit Office and the Auditor General to regularly review the Code and to revise it accordingly. The Wales Audit Office and the Auditor General will therefore review the Code in April 2015.

Purpose

- 1 As required by paragraph 1 of Schedule 2 to the Public Audit (Wales) Act 2013 ('the 2013 Act'), this Code of Practice ('Code') deals with the relationship between the Wales Audit Office and the Auditor General for Wales. The Code is subject to approval by the National Assembly for Wales. Once approved, the Wales Audit Office and the Auditor General must comply with its provisions.
- 2 Under the 2013 Act, the office of Auditor General is a corporation sole. The office holder is personally responsible for audit and inspection functions in respect of a wide range of public bodies. The Auditor General has complete discretion as to how those functions are exercised, subject to adhering to best professional practice, having regard to advice given by the Wales Audit Office and operating efficiently and cost-effectively.
- 3 The Act requires the Wales Audit Office to monitor the exercise of the Auditor General's functions. It also requires the Wales Audit Office to provide resources for the exercise of the Auditor General's functions as required by the Auditor General. This includes employing staff, securing the provision of services, holding property, holding documents and keeping records.
- 4 Under the Act, the Auditor General is a member of the Wales Audit Office as well as its Chief Executive and Accounting Officer. The Auditor General thus has a dual role of (i) a corporation sole responsible for his or her own statutory audit and inspection functions and (ii) a key role in the body established to provide him or her with resources and advice and monitor his or her activities. **Table 1** below summarises the main common and particular roles of the Auditor General and the other Board members. The Annex provides further detail on the responsibilities of the Auditor General and the Wales Audit Office.
- 5 The Act creates a complex relationship situation between the Auditor General and the remainder of the Wales Audit Office. Consequently, not all aspects of standard commercial board practice and behaviour will be appropriate in the Wales Audit Office.

Table 1 - The main common and particular roles of the Auditor General and the other Board members

Board member	Main responsibilities
All Members	Exercise collectively the functions of the Wales Audit Office, eg, chiefly: <ul style="list-style-type: none"> • providing resources for the Auditor General’s functions, including employing staff and securing services; and • setting Fee Scheme and charging fees
All Members except the Auditor General	Monitoring and advising the Auditor General’s exercise of his or her functions. Jointly preparing with the Auditor General the Wales Audit Office Estimate, Annual Plan and Relationship Code.
All Non-Executive Members	Appointing and setting terms for the ‘Appointed’ and Elected Employee Members
Chair	Exercising implied functions of Chair (eg, chairing meetings). Laying jointly with the Auditor General the Annual Plan. Jointly preparing, and laying, with the Auditor General reports on the exercise of functions of the Auditor General and the Wales Audit Office.
Auditor General	Exercising audit etc functions. Exercising implied (and delegated) Chief Executive functions. Exercising Accounting Officer functions (eg, producing Wales Audit Office accounts). Recommending a person to be the Appointed Member.
Appointed Employee Member	As All Members rows above (in practice this Member will tend to support the Auditor General at the Board).
Elected Employee Member	As All Members rows above.

- 6 This Code is designed to deal with this complex situation. Its core purpose is to ensure that the Wales Audit Office observes, protects and defends the Auditor General's statutory audit independence while providing the organisation with the high standards of governance that the Welsh public sector and the people of Wales are entitled to expect. It sets out:
- a overall principles to govern the relationship between the Auditor General and the rest of the Wales Audit Office;
 - b a requirement to comply with the Code of Conduct for Wales Audit Office Members; and
 - c processes for undertaking particular statutory functions and for maintaining standards of corporate governance and conflict resolution.
 - e to recognise and respect the particular roles of the members, including not seeking to operate beyond their respective functions set out in statute (or properly incidental to those functions);
 - f to work in an open and constructive manner, providing mutual respect; and
 - g to keep one another informed of significant developments in the operation of the organisation and the environment that it works in.

Principles to govern the relationship between the Auditor General and the other members of the Wales Audit Office

- 7 The Auditor General and the other members of the Wales Audit Office will adhere to the following principles in their dealings with one another:
- a to work together in the common aim of running an effective public audit organisation that reports so as to enable public bodies to be held to account for the stewardship of public resources;
 - b to protect the audit independence of the Auditor General;
 - c to ensure adherence to ethical and professional auditing standards;
 - d to operate and demonstrate high standards of corporate governance;

Requirement to comply with the Wales Audit Office Code of Conduct for Board Members

- 8 In order to protect the Auditor General's audit independence, it is important that all Wales Audit Office members adhere to the Wales Audit Office Code of Conduct for Board Members. That Code of Conduct requires adherence the Seven Principles of Public Life (which are set out in that Code), high standards of personal conduct, including in relation to avoiding financial, political and other conflicts of interest. Adherence to the Code of Conduct is as much a requirement of this Relationship Code as the requirements in relation to specific functions set out below.

Processes for undertaking particular functions, maintaining corporate governance standards and conflict resolution

9 The main functions of the Wales Audit Office are to monitor and advise on the exercise of the Auditor General's functions (section 17(1) and (2) of the Act) and to provide resources for the Auditor General's functions (section 21 of the Act), eg, by employing staff. In addition, the Wales Audit Office has particular functions that it has to exercise jointly or in conjunction with the Auditor General, such as preparing the annual estimate of income and expenses. This section provides coverage of how key functions, in which both the Wales Audit Office and the Auditor General have particular statutory roles, should be undertaken.

The Annual Plan (Section 25 of the Act)

10 Section 25 of the Act requires the Auditor General and the Wales Audit Office to jointly prepare an annual plan for each financial year. Such plans must provide details of the Auditor General's and the Wales Audit Office's work programmes (ie, the priorities in the year for exercising statutory functions), the likely available resources and how they will be used in support of those programmes.

11 In order to facilitate planning for the longer term, the Auditor General and the Wales Audit Office will in close co-operation identify their respective strategic aims and develop a co-ordinated strategic plan for the ongoing exercise and development of their respective functions. The strategic plan will be cast in terms of the development and operation of the organisation as a whole. The Auditor General and the Wales Audit Office will also translate the strategic plan into annual business plans to drive operations. The business plans will contain all the information that statute requires to be provided in the Annual Plan.

12 Before commencing developing the strategic plan and annual business plans, the Auditor General will discuss his/her initial considerations with the Wales Audit Office and will have regard to advice provided by the Wales Audit Office in those discussions.

13 The Annual Plan will be drafted by the Auditor General supported by the Wales Audit Office's staff as required by the Auditor General. It will be produced using relevant material from the organisation's strategy and business plans. The Wales Audit Office will consider the Auditor General's draft and approve the plan, after making any modifications it considers appropriate to the Wales Audit Office's work programme insofar as these are compatible with the Auditor General's work programme. In accordance with section 8 of the 2013 Act (Auditor General's discretion), the Wales Audit Office may not modify the Auditor General's work programme and associated resource requirement. Changes to the Auditor General's work programme may only be made by the Auditor General.

14 The Auditor General's work programme may include work undertaken with the agreement of or at the request of the Welsh Government and/or the body concerned (for example, audits under paragraph 18 of Schedule 8 to the Government of Wales Act 2006), or, with the Wales Audit Office's agreement, under section 19 of the Act. Before agreeing to such work, the Auditor General will consult the Wales Audit Office as to the desirability of undertaking the work and how it will be resourced, and have regard to its views. In the case of work under section 19 of the Act, the Auditor General will agree work on behalf of the Wales Audit Office, subject to the Wales Audit Office's delegation of that function. The Auditor General has the discretion to decline any agreement work if he/she considers that the likely available resource is insufficient.

15 The Chair (on behalf of the Wales Audit Office) and the Auditor General will jointly lay the plan before the National Assembly and give evidence at any hearing that its relevant committee may hold on it.

16 Under section 27 of the Act, the Auditor General and the Wales Audit Office are not bound by the annual plan but must have regard to it in the exercise of their functions.

17 During the financial year, the Auditor General may amend his/her work programme to take account of changing circumstances. He/she will notify the Wales Audit Office of any changes and likely resource implications. The Auditor General will consult the Wales Audit Office and have regard to its views before making any changes in respect of work undertaken by agreement.

Annual estimate of income and expenses (Section 20 of the Act)

18 The annual estimate of income and expenses will provide for the resources required to cover the capital and revenue expenditure (including non-cash costs) incurred by the Wales Audit Office. It will include funding for the Auditor General's work programme.

19 For each financial year, the Auditor General will determine the resource budget required for his/her work programme. The funds required will be a first charge on the resources allocated to the Wales Audit Office. The Wales Audit Office will not be able to amend that part of the budget without the Auditor General's agreement (however, see paragraph 13 above in respect of work undertaken with the agreement of or at the request of the Welsh Government and/or the body concerned).

20 The Wales Audit Office and the Auditor General will jointly lay the estimate before the National Assembly and give evidence at any hearing that its relevant committee may hold on it.

21 The relevant committee will consider the estimate and make any modifications that it considers appropriate after consulting the Auditor General and the Wales Audit Office. Under the Assembly's Standing Orders, the estimate will be incorporated within the Annual Budget Motion which gives the statutory authority for the use of resources.

Updating the Wales Audit Office fee scheme (Sections 23 and 24 of the Act)

22 Under section 23, the Wales Audit Office may charge fees for certain audit work carried out on behalf of or by the Auditor General and for services that it provides under Section 19. The Wales Audit Office must charge fees for certain other services and studies provided by the Auditor General. All fees may only be charged in accordance with a scheme prepared under Section 24. The Wales Audit Office must review the scheme at least once a year.

23 At least once a year, the Auditor General will prepare a paper for the Wales Audit Office indicating any changes that he or she considers are needed to the fee scheme. This may, for example, be necessary where legislation abolishes certain bodies leaving a need for the reapportionment of overheads among remaining bodies. The Board may accept or modify the Auditor General's proposals but must have regard to the resource requirement determined by the Auditor General for his or her work programme.

² The relevant committee's approval is not required if the only revision is to incorporate a scale of fees prescribed by the Welsh Ministers (Section 24(5) and (6) of the Act refers).

- 24 The Wales Audit Office must lay any revisions to the fee scheme before the Assembly. The Auditor General and the Chair of the Wales Audit Office will give evidence at any hearing that the relevant committee holds on the revised fee scheme before deciding whether to give its approval².

Provision of services (Section 19 of the Act)

- 25 Under Section 19, the Wales Audit Office may make arrangements with another authority in respect of the exercise of functions or the provision of services. For example, the Wales Audit Office could arrange for Wales Audit Office staff to assist the auditor of an English local authority in the making of public interest reports. Before making any such arrangements, the Board will consult the Auditor General and consider any potential effect on the exercise of the Auditor General's statutory functions. In order to give due weight to Section 8 of the Act, the Wales Audit Office will not proceed if the arrangement has the potential to undermine the Auditor General's actual or perceived independence and objectivity. For example, it would not be appropriate to proceed with an arrangement whereby the Wales Audit Office arranged for Wales Audit Office staff to provide services, such as assistance in the operation of payroll, to bodies audited by the Auditor General, as this could lead to a self-review conflict.

Monitoring and advising on the exercise of the Auditor General's functions (Section 17(1) and (2) of the Act) in respect of the work programme

- 26 Under section 8 of the 2013 Act, the Auditor General has complete discretion in carrying out the functions of that office subject to carrying out those functions efficiently and cost-effectively and having regard to professional standards and advice given by the Wales Audit Office. During the course of each financial year, the Wales Audit Office may advise the Auditor General and must monitor the exercise of the Auditor General's functions in respect of his or her work programme. The processes will be as follows.
- a During the financial year, the Auditor General will provide the Wales Audit Office with regular reports to allow the Wales Audit Office to monitor:
 - i progress in delivering the approved work programme;
 - ii outturn against the approved budgets; and
 - iii the efficiency and effectiveness of the exercise of the Auditor General's functions and of the management of the organisation overall.
 - b The Auditor General as Chief Executive and Accounting Officer will provide timely updates to the Board on any matters that significantly affect the proper exercise of the Auditor General's and Wales Audit Office's statutory functions. Such matters may include matters of the quality of professional work, organisational reputation and relationships with stakeholders.

- c The Wales Audit Office will consider the Auditor General's progress reports and may offer advice on the exercise of the Auditor General's functions, to which he/she must have regard. As well as the priorities identified in the Auditor General's work programme, such advice may also relate to arrangements for conducting audit work, such as the Code of Audit Practice (Section 10 of the Act), delegation of the Auditor General's functions (Section 18) and maintenance of working relationships with audited bodies and the National Assembly.
- d In the event that the Auditor General requires more resources to deliver his/her work programme than was estimated at the start of the financial year, the Auditor General will put forward proposals for how the work should be funded.
- e Options to fund additional resources for items within the Auditor General's work programme are:
 - i finding compensating savings from within the programme by removing other items (if possible) or delaying work to a subsequent financial year;
 - ii amending the Wales Audit Office's work programme;
 - iii increasing any fees chargeable (subject to Section 23(5) of the Act); or
 - iv seeking approval for additional resources from the National Assembly through a supplementary National Assembly budget motion.

- f The Wales Audit Office will consider the Auditor General's proposals and provide advice, which the Auditor General will have regard to. The Wales Audit Office and the Auditor General will jointly pursue the duly considered way forward.

Wales Audit Office accounts and audit (Paragraphs 33 to 35 of Schedule 1 to the Act)

- 27 The Auditor General is the Accounting Officer for the Wales Audit Office by virtue of paragraph 33(1) of Schedule 1 to the 2013 Act and, as such, is responsible for the preparation of the annual accounts, the keeping of proper financial records and such other responsibilities as specified by the relevant committee of the National Assembly.
- 28 The Board will consider the annual accounts prepared by the Auditor General, taking account of the view of the Audit and Risk Management Committee. The Board will then recommend to the Auditor General whether he or she should sign the accounts.
- 29 The Auditor General will give evidence at any hearing that the relevant committee may wish to hold in relation to the Wales Audit Office's accounts or any report laid before the National Assembly by the Wales Audit Office's external auditor.

Annual and interim reports (Paragraph 3 of Schedule 2 to the Act)

- 30 The annual and interim reports will cover the exercise of the Auditor General's and Wales Audit Office's functions in relation to the priorities and programmes set out in the Annual Plan.

- 31 The reports will be drafted by the Auditor General in consultation with the Chair of the Wales Audit Office. The Auditor General and the Chair will approve the reports after seeking the Board's views and making any modifications they consider appropriate.
- 32 The Chair of the Wales Audit Office and the Auditor General will jointly lay the reports before the National Assembly, and give evidence at any hearing that the relevant committee may hold on them.

Maintaining standards of corporate governance

- 33 The Auditor General as the Accounting Officer of the Wales Audit Office will maintain systems of governance and internal controls consistent with best practice (including the Corporate Governance Code published by the Treasury). For example, taking account of advice provided by the Wales Audit Office (informed by its Audit and Risk Management Committee), the Auditor General will make arrangements for proportionate internal audit to be undertaken.
- 34 The Wales Audit Office will monitor that the systems are operating effectively, and the Chair of the Wales Audit Office and the Auditor General will report on the arrangements in their annual reports. The Wales Audit Office, with the Auditor General taking the lead in his or her role as Accounting Officer, will identify and manage risks effectively, and conduct its business in an economic, efficient and effective way. The Wales Audit Office is able to set up committees to support its operation and has, in particular, established an Audit and Risk Management Committee and a Remuneration Committee.

Publicity and other making of public comment

- 35 Publicity and comment on the published reports of the Auditor General are integral incidental aspects of the public reporting functions of the Auditor General. Similarly, publicity and comment on corporate publications of the Wales Audit Office, such the Wales Audit Office fee scheme, are integral incidental aspects of such publication functions. As the Auditor General and the Wales Audit Office have publication functions that are quite distinct, and their roles should not be confused, it is important to have clarity regarding which parties may provide publicity and public comment in relation to particular functions.
- 36 The Chair and other non-executives of the Wales Audit Office may not comment about questions of audit opinion and judgement, including the selection and design of value for money examinations and studies, which are matters for the Auditor General. The Chair and other non-executives of the Wales Audit Office (with the Chair's approval) may comment publicly on other (ie, non-audit) aspects of the work of the Wales Audit Office in general terms and on the governance of the organisation. The Auditor General will wherever practicable consult the Chair on any public comment that he/she plans to make on behalf of the Wales Audit Office where such comment concerns matters other than his/her audit functions.

Conflict resolution

- 37 In the event of disagreement between the Auditor General and Chair of the Board, the matter in dispute shall be referred to the members in a Board meeting for resolution save for matters relating to the Auditor General's statutory functions (where the Auditor General will make a final decision).

Annex - Overview of the responsibilities of the Auditor General and the Wales Audit Office

Auditor General

- 1 The office of Auditor General for Wales is established as a corporation sole. The office holder is personally responsible for exercising a range of audit and inspection functions under the Government of Wales Acts 1998 and 2006, the Public Audit (Wales) Acts 2004 and 2013, the Local Government (Wales) Measure 2009 and various other enactments.
- 2 Under Section 8 of the 2013 Act, the Auditor General has complete discretion as to the manner in which the functions of that office are exercised but must:
 - a aim to carry out those functions efficiently and cost-effectively;
 - b have regard to the standards and principles that an expert professional provider of accounting or auditing services would be expected to follow; and
 - c have regard to advice given by the Wales Audit Office.
- 3 The Auditor General must issue a Code of Audit Practice prescribing the way in which certain of his/her functions are to be carried out.
- 4 The Auditor General may delegate his/her statutory functions to Wales Audit Office employees and other persons providing services to the Wales Audit Office. A function may only be delegated if the employee or other person is so authorised under a scheme prepared by the Auditor General. In preparing or revising a scheme, the Auditor General must consult the Wales Audit Office.

- 5 The Auditor General is also the Chief Executive and Accounting Officer of the Wales Audit Office with responsibility for keeping financial records and preparing annual accounts in accordance with Treasury directions. Further Accounting Officer responsibilities are specified by the National Assembly.

Specific non-executive member responsibilities

- 6 The non-executive members are responsible for:
 - a appointing (if thought fit) the employee member recommended by the Auditor General;
 - b appointing the two employee members elected in accordance with the result of a staff ballot;
 - c determining the terms of appointment for the employee members; and
 - d considering whether to terminate the appointment of an employee member if one of the conditions specified in paragraph 21 of Schedule 1 to the 2013 Act occurs.

Specific responsibilities of the Chair

- 7 The Chair is responsible for:
 - a preparing initial rules to govern the procedure of the Wales Audit Office until the Board has approved its substantive rules;
 - b submitting to the auditor of the Wales Audit Office the accounts (for 2014-15 onwards) prepared by the Auditor General;
 - c jointly preparing and laying interim and annual reports with the Auditor General on the exercise of the functions of the Auditor General and the Wales Audit Office;

- d jointly laying with the Auditor General the Code of Relationship Practice and Annual Plan;
 - e controlling the proceedings of the Board, including ensuring all members are given the opportunity to contribute to balanced and appropriate discussion of issues;
 - f carrying out performance appraisals of all members of the Board and the Board Secretary, both individually and collectively, including through the use of appropriate external independent resources;
 - g making recommendations to the relevant appointing authority in respect of other non-executive members and the appointed employee member regarding their continuation or termination based on performance and compliance with the Board code of conduct.
- ii Translate the strategic plan into annual business plans to drive operations (the business plans will contain all the information that statute requires to be provided in the Annual Plan). The Board may advise on the entirety of the strategic and business plans but may not determine Auditor General function aspects.
 - b Advise on the allocation of financial and human resources to achieve those aims and objectives.
 - c Oversee the management of the Wales Audit Office's resources and monitor the achievement and delivery of performance objectives.
 - d Set the Wales Audit Office's standards and values (but without affecting professional audit standards),
 - e Ensure that the Auditor General as the Wales Audit Office's Accounting Officer maintains strong and transparent systems of governance and internal controls consistent with best practice, and monitor and report on their effective operation in the Wales Audit Office's Annual Report (jointly prepared by the Auditor General and the Wales Audit Office Chair).

General responsibilities of the Board (including the Auditor General)

- 8 The Board's duty is to provide collective leadership for the Wales Audit Office in a manner that is compatible with the Auditor General's duties as Accounting Officer and his/her statutory functions. In particular, it must:
- a In close co-operation and discussion with the Auditor General and senior executives:
 - i Identify relevant strategic aims for the Wales Audit Office and develop with the Auditor General a co-ordinated strategic plan for the ongoing exercise and development of Wales Audit Office functions.
 - f With the Auditor General leading as Accounting Officer, identify and manage risk effectively.
 - g Advise on and oversee change processes, encouraging innovation, to enhance the Wales Audit Office's capacity to deliver.
 - h Conduct its business efficiently and cost-effectively.

- i Have due regard to succession planning and satisfy itself that plans are in place to maintain an appropriate balance of skills and experience on the Board, its Committees and within the organisation.
 - j Authorise (or ratify, if appropriate) the use of the Corporate Seal.
- 9 The Board should satisfy itself that it is supplied in a timely manner with information in a form and quality appropriate to enable it to discharge its duties in respect of all the Wales Audit Office's activities. Such information should include:
- a monthly management information relating to the actual use of financial and human resources as well as periodic in-year forecasts of the expected outturn against financial budgets of resource and capital expenditure, of income and of salient balance sheet information;
 - b progress in relation to outputs and outcome (performance targets); and
 - c the identification and management of risk.
- d preparing, for the National Assembly's approval, a scheme relating to the charging of fees by the Wales Audit Office; and for reviewing (and if necessary revising) that scheme at least once a year;
 - e designating (with the agreement of the National Assembly) a person to exercise the functions of the Auditor General on a temporary basis if the office is vacant or the incumbent Auditor General is unwilling or unable to discharge his/her functions;
 - f making arrangements with relevant authorities under Section 19 of the 2013 Act subject to consultation with the Auditor General when required;
 - g making provision for any additional payments to be made to the Auditor General to cover expenses properly and necessarily incurred by him/her in the capacity as a Board Member and Chief Executive;
 - h providing resources for the exercise of the Auditor General's functions as the Auditor General requires;

Specific sole responsibilities of the Board

- 10 The Board is responsible for:
- a making rules for the purpose of regulating its own procedures;
 - b delegation of Wales Audit Office functions where permitted;
 - c making a recommendation to the National Assembly regarding the appointment of an external auditor to the Wales Audit Office;
 - i employing staff to assist in the exercise of the Auditor General's functions;
 - j procuring services for the purposes of the Auditor General's functions;
 - k holding documents or information acquired in the course of, or otherwise, for the purposes of the Auditor General's functions; and
 - l keeping records in relation to the Auditor General's functions.

Specific joint responsibilities of the Wales Audit Office and the Auditor General

- 11 Jointly with the Auditor General, the Board is also responsible for:
- a Preparing and laying the annual estimate of the Wales Audit Office's income and expenses, which must cover the resources required by the Auditor General for the exercise of his/her functions.
 - b Preparing an Annual Plan.
 - c Preparing a Code of Practice dealing with the relationship between the Wales Audit Office and the Auditor General. Once approved by the National Assembly, the Auditor General and the Wales Audit Office must comply with the Code and review it regularly. Any revision to the Code must also be approved by the National Assembly for it to take effect.
 - d Preparing and laying, at least once during each financial year, an interim report on the exercise of the functions of the Auditor General and the Wales Audit Office in relation to progress against the Annual Plan. The National Assembly may require further interim reports during the year and determine the dates on which they are to be laid.

Specific joint responsibilities of the Chair and the Auditor General

- 12 Jointly with the Auditor General, the Chair is also responsible for:
- a Laying before the National Assembly the Annual Plan.
 - b Laying the Code of Practice dealing with the relationship between the Wales Audit Office and the Auditor General.
 - c Preparing and laying, as soon as practicable after the end of each financial year, an Annual Report on the exercise of the functions of the Auditor General and the Wales Audit Office during the year in relation to the Annual Plan.

Agenda Item 5

By virtue of paragraph(s) ix of Standing Order 17.42

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